

CHEVRON CORP
Form 10-Q
November 07, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended September 30, 2014
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

(State or other jurisdiction of
incorporation or organization)

6001 Bollinger Canyon Road,
San Ramon, California

(Address of principal executive offices)

Registrant's telephone number, including area code: (925) 842-1000

NONE

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Outstanding as of September 30, 2014
Common stock, \$.75 par value	1,890,424,385

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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 such as “anticipates,” “expects,” “intends,” “plans,” “targets,” “forecasts,” “projects,” “believes,” “seeks,” “schedules,” “estimates,” “may,” “could,” “budgets,” “outlook” 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; 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 equity affiliates; 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 production or manufacturing facilities or delivery/transportation networks due to war, accidents, political events, civil unrest, severe weather or crude oil production quotas that might be imposed by the Organization of Petroleum Exporting Countries; the potential liability for remedial actions or assessments under existing or future environmental regulations and litigation; significant investment or product changes required by existing or future environmental statutes, regulations and litigation; 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; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading “Risk Factors” on pages 27 through 29 of the company’s 2013 Annual Report on Form 10-K. In addition, such results could be affected by general domestic and international economic and political conditions. 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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars, except per-share amounts)			
Revenues and Other Income				
Sales and other operating revenues*	\$51,822	\$56,603	\$158,383	\$166,206
Income from equity affiliates	1,912	1,635	5,543	5,703
Other income	945	265	1,956	781
Total Revenues and Other Income	54,679	58,503	165,882	172,690
Costs and Other Deductions				
Purchased crude oil and products	30,741	34,822	95,408	102,005
Operating expenses	6,403	6,066	18,713	18,106
Selling, general and administrative expenses	1,122	1,197	3,126	3,334
Exploration expenses	366	559	1,475	1,135
Depreciation, depletion and amortization	3,948	3,658	11,920	10,551
Taxes other than on income*	3,236	3,366	9,422	9,852
Total Costs and Other Deductions	45,816	49,668	140,064	144,983
Income Before Income Tax Expense	8,863	8,835	25,818	27,707
Income Tax Expense	3,236	3,839	9,980	11,068
Net Income	5,627	4,996	15,838	16,639
Less: Net income attributable to noncontrolling interests	34	46	68	146
Net Income Attributable to Chevron Corporation	\$5,593	\$4,950	\$15,770	\$16,493
Per Share of Common Stock:				
Net Income Attributable to Chevron Corporation				
— Basic	\$2.97	\$2.58	\$8.35	\$8.58
— Diluted	\$2.95	\$2.57	\$8.29	\$8.52
Dividends	\$1.07	\$1.00	\$3.14	\$2.90
Weighted Average Number of Shares Outstanding (000s)				
— Basic	1,880,915	1,914,047	1,887,778	1,921,429
— Diluted	1,896,492	1,929,831	1,902,698	1,936,797
* Includes excise, value-added and similar taxes:	\$2,116	\$2,223	\$6,182	\$6,364

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended		
	September 30		September 30		
	2014	2013	2014	2013	
	(Millions of dollars)				
Net Income	\$5,627	\$4,996	\$15,838	\$16,639	
Currency translation adjustment	(19	) 14	(49	) 45
Unrealized holding (loss) gain on securities:					
Net (loss) gain arising during period	(4) 1	4	(6)
Derivatives:					
Net derivatives loss on hedge transactions	—	(109) (66) (107)
Reclassification to net income of net realized gain	—	(1) (17) (1)
Income tax benefit on derivatives transactions	—	39	29	38	
Total	—	(71) (54) (70)
Defined benefit plans:					
Actuarial loss:					
Amortization to net income of net actuarial and settlement losses	125	226	350	685	
Prior service cost:					
Amortization to net income of net prior service costs (credits)	6	(6) 19	(20)
Defined benefit plans sponsored by equity affiliates	6	11	18	2	
Income tax expense on defined benefit plans	(55) (94) (147) (264)
Total	82	137	240	403	
Other Comprehensive Gain, Net of Tax	59	81	141	372	
Comprehensive Income	5,686	5,077	15,979	17,011	
Comprehensive income attributable to noncontrolling interests	(34) (46) (68) (146)
Comprehensive Income Attributable to Chevron Corporation	\$5,652	\$5,031	\$15,911	\$16,865	

See accompanying notes to consolidated financial statements.

