

CHEVRON CORP  
Form 10-Q  
November 03, 2016

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 September 30, 2016

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 (I.R.S. Employer  
incorporation or organization) Identification Number)

6001 Bollinger Canyon Road, 94583-2324

San Ramon, California (Zip Code)

(Address of principal executive offices)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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 September 30, 2016

Common stock, \$.75 par value 1,887,769,320



Table of Contents

## INDEX

	Page No.
<u>Cautionary Statements Relevant to Forward-Looking Information for the Purpose of “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995</u>	<u>2</u>
PART I	
FINANCIAL INFORMATION	
Item 1. <u>Consolidated Financial Statements</u> —	
Consolidated Statement of Income for the Three and Nine Months Ended September 30, 2016, and 2015	<u>3</u>
Consolidated Statement of Comprehensive Income for the Three and Nine Months Ended September 30, 2016, and 2015	<u>4</u>
Consolidated Balance Sheet at September 30, 2016, and December 31, 2015	<u>5</u>
Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2016, and 2015	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	7-23
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24-35
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>
PART II	
OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>36</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>37</u>
Item 5. Other Information	<u>37</u>
Item 6. <u>Exhibits</u>	<u>37</u>
<u>Signature</u>	38
Exhibits: Computation of Ratio of Earnings to Fixed Charges	40
Rule 13a-14(a)/15d-14(a) Certifications	41-42
Rule 13a-14(b)/15d-14(b) Certifications	43-44

Table of Contents

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,” “may,” “could,” “should,” “budgets,” “outlook,” “on track,” “goals,” “objectives” 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 and 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 21 through 23 of the company’s 2015 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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$29,159	\$ 32,767	\$80,073	\$ 101,911
Income from equity affiliates	555	1,195	1,883	3,765
Other income	426	353	1,019	3,554
Total Revenues and Other Income	30,140	34,315	82,975	109,230
Costs and Other Deductions				
Purchased crude oil and products	15,842	17,447	42,345	55,181
Operating expenses	4,666	5,592	15,124	17,064
Selling, general and administrative expenses	1,109	1,026	3,140	3,140
Exploration expenses	258	315	842	1,982
Depreciation, depletion and amortization	4,130	4,268	15,254	15,637
Taxes other than on income*	2,962	2,883	8,799	9,174
Interest and debt expense	64	—	143	—
Total Costs and Other Deductions	29,031	31,531	85,647	102,178
Income (Loss) Before Income Tax Expense	1,109	2,784	(2,672 )	7,052
Income Tax Expense (Benefit)	(192 )	727	(1,803 )	1,787
Net Income (Loss)	1,301	2,057	(869 )	5,265
Less: Net income attributable to noncontrolling interests	18	20	43	90
Net Income (Loss) Attributable to Chevron Corporation	\$ 1,283	\$ 2,037	\$(912 )	\$ 5,175
Per Share of Common Stock:				
Net Income (Loss) Attributable to Chevron Corporation				
— Basic	\$0.68	\$ 1.09	\$(0.49 )	\$ 2.77
— Diluted	\$0.68	\$ 1.09	\$(0.49 )	\$ 2.76
Dividends	\$1.07	\$ 1.07	\$3.21	\$ 3.21
Weighted Average Number of Shares Outstanding (000s)				
— Basic	1,873,649	1,868,444	1,871,813	1,867,560
— Diluted	1,883,342	1,872,420	1,871,813	1,875,193
* Includes excise, value-added and similar taxes:	\$ 1,772	\$ 1,800	\$ 5,208	\$ 5,642

See accompanying notes to consolidated financial statements.

3

---

Table of Contents

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

	Three Months Ended September 30 2016		Nine Months Ended September 30 2015	
	2016	2015	2016	2015
	(Millions of dollars)			
Net Income (Loss)	\$1,301	\$2,057	\$(869)	\$5,265
Currency translation adjustment	7	(16)	9	(35)
Unrealized holding gain on securities:				
Net gain (loss) arising during period	21	(18)	31	(24)
Defined benefit plans:				
Actuarial gain (loss):				
Amortization to net income of net actuarial and settlement losses	265	204	644	548
Actuarial loss arising during period	(9)	—	(23)	—
Prior service cost:				
Amortization to net income of net prior service costs	2	5	15	19
Defined benefit plans sponsored by equity affiliates	5	7	19	34
Income tax expense on defined benefit plans	(102)	(80)	(247)	(232)
Total	161	136	408	369
Other Comprehensive Gain, Net of Tax	189	102	448	310
Comprehensive Income (Loss)	1,490	2,159	(421)	5,575
Comprehensive income attributable to noncontrolling interests	(18)	(20)	(43)	(90)
Comprehensive Income (Loss) Attributable to Chevron Corporation	\$1,472	\$2,139	\$(464)	\$5,485

See accompanying notes to consolidated financial statements.

Table of Contents

CHEVRON CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

	At September 30 2016	At December 31 2015
	(Millions of dollars, except per-share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,351	\$ 11,022
Marketable securities	321	310
Accounts and notes receivable, net	12,522	12,860
Inventories		
Crude oil and petroleum products	3,231	3,535
Chemicals	440	490
Materials, supplies and other	2,305	2,309
Total inventories	5,976	6,334
Prepaid expenses and other current assets <sup>1</sup>	2,703	3,904
Total Current Assets	28,873	34,430
Long-term receivables, net	2,444	2,412
Investments and advances	30,002	27,110
Properties, plant and equipment, at cost	341,066	340,277
Less: Accumulated depreciation, depletion and amortization	157,627	151,881
Properties, plant and equipment, net	183,439	188,396
Deferred charges and other assets <sup>1, 2</sup>	6,631	6,155
Goodwill	4,581	4,588
Assets held for sale	3,893	1,449
Total Assets	\$ 259,863	\$ 264,540
<b>LIABILITIES AND EQUITY</b>		
Short-term debt <sup>2</sup>	\$ 6,057	\$ 4,927
Accounts payable	12,205	13,516
Accrued liabilities	4,441	4,833
Federal and other taxes on income <sup>1</sup>	1,000	1,073
Other taxes payable	1,041	1,118
Total Current Liabilities	24,744	25,467
Long-term debt <sup>2</sup>	39,462	33,542
Capital lease obligations	66	80
Deferred credits and other noncurrent obligations	22,288	23,465
Noncurrent deferred income taxes <sup>1</sup>	17,817	20,165
Noncurrent employee benefit plans	7,534	7,935
Total Liabilities	111,911	110,654
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 September 30, 2016, and December 31, 2015)	1,832	1,832
Capital in excess of par value	16,512	16,330
Retained earnings	174,657	181,578
Accumulated other comprehensive loss	(3,843	) (4,291
Deferred compensation and benefit plan trust	(240	) (240



Edgar Filing: CHEVRON CORP - Form 10-Q

Treasury stock, at cost (554,907,260 and 559,862,580 shares at September 30, 2016, and December 31, 2015, respectively)	(42,118	)	(42,493	)
Total Chevron Corporation Stockholders' Equity	146,800		152,716	
Noncontrolling interests	1,152		1,170	
Total Equity	147,952		153,886	
Total Liabilities and Equity	\$ 259,863		\$ 264,540	

<sup>1</sup> 2015 adjusted to conform to ASU 2015-17. Refer to Note 10, "Income Taxes" beginning on page 14.

<sup>2</sup> 2015 adjusted to conform to ASU 2015-03. Refer to Note 5, "New Accounting Standards" on page 10.

