

CHEVRON CORP
Form 10-Q
August 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-00368

Chevron Corporation

(Exact name of registrant as specified in its charter)

Delaware	94-0890210
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6001 Bollinger Canyon Road, San Ramon, California	94583-2324
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (925) 842-1000

NONE

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller
reporting company)

Smaller reporting company Emerging growth
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of June 30, 2017
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Common stock, \$.75 par value 1,895,002,689

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CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION
FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This quarterly report on Form 10-Q of Chevron Corporation contains forward-looking statements relating to Chevron’s operations that are based on management’s current expectations, estimates and projections about the petroleum, chemicals and other energy-related industries. Words or phrases such as “anticipates,” “expects,” “intends,” “plans,” “targets,” “forecasts,” “projects,” “believes,” “seeks,” “schedules,” “estimates,” “positions,” “pursues,” “may,” “could,” “should,” “budgets,” “trends,” “guidance,” “focus,” “on schedule,” “on track,” “goals,” “objectives,” “strategies,” “opportunities” and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond the company’s control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Chevron undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are: changing crude oil and natural gas prices; changing refining, marketing and chemicals margins; the company’s ability to realize anticipated cost savings and expenditure reductions; actions of competitors or regulators; timing of exploration expenses; timing of crude oil liftings; the competitiveness of alternate-energy sources or product substitutes; technological developments; the results of operations and financial condition of the company’s suppliers, vendors, partners and equity affiliates, particularly during extended periods of low prices for crude oil and natural gas; the inability or failure of the company’s joint-venture partners to fund their share of operations and development activities; the potential failure to achieve expected net production from existing and future crude oil and natural gas development projects; potential delays in the development, construction or start-up of planned projects; the potential disruption or interruption of the company’s operations due to war, accidents, political events, civil unrest, severe weather, cyber threats and terrorist acts, crude oil production quotas or other actions that might be imposed by the Organization of Petroleum Exporting Countries, or other natural or human causes beyond its control; changing economic, regulatory and political environments in the various countries in which the company operates; general domestic and international economic and political conditions; the potential liability for remedial actions or assessments under existing or future environmental regulations and litigation; significant operational, investment or product changes required by existing or future environmental statutes and regulations, including international agreements and national or regional legislation and regulatory measures to limit or reduce greenhouse gas emissions; the potential liability resulting from other pending or future litigation; the company’s future acquisition or disposition of assets or shares or the delay or failure of such transactions to close based on required closing conditions; the potential for gains and losses from asset dispositions or impairments; government-mandated sales, divestitures, recapitalizations, industry-specific taxes, changes in fiscal terms or restrictions on scope of company operations; foreign currency movements compared with the U.S. dollar; material reductions in corporate liquidity and access to debt markets; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; the company’s ability to identify and mitigate the risks and hazards inherent in operating in the global energy industry; and the factors set forth under the heading “Risk Factors” on pages 20 through 22 of the company’s 2016 Annual Report on Form 10-K. Other unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements.

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FINANCIAL INFORMATIONItem 1. Consolidated Financial Statements
CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$32,877	\$27,844	\$64,401	\$50,914
Income from equity affiliates	1,316	752	2,466	1,328
Other income	287	686	1,034	593
Total Revenues and Other Income	34,480	29,282	67,901	52,835
Costs and Other Deductions				
Purchased crude oil and products	18,325	15,278	35,831	26,503
Operating expenses	4,662	5,054	9,318	10,458
Selling, general and administrative expenses	991	1,033	1,861	2,031
Exploration expenses	125	214	269	584
Depreciation, depletion and amortization	5,311	6,721	9,505	11,124
Taxes other than on income*	3,065	2,973	5,936	5,837
Interest and debt expense	48	79	99	79
Total Costs and Other Deductions	32,527	31,352	62,819	56,616
Income (Loss) Before Income Tax Expense	1,953	(2,070)	5,082	(3,781)
Income Tax Expense (Benefit)	487	(607)	917	(1,611)
Net Income (Loss)	1,466	(1,463)	4,165	(2,170)
Less: Net income attributable to noncontrolling interests	16	7	33	25
Net Income (Loss) Attributable to Chevron Corporation	\$1,450	\$(1,470)	\$4,132	\$(2,195)
Per Share of Common Stock:				
Net Income (Loss) Attributable to Chevron Corporation				
— Basic	\$0.77	\$(0.78)	\$2.20	\$(1.17)
— Diluted	\$0.77	\$(0.78)	\$2.18	\$(1.17)
Dividends	\$1.08	\$1.07	\$2.16	\$2.14
Weighted Average Number of Shares Outstanding (000s)				
— Basic	1,881,019	1,871,995	1,880,200	1,870,885
— Diluted	1,893,014	1,871,995	1,894,197	1,870,885
* Includes excise, value-added and similar taxes:	\$1,771	\$1,784	\$3,448	\$3,436

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Millions of dollars)			
Net Income (Loss)	\$1,466	\$(1,463)	\$4,165	\$(2,170)
Currency translation adjustment	10	(7)	24	2
Unrealized holding gain on securities:				
Net gain (loss) arising during period	—	1	(5)	10
Defined benefit plans:				
Actuarial gain (loss):				
Amortization to net income of net actuarial and settlement losses	174	198	345	379
Actuarial loss arising during period	—	(14)	(14)	(14)
Prior service cost:				
Amortization to net income of net prior service costs	(5)	8	(10)	13
Defined benefit plans sponsored by equity affiliates	4	5	10	14
Income tax expense on defined benefit plans	(61)	(73)	(111)	(145)
Total	112	124	220	247
Other Comprehensive Gain, Net of Tax	122	118	239	259
Comprehensive Income (Loss)	1,588	(1,345)	4,404	(1,911)
Comprehensive income attributable to noncontrolling interests	(16)	(7)	(33)	(25)
Comprehensive Income (Loss) Attributable to Chevron Corporation	\$1,572	\$(1,352)	\$4,371	\$(1,936)

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	At June 30 2017	At December 31 2016
	(Millions of dollars, except per-share amounts)	
ASSETS		
Cash and cash equivalents	\$ 4,762	\$ 6,988
Marketable securities	13	13
Accounts and notes receivable, net	13,168	14,092
Inventories		
Crude oil and petroleum products	3,461	2,720
Chemicals	472	455
Materials, supplies and other	2,142	2,244
Total inventories	6,075	5,419
Prepaid expenses and other current assets	2,608	3,107
Total Current Assets	26,626	29,619
Long-term receivables, net	2,403	2,485
Investments and advances	31,706	30,250
Properties, plant and equipment, at cost	337,551	336,077
Less: Accumulated depreciation, depletion and amortization	159,375	153,891
Properties, plant and equipment, net	178,176	182,186
Deferred charges and other assets	7,352	6,838
Goodwill	4,543	4,581
Assets held for sale	3,793	4,119
Total Assets	\$ 254,599	\$ 260,078
LIABILITIES AND EQUITY		
Short-term debt	\$ 8,782	\$ 10,840
Accounts payable	12,057	13,986
Accrued liabilities	4,695	4,882
Federal and other taxes on income	1,328	1,050
Other taxes payable	1,094	1,027
Total Current Liabilities	27,956	31,785
Long-term debt	33,989	35,193
Capital lease obligations	93	93
Deferred credits and other noncurrent obligations	20,898	21,553
Noncurrent deferred income taxes	17,067	17,516
Noncurrent employee benefit plans	7,208	7,216
Total Liabilities*	107,211	113,356
Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued)	—	—
Common stock (authorized 6,000,000,000 shares; \$0.75 par value; 2,442,676,580 shares issued at June 30, 2017, and December 31, 2016)	1,832	1,832
Capital in excess of par value	16,668	16,595
Retained earnings	173,116	173,046
Accumulated other comprehensive loss	(3,604) (3,843
Deferred compensation and benefit plan trust	(240) (240
	(41,569) (41,834

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Treasury stock, at cost (547,673,891 and 551,170,158 shares at June 30, 2017, and December 31, 2016, respectively)

Total Chevron Corporation Stockholders' Equity	146,203	145,556
Noncontrolling interests	1,185	1,166
Total Equity	147,388	146,722
Total Liabilities and Equity	\$ 254,599	\$ 260,078

* Refer to Note 14, "Other Contingencies and Commitments" beginning on page 19.

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Operating Activities		
Net Income (Loss)	\$4,165	\$(2,170)
Adjustments		
Depreciation, depletion and amortization	9,505	11,124
Dry hole expense	19	334
Distributions less than income from equity affiliates	(1,436)	(486)
Net before-tax gains on asset retirements and sales	(1,056)	(661)
Net foreign currency effects	243	302
Deferred income tax provision	(1,246)	(2,240)
Net increase in operating working capital	(1,198)	(2,091)
Decrease (increase) in long-term receivables	76	(33)
Net (increase) decrease in other deferred charges	(23)	52
Cash contributions to employee pension plans	(214)	(551)
Other	80	92
Net Cash Provided by Operating Activities	8,915	3,672
Investing Activities		
Capital expenditures	(6,539)	(10,035)
Proceeds and deposits related to asset sales	2,523	1,370
Net sales of marketable securities	—	2
Net borrowing of loans by equity affiliates	(16)	(158)
Net (purchases) sales of other short-term investments	(14)	155
Net Cash Used for Investing Activities	(4,046)	(8,666)
Financing Activities		
Net (repayments) borrowings of short-term obligations	(6,305)	359
Proceeds from issuance of long-term debt	3,991	6,926
Repayments of long-term debt and other financing obligations	(998)	(780)
Cash dividends — common stock	(4,061)	(4,002)
Distributions to noncontrolling interests	(41)	(24)
Net sales of treasury shares	279	262
Net Cash (Used for) Provided by Financing Activities	(7,135)	2,741
Effect of Exchange Rate Changes on Cash and Cash Equivalents	40	(5)
Net Change in Cash and Cash Equivalents	(2,226)	(2,258)
Cash and Cash Equivalents at January 1	6,988	11,022
Cash and Cash Equivalents at June 30	\$4,762	\$8,764

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Interim Financial Statements

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by an independent registered public accounting firm. In the opinion of the company's management, the interim data includes all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature. The results for the three- and six-month periods ended June 30, 2017, are not necessarily indicative of future financial results. The term "earnings" is defined as net income (loss) attributable to Chevron Corporation.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the company's 2016 Annual Report on Form 10-K.

Note 2. Changes in Accumulated Other Comprehensive Losses

The change in Accumulated Other Comprehensive Losses (AOCL) presented on the Consolidated Balance Sheet and the impact of significant amounts reclassified from AOCL on information presented in the Consolidated Statement of Income for the six months ending June 30, 2017, are reflected in the table below.

Changes in Accumulated Other Comprehensive Income (Loss) by Component ⁽¹⁾

	Six Months Ended June 30, 2017				
	Currency Translation Adjustment	Unrealized Holding Gains (Losses) on Securities	Derivatives	Defined Benefit Plans	Total
Balance at January 1	\$(162)	\$ (2)	\$ (2)	\$(3,677)	\$(3,843)
Components of Other Comprehensive Income (Loss):					
Before Reclassifications	24	(5)	—	4	23
Reclassifications ⁽²⁾	—	—	—	216	216
Net Other Comprehensive Income (Loss)	24	(5)	—	220	239
Balance at June 30	\$(138)	\$ (7)	\$ (2)	\$(3,457)	\$(3,604)

(1) All amounts are net of tax.

(2) Refer to Note 10, Employee Benefits for reclassified components totaling \$335 million that are included in employee benefit costs for the six months ending June 30, 2017. Related income taxes for the same period, totaling \$119 million, are reflected in Income Tax Expense on the Consolidated Statement of Income. All other reclassified amounts were insignificant.

Note 3. Noncontrolling Interests

Ownership interests in the company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the Consolidated Balance Sheet. The amount of consolidated net income attributable to the parent and the noncontrolling interests are both presented on the face of the Consolidated Statement of Income.

Activity for the equity attributable to noncontrolling interests for the first six months of 2017 and 2016 is as follows:

2017			2016		
Chevron Corporation Stockholders' Equity	Non-controlling Interest	Total Equity	Chevron Corporation Stockholders' Equity	Non-controlling Interest	Total Equity

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	(Millions of dollars)					
Balance at January 1	\$145,556	\$ 1,166	\$146,722	\$152,716	\$ 1,170	\$153,886
Net income (loss)	4,132	33	4,165	(2,195)	25	(2,170)
Dividends	(4,062)	—	(4,062)	(4,004)	—	(4,004)
Distributions to noncontrolling interests	—	(41)	(41)	—	(24)	(24)
Treasury shares, net	265	—	265	281	—	281
Other changes, net*	312	27	339	365	(9)	356
Balance at June 30	\$146,203	\$ 1,185	\$147,388	\$147,163	\$ 1,162	\$148,325

* Includes components of comprehensive income, which are disclosed separately in the Consolidated Statement of Comprehensive Income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 4. Information Relating to the Consolidated Statement of Cash Flows

The “Net increase in operating working capital” was composed of the following operating changes:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Decrease (increase) in accounts and notes receivable	\$927	\$(858)
Increase in inventories	(704)	(219)
Decrease in prepaid expenses and other current assets	498	23
Decrease in accounts payable and accrued liabilities	(2,175)	(699)
Increase (decrease) in income and other taxes payable	256	(338)
Net increase in operating working capital	\$(1,198)	\$(2,091)

“Net Cash Provided by Operating Activities” included the following cash payments for interest on debt and for income taxes:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Interest on debt (net of capitalized interest)	\$64	\$ 50
Income taxes	1,023	1,297

"Other" includes changes in postretirement benefits obligations and other long-term liabilities.

