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EDITED TRANSCRIPT

CVX - Q1 2015 Chevron Corp Earnings Call

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OVERVIEW:

CVX reported 1Q15 earnings of $2.6b or $1.37 per diluted share.

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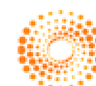

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PRESENTATION

Operator

Good day, ladies and gentlemen. My name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's first quarter 2015 earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I will now turn the conference call over to Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay. Thank you, Jonathan. Welcome to Chevron's first quarter earnings conference call and webcast.

On the call with me today are Jeff Gustavson and Frank Mount, who are currently transitioning the General Manager of Investor Relations role. We will refer to the slides that are available on Chevron's website.

Before we get started, please be reminded that this presentation contains estimates, projections, and other forward-looking statements. We ask that you review the cautionary statement on slide 2.

Slide 3 provides an overview of our financial performance. The Company's first quarter earnings were $2.6 billion or $1.37 per diluted share. Excluding gains from asset sales, foreign exchange effects, and other special items, earnings were $0.76 per diluted share, or $1.4 billion.

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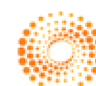

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This is a better outcome than the decline in commodity prices would have implied. This is because operationally it was a very solid quarter for both Upstream and Downstream.

Production volumes were strong, and Downstream asset utilization and reliability were high; plus, operating cost control was evident throughout the enterprise. Return on capital employed for the trailing 12 months was approximately 10%, and our debt ratio at quarter end was 18%.

During the first quarter, we paid $2 billion in dividends. Earlier in the week we announced a dividend of $1.07 per share payable to shareholders of record as of May 19. We currently yield about 3.8%.

Turning to slide 4, cash generated from operations was $2.3 billion for the first quarter. This reflected lower Upstream results due to the sharp decline in commodity prices as well as negative working capital effects of approximately $2 billion.

The majority of the working capital effects are temporary in nature, and we expect these to reverse in future quarters. These impacts were only partially offset by strong cash generation from our Downstream and Chemicals businesses.

In the quarter, proceeds from asset sales totaled approximately $950 million, the majority of which related to the sale of our interests in multiple offshore and onshore leases in Nigeria. In February, the Company successfully executed a $6 billion bond offering.

Cash capital expenditures were $7.6 billion for the quarter, a decrease of approximately 11% from first quarter 2014, and over 20% lower than fourth quarter. At quarter end, our cash and cash equivalents were approximately $13 billion, and our net debt position was about $21 billion.

Slide 5 compares current quarter earnings with the same period last year. First quarter 2015 earnings were approximately $1.9 billion lower than first quarter 2014 results.

Upstream earnings decreased $2.7 billion between quarters. Significantly lower crude realizations were partially offset by positive foreign exchange effects, higher gains on asset sales, and favorable tax items.

Foreign exchange gains in the first quarter were substantial, $580 million in total. As a reminder, most of our foreign exchange impacts stem from balance sheet translations and do not generally affect cash.

Downstream results increased by over $700 million, primarily driven by stronger worldwide refining and marketing margins. Operationally, first quarter results were amongst the very best we've had in several years, a perfect combination of margin strength and improved refining reliability.

The variance in the Other segment was primarily associated with the absence of an impairment recognized in first quarter 2014 following the cessation of certain mining operations, primarily offset by higher tax and other corporate charges.

Turning to slide 6, I'll now compare results for the first quarter 2015 with the fourth quarter of 2014. First quarter earnings were approximately $900 million lower than fourth quarter results.

Upstream earnings decreased by approximately $1.1 billion between quarters, reflecting lower realizations and asset sale gains, partially offset by lower impairments and operating costs.

Downstream earnings were lower by $95 million. Stronger US margins and lower operating expenses across the global system were more than offset by the absence of gains on asset sales recognized in the fourth quarter and an unfavorable swing in timing effects between quarters.

The variance in the Other segment largely reflects lower corporate charges. Jeff will now take us through the comparisons by segment.

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Jeff Gustavson - *Chevron Corporation - General Manager IR*

Thanks, Pat. Turning to slide 7, our US Upstream earnings for the first quarter were about $900 million lower than fourth quarter's results. Sharply lower liquids realizations decreased earnings by $735 million. Our crude and liquids realizations all dropped by approximately 35% between periods.

Gains on asset sales were lower by $330 million. In the fourth quarter, we recognized a gain following the sale of our interests in certain LPG pipeline assets which are associated with the Upstream segment.

The Other bar reflects a number of unrelated items. Lower operating and exploration expenses were partially offset by higher depreciation charges including impairments for several smaller assets.

Turning to slide 8, International Upstream earnings were about $200 million lower than last quarter's results. Significantly lower crude prices impacted earnings by $1.3 billion. Our average International crude realizations were down over 30% between quarters, consistent with the decline in Brent prices.

Lower operating expenses across multiple countries increased earnings by $335 million. In March, the UK government implemented a change in the petroleum tax law retroactive to the beginning of the year, which resulted in a one-time deferred tax benefit of $350 million. The absence of impairments from the prior quarter increased earnings by $570 million, while lower gains on asset sales this quarter decreased earnings by $360 million.

The Other bar included multiple components. Two notable drivers for this positive variance were stronger liftings and foreign exchange effects.

Slide 9 summarizes the change in Chevron's worldwide net oil equivalent production between the first quarter 2015 and the fourth quarter 2014. Net production increased by almost 100,000 barrels per day between quarters.

Price effects increased production by 55,000 barrels per day, as lower crude prices increased cost recovery and other volumes associated with production sharing and variable royalty contracts. Major capital project ramp-ups at Jack/St. Malo and Tubular Bells in the Gulf of Mexico and from the expansion of the Bibiyana field in Bangladesh increased production by 42,000 barrels per day.

