Chevron

video transcript

CFO perspective: 2017 in review

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Chief Financial Officer
The last three years have been quite challenging for the global energy industry and for Chevron, as well. Starting in mid-2014, we saw global energy prices drop by nearly two-thirds, and they did so in a very short period of time. From highs of nearly $100 or more in the years leading up to 2014, we have spent the last three years with oil prices averaging between $44 a barrel and $54 a barrel. Chevron responded very decisively to a lower price environment, starting back in 2015. Our focus has been on bringing projects online that were under construction, on lowering our cost structure, and on balancing our cash flows. And by that I mean balancing the cash going out with the cash coming in.

Against this backdrop, Chevron reported solid financial and operating results in 2017. We reported net income of $9.2 billion, cash generated from operations was $20.5 billion, and, importantly, overall net cash generation was $5.2 billion. We had set ourselves a target at the beginning of the year of getting cash balanced, and again, this is cash coming in equaling cash going out, including the use of asset sale proceeds, but actually, by the end of the year, we were able to achieve that cash balance without having to rely on asset sale proceeds.

We had several other operating and financial highlights over the course of the year. Our overall capital budget came in $18.8 billion, which was about a billion dollars lower than we had planned at the beginning of the year. Our activity levels were generally the same, but we were able to achieve those outcomes with lower investment. That means our capital efficiency was better, which is a good thing. Operating expenses continued to come down, several years running now. And, in 2017, we were able to continue this momentum, despite having a year-over-year production increase of 5%.

We continued to bring on several projects over the course of the year, most notably our LNG projects in Australia. By the end of the year, we had four LNG trains on, and the fifth and final train is expected to be on by mid-2018. In the Permian Basin, in the U.S., in particular our shale and tight production operations, we continue to see performance improvements. Our development cost came down, our capital efficiency got better, and we grew production there by 35% year over year.

We recorded a 155% reserve replacement ratio in 2017, which is an important metric as we consider the sustainability of our resource base. And, finally, we strengthened our balance sheet during 2017, ending the year with a 21% debt ratio. We have one of the strongest balance sheets in the industry. Our number one financial priority is to sustain and grow the dividend. This hasn't changed. 2017 marks the 30th constructive year where we have grown annual dividend per share payouts.

Our compounded annual growth rate over the last 10 years has been about 7%, which compares quite nicely to the S&P composite. Given our financial and operating performance in 2017 and our outlook for the years ahead, we declared a 4%

dividend increase in January of this year. That will put Chevron on track for posting 31 consecutive annual dividend payout increases. That's an impressive performance and one we're very proud of.

We entered 2018 with a number of advantages. First around portfolio, our Upstream assets are highly competitive, they're long-lived, and many of them are low decline. Our Downstream & Chemicals business produce high returns. And we have both the investment opportunities and the resource base in front of us at relatively low levels of capital expenditures to continue to create value for our shareholders. And, finally, we have a strong balance sheet.

We intend to capitalize on these strengths in a number of ways. First, continuing to lower our cost structure. Secondly, seeing expanded cash margins as well as production increases in the Upstream. Third, continuing to invest in only the best-return projects, being returns focused on our investment profile. Fourth, optimizing our portfolio. And, lastly, running our installed asset base reliably, safely, efficiently as we can. When we execute on these objectives, that should put us in a position to generate additional cash, to support future dividend growth, and create further value for you, our shareholders.