

CHEVRON CORP
Form 10-Q
August 04, 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 June 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 June 30, 2016

Common stock, \$.75 par value 1,886,520,448

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

This quarterly report on Form 10-Q of Chevron Corporation contains forward-looking statements relating to Chevron’s operations that are based on management’s current expectations, estimates and projections about the petroleum, chemicals and other energy-related industries. Words or phrases such as “anticipates,” “expects,” “intends,” “plans,” “targets,” “forecasts,” “projects,” “believes,” “seeks,” “schedules,” “estimates,” “positions,” “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.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$27,844	\$ 36,829	\$50,914	\$ 69,144
Income from equity affiliates	752	1,169	1,328	2,570
Other income	686	2,359	593	3,201
Total Revenues and Other Income	29,282	40,357	52,835	74,915
Costs and Other Deductions				
Purchased crude oil and products	15,278	20,541	26,503	37,734
Operating expenses	5,054	6,077	10,458	11,472
Selling, general and administrative expenses	1,033	1,170	2,031	2,114
Exploration expenses	214	1,075	584	1,667
Depreciation, depletion and amortization	6,721	6,958	11,124	11,369
Taxes other than on income*	2,973	3,173	5,837	6,291
Interest and debt expense	79	—	79	—
Total Costs and Other Deductions	31,352	38,994	56,616	70,647
Income (Loss) Before Income Tax Expense	(2,070)	1,363	(3,781)	4,268
Income Tax Expense (Benefit)	(607)	755	(1,611)	1,060
Net Income (Loss)	(1,463)	608	(2,170)	3,208
Less: Net income attributable to noncontrolling interests	7	37	25	70
Net Income (Loss) Attributable to Chevron Corporation	\$(1,470)	\$ 571	\$(2,195)	\$ 3,138
Per Share of Common Stock:				
Net Income (Loss) Attributable to Chevron Corporation				
— Basic	\$(0.78)	\$ 0.30	\$(1.17)	\$ 1.68
— Diluted	\$(0.78)	\$ 0.30	\$(1.17)	\$ 1.67
Dividends	\$1.07	\$ 1.07	\$2.14	\$ 2.14
Weighted Average Number of Shares Outstanding (000s)				
— Basic	1,871,995	1,867,561	1,870,885	1,867,110
— Diluted	1,871,995	1,876,705	1,870,885	1,876,603
* Includes excise, value-added and similar taxes:	1,784	1,965	\$3,436	\$ 3,842

See accompanying notes to consolidated financial statements.

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

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Net Income (Loss)	\$(1,463)	\$608	\$(2,170)	\$3,208
Currency translation adjustment	(7)	6	2	(19)
Unrealized holding gain on securities:				
Net gain arising during period	1	(8)	10	(6)
Defined benefit plans:				
Actuarial loss:				
Amortization to net income of net actuarial and settlement losses	198	174	379	344
Actuarial loss arising during period	(14)	8	(14)	—
Prior service cost:				
Amortization to net income of net prior service costs	8	8	13	14
Defined benefit plans sponsored by equity affiliates	5	14	14	27
Income tax expense on defined benefit plans	(73)	(73)	(145)	(152)
Total	124	131	247	233
Other Comprehensive Gain, Net of Tax	118	129	259	208
Comprehensive Income (Loss)	(1,345)	737	(1,911)	3,416
Comprehensive income attributable to noncontrolling interests	(7)	(37)	(25)	(70)
Comprehensive Income (Loss) Attributable to Chevron Corporation	\$(1,352)	\$700	\$(1,936)	\$3,346

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	At June 30 2016	At December 31 2015	
	(Millions of dollars, except per-share amounts)		
ASSETS			
Cash and cash equivalents	\$ 8,764	\$ 11,022	
Marketable securities	320	310	
Accounts and notes receivable, net	13,490	12,860	
Inventories			
Crude oil and petroleum products	3,680	3,535	
Chemicals	431	490	
Materials, supplies and other	2,316	2,309	
Total inventories	6,427	6,334	
Prepaid expenses and other current assets ¹	3,470	3,904	
Total Current Assets	32,471	34,430	
Long-term receivables, net	2,469	2,412	
Investments and advances	27,740	27,110	
Properties, plant and equipment, at cost	339,081	340,277	
Less: Accumulated depreciation, depletion and amortization	154,396	151,881	
Properties, plant and equipment, net	184,685	188,396	
Deferred charges and other assets ^{1, 2}	6,316	6,155	
Goodwill	4,581	4,588	
Assets held for sale	3,216	1,449	
Total Assets	\$ 261,478	\$ 264,540	
LIABILITIES AND EQUITY			
Short-term debt ²	\$ 5,530	\$ 4,927	
Accounts payable	13,416	13,516	
Accrued liabilities	4,458	4,833	
Federal and other taxes on income ¹	490	1,073	
Other taxes payable	1,033	1,118	
Total Current Liabilities	24,927	25,467	
Long-term debt ²	39,487	33,542	
Capital lease obligations	68	80	
Deferred credits and other noncurrent obligations	22,712	23,465	
Noncurrent deferred income taxes ¹	18,342	20,165	
Noncurrent employee benefit plans	7,617	7,935	
Total Liabilities	113,153	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 June 30, 2016, and December 31, 2015)	1,832	1,832	
Capital in excess of par value	16,436	16,330	
Retained earnings	175,379	181,578	
Accumulated other comprehensive loss	(4,032) (4,291)
Deferred compensation and benefit plan trust	(240) (240)
	(42,212) (42,493)

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Treasury stock, at cost (556,156,132 and 559,862,580 shares at June 30, 2016,
and

December 31, 2015, respectively)

Total Chevron Corporation Stockholders' Equity	147,163	152,716
Noncontrolling interests	1,162	1,170
Total Equity	148,325	153,886
Total Liabilities and Equity	\$ 261,478	\$ 264,540

¹ 2015 adjusted to conform to ASU 2015-17. Refer to Note 9, "Income Taxes" beginning on page 13.

² 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.