Planned turnaround activity was heavy in the fourth quarter, particularly at our SGI/SGP facilities in Kazakhstan as well as in Thailand and Australia. First quarter, by contrast, was much lighter in planned maintenance, and this accounted for higher production of 36,000 barrels per day between periods.

Growth from our shale and tight assets, primarily in the Permian, contributed 10,000 barrels per day. External constraints, primarily lower gas demand in Southeast Asia as well as weather-related impacts, decreased production by 18,000 barrels per day. The remaining variance in the Base Business and Other bar reflects greater unplanned downtime and other non-related items.

Slide 10 compares the change in Chevron's worldwide net oil equivalent production between the first quarter 2015 and the first quarter 2014. Net production increased by 93,000 barrels per day between periods.

Price effects increased production by 71,000 barrels per day, due to the roughly 50% drop in crude prices between periods. Last year, Brent averaged $108 per barrel in the first quarter. This year, Brent averaged $54 per barrel in the first quarter.

Shale and tight production increased by 43,000 barrels per day, due to growth in the Midland and Delaware Basins in the Permian as well as in the Vaca Muerta shale in Argentina. Major capital projects increased production by 35,000 barrels per day. Production ramp-ups in the Deepwater Gulf of Mexico, Bangladesh, Trinidad, and Brazil were all positives.

The shutdown of Angola LNG, which occurred subsequent to last year's first quarter, partially offset these increases. Asset sales resulted in lost production of 34,000 barrels per day, principally driven by divestments of our assets in Chad and the Netherlands.

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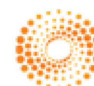

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The decrease of 22,000 barrels per day in the Base Business and Other bar primarily reflects normal field declines partially offset by lower turnaround activity and unplanned downtime. Our base business continues to perform well, with a managed decline rate below our existing guidance.

First quarter net production rate of 2.681 million barrels per day is a strong start to the year and is above the flat to 3% growth range we indicated in January as our production guidance. While this is above our guidance, it is important to remember that we have maintenance turnarounds and asset sales planned for later in the year.

I would also like to comment on an issue we mentioned in our 10-K about our operations in the Partitioned Zone between Saudi Arabia and Kuwait, where we produce 76,000 barrels per day net in the first quarter. It now appears more likely that our future production levels in the Partitioned Zone could be negatively impacted due to our inability to secure work and equipment permits.

The potential for a shutdown of production was not anticipated in our flat to 3% guidance range. We do not know for sure a production impact will occur; and if it does occur, we cannot estimate its duration. In any case, we estimate that the 2015 financial impact from a potential shutdown would be minimal.

Turning to slide 11, US Downstream results decreased $183 million between quarters. Importantly, the operational results noted in the green bars were over $500 million stronger between periods.

Margins increased earnings by $435 million, driven by unplanned industry downtime and tight product supply on the US West Coast. US Gulf Coast margins were also strong, reflecting industry refinery maintenance patterns and strong seasonal demand.

Lower operating expenses increased earnings by $110 million, primarily associated with reduced turnarounds and maintenance activities. Timing effects represented a $250 million decrease to earnings, mainly due to the absence of positive year-end inventory effects recognized in the fourth quarter and unfavorable mark-to-market swings between quarters on derivatives tied to underlying physical assets. The absence of gains on asset transactions from the prior quarter decreased earnings by $460 million.

Turning to slide 12, International Downstream earnings improved by $88 million between quarters. Lower margins decreased earnings by $70 million. Marketing margins fell, largely the result of product pricing lag effects evident in both Asia and Australia.

Reduced operating expenses increased earnings by $120 million. Timing effects represented a $215 million decrease to earnings. As in the US segment, this represented the absence of favorable year-end inventory effects booked in the fourth quarter and adverse swings between the quarters in mark-to-market valuations on derivatives tied to underlying physical assets.

The absence of a one-time charge in the fourth quarter related to the economic buyout of a legacy pension liability increased earnings by $160 million. The Other bar reflects a number of unrelated items. The largest single component was favorable foreign currency effects.

With that, I would like to now turn it back to Pat.

Pat Yarrington - *Chevron Corporation - VP, CFO*

All right. Thanks, Jeff. Turning now to slide 13. In response to the downturn, we are aggressively pursuing cost savings.

Excluding fuel, operating costs in the first quarter are down 13% from the average 2014 quarter. To date, we have completed more than 2,200 supplier engagements, with 700 more in progress. We're working across all spend categories to negotiate supplier reductions and to rebid contracts when sufficient reductions have not been offered.

The results have been encouraging, with over $900 million of contract savings already negotiated. The pie chart shows Upstream spend categories, though our supplier cost-reduction effort, and the $900 million quoted is enterprise-wide.

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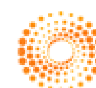

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This represents cash savings we expect to capture in 2015. We'll see it show up as the year unfolds in multiple ways: lower operating expenses, reduced capital outlays, and decreases in cost of goods sold.

Spend categories closer to the wellhead, and activities with shorter-term contracts as well as shorter cycle times from order date to delivery date, are seeing the sharpest declines. We are also seeing more immediate responsiveness from suppliers supporting our US operations.

Looking externally for improvements is only part of addressing our cost structure. We're also reengineering our internal work processes, initiating organizational reviews, rightsizing our work teams to better match spend and activity levels, and all of this to align with current market conditions. Our objective is a simpler, more efficient, more productive, and affordable organization that directly supports our business priorities.

Finally, we are pursuing capital and operating efficiencies throughout the organization, getting more for each dollar of spend. In the Upstream, we are applying our experience with running manufacturing-type operations to our shale and tight developments in the US and elsewhere. This is driving significant efficiency improvements and lowering the cost of our horizontal well programs in both the Midland and Delaware Basins.