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30 2016    2015 (Millions of dollars)	
Operating Activities		
Net Income (Loss)	\$(869 )	\$5,265
Adjustments		
Depreciation, depletion and amortization	15,254	15,637
Dry hole expense	472	1,265
Distributions less than income from equity affiliates	(708 )	(576 )
Net before-tax gains on asset retirements and sales	(872 )	(3,104 )
Net foreign currency effects	321	(34 )
Deferred income tax provision	(3,139 )	(478 )
Net increase in operating working capital	(1,266 )	(2,321 )
Increase in long-term receivables	(81 )	(92 )
Net decrease in other deferred charges	30	92
Cash contributions to employee pension plans	(697 )	(719 )
Other	538	(36 )
Net Cash Provided by Operating Activities	8,983	14,899
Investing Activities		
Capital expenditures	(14,100)	(22,055 )
Proceeds and deposits related to asset sales	2,209	5,408
Net maturities of time deposits	—	8
Net sales of marketable securities	2	122
Net borrowing of loans by equity affiliates	(2,195 )	(147 )
Net sales of other short-term investments	155	64
Net Cash Used for Investing Activities	(13,929)	(16,600 )
Financing Activities		
Net borrowings of short-term obligations	869	2,049
Proceeds from issuance of long-term debt	6,924	5,989
Repayments of long-term debt and other financing obligations	(812 )	(22 )
Cash dividends — common stock	(6,007 )	(5,993 )
Distributions to noncontrolling interests	(57 )	(122 )
Net sales of treasury shares	359	158
Net Cash Provided by Financing Activities	1,276	2,059
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1 )	(210 )
Net Change in Cash and Cash Equivalents	(3,671 )	148
Cash and Cash Equivalents at January 1	11,022	12,785
Cash and Cash Equivalents at September 30	\$7,351	\$12,933

See accompanying notes to consolidated financial statements.

6

---

Table of Contents

## 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 nine-month periods ended September 30, 2016, 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 2015 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 nine months ending September 30, 2016, are reflected in the table below.

Changes in Accumulated Other Comprehensive Income (Loss) by Component <sup>(1)</sup>

(Millions of Dollars)

	Nine Months Ended September 30, 2016				
	Currency Translation Adjustment	Unrealized Holding Gains (Losses) on Securities	Derivatives	Defined Benefit Plans	Total
Balance at January 1	\$(140)	\$ (29 )	\$ (2 )	\$(4,120)	\$(4,291)
Components of Other Comprehensive Income (Loss):					
Before Reclassifications	9	31	—	—	40
Reclassifications <sup>(2)</sup>	—	—	—	408	408
Net Other Comprehensive Income (Loss)	9	31	—	408	448
Balance at September 30	\$(131)	\$ 2	\$ (2 )	\$(3,712)	\$(3,843)

<sup>(1)</sup> All amounts are net of tax.

<sup>(2)</sup> Refer to Note 9, Employee Benefits for reclassified components totaling \$659 million that are included in employee benefit costs for the nine months ending September 30, 2016. Related income taxes for the same period, totaling \$251 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 nine months of 2016 and 2015 is as follows:

2016			2015		
Chevron	Non-controlling	Total	Chevron	Non-controlling	Total

Edgar Filing: CHEVRON CORP - Form 10-Q

	Corporation	Interest	Equity	Corporation	Interest	Equity
	Stockholders'	Stockholders'		Stockholders'	Stockholders'	
	Equity	Equity		Equity	Equity	
	(Millions of dollars)					
Balance at January 1	\$ 152,716	\$ 1,170	\$ 153,886	\$ 155,028	\$ 1,163	\$ 156,191
Net income (loss)	(912 )	43	(869 )	5,175	90	5,265
Dividends	(6,009 )	—	(6,009 )	(5,995 )	—	(5,995 )
Distributions to noncontrolling interests	—	(57 )	(57 )	—	(122 )	(122 )
Treasury shares, net	375	—	375	181	—	181
Other changes, net*	630	(4 )	626	523	(105 )	418
Balance at September 30	\$ 146,800	\$ 1,152	\$ 147,952	\$ 154,912	\$ 1,026	\$ 155,938

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

Table of Contents

## 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:

	Nine Months Ended September 30	
	2016	2015
	(Millions of dollars)	
(Increase) decrease in accounts and notes receivable	\$(455 )	\$2,337
Decrease (increase) in inventories	232	(445 )
Decrease in prepaid expenses and other current assets	844	167
Decrease in accounts payable and accrued liabilities	(1,783 )	(3,769 )
Decrease in income and other taxes payable	(104 )	(611 )
Net increase in operating working capital	\$(1,266)	\$(2,321)

The “Net increase in operating working capital” includes reductions of \$14 million in each period for excess income tax benefits associated with stock options exercised during the nine months ended September 30, 2016, and 2015. These amounts are offset by an equal amount in “Net sales of treasury shares.”

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

	Nine Months Ended September 30	
	2016	2015
	(Millions of dollars)	
Interest on debt (net of capitalized interest)	\$ 28	\$ —
Income taxes	1,492	4,081

“Depreciation, depletion and amortization” and “Deferred income tax provision” collectively include \$2.8 billion in non-cash reductions to properties, plant and equipment relating to impairments and other non-cash charges due to reservoir performance and lower crude oil prices.

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

Information related to “Restricted Cash” is included on page 21 in Note 14 under the heading “Restricted Cash.”

The “Net maturities of time deposits” consisted of the following gross amounts:

	Nine Months Ended September 30	
	2016	2015
	(Millions of dollars)	
Maturities of time deposits	—	8
Net maturities of time deposits	\$ —	\$ 8

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

Nine  
Months

Ended  
September  
30  
2016 2015  
(Millions of  
dollars)

Marketable securities purchased	\$(9)	\$(6 )
Marketable securities sold	11	128
Net sales of marketable securities	\$2	\$122

8

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Nine Months Ended September 30 2016 2015 (Millions of dollars)	
Borrowing of loans by equity affiliates	\$(2,271)	\$(149)
Repayment of loans by equity affiliates	76	2
Net borrowing of loans by equity affiliates	\$(2,195)	\$(147)

A loan to Tengizchevroil LLP for the development of the Future Growth and Wellhead Pressure Management Project represents the majority of "Net borrowing of loans by equity affiliates."

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

	Nine Months Ended September 30 2016 2015 (Millions of dollars)	
Purchases of other short-term investments	\$—	\$(55)
Sales of other short-term investments	155	119
Net sales of other short-term investments	\$155	\$64

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

	Nine Months Ended September 30 2016 2015 (Millions of dollars)	
Repayments of short-term obligations	\$(8,415)	\$(10,443)
Proceeds from issuances of short-term obligations	11,695	11,042
Net borrowings of short-term obligations with three months or less maturity	(2,411 )	1,450
Net borrowings of short-term obligations	\$869	\$2,049

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 \$2 million for the first nine months in 2016 and \$1 million for the first nine months in 2015. No purchases were made under the company's share repurchase program in the first nine months of 2016 or 2015.