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

	Six Months Ended June 30	
	2016	2015
	(Millions of dollars)	
Operating Activities		
Net Income (Loss)	\$(2,170)	\$3,208
Adjustments		
Depreciation, depletion and amortization	11,124	11,369
Dry hole expense	334	1,160
Distributions less than income from equity affiliates	(486)	(183)
Net before-tax gains on asset retirements and sales	(661)	(3,045)
Net foreign currency effects	302	101
Deferred income tax provision	(2,240)	(727)
Net increase in operating working capital	(2,091)	(2,025)
Increase in long-term receivables	(33)	(89)
Net decrease in other deferred charges	52	42
Cash contributions to employee pension plans	(551)	(386)
Other	92	114
Net Cash Provided by Operating Activities	3,672	9,539
Investing Activities		
Capital expenditures	(10,035)	(15,245)
Proceeds and deposits related to asset sales	1,370	4,877
Net maturities of time deposits	—	8
Net sales of marketable securities	2	64
Net borrowing of loans by equity affiliates	(158)	(96)
Net sales of other short-term investments	155	71
Net Cash Used for Investing Activities	(8,666)	(10,321)
Financing Activities		
Net borrowings (repayments) of short-term obligations	359	(1,920)
Proceeds from issuance of long-term debt	6,926	5,989
Repayments of long-term debt and other financing obligations	(780)	(15)
Cash dividends — common stock	(4,002)	(3,994)
Distributions to noncontrolling interests	(24)	(26)
Net sales of treasury shares	262	138
Net Cash Provided by Financing Activities	2,741	172
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(5)	(19)
Net Change in Cash and Cash Equivalents	(2,258)	(629)
Cash and Cash Equivalents at January 1	11,022	12,785
Cash and Cash Equivalents at June 30	\$8,764	\$12,156

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Interim Financial Statements

The accompanying consolidated financial statements of Chevron Corporation and its subsidiaries (the company) have not been audited by an independent registered public accounting firm. In the opinion of the company's management, the interim data includes all adjustments necessary for a fair statement of the results for the interim periods. These adjustments were of a normal recurring nature. The results for the three- and six-month periods ended June 30, 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 six months ending June 30, 2016, are reflected in the table below.

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

(Millions of Dollars)

	Six Months Ended June 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	2	10	—	3	15
Reclassifications ⁽²⁾	—	—	—	244	244
Net Other Comprehensive Income (Loss)	2	10	—	247	259
Balance at June 30	\$(138)	\$ (19)	\$ (2)	\$(3,873)	\$(4,032)

⁽¹⁾ All amounts are net of tax.

⁽²⁾ Refer to Note 10, Employee Benefits for reclassified components totaling \$392 million that are included in employee benefit costs for the six months ending June 30, 2016. Related income taxes for the same period, totaling \$148 million, are reflected in Income Tax Expense on the Consolidated Statement of Income. All other reclassified amounts were insignificant.

Note 3. Noncontrolling Interests

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

Activity for the equity attributable to noncontrolling interests for the first six months of 2016 and 2015 is as follows:

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

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	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)	(2,195)	25	(2,170)	3,138	70	3,208
Dividends	(4,004)	—	(4,004)	(3,996)	—	(3,996)
Distributions to noncontrolling interests	—	(24)	(24)	—	(26)	(26)
Treasury shares, net	281	—	281	158	—	158
Other changes, net*	365	(9)	356	341	15	356
Balance at June 30	\$ 147,163	\$ 1,162	\$ 148,325	\$ 154,669	\$ 1,222	\$ 155,891

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

	Six Months Ended	
	June 30	
	2016	2015
	(Millions of dollars)	
(Increase) decrease in accounts and notes receivable	\$(858)	\$296
Increase in inventories	(219)	(611)
Decrease in prepaid expenses and other current assets	23	775
Decrease in accounts payable and accrued liabilities	(699)	(1,894)
Decrease in income and other taxes payable	(338)	(591)
Net increase in operating working capital	\$(2,091)	\$(2,025)

The “Net increase in operating working capital” includes reductions of \$11 million and \$13 million for excess income tax benefits associated with stock options exercised during the six months ended June 30, 2016, and 2015, respectively. 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:

	Six Months Ended	
	June 30	
	2016	2015
	(Millions of dollars)	
Interest on debt (net of capitalized interest)	\$ 50	\$ —
Income taxes	1,297	3,404

“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.

“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:

	Six Months Ended	
	June 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:

Six
Months
Ended
June 30

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2016 2015
(Millions
of dollars)

Marketable securities purchased	\$(9)	\$ —
Marketable securities sold	11	64
Net sales of marketable securities	\$2	\$ 64

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Six Months Ended June 30	
	2016	2015
	(Millions of dollars)	
Borrowing of loans by equity affiliates	\$(171)	\$(96)
Repayment of loans by equity affiliates	13	—
Net borrowing of loans by equity affiliates	\$(158)	\$(96)

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

	Six Months Ended June 30	
	2016	2015
	(Millions of dollars)	
Purchases of other short-term investments	\$(3)	\$(46)
Sales of other short-term investments	158	117
Net sales of other short-term investments	\$155	\$71

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

	Six Months Ended June 30	
	2016	2015
	(Millions of dollars)	
Repayments of short-term obligations	\$(5,175)	\$(8,116)
Proceeds from issuances of short-term obligations	8,494	5,468
Net borrowings of short-term obligations with three months or less maturity	(2,960)	728
Net borrowings (repayments) of short-term obligations	\$359	\$(1,920)

The “Net sales of treasury shares” represents the cost of common shares acquired less the cost of shares issued for share-based compensation plans. Purchases totaled \$1 million for the first six months in 2016 and \$1 million for the first six months in 2015. No purchases were made under the company's share repurchase program in the first six 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:

	Six Months Ended June 30	
	2016	2015
	(Millions of dollars)	
Additions to properties, plant and equipment	\$9,796	\$14,599
Additions to investments	27	275
Current year dry hole expenditures	211	371
Payments for other liabilities and assets, net	1	—
Capital expenditures	10,035	15,245

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Expensed exploration expenditures	250	507
Assets acquired through capital lease obligations	4	29
Capital and exploratory expenditures, excluding equity affiliates	10,289	15,781
Company's share of expenditures by equity affiliates	1,703	1,526
Capital and exploratory expenditures, including equity affiliates	\$11,992	\$17,307

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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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment Earnings The company evaluates the performance of its operating segments on an after-tax basis, without considering the effects of debt financing interest expense or investment interest income, both of which are managed by the company on a worldwide basis. Corporate administrative costs and assets are not allocated to the operating segments. However, operating segments are billed for the direct use of corporate services. Nonbillable costs remain at the corporate level in “All Other.” Earnings by major operating area for the three- and six-month period ended June 30, 2016, and 2015, are presented in the following table:

