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ENCORE EXTRA

For the third consecutive year, Chevron Corporation Chairman and Chief Executive Officer John Watson has honored the Chevron Retirees Association by serving as our Keynote Speaker at the closing banquet of the Annual Meeting.

Walt Roessing, serving in his 25th year as our ENCORE editor, has chronicled Mr. Watson's comments below. Mr. Watson's speech shares many company successes, noting great pride in our industry-wide safety record, returns to shareholders, and recognizes the contributions and efforts of our retirees.



Chevron Chairman and CEO John Watson addresses the
CRA Annual Meeting in Sacramento, CA
May, 2012

"Thank you for having me again. It's always a thrill to be here with you," said Chevron Chairman and CEO John Watson. That's how he began his keynote address to company retirees and guests who were gathered May 21 at the CRA's Annual Meeting in Sacramento, California.

He continued, "I'm not only going to share with you many of the good things the company is doing, but I will also talk about some of the issues that are impacting the industry and discuss some of the events in Washington, D.C."

He first shared a picture of the mammoth Gorgon LNG project. One of Chevron's flagship projects, it is located on Australia's remote Barrow Island. The company holds a 47 percent interest in the \$37 billion Gorgon complex. Construction is scheduled for Completion in 2014 and 70 percent of the

LNG already is committed under long-term contracts to Japanese utilities.

Subsequently, Watson showed a chart highlighting Chevron's strong industry leadership in safety. "We've improved dramatically over the years, and now we actually define world-class when it comes to safety." He quickly added, "I know you're proud of us for other reasons. We had a good year last year financially, and we have yet another quarter under our belt. We made \$6.5 billion in the first quarter, \$27 billion last year and had a pretty good return on capital." He added, "We have very strong financials, and that's a product of many years of contributions."

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He told attendees that, "Many of the assets that are contributing to us today were developed during your time, and so we're in a long lead time and making good use of the assets we have. We've been adding new ones to the portfolio as well as ways to operate them in a sound fashion to make a good return."

Still Growing the Downstream Business

Watson noted, "We're still growing overall in the downstream business. But, as you can see, we had a target to improve returns of 7 percent. We've actually improved them about 8 percent and, with the market benefits, it's even more in what is, frankly, a pretty tough business."

On a more upbeat note, the Chairman emphasized, "Success has been on the upstream side where George Kirkland runs that business for us. I think many of you know George. He's our Vice-Chairman and has done a really remarkable job with earnings per barrel. In our peer group, we're No. 1 on the earnings-per-barrel basis and have outdistanced our competition. "

He cited Chevron's earnings in the upstream business, pointing out that oil and gas earned \$26 per barrel last year – outpacing the company's nearest competitor by \$7. That's enabled the company to do some good things – like the dividends.

He teased CRA members by asking: "Do you know what the dividend rate is?" Quickly answering his question, he responded, "You're right. We increased it 9 cents just recently. We've had 24 consecutive annual increases, and it will be 25 this year. We've actually done three dividend increases in the last 18 months. Now the dividend income plus the growth in the stock price translates to total shareholder return. So we have been contributing to, hopefully, your retirement."

Watson noted that it takes energy to run businesses and have a higher standard of living, and that's why energy demand is going to continue to grow. More specifically he emphasized, "We're going to need all forms of energy, and we're going to need oil, gas, coal, nuclear, renewables – and a lot of them. So I'm confident we're going to have markets for our products, and I think governments understand this."

Chevron's International Projects

Shifting gears, he focused on the company's international projects – and its \$32.7 billion capital budget for this year. The upstream including exploration is accounting for 87 percent of the spending with about 11 percent in the downstream focused in developing oil and gas opportunities around the world. More specifically, he said, "We have many projects where our share is a quarter of a billion dollars or more that will start up in the 2012, 2013, and 2014 period. Although these are all significant, they are not the biggest projects in our portfolio.

"The first major start-up is in Angola. I am expecting to get an email any moment telling me that we have the first gas from Angola LNG. We have a little over a third of that project. We expect to follow that with the Gorgon [2014] and Wheatstone [2016] LNG projects."

Watson also emphasized that Chevron is back to work in the U.S. Gulf of Mexico where the drilling process, safety regulations and government regulations have changed. Commenting on those changes, he said, "I think we can develop these resources safely, which is a good thing because we have a lot of it. We have five deepwater rigs that we're working with – more than we ever had – and we have three projects that will be starting up over the next several years. The biggest is Jack/St. Malo – about a \$7.5 billion project – Big Foot and Tubular Bells." All are scheduled for startup in 2014.

Moving ahead he discussed the unconventional business more commonly thought of as the shale business. Chevron already has made some acquisitions, notably in Pennsylvania. Fundamentally, the company also is testing shale in Hungary, Poland, Romania, and Ukraine, and has some acreage in Argentina and China.

Shifting his focus once again, he informed the retirees that "We are still investing in the downstream business." And he proceeded to highlight a series of four specialty chemical and/or petrochemical construction projects in

Pascagoula, Tampa, Saudi Arabia and in South Korea with GS Caltex.

After pausing for a moment, he emphasized, "I want to get to the really important topic of government. It's interesting that now when I meet with colleagues at the Business Council or with those in my position at other industries, everybody talks about how companies are dealing with governments around the world. "Unfortunately, that's the sign of the times. There are tough times in many countries, and there's a tendency to try to grab and regulate business."

Without hesitation, Watson said, "I am in favor of tax reform. This country needs it. The State of California needs it. However, I'm not in favor of singling out my industry with more taxation. I spend a lot of time talking about that issue. I call it fracturing. We're doing much more in engaging the communities, and I think it has become a business that has become better understood."

He added, "However, they don't support access to federal land in any case. Eighty five percent of our continental shelf is off limits to development. A lot of the onshore acreage is tough to get, too, but I think there's a growing understanding there's a real opportunity for jobs. Then, of course, we have a number of environmental issues. In the coming years is AB32, a very California climate-oriented legislation."

He pointed out that most governments have decided they have other priorities when it comes to environmental policy or their economic development. Southern California is choosing to go it alone in this area – "and it's problematic, frankly. Carbon emissions are a global issue. It's not an ambient pollution issue. And if other states don't move with you, what you're going to become is a carbon exporter because all the jobs and adjustor activity will move – and that's what's happening here in California. So energy costs will go up both in terms of utility bills and gasoline at the pumps unless we make some changes to how to put this program in place."

Watson said, "We spend a lot of time on these and other issues. And what I like is your engagement on these because I do spend a lot of time in Washington where regulators do listen to their constituents. So we certainly appreciate it."

"Now I know we have our Chevron Advocacy Program. I know that many of you participate and I thank you for that because we do need your help. We do need to hear from Americans who understand the energy business, understand the contribution that we make. And I also appreciate that you read the mail and information that we put out on our website."

Chevron Retirees Association

The Chevron Retirees Association is not a subsidiary of the Chevron Corporation but an independent organization of retired employees of Chevron or its predecessor companies.

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