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CHEVRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	At September 30 2014	At December 31 2013
	(Millions of dollars, except per-share amounts)	
ASSETS		
Cash and cash equivalents	\$ 14,215	\$ 16,245
Time deposits	8	8
Marketable securities	267	263
Accounts and notes receivable, net	19,974	21,622
Inventories		
Crude oil and petroleum products	4,672	3,879
Chemicals	501	491
Materials, supplies and other	2,131	2,010
Total inventories	7,304	6,380
Prepaid expenses and other current assets	5,315	5,732
Total Current Assets	47,083	50,250
Long-term receivables, net	2,903	2,833
Investments and advances	26,683	25,502
Properties, plant and equipment, at cost	318,752	296,433
Less: Accumulated depreciation, depletion and amortization	140,656	131,604
Properties, plant and equipment, net	178,096	164,829
Deferred charges and other assets	5,844	5,120
Goodwill	4,621	4,639
Assets held for sale	201	580
Total Assets	\$ 265,431	\$ 253,753
LIABILITIES AND EQUITY		
Short-term debt	\$ 5,665	\$ 374
Accounts payable	21,821	22,815
Accrued liabilities	5,396	5,402
Federal and other taxes on income	2,997	3,092
Other taxes payable	1,209	1,335
Total Current Liabilities	37,088	33,018
Long-term debt	19,960	19,960
Capital lease obligations	84	97
Deferred credits and other noncurrent obligations	23,055	22,982
Noncurrent deferred income taxes	21,919	21,301
Noncurrent employee benefit plans	6,018	5,968
Total Liabilities	108,124	103,326
Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued)	—	—
Common stock (authorized 6,000,000,000 shares; \$0.75 par value; 2,442,676,580 shares issued at September 30, 2014, and December 31, 2013)	1,832	1,832
Capital in excess of par value	15,967	15,713
Retained earnings	183,519	173,677
Accumulated other comprehensive loss	(3,438) (3,579

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Deferred compensation and benefit plan trust	(240) (240)
Treasury stock, at cost (552,252,195 and 529,073,512 shares at September 30, 2014, and December 31, 2013, respectively)	(41,500) (38,290)
Total Chevron Corporation Stockholders' Equity	156,140	149,113	
Noncontrolling interests	1,167	1,314	
Total Equity	157,307	150,427	
Total Liabilities and Equity	\$265,431	\$253,753	

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30	
	2014	2013
	(Millions of dollars)	
Operating Activities		
Net Income	\$ 15,838	\$ 16,639
Adjustments		
Depreciation, depletion and amortization	11,920	10,551
Dry hole expense	622	346
Distributions less than income from equity affiliates	(1,505)	) (990)
Net before-tax gains on asset retirements and sales	(1,516)	) (494)
Net foreign currency effects	(61)	) 45
Deferred income tax provision	474	969
Net increase in operating working capital	(376)	) (2,088)
Increase in long-term receivables	(75)	) (164)
Net (increase) decrease in other deferred charges	(59)	) 11
Cash contributions to employee pension plans	(227)	) (961)
Other	(57)	) 686
Net Cash Provided by Operating Activities	24,978	24,550
Investing Activities		
Capital expenditures	(25,739)	) (26,372)
Proceeds and deposits related to asset sales	2,588	857
Net purchases of time deposits	—	) (600)
Net sales of marketable securities	1	3
Net repayment of loans by equity affiliates	66	162
Net (purchases) sales of other short-term investments	(67)	) 172
Net Cash Used for Investing Activities	(23,151)	) (25,778)
Financing Activities		
Net borrowings of short-term obligations	5,294	534
Proceeds from issuance of long-term debt	—	6,000
Repayments of long-term debt and other financing obligations	(27)	) (122)
Cash dividends — common stock	(5,926)	) (5,571)
Distributions to noncontrolling interests	(18)	) (93)
Net purchases of treasury shares	(3,174)	) (3,306)
Net Cash Used for Financing Activities	(3,851)	) (2,558)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6)	) (139)
Net Change in Cash and Cash Equivalents	(2,030)	) (3,925)
Cash and Cash Equivalents at January 1	16,245	20,939
Cash and Cash Equivalents at September 30	\$ 14,215	\$ 17,014

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 nine-month periods ended September 30, 2014, are not necessarily indicative of future financial results. The term "earnings" is defined as net income 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 2013 Annual Report on Form 10-K.

Note 2. Changes in Accumulated Other Comprehensive Losses

The change in Accumulated Other Comprehensive Losses (AOCL) presented on the Consolidated Balance Sheet and the impact of significant amounts reclassified from AOCL on information presented in the Consolidated Statement of Income for the nine months ending September 30, 2014, are reflected in the table below.