Segment Earnings	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Upstream				
United States	\$(1,113)	\$(1,038)	\$(1,963)	\$(1,498)
International	(1,349)	(1,181)	(1,958)	839
Total Upstream	(2,462)	(2,219)	(3,921)	(659)
Downstream				
United States	537	731	784	1,437
International	741	2,225	1,229	2,942
Total Downstream	1,278	2,956	2,013	4,379
Total Segment Earnings	(1,184)	737	(1,908)	3,720
All Other				
Interest Income	17	16	32	32
Other	(303)	(182)	(319)	(614)
Net Income (Loss) Attributable to Chevron Corporation	\$(1,470)	\$571	\$(2,195)	\$3,138

Segment Assets Segment assets do not include intercompany investments or intercompany receivables. “All Other” assets consist primarily of worldwide cash, cash equivalents, time deposits and marketable securities; real estate; information systems; technology companies; and assets of the corporate administrative functions. Segment assets at June 30, 2016, and December 31, 2015, are as follows:

Segment Assets	At June 30	At December 31
	2016	2015
	(Millions of dollars)	
Upstream		
United States ¹	\$43,992	\$46,383
International ¹	162,142	162,030
Goodwill	4,581	4,588
Total Upstream	210,715	213,001
Downstream		
United States ¹	21,949	21,404
International	15,868	14,982
Total Downstream	37,817	36,386
Total Segment Assets	248,532	249,387
All Other		
United States ^{1,2}	5,043	4,728
International	7,903	10,425
Total All Other	12,946	15,153

Total Assets — United States	70,984	72,515
Total Assets — International	185,913	187,437
Goodwill	4,581	4,588
Total Assets	\$261,478	\$264,540

¹ 2015 adjusted to conform to ASU 2015-17.

Refer to Note 9, "Income Taxes" beginning on page 13.

² 2015 adjusted to conform to ASU 2015-03.

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

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Segment Sales and Other Operating Revenues Segment sales and other operating revenues, including internal transfers, for the three- and six-month period ended June 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.

	Three Months		Six Months Ended	
	Ended June 30		June 30	
Sales and Other Operating Revenues	2016	2015	2016	2015
	(Millions of dollars)			
Upstream				
United States	\$2,467	\$3,533	\$4,539	\$6,882
International	5,377	7,408	10,398	14,623
Subtotal	7,844	10,941	14,937	21,505
Intersegment Elimination — United States	(1,810)	(2,553)	(3,141)	(4,664)
Intersegment Elimination — International	(2,278)	(3,281)	(4,207)	(6,273)
Total Upstream	3,756	5,107	7,589	10,568
Downstream				
United States	11,716	15,107	20,883	27,541
International	12,539	16,978	22,847	31,842
Subtotal	24,255	32,085	43,730	59,383
Intersegment Elimination — United States	(4)	(8)	(8)	(14)
Intersegment Elimination — International	(196)	(388)	(459)	(862)
Total Downstream	24,055	31,689	43,263	58,507
All Other				
United States	296	438	545	763
International	11	10	19	17
Subtotal	307	448	564	780
Intersegment Elimination — United States	(264)	(407)	(484)	(697)
Intersegment Elimination — International	(10)	(8)	(18)	(14)
Total All Other	33	33	62	69
Sales and Other Operating Revenues				
United States	14,479	19,078	25,967	35,186
International	17,927	24,396	33,264	46,482
Subtotal	32,406	43,474	59,231	81,668
Intersegment Elimination — United States	(2,078)	(2,968)	(3,633)	(5,375)
Intersegment Elimination — International	(2,484)	(3,677)	(4,684)	(7,149)
Total Sales and Other Operating Revenues	\$27,844	\$36,829	\$50,914	\$69,144

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

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

products derived from petroleum, excluding most of the regulated pipeline operations of Chevron. CUSA also holds the company's investment in the Chevron Phillips Chemical Company LLC joint venture, which is accounted for using the equity method.

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

	Six Months Ended	
	June 30	
	2016	2015
	(Millions of dollars)	
Sales and other operating revenues	\$38,275	\$52,777
Costs and other deductions	40,905	54,019
Net income (loss) attributable to CUSA	(1,218)	(290)

	At June	At
	30	December
	2016	31
	2015	
	(Millions of dollars)	
Current assets	\$11,100	\$ 9,732
Other assets	56,910	59,170
Current liabilities	14,305	13,664
Other liabilities	27,392	29,100
Total CUSA net equity	\$26,313	\$ 26,138
Memo: Total debt	\$14,457	\$ 14,462

Note 8. Summarized Financial Data — Tengizchevroil LLP

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

	Six Months	
	Ended	
	June 30	
	2016	2015
	(Millions of dollars)	
Sales and other operating revenues	\$5,044	\$7,304
Costs and other deductions	2,900	4,122
Net income attributable to TCO	1,501	2,232

Note 9. Income Taxes

Taxes on income for the second quarter and first six months of 2016 benefited earnings by \$0.6 billion and \$1.6 billion, respectively, compared with charges of \$0.8 billion and \$1.1 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 second quarters of 2016 and 2015 were 29 percent and 55 percent, respectively. For the comparative six-month periods the effective tax rates were 43 percent and 25 percent, respectively.

Excluding the effects of equity earnings, the effective tax rates for the 2016 and 2015 quarterly periods were 24 percent and 334 percent, respectively, a decrease of 310 percent between periods, and the tax rates for the respective six-month periods were 34 percent and 50 percent, a decrease of 16 percent between periods. The decrease in the effective tax rate between the quarterly periods primarily resulted from the effects of valuation allowances recognized on deferred tax assets, the absence of the 2015 sale of the company's interest in Caltex Australia Limited and foreign currency remeasurement effects, partially offset by jurisdictional mix impacts. The decrease in the effective tax rate for the six-month comparative period primarily resulted from the effects of valuation allowances recognized on deferred tax assets and the absence of the 2015 sale of the company's interest in Caltex Australia Limited, partially

offset by jurisdictional mix impacts.

Tax positions for Chevron and its subsidiaries and affiliates are subject to income tax audits by many tax jurisdictions throughout the world. For the company's major tax jurisdictions, examinations of tax returns for certain prior tax years had not been completed as of June 30, 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.