In the Downstream, we are using tools like Lean Six Sigma to improve efficiency throughout our operations. In one specific example, we've shortened the downtime by 30% associated with terminal and tank inspection and maintenance activities, which should lead to sizable cost savings over time.

Turning to slide 14, you'll recall a key commitment from our March presentation related to covering our dividend in 2017 from free cash flow. We outlined how we intended to do that, and I'd like to put a few of our accomplishments into that context.

Cash flow growth is a near-term priority. While absolute prices in the first quarter were not favorable, our production was. Base business performance was strong, and our base decline rate was less than 2%.

We also continued to ramp up at Jack/St. Malo in the Gulf of Mexico. The fifth well is now online, and gross production is up to over 70,000 barrels per day of oil equivalent, exceeding initial expectations.

We completed some critical milestones on the Gorgon and Wheatstone LNG projects in Australia. At Gorgon, we started up the first gas turbine generator successfully, an important step in the overall plant commissioning process.

At Wheatstone, we successfully installed the topsides for the offshore production platform. We have posted new pictures today, and a video of both projects will be posted early next week. I encourage you to look at these on our investor website at Chevron.com.

Finally, our Downstream and Chemicals business is performing very well.

Reducing spend is our second priority. I've already talked through the cost structure savings we are pursuing. In addition to that, we're on a clear path to reduce capital spending over the next several years as our major capital projects come online and our spending flexibility increases.

Budgeted capital spending is planned at $35 billion this year, a 13% reduction from 2014. Cash spending this quarter is down 11% from first quarter a year ago. By 2017 we expect to have over $8 billion in additional C&E flexibility compared to 2015.

Finally, we are making excellent progress on our asset sales. We realized almost $6 billion in proceeds last year and will be adding nearly $4 billion to that in the first four months of this year, with the recently completed lease sales in Nigeria and the divestiture of Caltex Australia.

In 16 months we've achieved almost $10 billion in total sales proceeds, versus a $15 billion 48-month target. We will continue to sell assets when we can generate good value.

Moving to slide 15, I'd like to close by reiterating the near-term value proposition that Chevron offers. We expect to deliver industry-leading volume growth between now and 2017. That growth is sourced from Gorgon and Wheatstone in Australia; Jack/St. Malo and Big Foot in the Gulf of Mexico;

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and Mafumeira Sul and Angola LNG in Angola. In addition, we are poised for significant growth in our shale and tight resources, particularly in the Permian in the US.

On top of the pure volume growth, we also offer margin expansion. The cash margins associated with these projects primarily in the orange portion of the shaded bar, are projected higher than our cash margins today -- and many significantly so.

By 2017 we expect our cash margins on our overall portfolio to increase by approximately 35% from where they are today, assuming $60 average Brent price this year and $70 average Brent price in 2017, which is consistent with current futures prices. We believe that our outsized volume growth, combined with outsized margin growth, should lead to outsized value growth for our shareholders.

That concludes our prepared remarks, and I appreciate you listening in this morning. We are now ready to take some questions. Please keep in mind that we have a full queue, so try to limit yourself to one question and one follow-up, if necessary, and we will do our best to get all of your questions answered. So, Jonathan, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Good morning, Pat; and congratulations, Jeff, on the move; and welcome to Frank. Just I guess a question around cash flow to start with. Thanks for shouting out the working capital; I think the market would have had kittens if it was a $2 billion CFO number.

Obviously, if you add net income and DD&A you get a higher number. I presume some of the deltas are things like dividends from associates being less than net income and the timing of tax payments -- if there is any color on that.

But my general question is: how does this cash flow stack up against your internal expectations for the quarter? Appreciate, obviously, the oil price is very low. Has anything changed in terms of your cash flow projections going forward in what you see as a more normalized oil price?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, thanks, Ed. I appreciate the question. I appreciate everybody's interest in cash.

You're right. It was a low cash from operations quarter. But we did have $2 billion of adverse working capital effects, so if you added those back we would be at about $4.3 billion.

What I would say is if you looked at our sensitivity on oil price relative to prior quarters and look at it this quarter, it very much is in line; and in fact it's actually a little bit stronger than just the pure sensitivity would suggest. I'll just mention the number again for everybody, it's somewhere between $325 million and $350 million per $1.00 of Brent change. So we've had a significant drop in Brent prices, and therefore a significant drop in earnings as well as cash flow.

You're absolutely right, Ed, that there were some decrements relative to normal quarters in terms of the amount of affiliate distributions that we received. This quarter was, I would say, pretty minimal in terms of that. We do expect that to turn around in the subsequent three quarters, so that is just a timing issue.

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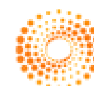

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In terms of how this looks relative to our plan going forward, if you'll recall the numbers that we showed you in March, the slides that we showed you with the financial projections, all assumed a $60 world for Brent. I think we are exactly in that phase, and so I look at our profile this year in terms of how our earnings have come in and cash has come in; and assuming we end up at a $60 world for Brent, which looks very reasonable given where the futures markets are, then I think we are exactly on plan and very consistent with the cash profile that we showed you back in March.

And you'll recall, for everybody, that we did have a significant deficit anticipated in 2015. Then we showed you the pattern of how we would move out of that deficit out to a 2017 point, getting full coverage of our dividend by 2017.

I mentioned the asset sales that we have. First quarter was nearly $1 billion; and here in April already, we have the CAL sale as well. So already through four months, we've got a significant contribution of about $4 billion. So asset sales are a key component there as well.

Ed Westlake - *Credit Suisse - Analyst*

Thank you. I think I asked three questions in one, so I will defer to the next in line.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Good morning, Pat, Jeff. Pat, I wanted you to talk through the dividend here and just how we are thinking about dividend growth. Historically, you've raised the dividend in the second quarter. Earlier this week, you kept it flat. So wanted to see if this represents a departure from views on dividend growth, or maybe just a change in the timing on when you evaluate it.