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

(Millions of Dollars)

	Nine Months Ended September 30, 2014				
	Currency Translation Adjustment	Unrealized Holding Gains (Losses) on Securities	Derivatives	Defined Benefit Plans	Total
Balance at January 1	\$(23)	\$(6)	\$52	\$(3,602)	\$(3,579)
Components of Other Comprehensive Income (Loss):					
Before Reclassifications	(49)	4	(43)	8	(80)
Reclassifications ⁽²⁾	—	—	(11)	232	221
Net Other Comprehensive Income (Loss)	(49)	4	(54)	240	141
Balance at September 30	\$(72)	\$(2)	\$(2)	\$(3,362)	\$(3,438)

⁽¹⁾ All amounts are net of tax.

⁽²⁾ Refer to Note 9, Employee Benefits for reclassified components totaling \$369 million that are included in employee benefit costs for the nine months ending September 30, 2014. Related income taxes for the same period, totaling \$137 million, are reflected in Income Tax Expense on the Consolidated Statement of Income. All other reclassified amounts were insignificant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 3. Noncontrolling Interests

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

Activity for the equity attributable to noncontrolling interests for the first nine months of 2014 and 2013 is as follows:

	2014			2013		
	Chevron Corporation Stockholders' Equity	Non-controlling Interest	Total Equity	Chevron Corporation Stockholders' Equity	Non-controlling Interest	Total Equity
	(Millions of dollars)					
Balance at January 1	\$149,113	\$ 1,314	\$150,427	\$136,524	\$ 1,308	\$137,832
Net income	15,770	68	15,838	16,493	146	16,639
Dividends	(5,929	) —	(5,929	) (5,573	) —	(5,573
Distributions to noncontrolling interests	—	(18	) (18	) —	(93	) (93
Treasury shares, net	(3,210	) —	(3,210	) (3,214	) —	(3,214
Other changes, net*	396	(197	) 199	549	(67	) 482
Balance at September 30	\$156,140	\$ 1,167	\$157,307	\$144,779	\$ 1,294	\$146,073

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

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

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

	Nine Months Ended	
	September 30	2013
	2014	2013
	(Millions of dollars)	
Decrease (increase) in accounts and notes receivable	\$1,388	\$(904
Increase in inventories	(931	) (749
Decrease in prepaid expenses and other current assets	237	298
(Decrease) increase in accounts payable and accrued liabilities	(946	) 98
Decrease in income and other taxes payable	(124	) (831
Net increase in operating working capital	\$(376	) \$(2,088

The "Net increase in operating working capital" includes reductions of \$55 million and \$73 million for excess income tax benefits associated with stock options exercised during the nine months ended September 30, 2014, and 2013, respectively. These amounts are offset by an equal amount in "Net purchases of treasury shares."

"Net Cash Provided by Operating Activities" included the following cash payments for income taxes:

	Nine Months Ended	
	September 30	2013
	2014	2013
	(Millions of dollars)	
Income taxes	\$8,625	\$10,209

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Information related to "Restricted Cash" is included on page 22 in Note 13 under the heading "Restricted Cash."

The "Net purchases of time deposits" consisted of the following gross amounts:

	Nine Months Ended September 30	
	2014	2013
	(Millions of dollars)	
Time deposits purchased	\$ (317)	\$ (2,316)
Time deposits matured	317	1,716
Net purchases of time deposits	\$ —	\$ (600)

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

	Nine Months Ended September 30	
	2014	2013
	(Millions of dollars)	
Marketable securities purchased	\$ (11)	\$ (7)
Marketable securities sold	12	10
Net sales of marketable securities	\$ 1	\$ 3

The "Net purchases of treasury shares" represents the cost of common shares acquired less the cost of shares issued for share-based compensation plans. Purchases totaled \$3.8 billion for the first nine months in both 2014 and 2013.

During the first nine months of 2014 and 2013, the company purchased 30.6 million and 31.3 million common shares under its ongoing share repurchase program, respectively, for \$3.7 billion in each corresponding period.