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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 10. Employee Benefits

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

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Pension Benefits				
United States				
Service cost	\$124	\$134	\$247	\$269
Interest cost	94	125	188	251
Expected return on plan assets	(180)	(196)	(361)	(392)
Amortization of prior service credits	(2)	(2)	(4)	(4)
Amortization of actuarial losses	83	89	167	178
Settlement losses	81	54	162	108
Total United States	200	204	399	410
International				
Service cost	43	49	83	94
Interest cost	63	72	130	141
Expected return on plan assets	(61)	(65)	(123)	(130)
Amortization of prior service costs	6	6	10	11
Amortization of actuarial losses	12	23	23	41
Settlement losses	17	—	17	—
Total International	80	85	140	157
Net Periodic Pension Benefit Costs	\$280	\$289	\$539	\$567
Other Benefits*				
Service cost	\$15	\$18	\$30	\$36

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Interest cost	32	37	64	75
Amortization of prior service costs	4	4	7	7
Amortization of actuarial losses	5	8	10	17
Net Periodic Other Benefit Costs	\$56	\$67	\$111	\$135

* 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.

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Through June 30, 2016, a total of \$551 million was contributed to employee pension plans (including \$317 million to the U.S. plans.) Total contributions for the full year are currently estimated to be \$700 million (\$400 million for the U.S. plans and \$300 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 six months of 2016, the company contributed \$95 million to its OPEB plans. The company anticipates contributing approximately \$96 million during the remainder of 2016.

Note 11. Assets Held For Sale

At June 30, 2016, the company classified \$3,216 million 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 six 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 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

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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 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

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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 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

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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 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.

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

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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 9 on page 13 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 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

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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, Level 1 inputs include exchange-traded futures contracts for which the parties are willing to transact at the exchange-quoted price and marketable securities that are actively traded.

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

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

The fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 30, 2016, and December 31, 2015, is as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Millions of dollars)

	At June 30, 2016				At December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Marketable Securities	\$320	\$ 320	\$ —	\$ —	-\$310	\$ 310	\$ —	\$ —
Derivatives	23	4	19	—	205	189	16	—
Total Assets at Fair Value	\$343	\$ 324	\$ 19	\$ —	-\$515	\$ 499	\$ 16	\$ —
Derivatives	74	69	5	—	53	47	6	—
Total Liabilities at Fair Value	\$74	\$ 69	\$ 5	\$ —	-\$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 June 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 June 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 \$8.8 billion and \$11.0 billion at June 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 June 30, 2016.

Restricted Cash had a carrying/fair value of \$0.9 billion and \$1.1 billion at June 30, 2016, and December 31, 2015, respectively. At June 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 June 30, 2016, and December 31, 2015, respectively. The fair value of long-term debt at June 30, 2016, and December 31, 2015 was \$32.6 billion and \$25.9 billion, respectively. Long-term debt primarily includes corporate issued bonds. The fair value of corporate bonds classified as Level 1 is \$31.7 billion. The fair value of other long-term debt is \$0.9 billion and classified as Level 2.

The carrying values of other short-term financial assets and liabilities on the Consolidated Balance Sheet approximate their fair values. Fair value remeasurements of other financial instruments at June 30, 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 June 30, 2016, is as follows:

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

(Millions of dollars)

	At June 30, 2016			Before-Tax		
	Total	Level 1	Level 2	Level 3	Three Months Ended	Six Months Ended
Properties, plant and equipment, net (held and used)	\$358	\$	—\$13	\$345	\$2,261	\$2,335
Properties, plant and equipment, net (held for sale)	288	—	285	3	314	541
Investments and advances	23	—	20	3	214	218
Total Assets at Fair Value	\$669	\$	—\$318	\$351	\$2,789	\$3,094

Properties, plant and equipment Due to reservoir performance and lower crude oil prices, the company reported impairments for certain oil and gas properties during second quarter 2016 primarily in Brazil and the United States.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Derivative instruments measured at fair value at June 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 June 30, 2016	At December 31, 2015
Commodity	Accounts and notes receivable, net	\$ 20	\$ 200
Commodity	Long-term receivables, net	3	5
Total Assets at Fair Value		\$ 23	\$ 205
Commodity	Accounts payable	\$ 72	\$ 51
Commodity	Deferred credits and other noncurrent obligations	2	2
Total Liabilities at Fair Value		\$ 74	\$ 53

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

(Millions of dollars)

Type of Contract	Statement of Income Classification	Gain / (Loss) Three Months Ended June 30		Gain / (Loss) Six Months ended June 30	
		2016	2015	2016	2015
Commodity	Sales and other operating revenues	\$ (145)	\$ (31)	\$ (171)	\$ (152)
Commodity	Purchased crude oil and products	(17)	(13)	(21)	1
Commodity	Other income	3	(4)	2	(11)
		\$ (159)	\$ (48)	\$ (190)	\$ (162)

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

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

(Millions of dollars)

At June 30, 2016	Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset	Net Amount
Derivative Assets	\$ 1,290	\$ 1,267	\$ 23	\$	—\$ 23
Derivative Liabilities	\$ 1,341	\$ 1,267	\$ 74	\$	—\$ 74
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."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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	93
Payments	(218)
Balance at June 30, 2016	\$ 168

Note 17. Long-Term Debt

In May 2016, the company issued \$850 million in aggregate principal amount of floating rate notes due 2018, \$1.350 billion in aggregate principal amount of 1.561 percent notes due 2019, \$250 million in aggregate principal amount of floating rate notes due 2021, \$1.350 billion in aggregate principal amount of 2.100 percent notes due 2021, \$750 million in aggregate principal amount of 2.566 percent notes due 2023, and \$2.250 billion in aggregate principal amount of 2.954 percent notes due 2026. In June 2016, \$750 million of Chevron Corporation 0.889 percent notes were repaid at maturity.

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

Second Quarter 2016 Compared with Second Quarter 2015

Key Financial Results

Earnings by Business Segment

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Upstream				
United States	\$(1,113)	\$(1,038)	\$(1,963)	\$(1,498)
International	(1,349)	(1,181)	(1,958)	839
Total Upstream	(2,462)	(2,219)	(3,921)	(659)
Downstream				
United States	537	731	784	1,437
International	741	2,225	1,229	2,942
Total Downstream	1,278	2,956	2,013	4,379
Total Segment Earnings	(1,184)	737	(1,908)	3,720
All Other	(286)	(166)	(287)	(582)
Net Income (Loss) Attributable to Chevron Corporation ^{(1) (2)}	\$(1,470)	\$571	\$(2,195)	\$3,138
	\$279	\$(251)	\$(40)	\$329

⁽¹⁾ Includes foreign currency effects

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

Net income (loss) attributable to Chevron Corporation for second quarter 2016 was a loss of \$1.47 billion (\$0.78 per share — diluted), compared with earnings of \$571 million (\$0.30 per share — diluted) in the corresponding 2015 period. The net loss attributable to Chevron Corporation for the first six months of 2016 was \$2.20 billion (\$1.17 per share — diluted), compared with earnings of \$3.14 billion (\$1.67 per share — diluted) in the first six months of 2015.