Pat Yarrington - *Chevron Corporation - VP, CFO*

That's a good question, Neil, and let me just start by saying that maintaining a competitive and growing dividend is our number-one priority. That has not changed. Our financial priorities have not changed. But what has changed is our immediate financial environment. The near-term environment has changed. So the Board chose not to increase the dividend this quarter. It is similar to what we did back in 2008 and 2009 when prices last fell significantly.

We are supporting a 3.8% yield, but clearly, we are not running very strongly on earnings or cash flow, at the moment, due to commodity prices. I think it's fair to say that the first quarter was not a very stable financial environment. It was very fluid in terms of both revenues and costs.

I think that our overall decision is going to be based on what we feel is affordable and supportable in perpetuity, because we don't want to get into a position where we are having to cut the dividend or trim the dividend in any way. And therefore, the timing and the size of an increase will be a function of how cash and earnings and asset sales, our major capital project execution and, frankly, future commodity prices.

That is a significant factor -- how those all play out in the coming quarters, and really how we see commodity prices playing out over a longer sweep of time. All of those factors will influence that decision.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, Pat. Then wanted to come back to your point on the Neutral Zone. I think, Jeff, you made the point that the financial impact would be limited or immaterial.

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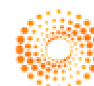

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The number you shouted out there represents about 3% of your volume. So curious as to why any earnings impact could be immaterial. Is that because the margins associated with those barrels could be lower? And just a broader status update on the Wafra field would be helpful as well.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. Essentially you're right. The financial impact is minimal because of the relationship to margins, essentially.

Then on the steamflood status, we did have steam breakthrough, so we did have success in that pilot. It is our expectation to go into FEED later this year, perhaps around the third quarter.

But obviously depending upon circumstances and how they unfold over the next few weeks in these discussions between Saudi and the Kuwaitis in the Partitioned Zone, there could be somewhat of an impact there. I will say that there are discussions that are ongoing, underway.

This is obviously a very serious circumstance, and it's being taken seriously. So we put a lot of "could" and "potential" and words like that in our language because we really don't know. The hope is that this can get solved. We're optimistic that this can get solved.

Neil Mehta - *Goldman Sachs - Analyst*

Thank you, Pat; and Jeff, congratulations.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Hey, good morning, Pat; congrats, Jeff and Frank. First question is just on the OpEx. Thank you for the helpful color on that front.

I guess what I am wondering is, as we think about how the first quarter progressed on a year-over-year or quarter-over-quarter basis and what you called out, relative to -- I believe it was John's commentary last quarter, I think, last cycle you talked about a $4 billion save number, where you think you are in those structural saves opportunities, and how we should sequentially be thinking about this as we look ahead to 2Q and the second half.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right. I mean I think that our profile, at least in we've seen so far in the first quarter, with all of the concerted and systematic effort that we've got underway throughout the entire enterprise, I feel that we should have really good operating expense trends as we move through the remaining three quarters of the year. We are seeing cost reductions over a whole series of cost categories anywhere from 10% to 20%.

Some of that, of course, will end up in opex expense; some of it will end up in capital expenditures, lower capital outlays. But I would just say from the response on the part of suppliers, the intensity with which we are pursuing this, the fact that if we are not getting the cost reductions that we were anticipating from a given supplier that we are willing to move market share and have done so -- all of that I think bodes very well for our bottom line and our cash spend, really, over the course of subsequent periods here.

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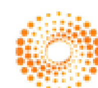

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Phil Gresh - *JPMorgan - Analyst*

Just a clarification on that. If you were to maybe put it in terms of innings, like what you actually realized in the first quarter -- because I think the OpEx was down $600 million year-over-year; so I was just trying to make that foot with the $4 billion number and think about how far along you are versus -- are you actually in the early stages?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think we are in the very early stages in terms of what has been recognized in the first quarter results. So I think there is a lot of potential still to come.

Jeff Gustavson - *Chevron Corporation - General Manager IR*

And, Phil, this is Jeff. Just to be clear, the $4 billion was a 2009 number, what we saw back in 2009. Nothing that we put out here recently.

Phil Gresh - *JPMorgan - Analyst*

Understood. Just on -- my second question is on CPChem. I think there has been some discussion out there about the potential to maybe more efficiently leverage that balance sheet. So maybe you could just talk about your thoughts on that and whether there is any potential of that in 2015.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, sure. I mean in the past, CPChem has held debt, and then they've gone through a period here where they were generating tremendous amounts of cash and dividending that to their parents.

Now they are in a position where they have investment opportunities through that US Gulf Coast cracker project. So it would not be unreasonable to think that they would go into the debt market in order to fund some of their investment opportunities.

Phil Gresh - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Hey, good morning, everybody. Yes, look, thanks for the comment on the dividend; and maybe I'll try further there. I know in 2009 you raised the dividend in July off your typical April/May period for the raise, after a moderate commodity recovery. I know there are many factors and the Board ultimately sets the dividend.

Yet what is the key metric that's your focus when you're looking at that decision? And does it differ today at all because you're in a bigger project ramp-up period? And I have a follow-up; thanks.

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Pat Yarrington - *Chevron Corporation - VP, CFO*

So, Evan, I really think it's important to take a long-term view on the dividend and the outlook on cash and earnings over a longer sweep of time. So I think that is really more fundamentally the issue than where we happen to sit on our capital program at this particular point in time.

I think it's fair to say that with what's happened in oil markets in the last six to nine months, there is a complete reshaping of what's going on, a rebalancing of what's going on. And I think it's reasonable to think that taking some time to understand where things shake out for the long term is a very important and prudent step.