Information related to "Restricted Cash" is included on page 22 in Note 15 under the heading "Restricted Cash."

The “Net sales of marketable securities” consisted of the following gross amounts:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Marketable securities purchased	\$(3)	\$(9)
Marketable securities sold	3	11
Net sales of marketable securities	\$—	\$2

The “Net borrowing of loans by equity affiliates” consisted of the following gross amounts:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Borrowing of loans by equity affiliates	\$(102)	\$(171)
Repayment of loans by equity affiliates	86	13
Net borrowing of loans by equity affiliates	\$(16)	\$(158)

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The “Net (purchases) sales of other short-term investments” consisted of the following gross amounts:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Purchases of other short-term investments	\$(21)	\$(3)
Sales of other short-term investments	7	158
Net (purchases) sales of other short-term investments	\$(14)	\$155

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The “Net (repayments) borrowings of short-term obligations” consisted of the following gross and net amounts:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Repayments of short-term obligations	\$(6,524)	\$(5,175)
Proceeds from issuances of short-term obligations	3,415	8,494
Net borrowings of short-term obligations with three months or less maturity	(3,196)	(2,960)
Net (repayments) borrowings of short-term obligations	\$(6,305)	\$359

The “Net sales of treasury shares” represents the cost of common shares acquired less the cost of shares issued for share-based compensation plans. Purchases totaled \$1 million for the first six months in 2017 and 2016. No purchases were made under the company's share repurchase program in the first six months of 2017 or 2016.

The major components of “Capital expenditures” and the reconciliation of this amount to the capital and exploratory expenditures, including equity affiliates, are as follows:

	Six Months Ended June 30	
	2017	2016
	(Millions of dollars)	
Additions to properties, plant and equipment	\$6,521	\$9,796
Additions to investments	7	27
Current year dry hole expenditures	10	211
Payments for other liabilities and assets, net	1	1
Capital expenditures	6,539	10,035
Expensed exploration expenditures	250	250
Assets acquired through capital lease obligations	3	4
Capital and exploratory expenditures, excluding equity affiliates	6,792	10,289
Company's share of expenditures by equity affiliates	2,138	1,703
Capital and exploratory expenditures, including equity affiliates	\$8,930	\$11,992

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5. New Accounting Standards

Revenue Recognition (Topic 606): Revenue from Contracts with Customers. In July 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09, which becomes effective for the company January 1, 2018. The standard provides a single comprehensive revenue recognition model for contracts with customers, eliminates most industry-specific revenue recognition guidance, and expands disclosure requirements. The company has elected to adopt the standard using the modified retrospective transition method. "Sales and Other Operating Revenues" on the Consolidated Statement of Income includes excise, value-added and similar taxes on sales transactions. Upon adoption of the standard, revenue will exclude sales-based taxes collected on behalf of third parties, which will have no impact to earnings. The company's implementation efforts are focused on accounting policy and disclosure updates and system enhancements necessary to meet the standard's requirements. The company does not expect the implementation of the standard to have a material effect on its consolidated financial statements.

Leases (Topic 842) In February 2016, the FASB issued ASU 2016-02 which becomes effective for the company January 1, 2019. The standard requires that lessees present right-of-use assets and lease liabilities on the balance sheet. The company is evaluating the effect of the standard on its consolidated financial statements.

Financial Instruments - Credit Losses (Topic 326) In June 2016, the FASB issued ASU 2016-13, which becomes effective for the company beginning January 1, 2020. The standard requires companies to use forward-looking information to calculate credit loss estimates. The company is evaluating the effect of the standard on its consolidated financial statements.

Intangibles - Goodwill and Other (Topic 350) In January 2017, the FASB issued ASU 2017-04. The standard simplifies the accounting for goodwill impairment, and the company has chosen to early adopt beginning January 1, 2017. Early adoption has no effect on the company's consolidated financial statements.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) In March 2017, the FASB issued ASU 2017-05 which becomes effective for the company January 1, 2018. The standard provides clarification regarding the guidance on accounting for the derecognition of nonfinancial assets. The company is evaluating the effect of the standard on its consolidated financial statements.

Compensation - Retirement Benefits (Topic 715) In March 2017, the FASB issued ASU 2017-07 which becomes effective for the company January 1, 2018. The standard requires the disaggregation of the service cost component from the other components of net periodic benefit cost and allows only the service cost component of net benefit cost to be eligible for capitalization. The company is evaluating the effect of the standard on its consolidated financial statements.

Note 6. Operating Segments and Geographic Data

Although each subsidiary of Chevron is responsible for its own affairs, Chevron Corporation manages its investments in these subsidiaries and their affiliates. The investments are grouped into two business segments, Upstream and Downstream, representing the company's "reportable segments" and "operating segments." Upstream operations consist primarily of exploring for, developing and producing crude oil and natural gas; liquefaction, transportation and regasification associated with liquefied natural gas (LNG); transporting crude oil by major international oil export pipelines; processing, transporting, storage and marketing of natural gas; and a gas-to-liquids plant. Downstream operations consist primarily of refining of crude oil into petroleum products; marketing of crude oil and refined products; transporting of crude oil and refined products by pipeline, marine vessel, motor equipment and rail car; and manufacturing and marketing of commodity petrochemicals, plastics for industrial uses, and fuel and lubricant additives. All Other activities of the company include worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities and technology companies.

The company's segments are managed by "segment managers" who report to the "chief operating decision maker" (CODM). The segments represent components of the company that engage in activities (a) from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the CODM, which makes decisions about resources to be allocated to the segments and assesses their performance; and (c) for which discrete financial information is available.

The company's primary country of operation is the United States of America, its country of domicile. Other components of the company's operations are reported as "International" (outside the United States).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment Earnings The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the company on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments. However, operating segments are billed for the direct use of corporate services. Nonbillable costs remain at the corporate level in “All Other.” Earnings by major operating area for the three- and six-month periods ended June 30, 2017 and 2016, are presented in the following table:

Segment Earnings	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
	(Millions of dollars)			
Upstream				
United States	\$(102)	\$(1,113)	\$(22)	\$(1,963)
International	955	(1,349)	2,392	(1,958)
Total Upstream	853	(2,462)	2,370	(3,921)
Downstream				
United States	634	537	1,103	784
International	561	741	1,018	1,229
Total Downstream	1,195	1,278	2,121	2,013
Total Segment Earnings	2,048	(1,184)	4,491	(1,908)
All Other				
Interest expense	(41)	(66)	(85)	(66)
Interest income	14	17	29	32
Other	(571)	(237)	(303)	(253)
Net Income (Loss) Attributable to Chevron Corporation	\$1,450	\$(1,470)	\$4,132	\$(2,195)

Segment Assets Segment assets do not include intercompany investments or intercompany receivables. “All Other” assets consist primarily of worldwide cash, cash equivalents, time deposits and marketable securities; real estate; information systems; technology companies; and assets of the corporate administrative functions. Segment assets at June 30, 2017, and December 31, 2016, are as follows:

Segment Assets	At June	At
	30 2017	December 31 2016
	(Millions of dollars)	
Upstream		
United States	\$40,897	\$42,596
International	162,469	164,068
Goodwill	4,543	4,581
Total Upstream	207,909	211,245
Downstream		
United States	22,040	22,264
International	16,468	15,816
Total Downstream	38,508	38,080
Total Segment Assets	246,417	249,325
All Other		
United States	3,973	4,852
International	4,209	5,901

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Total All Other	8,182	10,753
Total Assets — United States	66,910	69,712
Total Assets — International	183,146	185,785
Goodwill	4,543	4,581
Total Assets	\$254,599	\$260,078

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment Sales and Other Operating Revenues Segment sales and other operating revenues, including internal transfers, for the three- and six-month periods ended June 30, 2017 and 2016, are presented in the following table. Products are transferred between operating segments at internal product values that approximate market prices. Revenues for the upstream segment are derived primarily from the production and sale of crude oil and natural gas, as well as the sale of third-party production of natural gas. Revenues for the downstream segment are derived from the refining and marketing of petroleum products such as gasoline, jet fuel, gas oils, lubricants, residual fuel oils and other products derived from crude oil. This segment also generates revenues from the manufacture and sale of fuel and lubricant additives and the transportation and trading of refined products and crude oil. “All Other” activities include revenues from insurance operations, real estate activities and technology companies.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Sales and Other Operating Revenues	(Millions of dollars)			
Upstream				
United States	\$3,135	\$2,467	\$6,375	\$4,539
International	6,852	5,377	13,433	10,398
Subtotal	9,987	7,844	19,808	14,937
Intersegment Elimination — United States	(2,198)	(1,810)	(4,439)	(3,141)
Intersegment Elimination — International	(2,708)	(2,278)	(5,428)	(4,207)
Total Upstream	5,081	3,756	9,941	7,589
Downstream				
United States	13,322	11,716	25,754	20,883
International	14,701	12,539	29,214	22,847
Subtotal	28,023	24,255	54,968	43,730
Intersegment Elimination — United States	(3)	(4)	(6)	(8)
Intersegment Elimination — International	(272)	(196)	(602)	(459)
Total Downstream	27,748	24,055	54,360	43,263
All Other				
United States	278	296	513	545
International	8	11	13	19
Subtotal	286	307	526	564
Intersegment Elimination — United States	(231)	(264)	(414)	(484)
Intersegment Elimination — International	(7)	(10)	(12)	(18)
Total All Other	48	33	100	62
Sales and Other Operating Revenues				
United States	16,735	14,479	32,642	25,967
International	21,561	17,927	42,660	33,264
Subtotal	38,296	32,406	75,302	59,231
Intersegment Elimination — United States	(2,432)	(2,078)	(4,859)	(3,633)
Intersegment Elimination — International	(2,987)	(2,484)	(6,042)	(4,684)
Total Sales and Other Operating Revenues	\$32,877	\$27,844	\$64,401	\$50,914

Note 7. Summarized Financial Data — Chevron U.S.A. Inc.

Chevron U.S.A. Inc. (CUSA) is a major subsidiary of Chevron Corporation. CUSA and its subsidiaries manage and operate most of Chevron’s U.S. businesses. Assets include those related to the exploration and production of crude oil, natural gas and natural gas liquids and those associated with refining, marketing, and supply and distribution of products derived from petroleum, excluding most of the regulated pipeline operations of Chevron. CUSA also holds

the company's investment in the Chevron Phillips Chemical Company LLC joint venture, which is accounted for using the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The summarized financial information for CUSA and its consolidated subsidiaries is as follows:

	Six Months Ended	
	June 30	
	2017	2016
	(Millions of dollars)	
Sales and other operating revenues	\$49,814	\$38,275
Costs and other deductions	49,592	40,905
Net income (loss) attributable to CUSA	775	(1,218)

	At June	At
	30	December
	2017	31
	2016	
	(Millions of dollars)	
Current assets	\$10,051	\$11,266
Other assets	54,057	55,722
Current liabilities	13,739	16,660
Other liabilities	15,188	21,701
Total CUSA net equity	\$35,181	\$28,627
Memo: Total debt	\$3,056	\$9,418

Note 8. Summarized Financial Data — Tengizchevroil LLP

Chevron has a 50 percent equity ownership interest in Tengizchevroil LLP (TCO). Summarized financial information for 100 percent of TCO is presented in the following table:

	Six Months	
	Ended	
	June 30	
	2017	2016
	(Millions of dollars)	
Sales and other operating revenues	\$6,671	\$5,044
Costs and other deductions	3,375	2,900
Net income attributable to TCO	2,327	1,501

Note 9. Summarized Financial Data — Chevron Phillips Chemical Company LLC

Chevron has a 50 percent equity ownership interest in Chevron Phillips Chemical Company LLC (CPChem).

Summarized financial information for 100 percent of CPChem is presented in the table below:

	Six Months	
	Ended	
	June 30	
	2017	2016
	(Millions of dollars)	
Sales and other operating revenues	\$4,701	\$4,071
Costs and other deductions	3,787	3,312
Net income attributable to CPChem	1,093	988

Note 10. Employee Benefits

Chevron has defined benefit pension plans for many employees. The company typically prefunds defined benefit plans as required by local regulations or in certain situations where prefunding provides economic advantages. In the United States, all qualified plans are subject to the Employee Retirement Income Security Act minimum funding standard. The company does not typically fund U.S. nonqualified pension plans that are not subject to funding requirements under laws and regulations because contributions to these pension plans may be less economic and investment returns may be less attractive than the company's other investment alternatives.

The company also sponsors other postretirement employee benefit (OPEB) plans that provide medical and dental benefits, as well as life insurance for some active and qualifying retired employees. The plans are unfunded, and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the company and the retirees share the costs. Beginning in 2017, medical coverage for Medicare-eligible retirees in the company's main U.S. medical plan is provided through a third-party private exchange. The increase to the pre-Medicare company contribution for retiree medical coverage is limited to no more than 4 percent each year. Certain life insurance benefits are paid by the company.

