

CHEVRON CORP  
Form 10-Q  
August 03, 2017

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

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

For the quarterly period ended June 30, 2017

or

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

Commission file number 001-00368

Chevron Corporation

(Exact name of registrant as specified in its charter)

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

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

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

Smaller reporting company  Emerging growth  
company

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

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

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

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

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

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

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

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

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

See accompanying notes to consolidated financial statements.



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

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

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

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



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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Interim Financial Statements

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

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

## Note 2. Changes in Accumulated Other Comprehensive Losses

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

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

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

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

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

## Note 3. Noncontrolling Interests

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 5. New Accounting Standards

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

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

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

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

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

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

## Note 6. Operating Segments and Geographic Data

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

Note 8. Summarized Financial Data — Tengizchevroil LLP

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

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

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

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

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

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

Note 10. Employee Benefits

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

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



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

Note 11. Income Taxes

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

**Note 12. Assets Held For Sale**

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

**Note 13. Litigation**

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

**Ecuador**

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

Note 14. Other Contingencies and Commitments

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

## Note 15. Fair Value Measurements

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

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

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

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

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

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

(Millions of dollars)

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

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

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





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

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

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

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

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

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

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

**Note 16. Financial and Derivative Instruments**

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

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

(Millions of dollars)

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

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

(Millions of dollars)

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