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

	Nine Months Ended September 30 2016 2015 (Millions of dollars)	
Additions to properties, plant and equipment	\$13,757	\$21,273
Additions to investments	38	382



Edgar Filing: CHEVRON CORP - Form 10-Q

Current year dry hole expenditures	305	400
Capital expenditures	14,100	22,055
Expensed exploration expenditures	370	717
Assets acquired through capital lease obligations	4	44
Capital and exploratory expenditures, excluding equity affiliates	14,474	22,816
Company's share of expenditures by equity affiliates	2,693	2,456
Capital and exploratory expenditures, including equity affiliates	\$17,167	\$25,272

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5. New Accounting Standards

Interest - Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs. Effective January 1, 2016, Chevron adopted ASU 2015-03 on a retrospective basis. The standard requires that debt issuance costs related to a recognized liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability. The effects of retrospective adoption on the December 31, 2015, Consolidated Balance Sheet were reductions of \$43 million in "Deferred charges and other assets," \$1 million in "Short-term debt" and \$42 million in "Long-term debt".

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. "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 continues to evaluate the effect of the standard 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 the company's 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).

Table of Contents

## 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 nine-month periods ended September 30, 2016, and 2015, are presented in the following table:

Segment Earnings	Three Months		Nine Months	
	Ended		Ended	
	September 30		September 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Upstream				
United States	\$(212 )	\$(603 )	\$(2,175 )	\$(2,101 )
International	666	662	(1,292 )	1,501
Total Upstream	454	59	(3,467 )	(600 )
Downstream				
United States	523	1,249	1,307	2,686
International	542	962	1,771	3,904
Total Downstream	1,065	2,211	3,078	6,590
Total Segment Earnings	1,519	2,270	(389 )	5,990
All Other				
Interest expense	(53 )	—	(120 )	—
Interest income	15	16	47	49
Other	(198 )	(249 )	(450 )	(864 )
Net Income (Loss) Attributable to Chevron Corporation	\$1,283	\$2,037	\$(912 )	\$5,175

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 September 30, 2016, and December 31, 2015, are as follows:

Segment Assets	At	At
	September 30, 2016	December 31, 2015
	(Millions of dollars)	
Upstream		
United States <sup>1</sup>	\$42,914	\$46,383
International <sup>1</sup>	163,681	162,030
Goodwill	4,581	4,588
Total Upstream	211,176	213,001
Downstream		
United States <sup>1</sup>	21,416	21,404
International	15,887	14,982
Total Downstream	37,303	36,386
Total Segment Assets	248,479	249,387
All Other		
United States <sup>1,2</sup>	5,125	4,728
International	6,259	10,425

Total All Other	11,384	15,153
Total Assets — United States	69,455	72,515
Total Assets — International	185,827	187,437
Goodwill	4,581	4,588
Total Assets	\$ 259,863	\$ 264,540

<sup>1</sup> 2015 adjusted to conform to ASU 2015-17.

Refer to Note 10, "Income Taxes" beginning on page 14.

<sup>2</sup> 2015 adjusted to conform to ASU 2015-03.

Refer to Note 5, "New Accounting Standards" on page 10.

Table of Contents

## 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 nine-month periods ended September 30, 2016, and 2015, 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.

Sales and Other Operating Revenues	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Upstream				
United States	\$2,847	\$3,207	\$7,386	\$10,089
International	5,927	6,540	16,325	21,163
Subtotal	8,774	9,747	23,711	31,252
Intersegment Elimination — United States	(1,979 )	(2,165 )	(5,120 )	(6,829 )
Intersegment Elimination — International	(2,742 )	(2,774 )	(6,949 )	(9,047 )
Total Upstream	4,053	4,808	11,642	15,376
Downstream				
United States	11,958	13,795	32,841	41,336
International	13,415	14,484	36,262	46,326
Subtotal	25,373	28,279	69,103	87,662
Intersegment Elimination — United States	(4 )	(6 )	(12 )	(20 )
Intersegment Elimination — International	(303 )	(360 )	(762 )	(1,222 )
Total Downstream	25,066	27,913	68,329	86,420
All Other				
United States	280	413	825	1,176
International	10	13	29	30
Subtotal	290	426	854	1,206
Intersegment Elimination — United States	(240 )	(368 )	(724 )	(1,065 )
Intersegment Elimination — International	(10 )	(12 )	(28 )	(26 )
Total All Other	40	46	102	115
Sales and Other Operating Revenues				
United States	15,085	17,415	41,052	52,601
International	19,352	21,037	52,616	67,519
Subtotal	34,437	38,452	93,668	120,120
Intersegment Elimination — United States	(2,223 )	(2,539 )	(5,856 )	(7,914 )
Intersegment Elimination — International	(3,055 )	(3,146 )	(7,739 )	(10,295 )
Total Sales and Other Operating Revenues	\$29,159	\$32,767	\$80,073	\$101,911

## 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.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Nine Months Ended September 30 2016      2015 (Millions of dollars)	
Sales and other operating revenues	\$60,882	\$77,434
Costs and other deductions	63,596	78,116
Net income (loss) attributable to CUSA	(917)	424
	At September 30 2016	At December 31 2015*
	(Millions of dollars)	
Current assets	\$9,872	\$9,097
Other assets	56,004	59,170
Current liabilities	13,268	13,664
Other liabilities	21,992	28,465
Total CUSA net equity	\$30,616	\$26,138
Memo: Total debt	\$9,457	\$14,462

\*2015 adjusted to conform to ASU 2015-17.

## 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:

	Nine Months Ended September 30 2016      2015 (Millions of dollars)	
Sales and other operating revenues	\$7,355	\$10,215
Costs and other deductions	5,172	5,779
Net income attributable to TCO	1,534	3,109

## Note 9. 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 the company and the retirees share the costs. Medical coverage for Medicare-eligible retirees in the company's main U.S. medical plan is secondary to Medicare (including Part D) and the increase to the 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.

13

---



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of net periodic benefit costs for 2016 and 2015 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
(Millions of dollars)				
<b>Pension Benefits</b>				
<b>United States</b>				
Service cost	\$123	\$135	\$370	\$404
Interest cost	95	125	283	376
Expected return on plan assets	(181 )	(195 )	(542 )	(587 )
Amortization of prior service credits	(2 )	(3 )	(6 )	(7 )
Amortization of actuarial losses	84	89	251	267
Settlement losses	162	87	324	195
<b>Total United States</b>	<b>281</b>	<b>238</b>	<b>680</b>	<b>648</b>
<b>International</b>				
Service cost	37	46	120	140
Interest cost	68	68	198	209
Expected return on plan assets	(61 )	(66 )	(184 )	(196 )
Amortization of prior service costs	1	5	11	16
Amortization of actuarial losses	14	19	37	60
Settlement losses	1	—	18	—
<b>Total International</b>	<b>60</b>	<b>72</b>	<b>200</b>	<b>229</b>
<b>Net Periodic Pension Benefit Costs</b>	<b>\$341</b>	<b>\$310</b>	<b>\$880</b>	<b>\$877</b>
<b>Other Benefits*</b>				
Service cost	\$15	\$18	\$45	\$54
Interest cost	32	37	96	112
Amortization of prior service costs	3	3	10	10
Amortization of actuarial losses	5	9	15	26
<b>Net Periodic Other Benefit Costs</b>	<b>\$55</b>	<b>\$67</b>	<b>\$166</b>	<b>\$202</b>

\* 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 September 30, 2016, a total of \$697 million was contributed to employee pension plans (including \$388 million to the U.S. plans.) Total contributions for the full year are currently estimated to be \$800 million (\$400 million for the U.S. plans and \$400 million for the international plans.) The company anticipates it will not make contributions to the primary U.S. pension plan for the remainder of 2016. 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 nine months of 2016, the company contributed \$143 million to its OPEB plans. The company anticipates contributing approximately \$48 million during the remainder of 2016.