The components of net periodic benefit costs for 2017 and 2016 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
(Millions of dollars)				
Pension Benefits				
United States				
Service cost	\$122	\$124	\$244	\$247
Interest cost	92	94	183	188
Expected return on plan assets	(149)	(180)	(298)	(361)
Amortization of prior service credits	(1)	(2)	(2)	(4)
Amortization of actuarial losses	85	83	170	167
Settlement losses	78	81	156	162
Total United States	227	200	453	399
International				
Service cost	39	43	76	83
Interest cost	57	63	110	130
Expected return on plan assets	(59)	(61)	(117)	(123)
Amortization of prior service costs	3	6	6	10
Amortization of actuarial losses	13	12	22	23
Settlement losses	—	17	—	17
Total International	53	80	97	140
Net Periodic Pension Benefit Costs	\$280	\$280	\$550	\$539
Other Benefits*				
Service cost	\$8	\$15	\$16	\$30
Interest cost	25	32	48	64
Amortization of prior service costs	(7)	4	(14)	7
Amortization of actuarial losses	(2)	5	(3)	10
Net Periodic Other Benefit Costs	\$24	\$56	\$47	\$111

* Includes costs for U.S. and international OPEB plans. Obligations for plans outside the United States are not significant relative to the company's total OPEB obligation.

Through June 30, 2017, a total of \$214 million was contributed to employee pension plans (including \$113 million to the U.S. plans). Total contributions for the full year are currently estimated to be \$950 million (\$700 million for the U.S. plans and \$250 million for the international plans). Actual contribution amounts are dependent upon plan investment returns, changes in pension obligations, regulatory requirements and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations. During the first six months of 2017, the company contributed \$77 million to its OPEB plans. The company anticipates contributing approximately \$86 million during the remainder of 2017.

Note 11. Income Taxes

The 2017 increase in income tax expense between quarterly periods of \$1.09 billion, from a benefit of \$607 million in 2016 to a charge of \$487 million in 2017, is a result of the year-over-year increase in total income before income tax expense, which is primarily due to effects of higher crude oil prices. The company's effective tax rate changed between periods from 29 percent in 2016 to 25 percent in 2017. The change in effective tax rate is primarily a consequence of the mix effect resulting from the absolute level of earnings or losses and whether they arose in higher or lower tax rate jurisdictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The 2017 increase in income tax expense for the six months of \$2.5 billion, from a benefit of \$1.6 billion in 2016 to a charge of \$917 million in 2017, is a result of the year-over-year increase in total income before income tax expense, which is primarily due to effects of higher crude oil prices and the sale of the company's geothermal assets in Indonesia. The company's effective tax rate changed between periods from 43 percent in 2016 to 18 percent in 2017. The change in effective tax rate is primarily a consequence of the mix effect resulting from the absolute level of earnings or losses and whether they arose in higher or lower tax rate jurisdictions.

Tax positions for Chevron and its subsidiaries and affiliates are subject to income tax audits by many tax jurisdictions throughout the world. For the company's major tax jurisdictions, examinations of tax returns for certain prior tax years had not been completed as of June 30, 2017. For these jurisdictions, the latest years for which income tax examinations had been finalized were as follows: United States — 2011, Nigeria — 2000, Angola — 2009 and Kazakhstan — 2007.

The company engages in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions. Both the outcomes for these tax matters and the timing of resolution and/or closure of the tax audits are highly uncertain. However, it is reasonably possible that developments regarding tax matters in certain tax jurisdictions may result in significant increases or decreases in the company's total unrecognized tax benefits within the next 12 months. Given the number of years that still remain subject to examination and the number of matters being examined in the various tax jurisdictions, the company is unable to estimate the range of possible adjustments to the balance of unrecognized tax benefits.

On April 21, 2017, an adverse decision was issued by the full Federal Court of Australia regarding the interest rate to be applied on certain Chevron intercompany loans. A request for special leave to appeal to the High Court of Australia was filed on May 19, 2017. At this time, it is not possible to determine whether there will be a significant change in the company's unrecognized tax benefit within the next 12 months. Any such change would impact the company's effective tax rate.

Note 12. Assets Held For Sale

At June 30, 2017, the company classified \$3.79 billion of net properties, plant and equipment as "Assets held for sale" on the Consolidated Balance Sheet. These assets are associated with upstream and downstream operations that are anticipated to be sold in the next 12 months. The revenues and earnings contributions of these assets in 2016 and the first six months of 2017 were not material.

Note 13. Litigation

MTBE Chevron and many other companies in the petroleum industry have used methyl tertiary butyl ether (MTBE) as a gasoline additive. Chevron is a party to seven pending lawsuits and claims, the majority of which involve numerous other petroleum marketers and refiners. Resolution of these lawsuits and claims may ultimately require the company to correct or ameliorate the alleged effects on the environment of prior release of MTBE by the company or other parties. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. The company's ultimate exposure related to pending lawsuits and claims is not determinable. The company no longer uses MTBE in the manufacture of gasoline in the United States.

Ecuador

Background Chevron is a defendant in a civil lawsuit initiated in the Superior Court of Nueva Loja in Lago Agrio, Ecuador, in May 2003 by plaintiffs who claim to be representatives of certain residents of an area where an oil production consortium formerly had operations. The lawsuit alleges damage to the environment from the oil exploration and production operations and seeks unspecified damages to fund environmental remediation and restoration of the alleged environmental harm, plus a health monitoring program. Until 1992, Texaco Petroleum Company (Texpet), a subsidiary of Texaco Inc., was a minority member of this consortium with Petroecuador, the Ecuadorian state-owned oil company, as the majority partner; since 1990, the operations have been conducted solely by Petroecuador. At the conclusion of the consortium and following an independent third-party environmental audit of the concession area, Texpet entered into a formal agreement with the Republic of Ecuador and Petroecuador for Texpet to remediate specific sites assigned by the government in proportion to Texpet's ownership share of the

consortium. Pursuant to that agreement, Texpet conducted a three-year remediation program at a cost of \$40 million. After certifying that the sites were properly remediated, the government granted Texpet and all related corporate entities a full release from any and all environmental liability arising from the consortium operations.

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Based on the history described above, Chevron believes that this lawsuit lacks legal or factual merit. As to matters of law, the company believes first, that the court lacks jurisdiction over Chevron; second, that the law under which plaintiffs bring the action, enacted in 1999, cannot be applied retroactively; third, that the claims are barred by the statute of limitations in Ecuador; and, fourth, that the lawsuit is also barred by the releases from liability previously given to Texpet by the Republic of Ecuador and Petroecuador and by the pertinent provincial and municipal governments. With regard to the facts, the company believes that the evidence confirms that Texpet's remediation was properly conducted and that the remaining environmental damage reflects Petroecuador's failure to timely fulfill its legal obligations and Petroecuador's further conduct since assuming full control over the operations.

Lago Agrio Judgment In 2008, a mining engineer appointed by the court to identify and determine the cause of environmental damage, and to specify steps needed to remediate it, issued a report recommending that the court assess \$18.9 billion, which would, according to the engineer, provide financial compensation for purported damages, including wrongful death claims, and pay for, among other items, environmental remediation, health care systems and additional infrastructure for Petroecuador. The engineer's report also asserted that an additional \$8.4 billion could be assessed against Chevron for unjust enrichment. In 2009, following the disclosure by Chevron of evidence that the judge participated in meetings in which businesspeople and individuals holding themselves out as government officials discussed the case and its likely outcome, the judge presiding over the case was recused. In 2010, Chevron moved to strike the mining engineer's report and to dismiss the case based on evidence obtained through discovery in the United States indicating that the report was prepared by consultants for the plaintiffs before being presented as the mining engineer's independent and impartial work and showing further evidence of misconduct. In August 2010, the judge issued an order stating that he was not bound by the mining engineer's report and requiring the parties to provide their positions on damages within 45 days. Chevron subsequently petitioned for recusal of the judge, claiming that he had disregarded evidence of fraud and misconduct and that he had failed to rule on a number of motions within the statutory time requirement.

In September 2010, Chevron submitted its position on damages, asserting that no amount should be assessed against it. The plaintiffs' submission, which relied in part on the mining engineer's report, took the position that damages are between approximately \$16 billion and \$76 billion and that unjust enrichment should be assessed in an amount between approximately \$5 billion and \$38 billion. The next day, the judge issued an order closing the evidentiary phase of the case and notifying the parties that he had requested the case file so that he could prepare a judgment. Chevron petitioned to have that order declared a nullity in light of Chevron's prior recusal petition, and because procedural and evidentiary matters remained unresolved. In October 2010, Chevron's motion to recuse the judge was granted. A new judge took charge of the case and revoked the prior judge's order closing the evidentiary phase of the case. On December 17, 2010, the judge issued an order closing the evidentiary phase of the case and notifying the parties that he had requested the case file so that he could prepare a judgment.

On February 14, 2011, the provincial court in Lago Agrio rendered an adverse judgment in the case. The court rejected Chevron's defenses to the extent the court addressed them in its opinion. The judgment assessed approximately \$8.6 billion in damages and approximately \$900 million as an award for the plaintiffs' representatives. It also assessed an additional amount of approximately \$8.6 billion in punitive damages unless the company issued a public apology within 15 days of the judgment, which Chevron did not do. On February 17, 2011, the plaintiffs appealed the judgment, seeking increased damages, and on March 11, 2011, Chevron appealed the judgment seeking to have the judgment nullified. On January 3, 2012, an appellate panel in the provincial court affirmed the February 14, 2011 decision and ordered that Chevron pay additional attorneys' fees in the amount of "0.10% of the values that are derived from the decisional act of this judgment." The plaintiffs filed a petition to clarify and amplify the appellate decision on January 6, 2012, and the court issued a ruling in response on January 13, 2012, purporting to clarify and amplify its January 3, 2012 ruling, which included clarification that the deadline for the company to issue a public apology to avoid the additional amount of approximately \$8.6 billion in punitive damages was within 15 days of the clarification ruling, or February 3, 2012. Chevron did not issue an apology because doing so might be mischaracterized as an admission of liability and would be contrary to facts and evidence submitted at trial. On

January 20, 2012, Chevron appealed (called a petition for cassation) the appellate panel's decision to Ecuador's National Court of Justice. As part of the appeal, Chevron requested the suspension of any requirement that Chevron post a bond to prevent enforcement under Ecuadorian law of the judgment during the cassation appeal. On February 17, 2012, the appellate panel of the provincial court admitted Chevron's cassation appeal in a procedural step necessary for the National Court

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of Justice to hear the appeal. The provincial court appellate panel denied Chevron's request for suspension of the requirement that Chevron post a bond and stated that it would not comply with the First and Second Interim Awards of the international arbitration tribunal discussed below. On March 29, 2012, the matter was transferred from the provincial court to the National Court of Justice, and on November 22, 2012, the National Court agreed to hear Chevron's cassation appeal. On August 3, 2012, the provincial court in Lago Agrio approved a court-appointed liquidator's report on damages that calculated the total judgment in the case to be \$19.1 billion. On November 13, 2013, the National Court ratified the judgment but nullified the \$8.6 billion punitive damage assessment, resulting in a judgment of \$9.5 billion. On December 23, 2013, Chevron appealed the decision to the Ecuador Constitutional Court, Ecuador's highest court. The reporting justice of the Constitutional Court heard oral arguments on the appeal on July 16, 2015.

On July 2, 2013, the provincial court in Lago Agrio issued an embargo order in Ecuador ordering that any funds to be paid by the Government of Ecuador to Chevron to satisfy a \$96 million award issued in an unrelated action by an arbitral tribunal presiding in the Permanent Court of Arbitration in The Hague under the Rules of the United Nations Commission on International Trade Law must be paid to the Lago Agrio plaintiffs. The award was issued by the tribunal under the United States-Ecuador Bilateral Investment Treaty in an action filed in 2006 in connection with seven breach of contract cases that Texpet filed against the Government of Ecuador between 1991 and 1993. The Government of Ecuador has moved to set aside the tribunal's award. On September 26, 2014, the Supreme Court of the Netherlands issued an opinion denying Ecuador's set aside request. A Federal District Court for the District of Columbia confirmed the tribunal's award, and, on August 4, 2015, a panel of the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's decision. On September 28, 2015, the Court of Appeals denied the Government of Ecuador's request for full appellate court review of the Federal District Court's decision. On June 6, 2016, the United States Supreme Court denied the Government of Ecuador's petition for Writ of Certiorari. On July 22, 2016, the Government of Ecuador paid the \$96 million award, plus interest, resulting in a payment to Chevron of approximately \$113 million.