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

	Nine Months Ended September 30	
	2014	2013
	(Millions of dollars)	
Additions to properties, plant and equipment	\$25,094	\$25,557
Additions to investments	341	626
Current year dry hole expenditures	320	268
Payments for other liabilities and assets, net	(16)	(79)
Capital expenditures	25,739	26,372
Expensed exploration expenditures	853	790
Assets acquired through capital lease obligations	12	3
Capital and exploratory expenditures, excluding equity affiliates	26,604	27,165
Company's share of expenditures by equity affiliates	2,422	1,754
Capital and exploratory expenditures, including equity affiliates	\$29,026	\$28,919

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5. 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 mining activities, power and energy services, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, and technology companies.

The segments are separately managed for investment purposes under a structure that includes "segment managers" who report to the company's "chief operating decision maker" (CODM). The CODM is the company's Executive Committee (EXCOM), a committee of senior officers that includes the Chief Executive Officer. EXCOM reports to the Board of Directors of Chevron Corporation.

The operating 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.

Segment managers for the reportable segments are directly accountable to, and maintain regular contact with, the company's CODM to discuss the segment's operating activities and financial performance. The CODM approves annual capital and exploratory budgets at the reportable segment level, as well as reviews capital and exploratory funding for major projects and approves major changes to the annual capital and exploratory budgets. However, business-unit managers within the operating segments are directly responsible for decisions relating to project implementation and all other matters connected with daily operations. Company officers who are members of the EXCOM also have individual management responsibilities and participate in other committees for purposes other than acting as the CODM.

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 nine-month periods ended September 30, 2014, and 2013, are presented in the following table:

Segment Earnings*	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Upstream				
United States	\$929	\$1,026	\$2,895	\$3,241
International	3,720	4,066	11,325	12,716
Total Upstream	4,649	5,092	14,220	15,957
Downstream				
United States	809	249	1,748	522
International	578	131	1,070	1,325
Total Downstream	1,387	380	2,818	1,847
Total Segment Earnings	6,036	5,472	17,038	17,804
All Other				
Interest Income	16	17	54	56
Other	(459	) (539	) (1,322	) (1,367
Net Income Attributable to Chevron Corporation	\$5,593	\$4,950	\$15,770	\$16,493

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; mining activities; power and energy services; technology companies; and assets of the corporate administrative functions. Segment assets at September 30, 2014, and December 31, 2013, are as follows:

Segment Assets*	At September 30	At December 31
	2014	2013
	(Millions of dollars)	
Upstream		
United States	\$47,703	\$45,436
International	148,787	137,096
Goodwill	4,621	4,639
Total Upstream	201,111	187,171
Downstream		
United States	23,650	23,829
International	20,873	20,268
Total Downstream	44,523	44,097
Total Segment Assets	245,634	231,268
All Other		
United States	6,782	7,326
International	13,015	15,159
Total All Other	19,797	22,485
Total Assets — United States	78,135	76,591

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Total Assets — International	182,675	172,523
Goodwill	4,621	4,639
Total Assets	\$265,431	\$253,753

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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 nine-month periods ended September 30, 2014, and 2013, 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 mining activities, power and energy services, insurance operations, real estate activities, and technology companies.

Sales and Other Operating Revenues*	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Upstream				
United States	\$5,676	\$6,396	\$18,386	\$19,076
International	12,084	12,999	37,419	37,656
Subtotal	17,760	19,395	55,805	56,732
Intersegment Elimination — United States	(4,127	) (4,405	) (12,319	) (12,816
Intersegment Elimination — International	(6,317	) (8,715	) (18,676	) (24,520
Total Upstream	7,316	6,275	24,810	19,396
Downstream				
United States	20,623	22,425	62,043	64,410
International	26,071	28,015	78,474	82,415
Subtotal	46,694	50,440	140,517	146,825
Intersegment Elimination — United States	(6	) (10	) (18	) (32
Intersegment Elimination — International	(2,252	) (197	) (7,146	) (239
Total Downstream	44,436	50,233	133,353	146,554
All Other				
United States	474	494	1,349	1,321
International	11	9	24	24
Subtotal	485	503	1,373	1,345
Intersegment Elimination — United States	(404	) (400	) (1,130	) (1,067
Intersegment Elimination — International	(11	) (8	) (23	) (22
Total All Other	70	95	220	256
Sales and Other Operating Revenues				
United States	26,773	29,315	81,778	84,807
International	38,166	41,023	115,917	120,095
Subtotal	64,939	70,338	197,695	204,902
Intersegment Elimination — United States	(4,537	) (4,815	) (13,467	) (13,915
Intersegment Elimination — International	(8,580	) (8,920	) (25,845	) (24,781
Total Sales and Other Operating Revenues	\$51,822	\$56,603	\$158,383	\$166,206

* Effective January 1, 2014, International Upstream prospectively includes selected amounts previously recognized in International Downstream, which are not material to the company’s results of operations or financial position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 6. 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.