**Note 10. Income Taxes**

Taxes on income for the third quarter and first nine months of 2016 benefited earnings by \$0.2 billion and \$1.8 billion, respectively, compared with charges of \$0.7 billion and \$1.8 billion, respectively for the corresponding periods in 2015. The associated effective tax rates (calculated as the amount of Income Tax Expense (Benefit) divided by

Income (Loss) Before Income Tax Expense) for the third quarters of 2016 and 2015 were (17) percent and 26 percent, respectively. For the comparative nine-month periods the effective tax rates were 67 percent and 25 percent, respectively.

Excluding the effects of equity earnings, the effective tax rates for the 2016 and 2015 quarterly periods were (45) percent and 41 percent, respectively, a decrease of 86 percent between periods, and the tax rates for the respective nine-month periods were 44 percent and 46 percent, a decrease of 2 percent between periods. The decrease in the effective tax rate between the quarterly periods primarily resulted from a reduction in statutory tax rates in the United Kingdom in the 2016 quarter and the effects of other one-time tax benefits between quarters. The decrease in the effective tax rate for the nine-month comparative period primarily resulted from the effects between periods of valuation allowances recognized on deferred tax assets and jurisdictional mix, substantially offset by the

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

absence of the 2015 asset sale of the company's interest in Caltex Australia Limited, in addition to the effects of one-time tax benefits and foreign currency remeasurement between periods.

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 September 30, 2016. 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.

Effective January 1, 2016, Chevron early-adopted Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes (ASU 2015-17), on a retrospective basis. The standard provides that all deferred income taxes be classified as noncurrent on the Consolidated Balance Sheet. The prior requirement was to classify most deferred tax assets and liabilities based on the classification of the underlying asset or liability. The effects of retrospective adoption on the December 31, 2015, Consolidated Balance Sheet were reductions of \$917 million in "Prepaid expenses and other current assets," \$603 million in "Deferred charges and other assets," \$996 million in "Federal and other taxes on income," and \$524 million in "Noncurrent deferred income taxes."

#### Note 11. Assets Held For Sale

At September 30, 2016, the company classified \$3.89 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 2015 and the first nine months of 2016 were not material.

#### Note 12. 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 six 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. 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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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 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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. 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. 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 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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

**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 13. 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 10 on page 14 for a discussion of the periods for which tax returns have been audited for the company's major tax jurisdictions.

**Settlement of open tax years**, as well as other tax issues in countries where the company conducts its businesses, are not expected to have a material effect on the consolidated financial position or liquidity of the company and, in the opinion of management, adequate provision has been made for income and franchise taxes for all years under examination or subject to future examination.

**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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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 has appealed the appellate court's decision.

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 14. 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,

20

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 September 30, 2016, and December 31, 2015, is as follows:

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Millions of dollars)

	At September 30, 2016				At December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Marketable Securities	\$321	\$ 321	\$ —	\$ —	-\$310	\$ 310	\$ —	\$ —
Derivatives	9	5	4	—	205	189	16	—
Total Assets at Fair Value	\$330	\$ 326	\$ 4	\$ —	-\$515	\$ 499	\$ 16	\$ —
Derivatives	63	29	34	—	53	47	6	—
Total Liabilities at Fair Value	\$63	\$ 29	\$ 34	\$ —	-\$53	\$ 47	\$ 6	\$ —

**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 September 30, 2016.

**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.

Assets carried at fair value at September 30, 2016, and December 31, 2015, 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 \$7.4 billion and \$11.0 billion at September 30, 2016, and December 31, 2015, 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 September 30, 2016.

Restricted Cash had a carrying/fair value of \$0.9 billion and \$1.1 billion at September 30, 2016, and December 31, 2015, respectively. At September 30, 2016, restricted cash is classified as Level 1 and includes restricted funds related to certain upstream abandonment activities and tax payments, 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 \$31.5 billion and \$25.6 billion at September 30, 2016, and December 31, 2015, respectively. The fair value of long-term debt at September 30, 2016, and December 31, 2015 was \$32.6 billion and \$25.9 billion, respectively. Long-term debt

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

primarily includes corporate issued bonds. The fair value of corporate bonds classified as Level 1 is \$31.8 billion. The fair value of other long-term debt classified as Level 2 is \$0.8 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 September 30, 2016, and December 31, 2015, were not material.

The fair value hierarchy for assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2016, is as follows:

## Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

(Millions of dollars)

	At September 30, 2016				Before-Tax	
	Total	Level 1	Level 2	Level 3	Three Months Ended	Nine Months Ended
Properties, plant and equipment, net (held and used)	\$ 178	\$ —	\$ —	\$ 178	\$ 92	\$ 2,427
Properties, plant and equipment, net (held for sale)	19	—	19	—	4	545
Investments and advances	1	—	—	1	12	230
Total Assets at Fair Value	\$ 198	\$ —	\$ 19	\$ 179	\$ 108	\$ 3,202

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 third quarter 2016.

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 third quarter 2016.

## Note 15. 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.

Derivative instruments measured at fair value at September 30, 2016, and December 31, 2015, 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 September 30 2016	At December 31 2015
Commodity	Accounts and notes receivable, net	\$ 5	\$ 200
Commodity	Long-term receivables, net	4	5
Total Assets at Fair Value		\$ 9	\$ 205



Edgar Filing: CHEVRON CORP - Form 10-Q

Commodity Accounts payable	\$ 57	\$ 51
Commodity Deferred credits and other noncurrent obligations	6	2
Total Liabilities at Fair Value	\$ 63	\$ 53

22

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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)		Gain / (Loss)	
		2016	2015	Three Months Ended September 30	Nine Months Ended September 30
Commodity	Sales and other operating revenues	\$ (23 )	\$ 211	\$(194)	\$59
Commodity	Purchased crude oil and products	4	18	(17 )	19
Commodity	Other income	(3 )	5	(1 )	(6 )
		\$ (22 )	\$ 234	\$(212)	\$72

The table below represents gross and net derivative assets and liabilities subject to netting agreements on the Consolidated Balance Sheet at September 30, 2016, and December 31, 2015.

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 September 30, 2016					
Derivative Assets	\$ 1,266	\$ 1,257	\$ 9	\$	—\$ 9
Derivative Liabilities	\$ 1,320	\$ 1,257	\$ 63	\$	—\$ 63
At December 31, 2015					
Derivative Assets	\$ 2,459	\$ 2,254	\$ 205	\$	—\$ 205
Derivative Liabilities	\$ 2,307	\$ 2,254	\$ 53	\$	—\$ 53

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."

## Note 16. Restructuring and Reorganization Costs

The following table summarizes the accrued severance liability, which is classified as current on the Consolidated Balance Sheet.

	Amounts Before Tax (Millions of dollars)
Balance at January 1, 2016	\$ 293
Accruals/Adjustments	85
Payments	(299 )

Balance at September 30, 2016 \$ 79

Note 17. Accounting for Suspended Exploratory Wells

The capitalized cost of suspended wells at September 30, 2016, was \$3.5 billion, a net increase of \$143 million from year-end 2015. The increase was primarily due to drilling activities, partially offset by well write-offs. During the nine months ended September 30, 2016, \$46 million of exploratory well costs previously capitalized for greater than one year at December 31, 2015, were charged to expense.