Lago Agrio Plaintiffs' Enforcement Actions Chevron has no assets in Ecuador and the Lago Agrio plaintiffs' lawyers have stated in press releases and through other media that they will seek to enforce the Ecuadorian judgment in various countries and otherwise disrupt Chevron's operations. On May 30, 2012, the Lago Agrio plaintiffs filed an action against Chevron Corporation, Chevron Canada Limited, and Chevron Canada Finance Limited in the Ontario Superior Court of Justice in Ontario, Canada, seeking to recognize and enforce the Ecuadorian judgment. On May 1, 2013, the Ontario Superior Court of Justice held that the Court has jurisdiction over Chevron and Chevron Canada Limited for purposes of the action, but stayed the action due to the absence of evidence that Chevron Corporation has assets in Ontario. The Lago Agrio plaintiffs appealed that decision and, on December 17, 2013, the Court of Appeals for Ontario affirmed the lower court's decision on jurisdiction and set aside the stay, allowing the recognition and enforcement action to be heard in the Ontario Superior Court of Justice. Chevron appealed the decision to the Supreme Court of Canada and, on September 4, 2015, the Supreme Court dismissed the appeal and affirmed that the Ontario Superior Court of Justice has jurisdiction over Chevron and Chevron Canada Limited for purposes of the action. The recognition and enforcement proceeding and related preliminary motions are proceeding in the Ontario Superior Court of Justice. On January 20, 2017, the Ontario Superior Court of Justice granted Chevron Canada Limited's and Chevron Corporation's motions for summary judgment, concluding that the two companies are separate legal entities with separate rights and obligations. As a result, the Superior Court dismissed the recognition and enforcement claim against Chevron Canada Limited. Chevron Corporation still remains as a defendant in the action. On February 3, 2017, the Lago Agrio plaintiffs appealed the Superior Court's January 20, 2017 decision. On June 27, 2012, the Lago Agrio plaintiffs filed a complaint against Chevron Corporation in the Superior Court of Justice in Brasilia, Brazil, seeking to recognize and enforce the Ecuadorian judgment. Chevron has answered the complaint. In accordance with Brazilian procedure, the matter was referred to the public prosecutor for a nonbinding opinion of the issues raised in the complaint. On May 13, 2015, the public prosecutor issued its nonbinding opinion and recommended that the Superior Court of Justice reject the plaintiffs' recognition and enforcement request, finding,

among other things, that the Lago Agrio judgment was procured through fraud and corruption and cannot be recognized in Brazil because it violates Brazilian and international public order.

On October 15, 2012, the provincial court in Lago Agrio issued an ex parte embargo order that purports to order the seizure of assets belonging to separate Chevron subsidiaries in Ecuador, Argentina and Colombia. On November 6, 2012, at the request of the Lago Agrio plaintiffs, a court in Argentina issued a Freeze Order against

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Chevron Argentina S.R.L. and another Chevron subsidiary, Ingeniero Norberto Priu, requiring shares of both companies to be "embargoed," requiring third parties to withhold 40 percent of any payments due to Chevron Argentina S.R.L. and ordering banks to withhold 40 percent of the funds in Chevron Argentina S.R.L. bank accounts. On December 14, 2012, the Argentinean court rejected a motion to revoke the Freeze Order but modified it by ordering that third parties are not required to withhold funds but must report their payments. The court also clarified that the Freeze Order relating to bank accounts excludes taxes. On January 30, 2013, an appellate court upheld the Freeze Order, but on June 4, 2013, the Supreme Court of Argentina revoked the Freeze Order in its entirety. On December 12, 2013, the Lago Agrio plaintiffs served Chevron with notice of their filing of an enforcement proceeding in the National Court, First Instance, of Argentina. Chevron filed its answer on February 27, 2014 to which the Lago Agrio plaintiffs responded on December 29, 2015. On April 19, 2016, the public prosecutor in Argentina issued a non-binding opinion recommending to the National Court, First Instance, of Argentina that it reject the Lago Agrio plaintiffs' request to recognize the Ecuadorian judgment in Argentina. On February 24, 2017, the public prosecutor in Argentina issued a supplemental opinion reaffirming its previous recommendations.

Chevron continues to believe the provincial court's judgment is illegitimate and unenforceable in Ecuador, the United States and other countries. The company also believes the judgment is the product of fraud, and contrary to the legitimate scientific evidence. Chevron cannot predict the timing or ultimate outcome of the appeals process in Ecuador or any enforcement action. Chevron expects to continue a vigorous defense of any imposition of liability in the Ecuadorian courts and to contest and defend any and all enforcement actions.

Company's Bilateral Investment Treaty Arbitration Claims Chevron and Texpet filed an arbitration claim in September 2009 against the Republic of Ecuador before an arbitral tribunal presiding in the Permanent Court of Arbitration in The Hague under the Rules of the United Nations Commission on International Trade Law. The claim alleges violations of the Republic of Ecuador's obligations under the United States–Ecuador Bilateral Investment Treaty (BIT) and breaches of the settlement and release agreements between the Republic of Ecuador and Texpet (described above), which are investment agreements protected by the BIT. Through the arbitration, Chevron and Texpet are seeking relief against the Republic of Ecuador, including a declaration that any judgment against Chevron in the Lago Agrio litigation constitutes a violation of Ecuador's obligations under the BIT. On February 9, 2011, the Tribunal issued an Order for Interim Measures requiring the Republic of Ecuador to take all measures at its disposal to suspend or cause to be suspended the enforcement or recognition within and without Ecuador of any judgment against Chevron in the Lago Agrio case pending further order of the Tribunal. On January 25, 2012, the Tribunal converted the Order for Interim Measures into an Interim Award. Chevron filed a renewed application for further interim measures on January 4, 2012, and the Republic of Ecuador opposed Chevron's application and requested that the existing Order for Interim Measures be vacated on January 9, 2012. On February 16, 2012, the Tribunal issued a Second Interim Award mandating that the Republic of Ecuador take all measures necessary (whether by its judicial, legislative or executive branches) to suspend or cause to be suspended the enforcement and recognition within and without Ecuador of the judgment against Chevron and, in particular, to preclude any certification by the Republic of Ecuador that would cause the judgment to be enforceable against Chevron. On February 27, 2012, the Tribunal issued a Third Interim Award confirming its jurisdiction to hear Chevron's arbitration claims. On February 7, 2013, the Tribunal issued its Fourth Interim Award in which it declared that the Republic of Ecuador "has violated the First and Second Interim Awards under the [BIT], the UNCITRAL Rules and international law in regard to the finalization and enforcement subject to execution of the Lago Agrio Judgment within and outside Ecuador, including (but not limited to) Canada, Brazil and Argentina." The Republic of Ecuador subsequently filed in the District Court of the Hague a request to set aside the Tribunal's Interim Awards and the First Partial Award (described below), and on January 20, 2016, the District Court denied the Republic's request. On April 13, 2016, the Republic of Ecuador appealed the decision. On July 18, 2017, the Appeals Court of the Hague denied the Republic's appeal.

The Tribunal has divided the merits phase of the proceeding into three phases. On September 17, 2013, the Tribunal issued its First Partial Award from Phase One, finding that the settlement agreements between the Republic of Ecuador and Texpet applied to Texpet and Chevron, released Texpet and Chevron from claims based on "collective"

or "diffuse" rights arising from Texpet's operations in the former concession area and precluded third parties from asserting collective/diffuse rights environmental claims relating to Texpet's operations in the former concession area but did not preclude individual claims for personal harm. The Tribunal held a hearing on April 29-30, 2014, to address remaining issues relating to Phase One, and on March 12, 2015, it issued a

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nonbinding decision that the Lago Agrio plaintiffs' complaint, on its face, includes claims not barred by the settlement agreement between the Republic of Ecuador and Texpet. In the same decision, the Tribunal deferred to Phase Two remaining issues from Phase One, including whether the Republic of Ecuador breached the 1995 settlement agreement and the remedies that are available to Chevron and Texpet as a result of that breach. Phase Two issues were addressed at a hearing held in April and May 2015. The Tribunal has not set a date for Phase Three, the damages phase of the arbitration.

Company's RICO Action Through a series of U.S. court proceedings initiated by Chevron to obtain discovery relating to the Lago Agrio litigation and the BIT arbitration, Chevron obtained evidence that it believes shows a pattern of fraud, collusion, corruption, and other misconduct on the part of several lawyers, consultants and others acting for the Lago Agrio plaintiffs. In February 2011, Chevron filed a civil lawsuit in the Federal District Court for the Southern District of New York against the Lago Agrio plaintiffs and several of their lawyers, consultants and supporters, alleging violations of the Racketeer Influenced and Corrupt Organizations Act and other state laws. Through the civil lawsuit, Chevron is seeking relief that includes a declaration that any judgment against Chevron in the Lago Agrio litigation is the result of fraud and other unlawful conduct and is therefore unenforceable. On March 7, 2011, the Federal District Court issued a preliminary injunction prohibiting the Lago Agrio plaintiffs and persons acting in concert with them from taking any action in furtherance of recognition or enforcement of any judgment against Chevron in the Lago Agrio case pending resolution of Chevron's civil lawsuit by the Federal District Court. On May 31, 2011, the Federal District Court severed claims one through eight of Chevron's complaint from the ninth claim for declaratory relief and imposed a discovery stay on claims one through eight pending a trial on the ninth claim for declaratory relief. On September 19, 2011, the U.S. Court of Appeals for the Second Circuit vacated the preliminary injunction, stayed the trial on Chevron's ninth claim, a claim for declaratory relief, that had been set for November 14, 2011, and denied the defendants' mandamus petition to recuse the judge hearing the lawsuit. The Second Circuit issued its opinion on January 26, 2012 ordering the dismissal of Chevron's ninth claim for declaratory relief. On February 16, 2012, the Federal District Court lifted the stay on claims one through eight, and on October 18, 2012, the Federal District Court set a trial date of October 15, 2013. On March 22, 2013, Chevron settled its claims against Stratus Consulting, and on April 12, 2013 sworn declarations by representatives of Stratus Consulting were filed with the Court admitting their role and that of the plaintiffs' attorneys in drafting the environmental report of the mining engineer appointed by the provincial court in Lago Agrio. On September 26, 2013, the Second Circuit denied the defendants' Petition for Writ of Mandamus to recuse the judge hearing the case and to collaterally estop Chevron from seeking a declaration that the Lago Agrio judgment was obtained through fraud and other unlawful conduct. The trial commenced on October 15, 2013 and concluded on November 22, 2013. On March 4, 2014, the Federal District Court entered a judgment in favor of Chevron, prohibiting the defendants from seeking to enforce the Lago Agrio judgment in the United States and further prohibiting them from profiting from their illegal acts. The defendants appealed the Federal District Court's decision, and, on April 20, 2015, a panel of the U.S. Court of Appeals for the Second Circuit heard oral arguments. On August 8, 2016, the Second Circuit issued a unanimous opinion affirming in full the judgment of the Federal District Court in favor of Chevron. On October 27, 2016, the Second Circuit denied the defendants' petitions for en banc rehearing of the opinion on their appeal. On March 27, 2017, two of the defendants filed a petition for a Writ of Certiorari to the United States Supreme Court. On June 19, 2017, the United States Supreme Court denied the defendants' petition for a Writ of Certiorari.

Management's Assessment The ultimate outcome of the foregoing matters, including any financial effect on Chevron, remains uncertain. Management does not believe an estimate of a reasonably possible loss (or a range of loss) can be made in this case. Due to the defects associated with the Ecuadorian judgment, the 2008 engineer's report on alleged damages and the September 2010 plaintiffs' submission on alleged damages, management does not believe these documents have any utility in calculating a reasonably possible loss (or a range of loss). Moreover, the highly uncertain legal environment surrounding the case provides no basis for management to estimate a reasonably possible loss (or a range of loss).

Note 14. Other Contingencies and Commitments

Income Taxes The company calculates its income tax expense and liabilities quarterly. These liabilities generally are subject to audit and are not finalized with the individual taxing authorities until several years after the end of the annual period for which income taxes have been calculated. Refer to Note 11 on page 14 and 15 for a discussion of the periods for which tax returns have been audited for the company's major tax jurisdictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As discussed in Note 11, on page 15, the company received an adverse decision on April 21, 2017 regarding the interest rate to be applied on certain Chevron intercompany loans. A request for special leave to appeal to the High Court of Australia was filed on May 19, 2017. At this time, it is not possible to determine whether there will be a significant change in the company's unrecognized tax benefit, which may have a material effect on the company's results of operations in any one reporting period. The company does not expect settlement of income tax liabilities associated with other uncertain tax positions to have a material effect on its consolidated financial position or liquidity.

Guarantees The company and its subsidiaries have certain contingent liabilities with respect to guarantees, direct or indirect, of debt of affiliated companies or third parties. Under the terms of the guarantee arrangements, the company would generally be required to perform should the affiliated company or third party fail to fulfill its obligations under the arrangements. In some cases, the guarantee arrangements may have recourse provisions that would enable the company to recover any payments made under the terms of the guarantees from assets provided as collateral.

Indemnifications In the acquisition of Unocal, the company assumed certain indemnities relating to contingent environmental liabilities associated with assets that were sold in 1997. The acquirer of those assets shared in certain environmental remediation costs up to a maximum obligation of \$200 million, which had been reached at December 31, 2009. Under the indemnification agreement, after reaching the \$200 million obligation, Chevron is solely responsible until April 2022, when the indemnification expires. The environmental conditions or events that are subject to these indemnities must have arisen prior to the sale of the assets in 1997.

Although the company has provided for known obligations under this indemnity that are probable and reasonably estimable, the amount of additional future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs will have a material effect on its consolidated financial position or liquidity.

Off-Balance-Sheet Obligations The company and its subsidiaries have certain contingent liabilities with respect to long-term unconditional purchase obligations and commitments, including throughput and take-or-pay agreements, some of which relate to suppliers' financing arrangements. The agreements typically provide goods and services, such as pipeline and storage capacity, drilling rigs, utilities, and petroleum products, to be used or sold in the ordinary course of the company's business.