I don't want to get ahead of what the Board's views on this might be, so I can't really comment any further. The dividend is very important to us. We want to remain competitive on it.

We pay attention to our yield. We pay attention to our payouts on earnings and our payouts on cash flows.

We want to be competitive on this. We want to continue to grow it. So all I can say is it's got high priority, and this is something that gets looked at every single quarter, and profiles on out in terms of earnings and cash flows get looked at every quarter by the Board.

Evan Calio - *Morgan Stanley - Analyst*

Great. That's fair. I appreciate that. And a follow-up on the -- particularly, congratulations on the Caltex sale. On the Downstream, can you give us any idea how you'd expect that asset sale -- those asset sales have affected your returns in the Downstream portfolio? So as we roll forward with International -- I know it was non-consolidated, but how they compared relative to the rest of your portfolio and how that portfolio may look absent Caltex? Thank you.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, so I think you -- we should comment that it had a positive contribution, obviously, but I don't think it's going to be noticeable in any meaningful way. Its absence will not be noticeable in any meaningful way.

Evan Calio - *Morgan Stanley - Analyst*

Okay, yes. Fair enough. Thanks.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

Hi, good morning, everybody. And, Jeff, thank you for everything; it's been a pleasure.

Jeff Gustavson - *Chevron Corporation - General Manager IR*

Thanks.

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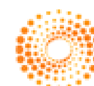

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Paul Sankey - *Wolfe Research - Analyst*

Could I just ask about the neutral zone again? How much did you assume for volumes in your targets for this year and for the 2017 3.1?

Pat Yarrington - *Chevron Corporation - VP, CFO*

This year would have been in the neighborhood of what we produced in the first quarter here, which was around the 76,000 barrels a day. We would have been anticipating a decline between 2015 and 2017 to something a little -- around 60,000, maybe 62,000 barrels a day in 2017.

Paul Sankey - *Wolfe Research - Analyst*

Got it. So Pat, you are saying that basically the margins are so low there that regardless of losing whatever it is, 60,000, 70,000 barrels a day, the financial impact will literally be minimal?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes.

Paul Sankey - *Wolfe Research - Analyst*

Wow, okay. That was the volume question.

Is there anything to add on the California Downstream market? And I will leave it there. Thanks a lot.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think in California, we had the fortunate position of having high reliability at a time when the overall industry market was very tight. It was tight for a couple of operational reasons related to other industry players.

As those get resolved -- and I think one has been resolved; one is going to take a little bit longer to resolve. But as those get resolved, then I think you would anticipate that the margins would move towards a more normal level.

Of course, second quarter is typically a reasonable margin period because of gasoline demand pickup. So there's seasonality factors there.

But, in general, I think it's fair to say that the West Coast margin was impacted significantly here in the first quarter because of these industry factors. And Chevron ran well, operated well, and was able to take advantage of that.

Paul Sankey - *Wolfe Research - Analyst*

Pat, this is totally obscure. But I was wondering, was that part of -- was California part of the working -- why was the working capital movement so enormous in the quarter, I guess is what I should've asked? Thanks.

Pat Yarrington - *Chevron Corporation - VP, CFO*

No, it's a good question. It was really a function, when you look at all of the working capital elements here, the biggest driver is really just related to a disproportionate movement in the way our accounts payable and our accounts receivables moved over the quarter's period of time. Normally when you are in a more stable price environment, then you expect whatever happens in your receivables and payables to offset.

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That did not happen in this particular period. So we had a net cash consumption of size related to accounts payable, receivables net. And this is where I said -- and I feel very comfortable saying -- that we expect this to unwind as the quarters progress.

Paul Sankey - *Wolfe Research - Analyst*

I guess what I am driving at is the history of that typically is that the California operations have a lot of long-distance crude. Is that what we are talking about here? Or is there a dollar effect or something?

Pat Yarrington - *Chevron Corporation - VP, CFO*

No, it's not what we are talking about. In the past when we've talked about -- we've had working capital effects related to California; in many of those circumstances in the past that has been related to the operations, the specific operations or lack of operations at Richmond. That is not the scenario that we are talking about this year.

Paul Sankey - *Wolfe Research - Analyst*

But I am still not clear why it's so big. I mean you say it's payables/receivables type move, but I just want to -- is it the dollar? What is it?

Pat Yarrington - *Chevron Corporation - VP, CFO*

It's just the rate of activity change between what's happened on your revenue side and what's happened on your cost side.

Paul Sankey - *Wolfe Research - Analyst*

Okay, I won't labor it. Thanks a lot.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Hey, guys. First, Jeff, just want to say thank you for all the help over the last couple years and best of luck with your new assignment. And Frank, welcome aboard to the IR-land.

Pat, on the first quarter, the cost savings realization in the P&L, I think you mentioned talking about $600 million. How much of that is related to the [inaudible] in many of the area that you operate is much weaker than the US dollar; so, as a result, in US dollar term, the cost is down?

Pat Yarrington - *Chevron Corporation - VP, CFO*

So your question is about foreign exchange? The 600 -- roughly $580 million of foreign exchange?

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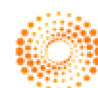

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Paul Cheng - *Barclays Capital - Analyst*

No, I'm not talking about the $580 million, which is related to the balance sheet translation. I'm talking about the actual operating cost. Because let's say you pay your employee in UK with the pound, and then get translated into your US dollar; even if the cost base remain the same in local currency, in US dollar it is much lower.

So that's the amount that I'm just curious -- of the $600 million how much is related to that?

Pat Yarrington - *Chevron Corporation - VP, CFO*

They are not related. Our operating expense -- an influence of foreign exchange on our operating expense is really pretty minimal through the quarter. It's more significant in terms of capital spending; but on an operating expense base, it is not a significant component that has led to the decline in operating expense between periods.