23

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

## Third Quarter 2016 Compared with Third Quarter 2015

## Key Financial Results

## Earnings by Business Segment

	Three Months Ended September 30 2016		Nine Months Ended September 30 2015	
	(Millions of dollars)			
Upstream				
United States	\$(212 )	\$(603 )	\$(2,175 )	\$(2,101 )
International	666	662	(1,292 )	1,501
Total Upstream	454	59	(3,467 )	(600 )
Downstream				
United States	523	1,249	1,307	2,686
International	542	962	1,771	3,904
Total Downstream	1,065	2,211	3,078	6,590
Total Segment Earnings	1,519	2,270	(389 )	5,990
All Other	(236 )	(233 )	(523 )	(815 )
Net Income (Loss) Attributable to Chevron Corporation <sup>(1) (2)</sup>	\$1,283	\$2,037	\$(912 )	\$5,175

<sup>(1)</sup> Includes foreign currency effects

\$72    \$394    \$32    \$723

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

Net income attributable to Chevron Corporation for third quarter 2016 was \$1.28 billion (\$0.68 per share — diluted), compared with earnings of \$2.04 billion (\$1.09 per share — diluted) in the corresponding 2015 period. The net loss attributable to Chevron Corporation for the first nine months of 2016 was \$912 million (\$0.49 per share — diluted), compared with earnings of \$5.18 billion (\$2.76 per share — diluted) in the first nine months of 2015.

Upstream earnings in third quarter 2016 were \$454 million compared with \$59 million a year earlier. The improvement was mainly due to lower tax items, operating expenses and depreciation expenses, partially offset by lower crude oil and natural gas realizations. The loss for the first nine months of 2016 was \$3.47 billion compared with a loss of \$600 million a year earlier. The decrease was due to lower crude oil and natural gas realizations and lower gains on asset sales, partially offset by lower operating, exploration and depreciation expenses. In addition, both comparative periods were impacted by an unfavorable change in foreign currency effects.

Downstream earnings in third quarter 2016 were \$1.07 billion compared with \$2.21 billion in the corresponding 2015 period. The decrease was due to lower margins on refined product sales, the absence of third quarter 2015 gains on derivative instruments and lower earnings from the 50 percent-owned Chevron Phillips Chemical Company LLC. Partially offsetting the decrease were lower operating expenses. Earnings for the first nine months of 2016 were \$3.08 billion compared with \$6.59 billion in the corresponding 2015 period. The decrease in the nine-month period was due to lower margins on refined product sales, lower gains on asset sales, lower earnings from the 50 percent-owned Chevron Phillips Chemical Company LLC and an unfavorable change in effects on derivative instruments. Partially offsetting the decrease were lower operating expenses. In addition, both comparative periods were impacted by an unfavorable change in foreign currency effects.

Refer to pages 28 through 31 for additional discussion of results by business segment and “All Other” activities for third quarter and first nine months of 2016 versus the same period in 2015.

Table of Contents

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.

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, reflecting persistently high global crude oil inventories and production. The downturn in the price of crude oil has impacted and, depending upon its duration, will continue to significantly impact the company's results of operations, cash flows, leverage, capital and exploratory investment program and production outlook. A sustained lower price environment was a factor in certain impairments in second quarter 2016, and could result in the impairment or write-off of specific assets in future periods. The company is responding with reductions in operating expenses, including employee reductions, reductions in capital and exploratory expenditures in 2016 and future periods, 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.

Refer to the "Cautionary Statement Relevant to Forward-Looking Information" on page 2 and to "Risk Factors" on pages 21 through 23 of the company's 2015 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. Refer to the "Results of Operations" section beginning on page 28 for discussions of net gains on asset sales during 2016. 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. In recent years, Chevron and the oil and gas industry generally experienced an increase in certain costs that exceeded the general trend of inflation in many areas of the world. As a result of the

decline in prices of crude oil and other commodities since mid-2014, these costs have declined. 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.

Table of Contents

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 \$52 per barrel for the full-year 2015. During 2016, Brent averaged \$46 per barrel in the third quarter, \$42 per barrel for the nine-month period, and ended October at about \$47. The majority of the company's equity crude production is priced based on the Brent benchmark. Prices slipped early in the third quarter amid concerns about the global inventory overhang and growing surplus, but firmed through August and September 2016 as OPEC and non-OPEC producers considered production cuts and disruptions in Nigeria peaked. However, upside price movement remained constrained as a result of ongoing growth in OPEC production from Iran, Saudi Arabia, and Iraq, increasing Russian supplies, and lingering concerns over persistently high crude and product inventories globally.

The WTI price averaged \$49 per barrel for the full-year 2015. During 2016, WTI averaged \$45 per barrel in the third quarter, \$41 per barrel for the nine-month period, and ended October at about \$47. WTI values traded at a discount to Brent throughout much of the third quarter of 2016. Strong refinery runs, easing inventories, and rising imports into the U.S. pressured WTI pricing, while Brent was supported by growing optimism that OPEC action was becoming more likely. However, Brent upside was limited by intermittent inventory overhang of West Africa and North Sea crudes and easing refinery runs in Europe.

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, which are functions of the capacity of refineries that are able to process each as feedstock into high-value light products (motor gasoline, jet fuel, aviation gasoline and diesel fuel). In the third quarter of 2016, the differential contracted in North America as gains in heavy crude values resulted from strong demand from high-conversion refineries, while support for light sweet crude oil pricing was less robust amid rising rig counts and expectations of slowing U.S. production declines. Outside of North America, differentials were steady to slightly contracted as subdued refinery maintenance in Europe dampened demand for light sweet crude in the Atlantic Basin, while rising output from Iran and other Middle East producers continued to pressure heavier, more 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 realizations.)

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 \$2.29 per thousand cubic feet (MCF) for the first nine months of 2016, compared with \$2.80 during the first nine months of 2015. At the end of October 2016, the Henry Hub spot price was \$2.80 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 is investing 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. Approximately 85 percent of the equity LNG offtake from the operated Australian LNG projects is targeted to be sold into binding long-term contracts, with the remainder to be sold in the Asian spot



Table of Contents

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 realizations averaged \$4.01 per MCF during the first nine months of 2016, compared with \$4.73 per MCF in the same period last year. (See page 33 for the company's average natural gas realizations for the U.S. and international regions.)

The company's worldwide net oil-equivalent production in the first nine months of 2016 averaged 2.569 million barrels per day. About one-fourth of the company's net oil-equivalent production in the first nine months of 2016 occurred in the OPEC-member countries of Angola, Indonesia, Nigeria and Venezuela. OPEC quotas had no effect on the company's net crude oil production for the third quarter of 2016 or 2015.

The company estimates that net oil-equivalent production for the full-year 2016 will be approximately 2.6 million barrels per day. Estimated full-year production has been unfavorably impacted by the continued shut-in of production in the Partitioned Zone, start-up issues at the Gorgon Project and the effect of other external events. This estimate is subject to many factors and uncertainties, including the duration of the low price environment that began in second-half 2014; 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 upstream projects generally 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 November 2016, 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 were not significant and are not expected to be significant in 2016.

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.



Table of Contents

## Operating Development

Noteworthy operating developments in recent months included the following:

▲Australia — Achieved start-up of Train 2 at the Gorgon Project.

## 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		Nine Months	
Ended		Ended	
September 30		September 30	
2016	2015	2016	2015
(Millions of dollars)			

U.S. Upstream Earnings \$(212) \$(603) \$(2,175) \$(2,101)

U.S. upstream incurred a loss of \$212 million in third quarter 2016 compared with a loss of \$603 million from a year ago. The improvement was due to lower operating and depreciation expenses of \$290 million and lower tax items of \$160 million. Partially offsetting these effects were lower crude oil realizations of \$130 million.