Environmental The company is subject to loss contingencies pursuant to laws, regulations, private claims and legal proceedings related to environmental matters that are subject to legal settlements or that in the future may require the company to take action to correct or ameliorate the effects on the environment of prior release of chemicals or petroleum substances, including MTBE, by the company or other parties. Such contingencies may exist for various sites, including, but not limited to, federal Superfund sites and analogous sites under state laws, refineries, crude oil fields, service stations, terminals, land development areas, and mining activities, whether operating, closed or divested. These future costs are not fully determinable due to such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the company's liability in proportion to other responsible parties, and the extent to which such costs are recoverable from third parties.

Although the company has provided for known environmental obligations that are probable and reasonably estimable, the amount of additional future costs may be material to results of operations in the period in which they are recognized. The company does not expect these costs will have a material effect on its consolidated financial position or liquidity. Also, the company does not believe its obligations to make such expenditures have had, or will have, any significant impact on the company's competitive position relative to other U.S. or international petroleum or chemical companies.

Other Contingencies On November 7, 2011, while drilling a development well in the deepwater Frade Field about 75 miles offshore Brazil, an unanticipated pressure spike caused oil to migrate from the well bore through a series of fissures to the sea floor, emitting approximately 2,400 barrels of oil. The source of the seep was substantially contained within four days and the well was plugged and abandoned. On March 14, 2012, the company identified a

small, second seep in a different part of the field. No evidence of any coastal or wildlife impacts related to either of these seeps has emerged. As reported in the company's previously filed periodic reports, it has resolved civil claims relating to these incidents brought by a Brazilian federal district prosecutor. As also reported previously, the federal district prosecutor also filed criminal charges against Chevron and 11 Chevron employees. These charges were dismissed by the trial court on February 19, 2013, reinstated by an

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

appellate court on October 9, 2013, and then, upon Chevron's motion for reconsideration, dismissed by the appellate court on August 27, 2015. The federal district prosecutor appealed the appellate court's decision. On July 3, 2017, the Superior Court of Justice in Brazil rejected this appeal.

Chevron receives claims from and submits claims to customers; trading partners; joint venture partners; U.S. federal, state and local regulatory bodies; governments; contractors; insurers; suppliers; and individuals. The amounts of these claims, individually and in the aggregate, may be significant and take lengthy periods to resolve, and may result in gains or losses in future periods.

The company and its affiliates also continue to review and analyze their operations and may close, abandon, sell, exchange, acquire or restructure assets to achieve operational or strategic benefits and to improve competitiveness and profitability. These activities, individually or together, may result in significant gains or losses in future periods.

Note 15. Fair Value Measurements

The three levels of the fair value hierarchy of inputs the company uses to measure the fair value of an asset or liability are described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. For the company, Level 1 inputs include exchange-traded futures contracts for which the parties are willing to transact at the exchange-quoted price and marketable securities that are actively traded.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly. For the company, Level 2 inputs include quoted prices for similar assets or liabilities, prices obtained through third-party broker quotes and prices that can be corroborated with other observable inputs for substantially the complete term of a contract.

Level 3: Unobservable inputs. The company does not use Level 3 inputs for any of its recurring fair value measurements. Level 3 inputs may be required for the determination of fair value associated with certain nonrecurring measurements of nonfinancial assets and liabilities.

The fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 30, 2017, and December 31, 2016, is as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Millions of dollars)

	At June 30, 2017				At December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Marketable Securities	\$13	\$ 13	\$ —	\$ —	-\$13	\$ 13	\$ —	\$ —
Derivatives	43	31	12	—	32	15	17	—
Total Assets at Fair Value	\$56	\$ 44	\$ 12	\$ —	-\$45	\$ 28	\$ 17	\$ —
Derivatives	11	1	10	—	109	78	31	—
Total Liabilities at Fair Value	\$11	\$ 1	\$ 10	\$ —	-\$109	\$ 78	\$ 31	\$ —

Marketable Securities The company calculates fair value for its marketable securities based on quoted market prices for identical assets. The fair values reflect the cash that would have been received if the instruments were sold at June 30, 2017.

Derivatives The company records its derivative instruments — other than any commodity derivative contracts that are designated as normal purchase and normal sale — on the Consolidated Balance Sheet at fair value, with the offsetting amount to the Consolidated Statement of Income. Derivatives classified as Level 1 include futures, swaps and options contracts traded in active markets such as the New York Mercantile Exchange. Derivatives classified as Level 2 include swaps, options and forward contracts principally with financial institutions and other oil and gas companies, the fair values of which are obtained from third-party broker quotes, industry pricing services and exchanges. The company obtains multiple sources of pricing information for the Level 2 instruments. Since this pricing information is generated from observable market data, it has historically been very consistent. The company does not materially adjust this information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assets carried at fair value at June 30, 2017, and December 31, 2016, are as follows:

Cash and Cash Equivalents The company holds cash equivalents in U.S. and non-U.S. portfolios. The instruments classified as cash equivalents are primarily bank time deposits with maturities of 90 days or less, and money market funds. “Cash and cash equivalents” had carrying/fair values of \$4.8 billion and \$7.0 billion at June 30, 2017, and December 31, 2016, respectively. The fair values of cash and cash equivalents are classified as Level 1 and reflect the cash that would have been received if the instruments were settled at June 30, 2017.

Restricted Cash had a carrying/fair value of \$1.2 billion and \$1.4 billion at June 30, 2017, and December 31, 2016, respectively. At June 30, 2017, restricted cash is classified as Level 1 and includes restricted funds related to certain upstream abandonment activities, tax payments, refundable deposits related to pending asset sales and funds held in escrow pending tax deferred exchanges, which are reported in "Prepaid expenses and other current assets" and “Deferred charges and other assets” on the Consolidated Balance Sheet.

Long-Term Debt had a net carrying value, excluding amounts reclassified from short-term, of \$25.0 billion and \$26.2 billion at June 30, 2017, and December 31, 2016, respectively. The fair value of long-term debt at June 30, 2017, and December 31, 2016 was \$25.6 billion and \$26.6 billion, respectively. Long-term debt primarily includes corporate issued bonds. The fair value of corporate bonds classified as Level 1 is \$24.9 billion. The fair value of other long-term debt classified as Level 2 is \$0.7 billion.

The carrying values of other short-term financial assets and liabilities on the Consolidated Balance Sheet approximate their fair values. Fair value remeasurements of other financial instruments at June 30, 2017, and December 31, 2016, were not material.

The fair value hierarchy for assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2017, is as follows:

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis
(Millions of dollars)

	At June 30, 2017			Before-Tax Loss		
	Total	Level 1	Level 2	Level 3	Three Months Ended	Six Months Ended
Properties, plant and equipment, net (held and used)	\$490	\$ —	\$ —	\$490	\$537	\$ 618
Properties, plant and equipment, net (held for sale)	636	—	636	—	203	278
Investments and advances	5	—	2	3	3	7
Total Assets at Fair Value	\$1,131	\$ —	\$638	\$493	\$743	\$ 903

Properties, plant and equipment The company did not have any individually material impairments of long-lived assets measured at fair value on a nonrecurring basis to report in second quarter 2017.

Investments and advances The company did not have any material impairments of investments and advances measured at fair value on a nonrecurring basis to report in second quarter 2017.

Note 16. Financial and Derivative Instruments

The company’s derivative instruments principally include crude oil, natural gas and refined product futures, swaps, options, and forward contracts. None of the company’s derivative instruments are designated as hedging instruments, although certain of the company’s affiliates make such a designation. The company’s derivatives are not material to the company’s consolidated financial position, results of operations or liquidity. The company believes it has no material market or credit risks to its operations, financial position or liquidity as a result of its commodities and other derivatives activities.

The company uses derivative commodity instruments traded on the New York Mercantile Exchange and on electronic platforms of the Inter-Continental Exchange and Chicago Mercantile Exchange. In addition, the company enters into swap contracts and option contracts principally with major financial institutions and other oil and gas companies in the

“over-the-counter” markets, which are governed by International Swaps and Derivatives Association agreements and other master netting arrangements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Derivative instruments measured at fair value at June 30, 2017, and December 31, 2016, and their classification on the Consolidated Balance Sheet and Consolidated Statement of Income are as follows:

Consolidated Balance Sheet: Fair Value of Derivatives Not Designated as Hedging Instruments

(Millions of dollars)

Type of Contract	Balance Sheet Classification	At June 30, 2017	At December 31, 2016
Commodity	Accounts and notes receivable, net	\$ 39	\$ 30
Commodity	Long-term receivables, net	4	2
Total Assets at Fair Value		\$ 43	\$ 32
Commodity	Accounts payable	\$ 10	\$ 99
Commodity	Deferred credits and other noncurrent obligations	1	10
Total Liabilities at Fair Value		\$ 11	\$ 109

Consolidated Statement of Income: The Effect of Derivatives Not Designated as Hedging Instruments

(Millions of dollars)

Type of Contract	Statement of Income Classification	Gain / (Loss) Three Months Ended June 30		Gain / (Loss) Six Months Ended June 30	
		2017	2016	2017	2016
Commodity	Sales and other operating revenues	\$ 116	\$ (145)	\$ 278	\$ (171)
Commodity	Purchased crude oil and products	6	(17)	10	(21)
Commodity	Other income	(1)	3	(3)	2
		\$ 121	\$ (159)	\$ 285	\$ (190)

The table below represents gross and net derivative assets and liabilities subject to netting agreements on the Consolidated Balance Sheet at June 30, 2017, and December 31, 2016.

Consolidated Balance Sheet: The Effect of Netting Derivative Assets and Liabilities

(Millions of dollars)

	Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset	Net Amount
At June 30, 2017					
Derivative Assets	\$ 1,179	\$ 1,136	\$ 43	\$	—\$ 43
Derivative Liabilities	\$ 1,147	\$ 1,136	\$ 11	\$	—\$ 11
At December 31, 2016					
Derivative Assets	\$ 1,052	\$ 1,020	\$ 32	\$	—\$ 32
Derivative Liabilities	\$ 1,129	\$ 1,020	\$ 109	\$	—\$ 109

Derivative assets and liabilities are classified on the Consolidated Balance Sheet as accounts and notes receivable, long-term receivables, accounts payable, and deferred credits and other noncurrent obligations. Amounts not offset on the Consolidated Balance Sheet represent positions that do not meet all the conditions for "a right of offset."

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Second Quarter 2017 Compared with Second Quarter 2016
And Six Months 2017 Compared with Six Months 2016

Key Financial Results

Earnings by Business Segment

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
	2017	2016	2017	2016
	(Millions of dollars)			
Upstream				
United States	\$(102)	\$(1,113)	\$(22)	\$(1,963)
International	955	(1,349)	2,392	(1,958)
Total Upstream	853	(2,462)	2,370	(3,921)
Downstream				
United States	634	537	1,103	784
International	561	741	1,018	1,229
Total Downstream	1,195	1,278	2,121	2,013
Total Segment Earnings	2,048	(1,184)	4,491	(1,908)
All Other	(598)	(286)	(359)	(287)
Net Income (Loss) Attributable to Chevron Corporation ^{(1) (2)}	\$1,450	\$(1,470)	\$4,132	\$(2,195)

⁽¹⁾ Includes foreign currency effects \$3 \$279 \$(238) \$(40)

⁽²⁾ Income net of tax; also referred to as "earnings" in the discussions that follow.

Net income attributable to Chevron Corporation for second quarter 2017 was \$1.45 billion (\$0.77 per share — diluted), compared with a loss of \$1.47 billion (\$0.78 per share — diluted) in the corresponding 2016 period. Net income attributable to Chevron Corporation for the first six months of 2017 was \$4.13 billion (\$2.18 per share — diluted), compared with a loss of \$2.20 billion (\$1.17 per share — diluted) in the first six months of 2016.

Upstream earnings in second quarter 2017 were \$853 million compared with a loss of \$2.46 billion a year earlier. The increase was mainly due to lower impairment charges, partially offset by higher depreciation expenses from increased production. The improvement also includes higher crude oil realizations and volumes, higher natural gas sales volumes, lower tax items, higher gains on asset sales and lower operating expenses. Earnings for the first six months of 2017 were \$2.37 billion compared with a loss of \$3.92 billion a year earlier. The increase was due to higher crude oil realizations, lower depreciation expense primarily due to lower impairments, higher gains on asset sales and increased natural gas sales volumes.

Downstream earnings in second quarter 2017 were \$1.20 billion compared with \$1.28 billion in the corresponding 2016 period. The decrease was due to absence of 2016 asset sales gains, partially offset by higher margins on refined product sales. Earnings for the first six months of 2017 were \$2.12 billion compared with \$2.01 billion in the corresponding 2016 period. The increase was due to higher margins on refined product sales and the absence of a 2016 asset impairment. Partially offsetting the increase were lower gains on asset sales.

Refer to pages 28 through 30 for additional discussion of results by business segment and "All Other" activities for second quarter and first six months of 2017 versus the same period in 2016.

Business Environment and Outlook

Chevron is a global energy company with substantial business activities in the following countries: Angola, Argentina, Australia, Azerbaijan, Bangladesh, Brazil, Canada, China, Colombia, Democratic Republic of the Congo, Denmark,

Indonesia, Kazakhstan, Myanmar, Nigeria, the Partitioned Zone between Saudi Arabia and Kuwait, Philippines, Republic of Congo, Singapore, South Africa, South Korea, Thailand, Trinidad and Tobago, the United Kingdom, the United States, and Venezuela.