Upstream incurred a loss of \$2.46 billion in second quarter 2016 compared with a loss of \$2.22 billion a year earlier. The decrease was mainly due to lower crude oil and natural gas realizations, partially offset by lower exploration and operating expenses and favorable foreign currency effects. The loss for the first six months of 2016 was \$3.92 billion compared with a loss of \$659 million a year earlier. The decrease was due to lower crude oil and natural gas realizations, lower gains on asset sales, and higher tax items, partially offset by lower exploration and operating expenses.

Downstream earnings in second quarter 2016 were \$1.28 billion compared with \$2.96 billion in the corresponding 2015 period. Earnings for the first six months of 2016 were \$2.01 billion compared with \$4.38 billion in the corresponding 2015 period. The decrease in both comparison periods was due to lower gains on asset sales and lower margins on refined product sales.

Refer to pages 27 through 30 for additional discussion of results by business segment and "All Other" activities for second quarter and first six months of 2016 versus the same period in 2015.

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.

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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 27 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.

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The chart on the previous page 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 second quarter, \$40 per barrel for the six-month period, and ended July at about \$42. The majority of the company's equity crude production is priced based on the Brent benchmark. Prices continued to firm through May 2016 amid ongoing reduction of oil and gas capital budgets, increased supply disruptions, and slowly declining non-OPEC supply. However, upside price movement remained constrained by ongoing increases in OPEC supplies as Iran ramped up production, and concerns grew over continued high crude and product inventories globally (and in the U.S. in particular). Prices softened in June and July 2016 as wildfire-related disruptions in Canada waned, OPEC reaffirmed its market-share-oriented production policy, and confidence in the economic outlook for Europe was shaken following the unexpected vote in the United Kingdom to leave the European Union.

The WTI price averaged \$49 per barrel for the full-year 2015. During 2016, WTI averaged \$46 per barrel in the second quarter, \$40 per barrel for the six-month period, and ended July at about \$42. WTI values traded at around parity to Brent throughout the second quarter of 2016 as market sentiment was alternately influenced by reported weekly U.S. production declines, fluctuating crude inventory levels at Cushing, seasonal refinery maintenance cycles, and the onset of recovery in U.S. oil rig counts.

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 second quarter of 2016, the differential increased slightly in North America as gains in heavy crude values from planned and unplanned supply outages in Canada were offset by increasing support for light sweet crude oil pricing from declining U.S. production and strong demand amid high U.S. refinery runs. Outside of North America, differentials contracted as high refinery maintenance in Europe dampened demand for light sweet crude in the Atlantic Basin, while rising output from Iran and other Middle East producers maintained pressure on 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 \$2.02 per thousand cubic feet (MCF) for the first six months of 2016, compared with \$2.82 during the first six months of 2015. At the end of July 2016, the Henry Hub spot price was \$2.95 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 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 \$3.92 per MCF during the first six months of 2016, compared with \$4.75 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 six months of 2016 averaged 2.597 million barrels per day. About one-fourth of the company's net oil-equivalent production in the first six 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 second quarter of 2016 or 2015.

The company estimates that net oil-equivalent production for the full-year 2016 will be near the bottom of the previously-reported guidance range of flat to 4 percent growth compared to 2015. 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;

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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 mid-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 page 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.

Operating Developments

Noteworthy operating developments in recent months included the following:

▲Angola — Restarted LNG production and cargo shipments at the Angola LNG plant.

▲Australia — Restarted LNG production and cargo shipments from Train 1 at the Gorgon Project.

●China — Achieved start-up of the third train at the Chuandongbei Project.

Kazakhstan — Announced final investment decision on the Future Growth and Wellhead Pressure Management Project at the company's 50 percent-owned affiliate, Tengizchevroil, which is expected to increase crude oil production at the Tengiz Field by about 260,000 barrels per day.

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.)

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Upstream

Three Months Ended June 30		Six Months Ended June 30	
2016	2015	2016	2015

(Millions of dollars)

U.S. Upstream Earnings \$(1,113) \$(1,038) \$(1,963) \$(1,498)

U.S. upstream incurred a loss of \$1.11 billion in second quarter 2016 compared with a loss of \$1.04 billion from a year ago. The decrease in earnings was due to lower crude oil and natural gas realizations of \$440 million and lower crude oil production of \$50 million. Partially offsetting this decrease were lower depreciation expenses of \$260 million, operating expenses of \$80 million and exploration expenses of \$80 million. In both quarters, depreciation expense was impacted by a similar amount of impairments and other charges.

U.S. upstream incurred a loss of \$1.96 billion for the first six months of 2016, compared with a loss of \$1.50 billion from a year earlier. The decrease in earnings was primarily due to lower crude oil and natural gas realizations of \$870 million and \$100 million, respectively. Partially offsetting this decrease were lower depreciation expenses of \$320 million, operating expenses of \$190 million and exploration expenses of \$70 million.

The average realization per barrel for U.S. crude oil and natural gas liquids in second quarter 2016 was \$36, down from \$50 a year ago. The average six-month realization per barrel for U.S. crude oil and natural gas liquids was \$31 in 2016, compared to \$47 a year earlier. The average natural gas realization in second quarter 2016 was \$1.21 per thousand cubic feet, compared with \$1.92 in 2015. The average six-month natural gas realization was \$1.27 per thousand cubic feet in 2016 and \$2.09 in 2015.

Net oil-equivalent production of 682,000 barrels per day in second quarter 2016 was down 48,000 barrels per day, or 7 percent, from a year earlier. Net oil-equivalent production of 692,000 barrels per day in the first six months of 2016 was down 22,000 barrels per day, or 3 percent from a year earlier. Production increases due to project ramp-ups in the Marcellus Shale in western Pennsylvania, the Gulf of Mexico, and the Permian Basin in Texas and New Mexico were more than offset by the effect of asset sales, maintenance-related downtime, and normal field declines in both comparative periods.