U.S. upstream incurred a loss of \$2.18 billion for the first nine months of 2016, compared with a loss of \$2.10 billion from a year earlier. The decrease in earnings was primarily due to lower crude oil and natural gas realizations of \$1.0 billion and \$100 million, respectively. Partially offsetting this decrease were lower depreciation expense of \$450 million, lower operating expense of \$360 million and lower tax items of \$220 million.

The average realization per barrel for U.S. crude oil and natural gas liquids in third quarter 2016 was \$37, down from \$42 a year ago. The average nine-month realization per barrel for U.S. crude oil and natural gas liquids was \$33 in 2016, compared to \$45 a year earlier. The average natural gas realization in third quarter 2016 was \$1.89 per thousand cubic feet, compared with \$1.96 in 2015. The average nine-month natural gas realization was \$1.47 per thousand cubic feet in 2016 and \$2.05 in 2015.

Net oil-equivalent production of 698,000 barrels per day in third quarter 2016 was down 32,000 barrels per day, or 4 percent, from a year earlier. Production increases from shale and tight properties in the Permian Basin in Texas and New Mexico, base business in the Gulf of Mexico and San Joaquin Valley, and the Jack/St. Malo major capital project were more than offset by the effect of asset sales, normal field declines and maintenance-related downtime. Net oil-equivalent production of 694,000 barrels per day in the first nine months of 2016 was down 26,000 barrels per day, or 4 percent from a year earlier. Production increases from shale and tight properties in the Permian Basin in Texas and New Mexico, and the base business in the Gulf of Mexico and San Joaquin Valley, were more than offset by the effect of asset sales and normal field declines.

The net liquids component of oil-equivalent production of 519,000 barrels per day in third quarter 2016 was up 3 percent from the corresponding 2015 period. The net liquids component of oil-equivalent production of 503,000 barrels per day in the 2016 nine-month period was essentially unchanged from the 2015 period. Net natural gas production was 1.08 billion cubic feet per day in third quarter 2016, a decrease of 20 percent from the 2015 comparative period, primarily as a result of asset sales. Net natural gas production was 1.14 billion cubic feet per day in the nine-month period, a decrease of 12 percent from the 2015 period, primarily as a result of asset sales.

Table of Contents

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
International Upstream Earnings*	\$666	\$662	\$(1,292)	\$1,501

\* Includes foreign currency effects \$85 \$258 \$116 \$634

International upstream operations earned \$666 million in third quarter 2016 compared with earnings of \$662 million a year ago. The increase in earnings was due to lower tax and operating expenses of \$350 million and \$180 million, respectively, and higher natural gas sales of \$120 million, partially offset by lower crude oil and natural gas realizations of \$240 million and \$170 million, respectively. Foreign currency effects increased earnings by \$85 million in the 2016 quarter, compared with an increase of \$258 million a year earlier.

The loss for the first nine months of 2016 was \$1.29 billion, compared with earnings of \$1.50 billion from a year earlier. The decrease in earnings was due to lower crude oil realizations of \$2.27 billion along with lower natural gas realizations of \$530 million, and lower gains on asset sales of \$380 million. Partially offsetting the decrease were lower exploration and operating expenses of \$570 million and \$340 million, respectively. Foreign currency effects increased earnings by \$116 million in the first nine months of 2016, compared with an increase of \$634 million a year earlier.

The average realization per barrel of crude oil and natural gas liquids in third quarter 2016 was \$41, compared with \$45 a year earlier. The average realization per barrel of crude oil and natural gas liquids in the first nine months of 2016 was \$37, compared with \$49 a year earlier. The average natural gas realization in third quarter 2016 was \$4.18 per thousand cubic feet, compared with \$4.68 in the 2015 period. The average natural gas realization in the first nine months of 2016 was \$4.01 per thousand cubic feet, compared with \$4.73 in the 2015 period.

International net oil-equivalent production of 1.82 million barrels per day in third quarter 2016 was up 6,000 barrels per day, essentially unchanged from a year ago. Production increases from major capital projects, shale and tight properties, and base business in multiple areas were largely offset by normal field declines, a major planned turnaround at Tengizchevroil, the effects of civil unrest in Nigeria and production entitlement effects in several locations.

International net oil-equivalent production of 1.88 million barrels per day in the first nine months of 2016 was down 10,000 barrels per day, or 1 percent, from the corresponding 2015 period. Production increases from major capital projects, base business, and shale and tight properties were more than offset by the Partitioned Zone shut-in, normal field declines and the effects of civil unrest in Nigeria.

The net liquids component of oil-equivalent production of 1.14 million barrels per day in third quarter 2016 decreased 3 percent from the 2015 period. The net liquids component of oil-equivalent production of 1.21 million barrels per day in the first nine months of 2016 decreased 2 percent from the corresponding 2015 period. Net natural gas production of 4.04 billion cubic feet per day in third quarter 2016 increased 6 percent from the 2015 period. Net natural gas production of 4.01 billion cubic feet per day in the first nine months of 2016 increased 2 percent from the 2015 period.

## Downstream

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015

(Millions of dollars)

U.S. Downstream Earnings \$523 \$1,249 \$1,307 \$2,686

U.S. downstream operations earned \$523 million in third quarter 2016 compared with earnings of \$1.25 billion a year earlier. The decrease in earnings was primarily due to lower margins on refined product sales of \$530 million and lower earnings from the 50 percent-owned Chevron Phillips Chemicals Company LLC of \$180 million.

Table of Contents

Earnings for the first nine months of 2016 were \$1.31 billion compared to \$2.69 billion a year earlier. The decrease was due to lower margins on refined product sales of \$1.0 billion, lower earnings from the 50 percent-owned Chevron Phillips Chemicals Company LLC of \$340 million and an asset impairment of \$110 million. Partially offsetting this decrease are lower operating expenses of \$90 million and higher gains on asset sales of \$80 million.

Refinery crude oil input in third quarter 2016 increased 3 percent to 970,000 barrels per day from the year-ago period. For the first nine months of 2016, crude oil input was 960,000 barrels per day, up 4 percent from the corresponding 2015 period.

Refined product sales of 1.24 million barrels per day were essentially unchanged from third quarter 2015. Branded gasoline sales of 550,000 barrels per day were up 3 percent from the 2015 period. Sales of 1.24 million barrels per day in the nine month period were up 1 percent, primarily due to higher jet fuel sales. Branded gasoline sales of 535,000 barrels per day for the first nine months were up 2 percent from the corresponding 2015 period.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
International Downstream Earnings*	\$542	\$962	\$1,771	\$3,904

\* Includes foreign currency effects \$(4 ) \$141 \$(78 ) \$92

International downstream operations earned \$542 million in third quarter 2016 compared with \$962 million a year earlier. The decrease in earnings was primarily due to the absence of third quarter 2015 gains on derivative instruments of \$210 million. Lower margins on refined product sales of \$110 million also contributed to the decline, partially offset by lower operating expenses of \$50 million. Foreign currency effects decreased earnings by \$4 million in the 2016 quarter, compared with an increase of \$141 million from a year earlier.

Earnings for the first nine months of 2016 were \$1.77 billion compared with \$3.90 billion a year earlier. The decrease in earnings was primarily due to the absence of a \$1.6 billion gain from the sale of the company's interest in Caltex Australia Limited in 2015, partially offset by 2016 asset sales gains of \$420 million. Lower margins on refined product sales of \$570 million along with an unfavorable change in effects on derivative instruments of \$270 million also contributed to the decline. Partially offsetting these decreases were lower operating expenses of \$210 million. Foreign currency effects decreased earnings by \$78 million in the first nine months of 2016, compared with increases of \$92 million from a year earlier.