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Earnings of the company depend mostly on the profitability of its upstream business segment. The biggest factor affecting the results of operations for the upstream segment is the price of crude oil. The price of crude oil has fallen significantly since mid-year 2014. The downturn in the price of crude oil has impacted the company's results of operations, cash flows, leverage, capital and exploratory investment program and production outlook. A sustained lower price environment could result in the impairment or write-off of specific assets in future periods. The company is responding with reductions in operating expenses, pacing and re-focusing of capital and exploratory expenditures, and increased asset sales. The company anticipates that crude oil prices will increase in the future, as continued growth in demand and a slowing in supply growth should bring global markets into balance; however, the timing of any such increase is unknown. In the company's downstream business, crude oil is the largest cost component of refined products. It is the company's objective to deliver competitive results and shareholder value in any business environment.

The effective tax rate for the company can change substantially during periods of significant earnings volatility. This is due to the mix effects that are impacted both by the absolute level of earnings or losses and whether they arise in higher or lower tax rate jurisdictions. As a result, a decline or increase in the effective tax rate in one period may not be indicative of expected results in future periods. Note 11 provides the company's effective income tax rate for the second quarters of 2017 and 2016.

Refer to the "Cautionary Statement Relevant to Forward-Looking Information" on page 2 and to "Risk Factors" on pages 20 through 22 of the company's 2016 Annual Report on Form 10-K for a discussion of some of the inherent risks that could materially impact the company's results of operations or financial condition.

The company continually evaluates opportunities to dispose of assets that are not expected to provide sufficient long-term value or to acquire assets or operations complementary to its asset base to help augment the company's financial performance and value growth. The company's asset sale program for 2016 and 2017 is targeting before-tax proceeds of \$5-10 billion. Proceeds and deposits related to asset sales were \$2.8 billion in 2016 and \$2.5 billion in the first six months of 2017. Refer to the "Results of Operations" section beginning on page 28 for discussions of net gains on asset sales during 2017. Asset dispositions and restructurings may also occur in future periods and could result in significant gains or losses.

The company closely monitors developments in the financial and credit markets, the level of worldwide economic activity, and the implications for the company of movements in prices for crude oil and natural gas. Management takes these developments into account in the conduct of daily operations and for business planning.

Comments related to earnings trends for the company's major business areas are as follows:

Upstream Earnings for the upstream segment are closely aligned with industry prices for crude oil and natural gas. Crude oil and natural gas prices are subject to external factors over which the company has no control, including product demand connected with global economic conditions, industry inventory levels, technology advancements, production quotas or other actions imposed by the Organization of Petroleum Exporting Countries (OPEC), actions of regulators, weather-related damage and disruptions, competing fuel prices, and regional supply interruptions or fears thereof that may be caused by military conflicts, civil unrest or political uncertainty. Any of these factors could also inhibit the company's production capacity in an affected region. The company closely monitors developments in the countries in which it operates and holds investments, and seeks to manage risks in operating its facilities and businesses. The longer-term trend in earnings for the upstream segment is also a function of other factors, including the company's ability to find or acquire and efficiently produce crude oil and natural gas, changes in fiscal terms of contracts, and changes in tax laws and regulations.

The company continues to actively manage its schedule of work, contracting, procurement and supply-chain activities to effectively manage costs. However, price levels for capital and exploratory costs and operating expenses associated with the production of crude oil and natural gas can be subject to external factors beyond the company's control including, among other things, the general level of inflation, commodity prices and prices charged by the industry's material and service providers, which can be affected by the volatility of the industry's own supply-and-demand conditions for such materials and services. Costs in some North American unconventional plays have stabilized and are starting to rise with higher levels of activity and investment. Costs outside of the North American unconventional

space continue to decline driven by reduced investment and the lower oil price environment. Capital and exploratory expenditures and operating expenses can also be affected by damage to production facilities caused by severe weather or civil unrest, delays in construction, or other factors.

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The chart above shows the trend in benchmark prices for Brent crude oil, West Texas Intermediate (WTI) crude oil, and U.S. Henry Hub natural gas. The Brent price averaged \$44 per barrel for the full-year 2016. During 2017, Brent averaged \$50 per barrel in the second quarter, and ended July at about \$52. The majority of the company's equity crude production is priced based on the Brent benchmark. Brent markets trended lower in a \$45-\$55 per barrel range throughout the second quarter of 2017, as steadily rising production in the U.S. and recovering production from Nigeria and Libya eroded confidence in OPEC's ability to balance global oil markets. This decline occurred despite ongoing strong compliance among OPEC producers on production cuts implemented beginning in January 2017, and the agreement reached in May to extend cuts through the first quarter 2018. Oil markets were also undermined by the sluggish rise in U.S. seasonal gasoline demand relative to 2016's surge, and later than anticipated onset of inventory declines.

The WTI price averaged \$43 per barrel for the full-year 2016. During 2017, WTI averaged \$48 per barrel in the second quarter, and ended July at about \$50. The WTI discount to Brent was little changed in the second quarter 2017 relative to first quarter 2017 due to persistently high U.S. crude oil inventory levels, growing U.S. production, and ongoing crude exports from the U.S.

A differential in crude oil prices exists between high quality (high-gravity, low-sulfur) crudes and those of lower quality (low-gravity, high-sulfur). The amount of the differential in any period is associated with the relative supply/demand balances for each crude type. In second quarter 2017, the differential continued to narrow in North America due to reduced global availability of heavier sour crudes and reduced support for U.S. light sweet crude prices as a result of U.S. production growth. Outside of North America, differentials also continued to narrow as lower output from key Middle East producers increased values of heavier sour crudes.

Chevron produces or shares in the production of heavy crude oil in California, Indonesia, the Partitioned Zone between Saudi Arabia and Kuwait, Venezuela and in certain fields in Angola, China and the United Kingdom sector of the North Sea. (See page 33 for the company's average U.S. and international crude oil sales prices.)

In contrast to price movements in the global market for crude oil, price changes for natural gas in many regional markets are more closely aligned with supply-and-demand conditions in those markets. Fluctuations in the price for natural gas in the United States are closely associated with customer demand relative to the volumes produced in North America. In the United States, prices at Henry Hub averaged \$3.03 per thousand cubic feet (MCF) for the first six months of 2017, compared with \$2.02 during the first six months of 2016. At the end of July 2017, the Henry Hub spot price was \$2.84 per MCF.

Outside the United States, price changes for natural gas depend on a wide range of supply, demand and regulatory circumstances. Chevron sells natural gas into the domestic pipeline market in most locations. In some locations, Chevron continues to invest in long-term projects to install infrastructure to produce and liquefy natural gas for transport by tanker to other markets. The company's long-term contract prices for liquefied natural gas (LNG) are typically linked to crude oil prices. Most of the equity LNG offtake from the operated Australian LNG projects is committed under binding long-term contracts, with the remainder to be sold in the Asian spot LNG market. The Asian spot market reflects the supply and demand for LNG in the Pacific Basin and is not directly linked to crude oil prices. International natural gas sales prices averaged \$4.37 per MCF during the first six months of 2017, compared with \$3.92 per MCF in the same period last year. (See page 33 for the company's average natural gas sales prices for the U.S. and international regions.)

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The company's worldwide net oil-equivalent production in the first six months of 2017 averaged 2.728 million barrels per day. About one-sixth of the company's net oil-equivalent production in the first six months of 2017 occurred in the OPEC-member countries of Angola, Nigeria and Venezuela. OPEC quotas had no effect on the company's net crude oil production for the second quarter of 2017 or 2016.

The company estimates that net oil-equivalent production for the full-year 2017 will grow 4 to 9 percent compared to 2016, assuming a Brent crude oil price of \$50 per barrel and before the effect of anticipated asset sales. The impact of 2017 asset sales on full-year production is expected to be in the range of 25,000 to 75,000 barrels of oil-equivalent per day, depending on the timing of the close of individual transactions. The estimate of full-year production is subject to many factors and uncertainties, including quotas or other actions that may be imposed by OPEC; price effects on entitlement volumes; changes in fiscal terms or restrictions on the scope of company operations; delays in construction, start-up or ramp-up of projects; fluctuations in demand for natural gas in various markets; weather conditions that may shut in production; civil unrest; changing geopolitics; delays in completion of maintenance turnarounds; greater-than-expected declines in production from mature fields; or other disruptions to operations. The outlook for future production levels is also affected by the size and number of economic investment opportunities and, for new, large-scale projects, the time lag between initial exploration and the beginning of production. Investments in certain upstream projects can begin well in advance of the start of the associated crude oil and natural gas production. A significant majority of Chevron's upstream investment is made outside the United States.

In the Partitioned Zone between Saudi Arabia and Kuwait, production was shut-in beginning in May 2015 as a result of difficulties in securing work and equipment permits. Net oil-equivalent production in the Partitioned Zone in 2014 was 81,000 barrels per day. During 2015, net oil-equivalent production averaged 28,000 barrels per day. As of early August 2017, production remained shut-in, and the exact timing of a production restart is uncertain and dependent on dispute resolution between Saudi Arabia and Kuwait. The financial effects from the loss of production in 2015 and 2016 were not significant and are not expected to be significant in 2017.

Refer to the "Results of Operations" section on pages 28 and 29 for additional discussion of the company's upstream business.

Downstream Earnings for the downstream segment are closely tied to margins on the refining, manufacturing and marketing of products that include gasoline, diesel, jet fuel, lubricants, fuel oil, fuel and lubricant additives, and petrochemicals. Industry margins are sometimes volatile and can be affected by the global and regional supply-and-demand balance for refined products and petrochemicals, and by changes in the price of crude oil, other refinery and petrochemical feedstocks, and natural gas. Industry margins can also be influenced by inventory levels, geopolitical events, costs of materials and services, refinery or chemical plant capacity utilization, maintenance programs, and disruptions at refineries or chemical plants resulting from unplanned outages due to severe weather, fires or other operational events.

Other factors affecting profitability for downstream operations include the reliability and efficiency of the company's refining, marketing and petrochemical assets, the effectiveness of its crude oil and product supply functions, and the volatility of tanker-charter rates for the company's shipping operations, which are driven by the industry's demand for crude oil and product tankers. Other factors beyond the company's control include the general level of inflation and energy costs to operate the company's refining, marketing and petrochemical assets.

The company's most significant marketing areas are the West Coast of North America, the U.S. Gulf Coast, Asia and southern Africa. Chevron operates or has significant ownership interests in refineries in each of these areas.

Refer to the "Results of Operations" section on pages 29 and 30 for additional discussion of the company's downstream operations.

All Other consists of worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities and technology companies.

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Results of Operations

Business Segments The following section presents the results of operations and variances on an after-tax basis for the company's business segments — Upstream and Downstream — as well as for “All Other.” (Refer to Note 6, beginning on page 10, for a discussion of the company's “reportable segments,” as defined under the accounting standards for segment reporting.)

Upstream

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

U.S. Upstream Earnings \$(102) \$(1,113) \$(22) \$(1,963)

U.S. upstream incurred a loss of \$102 million in second quarter 2017 compared with a loss of \$1.11 billion from a year ago. The improvement reflected lower impairment charges of \$310 million, higher crude oil and natural gas realizations of \$250 million, higher gains on asset sales of \$190 million and lower operating expenses of \$150 million. U.S. upstream incurred a loss of \$22 million for the first six months of 2017, compared with a loss of \$1.96 billion from a year earlier. The improvement in earnings was primarily due to higher crude oil and natural gas realizations of \$850 million, lower impairment charges of \$310 million, lower operating expenses of \$240 million and higher gains on asset sales of \$200 million.

The average realization per barrel for U.S. crude oil and natural gas liquids in second quarter 2017 was \$41, up from \$36 a year ago. The average six-month realization per barrel for U.S. crude oil and natural gas liquids was \$43 in 2017, compared to \$31 a year earlier. The average natural gas realization in second quarter 2017 was \$2.32 per thousand cubic feet, compared with \$1.21 in 2016. The average six-month natural gas realization was \$2.35 per thousand cubic feet in 2017 and \$1.27 in 2016.

Net oil-equivalent production of 701,000 barrels per day in second quarter 2017 was up 19,000 barrels per day, or 3 percent, from a year earlier. Production increases from shale and tight properties in the Permian Basin in Texas and New Mexico, base business, and the Jack/St. Malo major capital project were partially offset by the effect of 2016 asset sales and normal field declines. Net oil-equivalent production of 686,000 barrels per day in the first six months of 2017 was down 6,000 barrels per day, or 1 percent from a year earlier. Production increases from shale and tight properties in the Permian Basin in Texas and New Mexico, base business, and the Jack/St. Malo major capital project were more than offset by the effect of 2016 asset sales and normal field declines.