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

	Nine Months Ended September 30	
	2014	2013
	(Millions of dollars)	
Sales and other operating revenues	\$ 124,957	\$ 131,650
Costs and other deductions	120,977	128,195
Net income attributable to CUSA	3,697	2,898
	At September 30 2014	At December 31 2013
	(Millions of dollars)	
Current assets	\$ 16,307	\$ 17,626
Other assets	60,577	57,288
Current liabilities	18,820	17,486
Other liabilities	28,681	28,119
Total CUSA net equity	\$ 29,383	\$ 29,309
Memo: Total debt	\$ 14,475	\$ 14,482

Note 7. Summarized Financial Data — Chevron Transport Corporation

Chevron Transport Corporation Limited (CTC), incorporated in Bermuda, is an indirect, wholly owned subsidiary of Chevron Corporation. CTC is the principal operator of Chevron's international tanker fleet and is engaged in the marine transportation of crude oil and refined petroleum products. Most of CTC's shipping revenue is derived from providing transportation services to other Chevron companies. Chevron Corporation has fully and unconditionally guaranteed this subsidiary's obligations in connection with certain debt securities.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Sales and other operating revenues	\$ 153	\$ 110	\$ 459	\$ 361
Costs and other deductions	192	166	567	502
Net loss attributable to CTC	(39	) (57	) (108	) (141
	At September 30 2014		At December 31 2013	
	(Millions of dollars)			
Current assets	\$ 242		\$ 221	
Other assets	852		549	
Current liabilities	76		94	
Other liabilities	1,335		911	

Total CTC net deficit \$(317) \$(235)
There were no restrictions on CTC's ability to pay dividends or make loans or advances at September 30, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Income Taxes

Taxes on income for the third quarter and first nine months of 2014 were \$3.2 billion and \$10.0 billion, respectively, compared with \$3.8 billion and \$11.1 billion for the corresponding periods in 2013. The associated effective tax rates (calculated as the amount of Income Tax Expense divided by Income Before Income Tax Expense) for the third quarters of 2014 and 2013 were 37 percent and 44 percent, respectively. For the comparative nine-month periods, the effective tax rates were 39 percent and 40 percent, respectively.

The decrease in the effective tax rate between the quarterly periods primarily resulted from the net impact of changes in jurisdictional mix, foreign currency remeasurement effects and equity earnings. The decrease in the effective tax rate for the nine-month comparative period was primarily due to changes in jurisdictional mix and the tax effects related to the sale of interests in Chad and Cameroon, partially offset by other ongoing tax charges.

Tax positions for Chevron and its subsidiaries and affiliates are subject to income tax audits by many tax jurisdictions throughout the world. For the company's major tax jurisdictions, examinations of tax returns for certain prior tax years had not been completed as of September 30, 2014. For these jurisdictions, the latest years for which income tax examinations had been finalized were as follows: United States — 2008, Nigeria — 2000, Angola — 2001, Saudi Arabia — 2012 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.

Note 9. Assets Held For Sale

At September 30, 2014, the company classified \$201 million of net properties, plant and equipment as "Assets held for sale" on the Consolidated Balance Sheet. These assets are associated with upstream operations that are anticipated to be sold in 2014. The revenues and earnings contributions of these assets in 2014 were not material.

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.

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The components of net periodic benefit costs for 2014 and 2013 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Pension Benefits				
United States				
Service cost	\$113	\$124	\$338	\$371
Interest cost	124	117	371	353
Expected return on plan assets	(197)	(175)	(591)	(525)
Amortization of prior service (credits) costs	(3)	—	(7)	1
Amortization of actuarial losses	52	121	157	364
Settlement losses	48	57	114	171
Total United States	137	244	382	735
International				
Service cost	46	48	143	145
Interest cost	84	77	257	236
Expected return on plan assets	(75)	(68)	(227)	(204)
Amortization of prior service costs	6	6	16	16
Amortization of actuarial losses	23	35	74	110
Total International	84	98	263	303
Net Periodic Pension Benefit Costs	\$221	\$342	\$645	\$1,038
Other Benefits*				
Service cost	\$13	\$13	\$38	\$49
Interest cost	37	32	112	112
Amortization of prior service costs (credits)	3	(12)	10	(37)
Amortization of actuarial losses	2	13	5	40
Net Periodic Other Benefit Costs	\$55	\$46	\$165	\$164

* 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.