Paul Cheng - *Barclays Capital - Analyst*

Interesting. So given in many of your major operating areas, the dollar has strengthened against their local currency, but it's not much of an impact, you say?

Pat Yarrington - *Chevron Corporation - VP, CFO*

That's correct.

Paul Cheng - *Barclays Capital - Analyst*

I see. Okay. All right. That's fine. A final one that's real quick, overlifting and underlifting in the quarter?

Pat Yarrington - *Chevron Corporation - VP, CFO*

We're about 1.7% underlifted for the quarter.

Paul Cheng - *Barclays Capital - Analyst*

And, Pat, at the end of the quarter, are you still underlift? Or are you about neutral or overlift?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I don't know. I just know for the quarter it was 1.7% and --

Jeff Gustavson - *Chevron Corporation - General Manager IR*

No, at the end of the quarter, Paul, we were 1.7% underlifted. That is at the end of the quarter.

Pat Yarrington - *Chevron Corporation - VP, CFO*

At the end of the quarter, okay.

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Paul Cheng - *Barclays Capital - Analyst*

And how about for the quarter itself?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Within the quarter?

Paul Cheng - *Barclays Capital - Analyst*

Yes. Means that the quarter sales comparing to the quarter production, are we overlift or underlift?

Jeff Gustavson - *Chevron Corporation - General Manager IR*

I will have to follow up with you on that one, Paul. I don't have that number with me. But the 1.7% is --

(multiple speakers)

Jeff Gustavson - *Chevron Corporation - General Manager IR*

-- is the number that you should focus on.

Paul Cheng - *Barclays Capital - Analyst*

Okay, perfect. Thank you.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thank you. Good morning, everyone. And Jeff, let me also say thanks for all your help; and welcome, Frank. I've got to say I'm optimistic on a better queue position with Frank. We will see how it goes.

Pat, on asset sales, you're two-thirds of the way through the $15 billion number. One can't help thinking there may be some upside yet again to that target. Could you frame for us how you are thinking about that?

And if I could tag on a related kind of issue, one of your competitors in your backyard in California seems pretty keen on asset sales. I'm just curious on the other side of the ledger, if you are taking a hard look at bolt-ons to your existing California position. And I do have an unrelated follow-up, please.

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Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. We did just increase the target back in March, moving to the $15 billion over the four years. We're only six weeks later than that, approximately, now.

And even though the CAL sale is a significant transaction, and we're happy to have it behind us, I'm not in the position to change the overall target. I feel very comfortable about our ability to conclude the $15 billion over the next year and a half or so that are remaining. Actually, it's more than that; two and a half years that are remaining.

So I don't want to up that target, but I feel comfortable about our ability to hit that target in the time frame that we have said. CAL will be booked in the second quarter; it was not a first quarter item.

Then in terms of any sort bolt-on activity, obviously we look at circumstances, assets, and opportunities around the globe. We evaluate that all the time. I'm not going to speak specifically about anything that's under consideration or not under consideration.

It has a pretty high hurdle, is all I would say, in order to move into our portfolio at this time. Any sort of additional portfolio move like that would have a pretty high hurdle, because it would need to compete postacquisition for capital against the assets that we already have in queue.

Doug Leggate - *BofA Merrill Lynch - Analyst*

I appreciate that. My follow-up is -- I'm afraid I'm going to labor the working capital issue just a wee bit more, if I may. My sense is, at least when you have such a massive move in the oil price, or at least a slowdown in activity levels, that the payables that you would have as a source of working capital, as you pay those -- in other words, as cash goes out the door -- the subsequent payables that would replace those would be substantially lower, assuming your activity level was reduced.

So what I'm trying to understand is: where is your confidence, or can you help us walk through why, after such a move in the oil price, that working capital position would reverse out, if your activity level has moved to a lower level? Do you see what I mean?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, I think it's really the combination. I look at these on a net basis, right? I look at the movement in your receivables and the movement in your payables. And as I say, as you get into a stable environment, any sort of price impact that you get typically moves through both of those in a relatively synonymous way or a synchronized way.

So when you are in a discontinuous situation like you had in the first quarter, I think when you get into a stable environment, if prices have come down and cost structure has come down, then you get into a matching there. That is what I am really trying to imply, is that as you move into that matching phase, that is where you will get the reversal, and you will return to a more normal relationship between receivables and payables.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Is that through the course of the year, Pat? Or would you expect a more, a quicker resolution to that? Or is it going to grind higher or grind to rebounds over time? How would you characterize it?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Accounts payable/receivables I would expect to begin reversing relatively quickly here. I think it's a trend, a change in pattern that you will see in the second quarter.

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Doug Leggate - *BofA Merrill Lynch - Analyst*

Great. I will leave it there. Thanks very much, indeed.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Howard Weil Incorporated - Analyst*

Folks, good morning; and I would also offer congratulations to both Jeff and Frank. I had two questions.

One, could you give an update on the recently formed JV you did in the Gulf of Mexico with Keathley Canyon? Any status update or game plan as you take over operatorship there?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, I think I would like to leave a lot of that for our second quarter here, because our plans are to have Jay Johnson on the line with us in second quarter, and I think we will let the opportunities go there.

But we are very pleased with the joint development opportunity that we've got here. This really builds on our Anchor discovery and our Guadalupe discovery; and it combines the Tiber and Gila discoveries where BP had success there.

So we feel like it's a very good development opportunity, potentially for hubs, where you can get scale assets, economic assets, and go forward. We have a lot of continuing appraisal work to do, though. So I don't really want to say much more than that.