The net liquids component of oil-equivalent production of 530,000 barrels per day in second quarter 2017 was up 6 percent from the corresponding 2016 period. The net liquids component of oil-equivalent production of 517,000 barrels per day in the 2017 six-month period was up 4 percent from the 2016 period. Net natural gas production was 1.03 billion cubic feet per day in second quarter 2017, a decrease of 6 percent from the 2016 comparative period, primarily as a result of 2016 asset sales. Net natural gas production was 1.02 billion cubic feet per day in the six-month period, a decrease of 14 percent from the 2016 period, primarily as a result of 2016 asset sales.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

International Upstream Earnings* \$955 \$(1,349) \$2,392 \$(1,958)

* Includes foreign currency effects \$(4) \$329 \$(278) \$31

International upstream operations earned \$955 million in second quarter 2017 compared with a loss of \$1.35 billion a year ago. The increase in earnings reflected lower impairment charges of \$1.17 billion, partially offset by higher depreciation expenses from increased production of \$410 million. The improvement also included lower tax items of

\$560 million, higher natural gas sales volumes of \$510 million, higher crude oil realizations and volumes of \$240 million and \$150 million, respectively, and lower operating expenses of \$120 million.

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Foreign currency effects decreased earnings by \$4 million in the 2017 quarter, compared with an increase of \$329 million a year earlier.

Earnings for the first six months of 2017 were \$2.39 billion, compared with a loss of \$1.96 billion from a year earlier. The increase in earnings was primarily due to higher crude oil realizations of \$1.44 billion, and lower impairment charges of \$1.15 billion, partially offset by higher depreciation expenses from increased production of \$560 million. The improvement also included higher natural gas sales volumes of \$820 million, higher gains on asset sales of \$690 million, lower tax items of \$490 million, and lower operating expenses of \$340 million. Foreign currency effects decreased earnings by \$278 million in the first six months of 2017, compared with an increase of \$31 million a year earlier.

The average realization per barrel of crude oil and natural gas liquids in second quarter 2017 was \$45, compared with \$40 a year earlier. The average realization per barrel of crude oil and natural gas liquids in the first six months of 2017 was \$47, compared with \$34 a year earlier. The average natural gas realization in second quarter 2017 was \$4.39 per thousand cubic feet, compared with \$3.93 in the 2016 period. The average natural gas realization in the first six months of 2017 was \$4.37 per thousand cubic feet, compared with \$3.92 in the 2016 period.

International net oil-equivalent production of 2.08 million barrels per day in second quarter 2017 was up 233,000 barrels per day, or 13 percent, from the corresponding 2016 period. Production increases from major capital projects and base business in multiple areas, and lower maintenance-related downtime were partially offset by production entitlement effects in several locations and normal field declines.

International net oil-equivalent production of 2.04 million barrels per day in the first six months of 2017 was up 137,000 barrels per day, or 7 percent, from the corresponding 2016 period. Production increases from major capital projects and base business in multiple areas were partially offset by production entitlement effects in several locations and normal field declines.

The net liquids component of oil-equivalent production of 1.22 million barrels per day in second quarter 2017 increased 3 percent from the 2016 period. The net liquids component of oil-equivalent production of 1.21 million barrels per day in the first six months of 2017 decreased 2 percent from the corresponding 2016 period. Net natural gas production of 5.14 billion cubic feet per day in second quarter 2017 increased 30 percent from the 2016 period. Net natural gas production of 4.97 billion cubic feet per day in the first six months of 2017 increased 25 percent from the 2016 period.

Downstream

	Three Months Ended June 30	Six Months Ended June 30		
	2017	2016	2017	2016
	(Millions of dollars)			

U.S. Downstream Earnings \$634 \$537 \$1,103 \$784

U.S. downstream operations earned \$634 million in second quarter 2017 compared with earnings of \$537 million a year earlier. The increase in earnings was primarily due to higher margins on refined product sales of \$130 million and lower operating expenses of \$35 million. Partially offsetting these effects were the absence of second quarter 2016 asset sale gains of \$60 million and higher tax items of \$30 million.

Earnings for the first six months of 2017 were \$1.10 billion compared to \$784 million a year earlier. The increase was due to higher margins on refined product sales of \$170 million, lower operating expenses of \$110 million, and the absence of an asset impairment of \$110 million. Partially offsetting this increase were the absence of second quarter 2016 asset sale gains of \$60 million and higher tax items of \$40 million.

Refinery crude oil input in second quarter 2017 decreased 3 percent from the year-ago period to 928,000 barrels per day. For the first six months of 2017, crude oil input was 920,000 barrels per day, down 4 percent from the corresponding 2016 period. Refined product sales of 1.24 million barrels per day decreased 2 percent from second quarter 2016. Branded gasoline sales of 542,000 barrels per day were essentially unchanged from second quarter

2016. Refined product sales of 1.20 million barrels per day in the six-month period were down 3 percent from the first six months of 2016. Branded gasoline sales of 527,000 barrels per day for the first six months were essentially unchanged from the corresponding 2016 period. Refinery crude oil input and refined product sales

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were lower in both comparative periods due to divestment of the Hawaii refining and marketing assets in fourth quarter 2016.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
International Downstream Earnings*	\$561	\$741	\$1,018	\$1,229

* Includes foreign currency effects \$3 \$(26) \$(43) \$(74)

International downstream operations earned \$561 million in second quarter 2017 compared with \$741 million a year earlier. The decrease in earnings was primarily due to the absence of second quarter 2016 gains on asset sales of \$420 million. Higher margins on refined product sales of \$260 million partially offset the decrease in earnings. Foreign currency effects increased earnings by \$3 million in the 2017 quarter, compared with a decrease of \$26 million from a year earlier.

Earnings for the first six months of 2017 were \$1.02 billion compared with \$1.23 billion a year earlier. The decrease in earnings was primarily due to lower gains on asset sales of \$390 million. Partially offsetting the decrease were higher margins on refined product sales of \$230 million. Foreign currency effects decreased earnings by \$43 million in the first six months of 2017, compared with a decrease of \$74 million from a year earlier.

Refinery crude oil input of 726,000 barrels per day in second quarter 2017 decreased 38,000 barrels per day from the year-ago period mainly due to crude unit maintenance at the Star Petroleum Refining Company in Thailand and a major planned turnaround at the company's refinery in Cape Town, South Africa. For the first six months of 2017, crude input was 740,000 barrels per day, down 5 percent from the year-ago period.

Total refined product sales of 1.45 million barrels per day in second quarter 2017 and in the first six months of 2017 were essentially unchanged from the year-ago periods.

All Other

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net Charges*	\$(598)	\$(286)	\$(359)	\$(287)

* Includes foreign currency effects \$4 \$(24) \$83 \$3

All Other consists of worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities and technology companies.

Net charges in second quarter 2017 were \$598 million, compared with \$286 million a year earlier. The change between periods was mainly due to higher tax items and an impairment of an asset. Partially offsetting the increase were lower interest and employee expenses. Foreign currency effects decreased net charges by \$4 million in second quarter 2017, compared with an increase of \$24 million in the 2016 period.

Net charges for the first six months of 2017 were \$359 million, compared with \$287 million a year earlier. The change between periods was mainly due to higher tax items, an impairment of an asset, and higher corporate charges, partially offset by lower employee expenses. Favorable foreign currency effects decreased net charges by \$83 million for the first six months of 2017, compared to a \$3 million benefit in the 2016 period.

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Consolidated Statement of Income

Explanations of variations between periods for selected income statement categories are provided below:

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

Sales and other operating revenues \$32,877 \$27,844 \$64,401 \$50,914

Sales and other operating revenues increased \$5.0 billion for the quarterly period mainly due to higher refined product and crude oil prices, and higher crude oil and natural gas volumes. Sales and other operating revenues increased \$13.5 billion for the six-month period mainly due to higher refined product and crude oil prices, and higher crude oil and natural gas volumes.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

Income from equity affiliates \$1,316 \$752 \$2,466 \$1,328

Income from equity affiliates in the quarterly period increased mainly due to higher upstream-related earnings from Tengizchevroil in Kazakhstan, and higher downstream-related earnings from GS Caltex in South Korea. Income from equity affiliates in the six-month period increased mainly due to higher upstream-related earnings from Tengizchevroil in Kazakhstan and Angola LNG.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

Other income \$287 \$686 \$1,034 \$593

Other income for the quarterly period decreased due to lower gains on asset sales. The six-month period increased due to higher gains on asset sales and a favorable swing in foreign currency effects.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

Purchased crude oil and products \$18,325 \$15,278 \$35,831 \$26,503

Purchases increased \$3.0 billion for the quarterly period primarily due to higher crude oil and refined product prices, and higher crude oil and refined product volumes. The six-month period increased \$9.3 billion primarily due to higher crude oil and refined product prices, and higher natural gas, refined product and crude oil volumes.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2017	2016	2017	2016

(Millions of dollars)

Operating, selling, general and administrative expenses \$5,653 \$6,087 \$11,179 \$12,489

Operating, selling, general and administrative expenses decreased \$434 million between quarterly periods due to lower employee expense, and lower insurance and environmental costs.
Expenses decreased \$1.3 billion between six-month periods primarily due to lower employee, non-operated joint venture and transportation expenses.

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Three Months Ended June 30	Six Months Ended June 30
2017	2016
2017	2016

(Millions of dollars)

Exploration expenses \$ 125 \$ 214 \$ 269 \$ 584

The decrease in exploration expenses for the quarterly period was primarily due to lower charges for well write-offs and geological and geophysical expenses. The decrease in the six-month period was primarily due to significantly lower charges for well write-offs.

Three Months Ended June 30	Six Months Ended June 30
2017	2016
2017	2016

(Millions of dollars)

Depreciation, depletion and amortization \$ 5,311 \$ 6,721 \$ 9,505 \$ 11,124

Depreciation, depletion and amortization expenses in second quarter 2017 decreased mainly due to lower impairment expenses, partially offset by higher production levels for certain oil and gas producing fields. The six-month period decreased mainly due to lower impairment expenses and the absence of a 2016 impairment of a downstream asset, partially offset by higher production levels for certain oil and gas producing fields.

Three Months Ended June 30	Six Months Ended June 30
2017	2016
2017	2016

(Millions of dollars)

Taxes other than on income \$ 3,065 \$ 2,973 \$ 5,936 \$ 5,837

Taxes other than on income increased in the quarterly and six-month periods primarily due to higher duties, higher crude oil, refined product and natural gas sales, and higher production, partially offset by divestment of Chevron's marketing and lubricants assets in New Zealand.

Three Months Ended June 30	Six Months Ended June 30
2017	2016
2017	2016

(Millions of dollars)

Income tax expense (benefit) \$ 487 \$ (607) \$ 917 \$ (1,611)

The increase in income tax expense between quarterly periods of \$1.09 billion is consistent with the increase in total income before-tax for the company of \$4.02 billion. U.S. income before tax increased from a loss of \$1.75 billion in second quarter 2016 to a loss of \$92 million in 2017. The lower losses were primarily driven by the effect of higher crude oil prices. The increase in income had a direct impact on the company's U.S. income tax cost, resulting in an increase in the tax charge of \$925 million between year-over-year periods, from a tax benefit of \$781 million in 2016 to a tax charge of \$144 million in 2017. International income before tax increased from a loss of \$317 million in 2016 to income of \$2.04 billion in 2017. This \$2.36 billion increase was primarily driven by the effect of higher crude oil prices. The higher crude prices primarily drove the \$169 million increase in international income tax expense between year-over-year periods, from \$174 million in 2016 to \$343 million in 2017.

The increase in income tax expense for the first six months of 2017 of \$2.53 billion is consistent with the increase in total income before-tax for the company of \$8.86 billion. U.S. income before tax increased from a loss of \$3.40 billion in 2016 to income of \$145 million in 2017. This increase in income was primarily driven by the effect of higher crude oil prices. The increase in income had a direct impact on the company's U.S. income tax cost, resulting in a decrease in tax benefit of \$1.41 billion between year-over-year periods, from \$1.65 billion in 2016 to \$244 million in 2017. International income before tax increased from a loss of \$384 million in 2016 to income of \$4.94 billion in 2017. This \$5.32 billion increase was primarily driven by the effect of higher crude oil prices and the gain on the sale of the company's geothermal assets in Indonesia. The higher crude prices primarily drove the \$1.12 billion increase in international income tax expense between year-over-year periods, from \$40 million in 2016 to \$1.16 billion in 2017. Refer also to the discussion of the effective income tax rate in Note 11 on pages 14 and 15.