The net liquids component of oil-equivalent production of 501,000 barrels per day in second quarter 2016 was down 2 percent from the corresponding 2015 period. The net liquids component of oil-equivalent production of 495,000 barrels per day in the 2016 six-month period was down 1 percent from the 2015 period. Net natural gas production was 1.09 billion cubic feet per day in second quarter 2016, a decrease of 17 percent from the 2015 comparative period. Net natural gas production was 1.18 billion cubic feet per day in the six-month period, a decrease of 8 percent from the 2015 period.

Three Months Ended June 30		Six Months Ended June 30	
2016	2015	2016	2015

(Millions of dollars)

International Upstream Earnings* \$(1,349) \$(1,181) \$(1,958) \$839

* Includes foreign currency effects \$329 \$(146)) \$31 \$376

International upstream incurred a loss of \$1.35 billion in second quarter 2016 compared with a loss of \$1.18 billion from a year earlier. The decrease was due to lower crude oil and natural gas realizations of \$840 million and \$150 million, respectively, higher impairments and other charges of \$260 million, and lower gains on asset sales of \$70 million. Partially offsetting these effects were lower exploration and operating expenses of \$480 million and \$210 million, respectively. Foreign currency effects increased earnings by \$329 million in the 2016 quarter, compared with a decrease of \$146 million a year earlier.

The loss for the first six months of 2016 was \$1.96 billion, compared with earnings of \$839 million from a year earlier. The decrease in earnings was due to lower crude oil realizations of \$2.04 billion along with lower natural gas realizations of \$370 million, higher tax items of \$470 million and lower gains on asset sales of \$380 million. Partially offsetting the decrease were lower exploration expenses of \$560 million. Foreign currency effects increased earnings by \$31 million in the first six months of 2016, compared with an increase of \$376 million a year earlier.

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The average realization per barrel of crude oil and natural gas liquids in second quarter 2016 was \$40, compared with \$56 a year earlier. The average realization per barrel of crude oil and natural gas liquids in the first six months of 2016 was \$34, compared with \$51 a year earlier. The average natural gas realization in second quarter 2016 was \$3.93 per thousand cubic feet, compared with \$4.48 in the 2015 period. The average natural gas realization in the first six months of 2016 was \$3.92 per thousand cubic feet, compared with \$4.75 in the 2015 period.

International net oil-equivalent production of 1.85 million barrels per day in second quarter 2016 was down 20,000 barrels per day, or 1 percent, from a year ago. Production increases from project ramp-ups in Angola, Canada, and other areas were more than offset by normal field declines, the Partitioned Zone shut-in and the effects of civil unrest in Nigeria.

International net oil-equivalent production of 1.91 million barrels per day in the first six months of 2016 was down 19,000 barrels per day, or 1 percent, from the corresponding 2015 period. Production increases from project ramp-ups in Angola, Canada and other areas, and production entitlement effects in several locations, were more than offset by the Partitioned Zone shut-in and normal field declines.

The net liquids component of oil-equivalent production of 1.19 million barrels per day in second quarter 2016 and 1.24 million barrels per day in the first six months of 2016 each decreased 2 percent from the corresponding 2015 periods. Net natural gas production of 3.94 billion cubic feet per day in second quarter 2016 and 3.99 billion cubic feet per day in the first six months of 2016 were essentially unchanged from the corresponding 2015 periods.

Downstream

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars)			

U.S. Downstream Earnings \$537 \$731 \$784 \$1,437

U.S. downstream operations earned \$537 million in second quarter 2016 compared with earnings of \$731 million a year earlier. The decrease in earnings was primarily due to lower margins on refined product sales of \$270 million and lower earnings from the 50 percent-owned Chevron Phillips Chemicals Company LLC of \$100 million. Partially offsetting this decrease were lower operating expenses of \$120 million and higher gains on asset sales of \$60 million. Earnings for the first six months of 2016 were \$784 million compared to \$1.44 billion a year earlier. The decrease was due to lower margins on refined product sales of \$470 million, lower earnings from the 50 percent-owned Chevron Phillips Chemicals Company LLC of \$170 million and an asset impairment of \$110 million. Partially offsetting this decrease are higher gains on asset sales of \$50 million and \$50 million in lower tax items.

Refinery crude oil input in second quarter 2016 increased 4 percent to 955,000 barrels per day from the year-ago period. For the six-months of 2016, crude oil input was 956,000 barrels per day, up 4 percent from the corresponding 2015 period.

Refined product sales of 1.26 million barrels per day were up 3 percent from second quarter 2015, primarily due to higher jet fuel sales. Branded gasoline sales of 544,000 barrels per day were up 2 percent from the 2015 period. Sales of 1.24 million barrels per day in the six-month period were up 2 percent, primarily due to higher jet fuel sales.

Branded gasoline sales of 527,000 barrels per day for the first six-months were up 2 percent from the corresponding 2015 period.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars)			

International Downstream Earnings* \$741 \$2,225 \$1,229 \$2,942

* Includes foreign currency effects \$(26) \$(103) \$(74) \$(49)

International downstream operations earned \$741 million in second quarter 2016 compared with \$2.23 billion a year earlier. Earnings for the first six months of 2016 were \$1.23 billion compared with \$2.94 billion a year earlier. The decrease in earnings in both periods 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 second quarter 2015, partially offset by second quarter 2016 asset sales gains of \$420 million. Lower margins on refined product sales of \$220 million for the

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second quarter and \$460 million for the first six months also contributed to the decline. Foreign currency effects decreased earnings by \$26 million in second quarter 2016 and \$74 million in the first six months of 2016, compared with decreases of \$103 and \$49 million, respectively, a year earlier.

Refinery crude oil input of 764,000 barrels per day in second quarter 2016 decreased 1 percent from the year-ago period. For the first six months of 2016, crude input was 780,000 barrels per day, essentially unchanged from the year-ago period.