Blake Fernandez - *Howard Weil Incorporated - Analyst*

Fair enough. We can follow up next quarter with Jay. The second question, Pat, is really on the US in particular, where we saw negative earnings. I guess I viewed the Gulf and Permian as key growth areas where we would expect fairly high margins.

I realize there were some impairments one off in the quarter. But you highlight DD&A being elevated. Is it fair to believe that DD&A remains at an elevated level until we book additional reserves over time?

And if I could maybe just sneak in a follow-up on the Partitioned Zone, you mentioned the financial impact being minimal. I presume that applies to both earnings and cash flow; but if you could please just confirm that, I would appreciate it. Thanks.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. Just sticking with the Upstream loss position, I think we have to look at what the driver was here for the loss position. And obviously very poor realizations, only $43 a barrel in liquids realizations; gas overall was $2.25, roughly. So the significant decline in revenues.

I talked about what was happening on our cost structure side of things, but we're going to see the cost structure come down with lag effects. You are not going to see that in a first quarter period of time. So the cost structure is continuing to evolve. First quarter again was not a particularly pretty picture from a margin standpoint.

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On depreciation, you're right; we are seeing elevated depreciation. And you would expect that depreciation to remain elevated, particularly for some of our deepwater assets, until we have time to do -- and we can see what the full recoverable -- we can document the full recoverable opportunity of that development play.

And back on PZ, it is the same earnings and cash.

Blake Fernandez - *Howard Weil Incorporated - Analyst*

Great. Thank you so much.

Operator

Jason Gammel, Jefferies.

Jason Gammel - *Jefferies LLC - Analyst*

Thanks very much. Hi, everyone. Just wanted to come to the milestones that you've achieved in Australia over the course of the quarter. The first question related to the first gas into the turbine at Gorgon.

That's obviously a huge milestone. Is that being accomplished with gas from your Io-Jansz offshore, or are you getting that from third-party sources? And if it's not Io-Jansz, do you still expect first gas somewhere around midyear?

Pat Yarrington - *Chevron Corporation - VP, CFO*

It's coming from domestic gas sources. And yes, our expectation really is to have -- we are on schedule to have Gorgon startup in the third quarter of this year and first gas before the end of the year.

Jason Gammel - *Jefferies LLC - Analyst*

You mean first commercial cargoes? Is that --?

Pat Yarrington - *Chevron Corporation - VP, CFO*

First commercial cargoes, sorry.

Jason Gammel - *Jefferies LLC - Analyst*

Okay, great.

Pat Yarrington - *Chevron Corporation - VP, CFO*

First LNG before the end of the year.

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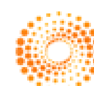

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Jason Gammel - *Jefferies LLC - Analyst*

Got it. Then, obviously, another major milestone achieved at Wheatstone with the topside placement. But I guess from a schedule standpoint, I would expect that the onshore has got the most potential for slippage, just from a risk standpoint. Can you talk about where you are at relative to schedule in terms of the onshore at Wheatstone?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. We are on schedule for Wheatstone. Obviously, the installation of the topsides on the steel gravity structure was a major milestone. But we've got seven of 24 major process modules that have been delivered on-site. The trunk line is installed and hydrotested.

The dredging is complete. The piling activities are completed. The roofs are on both of the LNG tanks, so we continued to make good progress both onshore and offshore.

I do encourage you to take a look at the pictures that are on the website, because you will be able to see the progress there.

Jason Gammel - *Jefferies LLC - Analyst*

Okay. Very good. Thanks, folks.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James & Associates - Analyst*

Thanks for taking the question. As you were getting into 2015, presumably there was a lift of FIDs the Company had on deck. Are there any of those, other than perhaps Kitimat, that have been pushed out or suspended since January 1?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I would say the most significant, in fact the only really significant FID that is on plan for this year relates to TCO and the Future Growth Project. We continue to work that through to FID. Obviously, it's an opportunity for us to take advantage of a lower cost structure, so we continue to do more detailed engineering and work through the cost estimates, continue to work with our partners and the government on this. So our expectation is fourth quarter FID on that one.

Pavel Molchanov - *Raymond James & Associates - Analyst*

Okay, understood.

Pat Yarrington - *Chevron Corporation - VP, CFO*

In terms of the other FID projects, part of the reduction that we took in our capital spending from 2014 to 2015 really did relate to the pacing of other major capital projects. Kitimat is a primary one there; we've moved that -- I guess I would say the spending on that out considerably. We're really only limiting ourselves here to appraisal work and continuing to look at the design and the cost structure of that.

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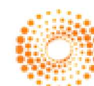

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Indonesia deepwater development would've been another one. That has moved out. So there are several other FIDs or pre-FID projects that we have pushed C&E monies into future years.

Pavel Molchanov - *Raymond James & Associates - Analyst*

If I can ask a follow-up about the Downstream segment, you've been pretty vocal in the past about the frustrations with California policy on carbon emissions in particular. Given the decision last week to extend those rules out the 2030, does that change your view about perhaps retaining any of the California refining assets?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, I would just say that we are in a very advantaged California position. We've got two very strong, very competitive assets at Richmond and El Segundo. We've got very good market positions, very good brand strength.

So it is a quality asset that we have here, and our expectation is that we will be able, over time, to work within whatever the regulatory framework is. At the same time, we do still think it's important to alert customers and alert government officials as to what the cost of compliance is for some of these programs.

The AB 32, the cap-and-trade portion, fuels-under-the-cap came into effect in January of this year, and there are costs, new costs, associated with being a refiner in the state as a result of that. Now it does get passed on to consumers. So as that continues to move forward, then of course that cost increase could be something that consumers and regulators will be increasingly aware of.

Pavel Molchanov - *Raymond James & Associates - Analyst*

Okay. Appreciate it.

Operator

Ryan Todd, Deutsche Bank.