Refinery crude oil input of 790,000 barrels per day in third quarter 2016 increased 2 percent from the year-ago period. For the first nine months of 2016, crude input was 784,000 barrels per day, essentially unchanged from the year-ago period.

Total refined product sales of 1.47 million barrels per day in third quarter 2016 were down 2 percent from the year-ago period due to lower fuel oil and jet fuel sales. Sales of 1.45 million barrels per day in the first nine months of 2016 were down 4 percent from the corresponding 2015 period. Excluding the effects of the Caltex Australia Limited divestment, refined product sales were down 2 percent, primarily reflecting lower fuel oil sales.

All Other

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Net Charges*	\$(236)	\$(233)	\$(523)	\$(815)

\* Includes foreign currency effects \$(9 ) \$(5 ) \$(6 ) \$(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 third quarter 2016 were \$236 million, compared with \$233 million a year earlier. The change between periods was mainly due to higher corporate charges and interest expense, offset by lower tax items. Foreign currency effects increased net charges by \$9 million in third quarter 2016, compared to a \$5 million

Table of Contents

increase in the 2015 period. Net charges for the first nine months of 2016 were \$523 million, compared with \$815 million a year earlier. The change between periods was mainly due to lower tax items and the absence of 2015 charges related to reductions in corporate staffs, partially offset by higher corporate charges and interest expense. Foreign currency effects increased net charges by \$6 million for the first nine months of 2016, compared to a \$3 million increase in net charges in the 2015 period.

## Consolidated Statement of Income

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

Three Months		Nine Months	
Ended		Ended	
September 30		September 30	
2016	2015	2016	2015

(Millions of dollars)

Sales and other operating revenues \$29,159 \$32,767 \$80,073 \$101,911

Sales and other operating revenues decreased \$3.6 billion for the quarterly period, and \$21.8 billion for the nine-month period, due to lower refined product and crude oil prices, partially offset by higher crude oil volumes.

Three		Nine Months	
Months		Ended	
Ended		September 30	
September 30		September 30	
2016	2015	2016	2015

(Millions of dollars)

Income from equity affiliates \$555 \$1,195 \$1,883 \$3,765

Income from equity affiliates in the quarterly period decreased mainly due to lower upstream-related earnings from Tengizchevroil in Kazakhstan, and lower downstream-related earnings from GS Caltex in South Korea and CPChem. Income from equity affiliates in the nine-month period decreased mainly due to lower upstream-related earnings from Tengizchevroil in Kazakhstan, and lower downstream-related earnings from CPChem and GS Caltex in South Korea.

Three		Nine Months	
Months		Ended	
Ended		September 30	
September 30		September 30	
2016	2015	2016	2015

(Millions of dollars)

Other income \$426 \$353 \$1,019 \$3,554

Other income for the quarterly period increased due to higher gains on asset sales and a legal settlement, partially offset by an unfavorable swing in foreign currency effects. The nine-month period decreased due to lower gains on asset sales and an unfavorable swing in foreign currency effects.

Three Months		Nine Months	
Ended		Ended	
September 30		September 30	
2016	2015	2016	2015

(Millions of dollars)

Purchased crude oil and products \$15,842 \$17,447 \$42,345 \$55,181

Purchases decreased \$1.6 billion for the quarterly period primarily due to lower refined product and crude oil prices, partially offset by higher crude oil volumes. The nine-month period decreased \$12.8 billion primarily due to lower crude oil and refined product prices, partially offset by higher crude oil volumes.



Edgar Filing: CHEVRON CORP - Form 10-Q

Three Months		Nine Months	
Ended		Ended	
September 30		September 30	
2016	2015	2016	2015

(Millions of dollars)

Operating, selling, general and administrative expenses	\$5,775	\$6,618	\$18,264	\$20,204
---	---------	---------	----------	----------

Operating, selling, general and administrative expenses decreased \$843 million between quarterly periods due to lower employee, transportation, contract labor, professional services, and materials and supplies expenses.

Expenses decreased \$1.9 billion between nine-month periods primarily due to lower employee, transportation, contract labor, professional services, fuel, and materials and supplies expenses.

Table of Contents

Three Months Ended September 30 2016	2015	2016	2015
(Millions of dollars)			

Exploration expenses	\$258	\$315	\$842	\$1,982
----------------------	-------	-------	-------	---------

The decrease in exploration expenses for the quarterly period was primarily due to lower geological and geophysical expenses, partially offset by higher charges for well write-offs. The decrease in the nine-month period was primarily due to significantly lower charges for well write-offs, and lower geological and geophysical expenses.

Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
(Millions of dollars)			

Depreciation, depletion and amortization	\$4,130	\$4,268	\$15,254	\$15,637
---	---------	---------	----------	----------

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

Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
(Millions of dollars)			

Taxes other than on income	\$2,962	\$2,883	\$8,799	\$9,174
----------------------------	---------	---------	---------	---------

Taxes other than on income increased in the quarterly period due to higher fuels taxes. The decrease in the nine-month period was primarily due to lower product and crude oil prices, and the divestment of the Pakistan fuels business at the end of June 2015.

Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
(Millions of dollars)			

Income tax expense (benefit)	\$(192)	\$727	\$(1,803)	\$1,787
------------------------------	---------	-------	-----------	---------

The decline in income tax expense (benefit) of \$919 million in the quarterly period, and \$3,590 million for the nine-month period, is in-line with the decline in total income (loss) before income tax expense, which is primarily due to the effects of lower crude oil prices. Refer also to the discussion of the effective income tax rate in Note 10.

Table of Contents

## Selected Operating Data

The following table presents a comparison of selected operating data:

Selected Operating Data <sup>(1)(2)</sup>

	Three Months Ended September 30 2016		Nine Months Ended September 30 2015	
U.S. Upstream				
Net crude oil and natural gas liquids production (MBPD)	519	505	503	502
Net natural gas production (MMCFPD) <sup>(3)</sup>	1,077	1,351	1,144	1,307
Net oil-equivalent production (MBOEPD)	698	730	694	720
Sales of natural gas (MMCFPD)	3,263	3,896	3,408	3,937
Sales of natural gas liquids (MBPD)	37	26	29	25
Revenue from net production				
Liquids (\$/Bbl)	\$36.88	\$41.98	\$33.16	\$45.17
Natural gas (\$/MCF)	\$1.89	\$1.96	\$1.47	\$2.05
International Upstream				
Net crude oil and natural gas liquids production (MBPD) <sup>(4)</sup>	1,142	1,173	1,207	1,231
Net natural gas production (MMCFPD) <sup>(3)</sup>	4,036	3,814	4,009	3,923
Net oil-equivalent production (MBOEPD) <sup>(4)</sup>	1,815	1,809	1,875	1,885
Sales of natural gas (MMCFPD)	4,306	4,105	4,455	4,225
Sales of natural gas liquids (MBPD)	21	22	23	24
Revenue from liftings				
Liquids (\$/Bbl)	\$41.08	\$44.85	\$36.64	\$49.05
Natural gas (\$/MCF)	\$4.18	\$4.68	\$4.01	\$4.73
U.S. and International Upstream				
Total net oil-equivalent production (MBOEPD) <sup>(4)</sup>	2,513	2,539	2,569	2,605
U.S. Downstream				
Gasoline sales (MBPD) <sup>(5)</sup>	653	637	638	624
Other refined product sales (MBPD)	591	609	601	604
Total refined product sales (MBPD)	1,244	1,246	1,239	1,228
Sales of natural gas liquids (MBPD)	127	138	116	127
Refinery input (MBPD)	970	942	960	925
International Downstream				
Gasoline sales (MBPD) <sup>(5)</sup>	378	325	361	345
Other refined product sales (MBPD)	700	762	716	752
Share of affiliate sales (MBPD)	391	416	374	422
Total refined product sales (MBPD)	1,469	1,503	1,451	1,519
Sales of natural gas liquids (MBPD)	46	57	59	66
Refinery input (MBPD)	790	777	784	778

<sup>(1)</sup> Includes company share of equity affiliates.