Total refined product sales of 1.45 million barrels per day in second quarter 2016 were down 2 percent from the year-ago period due to lower gasoline and gas oil sales. Sales of 1.44 million barrels per day in the first six months were down 6 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		Six Months	
	Ended		Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Net Charges*	\$(286)	\$(166)	\$(287)	\$(582)

* Includes foreign currency effects \$(24) \$(2) \$3 \$2

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

Net charges in second quarter 2016 were \$286 million, compared with \$166 million a year earlier. The change between periods was mainly due to higher tax items and interest expense, partially offset by the absence of second quarter 2015 charges related to reductions in corporate staffs and lower environmental expenses. Foreign currency effects increased net charges by \$24 million in second quarter 2016, compared to a \$2 million increase in net charges in the 2015 period. Net charges for the first six months of 2016 were \$287 million, compared with \$582 million a year earlier. The change between periods was mainly due to lower tax items, the absence of second quarter 2015 charges related to reductions in corporate staffs and lower environmental expenses. Higher interest expenses partially offset the decrease. Foreign currency effects decreased net charges by \$3 million for the first six months of 2016, compared to a \$2 million decrease 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		Six Months	
	Ended		Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Sales and other operating revenues	\$27,844	\$36,829	\$50,914	\$69,144

Sales and other operating revenues decreased \$9.0 billion for the quarterly period, and \$18.2 billion for the six-month period, due to lower refined product and crude oil prices.

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
Income from equity affiliates	\$752	\$1,169	\$1,328	\$2,570

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 CPChem and GS Caltex in South Korea. Income from equity affiliates in the six-month period decreased mainly due to lower upstream-related earnings from Tengizchevroil in Kazakhstan, and Petroboscan in Venezuela, and lower downstream-related earnings from CPChem and GS Caltex in South Korea, and the effect of the sale of Caltex Australia Limited.

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Three Months Ended June 30	Six Months Ended June 30
2016	2015
2016	2015

(Millions of dollars)

Other income \$686 \$2,359 \$593 \$3,201

Other income for the quarterly and six-month periods decreased due to lower gains on asset sales.

Three Months Ended June 30	Six Months Ended June 30
2016	2015
2016	2015

(Millions of dollars)

Purchased crude oil and products \$15,278 \$20,541 \$26,503 \$37,734

Purchases decreased \$5.3 billion for the quarterly period, and \$11.2 billion for the six-month period, primarily due to lower crude oil and refined product prices, partially offset by higher crude oil volumes.

Three Months Ended June 30	Six Months Ended June 30
2016	2015
2016	2015

(Millions of dollars)

Operating, selling, general and administrative expenses \$6,087 \$7,247 \$12,489 \$13,586

Operating, selling, general and administrative expenses decreased \$1.2 billion between quarterly periods due to lower employee, environmental reserve, construction, repair and maintenance, contract labor and professional services expenses.

Expenses decreased \$1.1 billion between six-month periods primarily due to lower employee, marine transportation, contract labor, construction, repair and maintenance, environmental reserve, and professional services expenses.

Three Months Ended June 30	Six Months Ended June 30
2016	2015
2016	2015

(Millions of dollars)

Exploration expenses \$214 \$1,075 \$584 \$1,667

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

Three Months Ended June 30	Six Months Ended June 30
2016	2015
2016	2015

(Millions of dollars)

Depreciation, depletion and amortization \$6,721 \$6,958 \$11,124 \$11,369

Depreciation, depletion and amortization expenses in second quarter 2016 decreased mainly due to lower production levels and depreciation rates, partially offset by higher impairment expenses for certain oil and gas producing fields. The six-month period decreased mainly due to lower production volumes, partially offset by

higher impairment expenses for certain oil and gas producing fields, and the impairment of a downstream asset.

Three Months		Six Months	
Ended		Ended	
June 30		June 30	
2016	2015	2016	2015

(Millions of dollars)

Taxes other than on income	\$2,973	\$3,173	\$5,837	\$6,291
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Taxes other than on income decreased in the quarterly and six-month periods primarily due to lower product and crude oil prices, and the divestment of the Pakistan fuels business at the end of June 2015.

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	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	(Millions of dollars)			

Income tax expense (benefit) \$(607) \$755 \$(1,611) \$1,060

Effective income tax rates for the 2016 and 2015 quarters were 29 percent and 55 percent, respectively. For the comparative six-month periods, the effective tax rates were 43 percent and 25 percent, for 2016 and 2015 respectively. Excluding the effects of equity earnings, the effective tax rates for the 2016 and 2015 quarterly periods were 24 percent and 334 percent, respectively, a decrease of 310 percent between periods, and the tax rates for the respective six-month periods were 34 percent and 50 percent, a decrease of 16 percent between periods. The decrease in the effective tax rate between the quarterly periods primarily resulted from the effects of valuation allowances recognized on deferred tax assets, the absence of the 2015 sale of the company's interest in Caltex Australia Limited and foreign currency remeasurement effects, partially offset by jurisdictional mix impacts. The decrease in the effective tax rate for the six-month comparative period primarily resulted from the effects of valuation allowances recognized on deferred tax assets and the absence of the 2015 sale of the company's interest in Caltex Australia Limited, partially offset by jurisdictional mix impacts.

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Selected Operating Data

The following table presents a comparison of selected operating data:

Selected Operating Data ⁽¹⁾⁽²⁾

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
U.S. Upstream				
Net crude oil and natural gas liquids production (MBPD)	501	511	495	500
Net natural gas production (MMCFPD) ⁽³⁾	1,088	1,312	1,177	1,285
Net oil-equivalent production (MBOEPD)	682	730	692	714
Sales of natural gas (MMCFPD)	3,154	3,777	3,481	3,957
Sales of natural gas liquids (MBPD)	26	27	25	25
Revenue from net production				
Liquids (\$/Bbl)	\$35.79	\$50.29	\$31.19	\$46.80
Natural gas (\$/MCF)	\$1.21	\$1.92	\$1.27	\$2.09
International Upstream				
Net crude oil and natural gas liquids production (MBPD) ⁽⁴⁾	1,188	1,211	1,240	1,261
Net natural gas production (MMCFPD) ⁽³⁾	3,943	3,931	3,994	3,978
Net oil-equivalent production (MBOEPD) ⁽⁴⁾	1,846	1,866	1,905	1,924
Sales of natural gas (MMCFPD)	4,503	4,130	4,531	4,286
Sales of natural gas liquids (MBPD)	24	24	24	25
Revenue from liftings				
Liquids (\$/Bbl)	\$40.25	\$55.94	\$34.39	\$51.12
Natural gas (\$/MCF)	\$3.93	\$4.48	\$3.92	\$4.75
U.S. and International Upstream				
Total net oil-equivalent production (MBOEPD) ⁽⁴⁾	2,528	2,596	2,597	2,638
U.S. Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	646	631	631	617
Other refined product sales (MBPD)	617	598	606	601
Total refined product sales (MBPD)	1,263	1,229	1,237	1,218
Sales of natural gas liquids (MBPD)	115	136	110	121
Refinery input (MBPD)	955	916	956	918
International Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	345	350	352	355
Other refined product sales (MBPD)	742	761	724	748
Share of affiliate sales (MBPD)	362	367	366	426
Total refined product sales (MBPD)	1,449	1,478	1,442	1,529
Sales of natural gas liquids (MBPD)	68	60	66	70
Refinery input (MBPD)	764	774	780	777

⁽¹⁾ Includes company share of equity affiliates.