Ryan Todd - *Deutsche Bank - Analyst*

Great, thanks. Good morning, everybody. And let me be one of the last to wish you good luck, Jeff, in the next assignment. And welcome, Frank.

If I could just go maybe with a couple specific ones. Angola LNG, I think at the Analyst Day you updated you expected it to come onstream during the fourth quarter of this year, back onstream. Is that -- any update on progress there?

That was maybe a little bit earlier than some of our expectations. Maybe what all did you end up having to do to the project to get it ready for this year?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay. Work is still underway, significantly underway. The overall plan is to still have Angola LNG restart with LNG to the tank in the fourth quarter of this year, probably late in the fourth quarter this year; and then begin to ramp up to about 75% of capacity by the first quarter of 2016.

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As is common, the plant will run for a period of time and then ALNG will make a decision as to whether or not they need to take the plant down to perform any sort of shutdown, strainer removal, that kind of cleanup activity. And they'll decide at that point in time whether or not they want to do that early in the first part of 2016.

In any case, we would expect ALNG to reach maximum capacity in the second quarter of 2016, if they decide to do those strainer removals.

Ryan Todd - *Deutsche Bank - Analyst*

Great; I appreciate that. Then maybe just one general one. I think you have a couple comments in your release, but would appreciate any clarity as we have varying views from different companies over -- in recent times. Any view on general product demand both in the US and globally, what you are seeing across your system? Any demands (technical difficulty) weak or strong in different parts of system as well?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, I would say that going forward here -- and I am thinking really globally here -- that there are some leading indicators that would suggest that product demand is strengthening, I guess I would say modestly. And overall, probably have an overall demand profile for 2015 that would be somewhat stronger than 2014 from an oil consumption standpoint.

Ryan Todd - *Deutsche Bank - Analyst*

And in the US, I think in your release it said the product sales were -- I can't remember. They were flat year on year versus 1Q 2014. Is that US gasoline? Is that same-store sales across your system, or what number is that?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I'm not sure. Which number are you talking -- are you looking at? Are you looking in the release itself?

Ryan Todd - *Deutsche Bank - Analyst*

Yes, I think it said branded gasoline sales were essentially flat with 2014, so I am guessing that is kind of a same-store sales.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Well, it's not -- it's our total network sales. Total network sales. It's really just a fact -- a function of our branded distribution, right?

Ryan Todd - *Deutsche Bank - Analyst*

Okay.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I mean our network hasn't changed significantly between periods of time.

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Ryan Todd - *Deutsche Bank - Analyst*

That's helpful. All right. Thanks a lot.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities - Analyst*

Yes, good morning. I guess I'd like to follow-up; it hasn't gotten much airtime this time around. Permian: give us an update maybe what you are doing there, maybe your progression on rig count, and then also how the cost deflation is flowing through there.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay. Our current outlook really for the Permian is to have about 21 rigs running. Currently, in the March meeting, we said it was something closer to 25. We expect to have about 325 gross wells this year, and that's down a little bit from what we said just a few weeks ago.

Some of the reduction in the wells is due to a shift to horizontal drilling programs versus vertical drilling programs. Some of it also relates to joint-venture arrangements where our joint development partner has reduced their activity levels compared to plan.

We are transitioning more and more to horizontal work as opposed to vertical work. Horizontal wells obviously work better in this kind of a price environment.

I would just say that we are seeing very good well by well improvement in costs in each of these wells going forward. I think the cost reduction efforts are finding their way through to our overall drilling and completion costs, and we'll be happy to give you a larger update, more in-depth update on our second-quarter call.

Roger Read - *Wells Fargo Securities - Analyst*

Okay, and then the other question I had, if we could get back to -- it was chart 14, you talked about flexibility in your spending going forward. I didn't catch the number; but I was just wondering if we should think about that as a -- if, number one, you would give us a number.

Number two, can we think about that as ratable as we work through? Or is it very much going to be chunky as, for example, Gorgon gets going at the end of this year and obviously the CapEx drops off? And then how that may change the way the future FID process will work its way through as well.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right. The number that we provided between 2015 and 2017 is $8 billion cumulatively. I think it's reasonable for you to think about that as reasonably ratable. I mean, it does really depend and is influenced heavily by the Gorgon and Wheatstone spend falloff. But I think for purposes of what you are most likely doing, I think thinking about it as being reasonably ratable makes sense.

Roger Read - *Wells Fargo Securities - Analyst*

Okay. That's it for me. Thanks. And Jeff and Frank, good luck in new ventures; and, Frank, I guess we will be talking to you quite a lot more.

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Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

Hey, good morning, everyone. Thanks for taking my questions. I was just wondering if you could talk a little bit about how cost savings that you've realized to date have aligned with what was contemplated by your original CapEx budget, if you are seeing cost deflation happen more quickly than you would have expected.

I'm just looking at the International CapEx number for the first quarter and it's down $2 billion. Is that good cost savings, or is that just normal inter-quarter volatility?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Right. I would say in general, the cost savings that we are seeing and that we anticipate seeing would probably be somewhat stronger than what we had baked into our $35 billion budget. That's really just a function of when we were doing the budget and what we were anticipating, versus what we are -- we believe being able to secure going forward.

I don't think you will have seen much of that in the quarter-to-quarter comparisons as of yet. So what you are seeing quarter-to-quarter comparisons really has more to do with the pattern of actual spending from fourth to first.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, understood. Just thinking about that, if you prorate the first quarter for the full year, you're already below the $35 billion number. How should we think about the CapEx trajectory throughout 2015?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, I think you should think about it as being relatively evenly paced. The $35 billion target is what we expect to hit at the end of the year.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes Chevron's first quarter 2015 earnings conference call. You may now disconnect. Good day.

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