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Selected Operating Data

The following table presents a comparison of selected operating data:

Selected Operating Data ⁽¹⁾⁽²⁾

	Three Months Ended June 30 2017		Six Months Ended June 30 2016	
U.S. Upstream				
Net crude oil and natural gas liquids production (MBPD)	530	501	517	495
Net natural gas production (MMCFPD) ⁽³⁾	1,027	1,088	1,017	1,177
Net oil-equivalent production (MBOEPD)	701	682	686	692
Sales of natural gas (MMCFPD)	3,265	3,154	3,204	3,481
Sales of natural gas liquids (MBPD)	36	26	33	25
Revenue from net production				
Liquids (\$/Bbl)	\$41.42	\$35.79	\$43.07	\$31.19
Natural gas (\$/MCF)	\$2.32	\$1.21	\$2.35	\$1.27
International Upstream				
Net crude oil and natural gas liquids production (MBPD) ⁽⁴⁾	1,221	1,188	1,213	1,240
Net natural gas production (MMCFPD) ⁽³⁾	5,144	3,943	4,973	3,994
Net oil-equivalent production (MBOEPD) ⁽⁴⁾	2,079	1,846	2,042	1,905
Sales of natural gas (MMCFPD)	5,142	4,503	5,038	4,531
Sales of natural gas liquids (MBPD)	36	24	30	24
Revenue from liftings				
Liquids (\$/Bbl)	\$44.94	\$40.25	\$46.71	\$34.39
Natural gas (\$/MCF)	\$4.39	\$3.93	\$4.37	\$3.92
U.S. and International Upstream				
Total net oil-equivalent production (MBOEPD) ⁽⁴⁾	2,780	2,528	2,728	2,597
U.S. Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	653	646	618	631
Other refined product sales (MBPD)	584	617	577	606
Total refined product sales (MBPD)	1,237	1,263	1,195	1,237
Sales of natural gas liquids (MBPD)	118	115	112	110
Refinery input (MBPD)	928	955	920	956
International Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	334	345	332	352
Other refined product sales (MBPD)	768	742	761	724
Share of affiliate sales (MBPD)	349	362	355	366
Total refined product sales (MBPD)	1,451	1,449	1,448	1,442
Sales of natural gas liquids (MBPD)	68	68	66	66
Refinery input (MBPD)	726	764	740	780

⁽¹⁾ Includes company share of equity affiliates.

⁽²⁾ MBPD — thousands of barrels per day; MMCFPD — millions of cubic feet per day; Bbl — Barrel; MCF — thousands of cubic feet; oil-equivalent gas conversion ratio is 6,000 cubic feet of natural gas = 1 barrel of crude oil; MBOEPD — thousands of barrels of oil-equivalent per day.

⁽³⁾ Includes natural gas consumed in operations (MMCFPD):

United States	40	71	39	69
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International	511	430	511	430
(4) Includes net production of synthetic oil:				
Canada	50	43	50	46
Venezuela affiliate	29	28	29	28
(5) Includes branded and unbranded gasoline.				

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Table of Contents**Liquidity and Capital Resources**

Cash, cash equivalents and marketable securities totaled \$4.8 billion at June 30, 2017 and \$7.0 billion at year-end 2016. Cash provided by operating activities in the first six months of 2017 was \$8.9 billion, compared with \$3.7 billion in the year-ago period, reflecting higher crude oil prices. Cash capital and exploratory expenditures totaled \$6.8 billion in the first six months of 2017, down \$3.5 billion from the year-ago period, reflecting lower activity. Cash provided by investing activities included proceeds and deposits related to asset sales of \$2.5 billion in the first six months of 2017, compared to \$1.4 billion in the year ago period.

Dividends The company paid dividends of \$4.1 billion to common shareholders during the first six months of 2017. In July 2017, the company declared a quarterly dividend of \$1.08 per common share, payable in September 2017.

Debt and Capital Lease Obligations Chevron's total debt and capital lease obligations were \$42.9 billion at June 30, 2017, down from \$46.1 billion at December 31, 2016.

The company's primary financing source for working capital needs is its commercial paper program. The outstanding balance for the company's commercial paper program at June 30, 2017 was \$4.2 billion. The company's debt and capital lease obligations due within one year, consisting primarily of commercial paper, redeemable long-term obligations and the current portion of long-term debt, totaled \$17.8 billion at June 30, 2017, and \$19.8 billion at December 31, 2016. Of these amounts, \$9.0 billion was reclassified to long-term at both June 30, 2017, and December 31, 2016. At June 30, 2017, settlement of these obligations was not expected to require the use of working capital within one year, as the company had the intent and the ability, as evidenced by committed credit facilities, to refinance them on a long-term basis.

At June 30, 2017, the company had \$9.0 billion in committed credit facilities with various major banks that enable the refinancing of short-term obligations on a long-term basis. The credit facilities consist of a 364-day facility which enables borrowing of up to \$6.9 billion and allows the company to convert any amounts outstanding into a term loan for a period of up to one year, as well as a \$2.1 billion five-year facility expiring in December 2020. These facilities support commercial paper borrowing and can also be used for general corporate purposes. The company's practice has been to continually replace expiring commitments with new commitments on substantially the same terms, maintaining levels management believes appropriate. Any borrowings under the facilities would be unsecured indebtedness at interest rates based on the London Interbank Offered Rate or an average of base lending rates published by specified banks and on terms reflecting the company's strong credit rating. No borrowings were outstanding under these facilities at June 30, 2017. In addition, the company has an automatic shelf registration statement that expires in August 2018 for an unspecified amount of nonconvertible debt securities issued or guaranteed by the company.

The major debt rating agencies routinely evaluate the company's debt, and the company's cost of borrowing can increase or decrease depending on these debt ratings. The company has outstanding public bonds issued by Chevron Corporation and Texaco Capital Inc. All of these securities are the obligations of, or guaranteed by, Chevron Corporation and are rated AA- by Standard and Poor's Corporation and Aa2 by Moody's Investors Service. The company's U.S. commercial paper is rated A-1+ by Standard and Poor's and P-1 by Moody's. All of these ratings denote high-quality, investment-grade securities.

The company's future debt level is dependent primarily on results of operations, the capital program and cash that may be generated from asset dispositions. Based on its high-quality debt ratings, the company believes that it has substantial borrowing capacity to meet unanticipated cash requirements. During extended periods of low prices for crude oil and natural gas and narrow margins for refined products and commodity chemicals, the company can also modify capital spending plans to provide flexibility to continue paying the common stock dividend and also remain committed to retaining the company's high-quality debt ratings.

Common Share Repurchase Program In July 2010, the Board of Directors approved an ongoing share repurchase program with no set term or monetary limits. No shares were acquired under the program in 2015, 2016 or through the first six months of 2017, and the company does not plan to acquire any shares under the program for the remainder of the year. From the inception of the program through 2014, the company had purchased 180.9 million shares for \$20.0 billion.

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Noncontrolling Interests The company had noncontrolling interests of \$1.2 billion at both June 30, 2017, and December 31, 2016. Distributions to noncontrolling interests totaled \$41 million during the first six months of 2017 compared to \$24 million for the same period in 2016.

Current Ratio Current assets divided by current liabilities, which indicates the company's ability to repay its short-term liabilities with short-term assets. The current ratio was 1.0 at June 30, 2017, and 0.9 at December 31, 2016, respectively. The current ratio is adversely affected by the fact that Chevron's inventories are valued on a last-in, first-out basis. At June 30, 2017, the book value of inventory was lower than replacement cost.

Debt Ratio Total debt as a percentage of total debt plus Chevron Corporation Stockholders' Equity, which indicates the company's leverage. This ratio was 22.7 percent at June 30, 2017, and 24.1 percent at year-end 2016.

Pension Obligations Information related to pension plan contributions is included on page 14 in Note 10 to the Consolidated Financial Statements.

Capital and Exploratory Expenditures Total expenditures, including the company's share of spending by affiliates, were \$8.9 billion in the first six months of 2017, compared with \$12.0 billion in the corresponding 2016 period. The amounts included the company's share of affiliates' expenditures of \$2.1 billion and \$1.7 billion in the 2017 and 2016 periods, respectively, which did not require cash outlays by the company. Expenditures for upstream projects in the first six months of 2017 were \$8.0 billion, representing 89 percent of the companywide total.

Capital and Exploratory Expenditures by Major Operating Area

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
	2017	2016	2017	2016
	(Millions of dollars)			
United States				
Upstream	\$1,154	\$1,204	\$2,205	\$2,480
Downstream	361	332	682	753
All Other	35	53	69	75
Total United States	1,550	1,589	2,956	3,308
International				
Upstream	2,870	3,818	5,786	8,508
Downstream	118	116	187	175
All Other	—	—	1	1
Total International	2,988	3,934	5,974	8,684
Worldwide	\$4,538	\$5,523	\$8,930	\$11,992

Contingencies and Significant Litigation

MTBE Information related to methyl tertiary butyl ether (MTBE) matters is included on page 15 in Note 13 to the Consolidated Financial Statements under the heading "MTBE."

Ecuador Information related to Ecuador matters is included beginning on page 15 in Note 13 to the Consolidated Financial Statements under the heading "Ecuador."

Income Taxes Information related to income tax contingencies is included on pages 14 and 15 in Note 11 and pages 19 and 20 in Note 14 to the Consolidated Financial Statements under the heading "Income Taxes."

Guarantees Information related to the company's guarantees is included on page 20 in Note 14 to the Consolidated Financial Statements under the heading "Guarantees."

Indemnifications Information related to indemnifications is included on page 20 in Note 14 to the Consolidated Financial Statements under the heading "Indemnifications."

Off-Balance-Sheet Obligations Information related to the company's off-balance-sheet obligations is included on page 20 in Note 14 to the Consolidated Financial Statements under the heading "Off-Balance-Sheet Obligations."

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Environmental Information related to environmental matters is included on page 20 in Note 14 to the Consolidated Financial Statements under the heading “Environmental.”

Other Contingencies Information related to the company’s other contingencies begins on page 20 in Note 14 to the Consolidated Financial Statements under the heading “Other Contingencies.”

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the three months ended June 30, 2017, does not differ materially from that discussed under Item 7A of Chevron’s 2016 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

The company’s management has evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company’s disclosure controls and procedures were effective as of June 30, 2017.

(b) Changes in internal control over financial reporting

During the quarter ended June 30, 2017, there were no changes in the company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Governmental Proceedings Chevron facilities within the jurisdiction of California's Bay Area Air Quality Management District (BAAQMD) currently have multiple outstanding NOV's issued by BAAQMD. Resolution of the alleged violations may result in the payment of a civil penalty of \$100,000 or more. As initially disclosed in the Annual Report on Form 10-K for the year ended December 31, 2016, on December 7, 2016, Chevron received a proposal from the BAAQMD seeking to collectively resolve certain NOV's issued in 2013 - 2015 to Chevron's Richmond refinery and to Chevron's Richmond, California and San Jose, California marketing terminals. In May 2017, Chevron and the BAAQMD entered into settlement agreements to resolve the 2013 - 2015 Richmond refinery NOV's for a collective civil penalty of \$181,000 and the 2013 - 2015 marketing terminal NOV's for a collective civil penalty of \$16,000.

Other Proceedings Information related to legal proceedings, including Ecuador, is included beginning on page 15 in Note 13 to the Consolidated Financial Statements.

Item 1A. Risk Factors

Chevron is a global energy company with a diversified business portfolio, a strong balance sheet, and a history of generating sufficient cash to fund capital and exploratory expenditures and to pay dividends. Nevertheless, some inherent risks could materially impact the company’s financial results of operations or financial condition.

Information about risk factors for the three months ended June 30, 2017, does not differ materially from that set forth under the heading “Risk Factors” on pages 20 through 22 of the company’s 2016 Annual Report on Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

CHEVRON CORPORATION

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number Of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program (2)
April 1 – April 30, 2017	742	\$ 107.80	—	
May 1 – May 31, 2017	2	105.41	—	
June 1 – June 30, 2017	4	106.61	—	
Total	48	\$ 107.60	—	

(1) Includes common shares repurchased from company employees and directors for required personal income tax withholdings on the exercise of the stock options and shares delivered or attested to in satisfaction of the exercise price by holders of employee and director stock options. The options were issued to and exercised by management under Chevron long-term incentive plans.

(2) In July 2010, the Board of Directors approved an ongoing share repurchase program with no set term or monetary limits, under which common shares would be acquired by the company at prevailing prices, as permitted by securities laws and other legal requirements and subject to market conditions and other factors. From inception of the program through 2014, the company had purchased 180,886,291 shares under this program (some pursuant to Rule 10b5-1 plan and some pursuant to accelerated share repurchase plans) for \$20.0 billion at an average price of approximately \$111 per share. No shares were acquired under the program in 2015 or 2016 or through the first six months of 2017, and the company does not plan to acquire any shares under the program for the remainder of the year.

Item 6. Exhibits

Exhibit Number	Description
(4)	Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the company and its consolidated subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the company and its subsidiaries on a consolidated basis. A copy of such instrument will be furnished to the Securities and Exchange Commission upon request.
(12.1)	Computation of Ratio of Earnings to Fixed Charges
(31.1)	Rule 13a-14(a)/15d-14(a) Certification by the company's Chief Executive Officer
(31.2)	Rule 13a-14(a)/15d-14(a) Certification by the company's Chief Financial Officer
(32.1)	Rule 13a-14(b)/15d-14(b) Certification by the company's Chief Executive Officer
(32.2)	Rule 13a-14(b)/15d-14(b) Certification by the company's Chief Financial Officer
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Schema Document
(101.CAL)	XBRL Calculation Linkbase Document
(101.DEF)	XBRL Definition Linkbase Document
(101.LAB)	XBRL Label Linkbase Document
(101.PRE)	XBRL Presentation Linkbase Document

Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). The financial information contained in the XBRL-related documents is "unaudited" or "unreviewed."

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHEVRON CORPORATION
(REGISTRANT)

/S/ JEANETTE L. OURADA
Jeanette L. Ourada, Vice President and Comptroller
(Principal Accounting Officer and
Duly Authorized Officer)
Date: August 3, 2017

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EXHIBIT INDEX

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* Filed herewith.

Copies of any of the above exhibits not contained herein are available to any security holder upon written request to the Corporate Governance Department, Chevron Corporation, 6001 Bollinger Canyon Road, San Ramon, California 94583-2324.