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

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

United States	71	66	69	68
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International	430	423	430	438
(4) Includes net production of synthetic oil:				
Canada	43	28	46	39
Venezuela affiliate	28	29	28	30
(5) Includes branded and unbranded gasoline.				

Table of Contents**Liquidity and Capital Resources**

Cash, cash equivalents and marketable securities totaled \$9.1 billion at June 30, 2016, down \$2.2 billion from year-end 2015. Cash provided by operating activities in the first six months of 2016 was \$3.7 billion, compared with \$9.5 billion in the year-ago period, reflecting lower crude prices. Cash capital and exploratory expenditures decreased \$5.5 billion between periods, reflecting lower activity.

Dividends The company paid dividends of \$4.0 billion to common shareholders during the first six months of 2016. In July 2016, the company declared a quarterly dividend of \$1.07 per common share, payable in September 2016.

Debt and Capital Lease Obligations Chevron's total debt and capital lease obligations were \$45.1 billion at June 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 June 30, 2016 was \$8.6 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 \$13.5 billion at June 30, 2016, and \$12.9 billion at December 31, 2015. Of these amounts, \$8.0 billion was reclassified to long-term at both June 30, 2016, and December 31, 2015. At June 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 June 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 June 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 six 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 June 30, 2016, and December 31, 2015. Distributions to noncontrolling interests totaled \$24 million during the first six months of 2016 compared to \$26 million for the same period in 2015.

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 1.3 at June 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 June 30, 2016, the book value of inventory was lower than replacement cost.

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Debt Ratio Total debt as a percentage of total debt plus Chevron Corporation Stockholders' Equity, which indicates the company's leverage. This ratio was 23.5 percent at June 30, 2016, and 20.2 percent at year-end 2015.

Pension Obligations Information related to pension plan contributions is included on pages 14 and 15 in Note 10 to the Consolidated Financial Statements.

Capital and Exploratory Expenditures Total expenditures, including the company's share of spending by affiliates, were \$12.0 billion in the first six months of 2016, compared with \$17.3 billion in the corresponding 2015 period. The amounts included the company's share of affiliates' expenditures of \$1.7 billion and \$1.5 billion in the 2016 and 2015 periods, respectively, which did not require cash outlays by the company. Expenditures for upstream projects in the first six months of 2016 were \$11.0 billion, representing 92 percent of the companywide total.

Capital and Exploratory Expenditures by Major Operating Area

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
	2016	2015	2016	2015
	(Millions of dollars)			
United States				
Upstream	\$1,204	\$1,876	\$2,480	\$4,194
Downstream	332	531	753	816
All Other	53	88	75	151
Total United States	1,589	2,495	3,308	5,161
International				
Upstream	3,818	6,114	8,508	11,956
Downstream	116	114	175	189
All Other	—	1	1	1
Total International	3,934	6,229	8,684	12,146
Worldwide	\$5,523	\$8,724	\$11,992	\$17,307

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 13 and 14 in Note 9 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 page 19 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 19 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 19 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 pages 19 and 20 in Note 13 to the Consolidated Financial Statements under the heading "Other Contingencies."

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the three months ended June 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 June 30, 2016.

(b) Changes in internal control over financial reporting

During the quarter ended June 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

Government Proceedings As initially disclosed in the Annual Report on Form 10-K for the year ended December 31, 2013, on August 6, 2012, a piping failure and fire occurred at the Chevron refinery in Richmond, California. Various federal, state, and local agencies initiated investigations as a result of the incident. Based on its civil investigation, the United States Environmental Protection Agency ("EPA") issued a Finding of Violations ("FOVs") to Chevron on December 17, 2013, which includes 62 findings of alleged noncompliance at the Richmond refinery. The California Division of Occupational Safety and Health ("Cal/OSHA") issued 17 citations related to the incident. Following the Richmond fire, EPA conducted inspections under the Clean Air Act Risk Management Program at Chevron's El Segundo, Pascagoula and Salt Lake refineries. With the participation of the United States Department of Justice, Chevron, EPA, and Cal/OSHA are negotiating a potential combined resolution of the FOVs and citations at all four refineries. Resolution of the FOVs and citations may result in the payment of a civil penalty of \$100,000 or more. As initially disclosed in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, in April 2016, Chevron received a proposal from the South Coast Air Quality Management District ("SCAQMD") seeking to collectively resolve certain notices of violation ("NOVs") issued in 2012 and 2013 to the Chevron refinery in El Segundo, California. Chevron and the SCAQMD are negotiating a potential combined resolution of the NOVs. The SCAQMD has now proposed a combined resolution of NOVs from 2014, in addition to the NOVs from 2012 and 2013. Collective resolution of these NOVs may result in the payment of a civil penalty of \$100,000 or more.

Other Proceedings Information related to other 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 June 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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
 CHEVRON CORPORATION
 ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number Of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program (2)
April 1 – April 30, 2016	770	\$ 94.28	—	
May 1 – May 31, 2016	—	100.19	—	
June 1 – June 30, 2016	5	101.66	—	
Total	775	\$ 94.33	—	

(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 six months of 2016, and the company does not plan to acquire any shares under the program for the remainder of the year.

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 6. Exhibits

Exhibit Number	Description
(4)	Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the company and its consolidated subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the company and its subsidiaries on a consolidated basis. A copy of such instrument will be furnished to the Commission upon request.
(10.1)	Amendment Number One to the Chevron Corporation Non-Employee Directors' Equity Compensation and Deferral Plan
(12)	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

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(101.DEF) XBRL Definition Linkbase Document

(101.LAB) XBRL Label Linkbase Document

(101.PRE) XBRL Presentation Linkbase Document

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

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SIGNATURE

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

CHEVRON CORPORATION
(REGISTRANT)

/S/ JEANETTE L. OURADA
Jeanette L. Ourada, Vice President and Comptroller
(Principal Accounting Officer and
Duly Authorized Officer)
Date: August 4, 2016

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* Filed herewith.

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