<sup>(2)</sup> 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.

<sup>(3)</sup> Includes natural gas consumed in operations (MMCFPD):

United States	46	64	61	66
---------------	----	----	----	----

Edgar Filing: CHEVRON CORP - Form 10-Q

International	435	412	431	429
(4) Includes net production of synthetic oil:				
Canada	58	56	50	45
Venezuela affiliate	29	29	28	29
(5) Includes branded and unbranded gasoline.				

Table of Contents**Liquidity and Capital Resources**

Cash, cash equivalents and marketable securities totaled \$7.7 billion at September 30, 2016, down \$3.7 billion from year-end 2015. Cash provided by operating activities in the first nine months of 2016 was \$9.0 billion, compared with \$14.9 billion in the year-ago period, reflecting lower crude prices. Cash capital and exploratory expenditures totaled \$14.5 billion in the first nine months of 2016, down \$8.3 billion from the year-ago period, reflecting lower activity.

**Dividends** The company paid dividends of \$6.0 billion to common shareholders during the first nine months of 2016. In October 2016, the company increased its quarterly dividend by \$0.01 per share to \$1.08 per common share, payable in December 2016.

**Debt and Capital Lease Obligations** Chevron's total debt and capital lease obligations were \$45.6 billion at September 30, 2016, up from \$38.5 billion at December 31, 2015.

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 September 30, 2016 was \$9.2 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 \$14.1 billion at September 30, 2016, and \$12.9 billion at December 31, 2015. Of these amounts, \$8.0 billion was reclassified to long-term at both September 30, 2016, and December 31, 2015. At September 30, 2016, 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 September 30, 2016, the company had \$8.0 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 \$6.0 billion and can be renewed for an additional 364-day period or the company can convert any amounts outstanding into a term loan for a period of up to one year, and a \$2.0 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 September 30, 2016. 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 or through the first nine months of 2016, 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 purchased 180.9 million shares for \$20.0 billion.

**Noncontrolling Interests** The company had noncontrolling interests of \$1.2 billion at both September 30, 2016, and December 31, 2015. Distributions to noncontrolling interests totaled \$57 million during the first nine months of 2016

compared to \$122 million for the same period in 2015.

34

---

Table of Contents

**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 1.2 at September 30, 2016, and 1.4 at December 31, 2015, respectively. The current ratio is adversely affected by the fact that Chevron's inventories are valued on a last-in, first-out basis. At September 30, 2016, 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 23.7 percent at September 30, 2016, and 20.2 percent at year-end 2015.

**Pension Obligations** Information related to pension plan contributions is included on pages 13 in Note 9 to the Consolidated Financial Statements.

**Capital and Exploratory Expenditures** Total expenditures, including the company's share of spending by affiliates, were \$17.2 billion in the first nine months of 2016, compared with \$25.3 billion in the corresponding 2015 period.

The amounts included the company's share of affiliates' expenditures of \$2.7 billion and \$2.5 billion in the 2016 and 2015 periods, respectively, which did not require cash outlays by the company. Expenditures for upstream projects in the first nine months of 2016 were \$15.6 billion, representing 91 percent of the companywide total.

**Capital and Exploratory Expenditures by Major Operating Area**

	Three Months		Nine Months	
	Ended		Ended	
	September 30		September 30	
	2016	2015	2016	2015
	(Millions of dollars)			
United States				
Upstream	\$990	\$1,718	\$3,470	\$5,912
Downstream	357	566	1,110	1,382
All Other	62	96	137	247
Total United States	1,409	2,380	4,717	7,541
International				
Upstream	3,649	5,475	12,157	17,431
Downstream	115	109	290	298
All Other	2	1	3	2
Total International	3,766	5,585	12,450	17,731
Worldwide	\$5,175	\$7,965	\$17,167	\$25,272

**Contingencies and Significant Litigation**

**MTBE** Information related to methyl tertiary butyl ether (MTBE) matters is included on page 15 in Note 12 to the Consolidated Financial Statements under the heading "MTBE."

**Ecuador** Information related to Ecuador matters is included beginning on page 15 in Note 12 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 10 and page 19 in Note 13 to the Consolidated Financial Statements under the heading "Income Taxes."

**Guarantees** Information related to the company's guarantees is included on page 19 in Note 13 to the Consolidated Financial Statements under the heading "Guarantees."

**Indemnifications** Information related to indemnifications is included on pages 19 and 20 in Note 13 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 13 to the Consolidated Financial Statements under the heading "Off-Balance-Sheet Obligations."

**Environmental** Information related to environmental matters is included on page 20 in Note 13 to the Consolidated Financial Statements under the heading "Environmental."

**Other Contingencies** Information related to the company's other contingencies is included on page 20 in Note 13 to the Consolidated Financial Statements under the heading "Other Contingencies."





Table of Contents

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the three months ended September 30, 2016, does not differ materially from that discussed under Item 7A of Chevron's 2015 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 September 30, 2016.

## (b) Changes in internal control over financial reporting

During the quarter ended September 30, 2016, 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

Information related to legal proceedings, including Ecuador, is included beginning on page 15 in Note 12 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 September 30, 2016, does not differ materially from that set forth under the heading "Risk Factors" on pages 21 through 23 of the company's 2015 Annual Report on Form 10-K.

## 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)
July 1 – July 31, 2016	7,698	\$ 104.14	—	
August 1 – August 31, 2016	—		—	
September 1 – September 30, 2016	—		—	
Total	7,698	\$ 104.14	—	

(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 through open market purchases or in

negotiated transactions at prevailing prices, as permitted by securities laws and other legal requirements and subject to market conditions and other factors. As of December 31, 2014, 180,886,291 shares had been acquired under this program (some pursuant to Rule 10b5-1 plans 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 through the first nine months of 2016, and the company does not plan to acquire any shares under the program for the remainder of the year.

Table of Contents

Item 4. Mine Safety Disclosures

As of December 24, 2015, Chevron no longer owns or operates mines for which reporting requirements apply under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Item 5. Other Information

Rule 10b5-1 Plan Elections

John S. Watson, Chairman and Chief Executive Officer, entered into a pre-arranged stock trading plan in August 2016. Mr. Watson's plan provides for the potential exercise of vested, soon-to-expire stock options and the associated sale of up to 125,000 shares of Chevron common stock in March 2017.

Pierre R. Breber, Executive Vice President, Downstream & Chemicals, also entered into a pre-arranged stock trading plan in August 2016. Mr. Breber's plan provides for the potential exercise of vested stock options and the associated sale of up to 23,000 shares of Chevron common stock between November 2016 and August 2017.

Both trading plans were entered into during an open insider trading window and are intended to satisfy Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended, and Chevron's policies regarding transactions in Chevron securities.

Item 6. Exhibits

Exhibit Number	Description
(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."

Table of Contents

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: November 3, 2016

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
(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."

---

\* 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.