At the end of 2013, the company estimated it would contribute \$700 million to employee pension plans during 2014 (composed of \$350 million for the U.S. plans and \$350 million for the international plans). Through September 30, 2014, a total of \$227 million was contributed (including \$84 million to the U.S. plans). Total contributions for the full year are currently estimated to be \$400 million (\$100 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 2014. Actual contribution amounts are dependent upon plan investment returns, changes in pension obligations, regulatory requirements and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations.

During the first nine months of 2014, the company contributed \$152 million to its OPEB plans. The company anticipates contributing approximately \$63 million during the remainder of 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. 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 eleven 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 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.

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.

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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, which agreed to consider the appeal on March 20, 2014. 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 the Government of Ecuador has appealed the District Court's decision.

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

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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. 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 concerning jurisdiction to the Supreme Court of Canada and, on January 16, 2014, the Court of Appeals for Ontario granted Chevron's motion to stay the recognition and enforcement proceeding pending a decision on the admissibility of the Supreme Court appeal. On April 3, 2014, the Supreme Court of Canada granted Chevron's and Chevron Canada Limited's petitions to appeal the Ontario Court of Appeal's decision. On April 8, 2014, Chevron and Chevron Canada Limited filed their notices of appeal with the Canada Supreme Court.

On June 27, 2012, the Lago Agrio plaintiffs filed an action against Chevron Corporation in the Superior Court of Justice in Brasilia, Brazil, seeking to recognize and enforce the Ecuadorian judgment. 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. Chevron intends to vigorously defend against the proceeding. 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.

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

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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 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. Chevron expects that the application of this ruling will be considered by the Tribunal in Phase Two, including a determination whether the claims of the Lago Agrio plaintiffs are individual or collective/diffuse. The Tribunal had set Phase Two to begin on January 20, 2014 to hear Chevron's denial of justice claims, but on January 2, 2014, the Tribunal postponed Phase Two and held a procedural hearing on January 20-21, 2014. The Tribunal held a hearing on April 29-30, 2014 to address remaining issues relating to Phase One. It also set a hearing on April 20 to May 6, 2015 to address Phase Two issues. The Tribunal has not set a date for Phase Three, which will be the damages phase of the arbitration.

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 filed their notices of appeal on March 18, 2014.

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

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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 12. 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 8 on page 14 for a discussion of the periods for which tax returns have been audited for the company's major tax jurisdictions.

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

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

Indemnifications In the acquisition of Unocal, the company assumed certain indemnities relating to contingent environmental liabilities associated with assets that were sold in 1997. The acquirer of those assets shared in certain environmental remediation costs up to a maximum obligation of \$200 million, which had been reached at 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

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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 April 26, 2010, a California appeals court issued a ruling related to the adequacy of an Environmental Impact Report (EIR) supporting the issuance of certain permits by the city of Richmond, California, to replace and upgrade certain facilities at Chevron's refinery in Richmond. Settlement discussions with plaintiffs in the case ended late fourth quarter 2010, and on March 3, 2011, the trial court entered a final judgment and peremptory writ ordering the City to set aside the project EIR and conditional use permits and enjoining Chevron from any further work. On May 23, 2011, the company filed an application with the City Planning Department for a conditional use permit for a revised project to complete construction of the hydrogen plant, certain sulfur removal facilities and related infrastructure. On June 10, 2011, the City published its Notice of Preparation of the revised EIR for the project, and on March 18, 2014, the revised draft EIR was published for public comment. The public comment period closed in May 2014, the final EIR was released on June 9, 2014, and on July 29, 2014, the Richmond City Council certified the EIR and approved a conditional use permit. The company will now seek to secure the further necessary approvals to resume construction. Although the City Council has certified the EIR, management believes the outcomes associated with the project are uncertain. Due to the uncertainty of the company's future course of action, or potential outcomes of any action or combination of actions, management does not believe an estimate of the financial effects, if any, can be made at this time.

Chevron receives claims from and submits claims to customers; trading partners; U.S. federal, state and local regulatory bodies; governments; contractors; insurers; and suppliers. 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 gains or losses in future periods.

Note 13. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at September 30, 2014, and December 31, 2013, is as follows:

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

	At September 30, 2014				At December 31, 2013			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Marketable Securities	\$267	\$267	\$—	\$—	\$263	\$263	\$—	\$—
Derivatives	70	64	6	—	28	—	28	—
Total Assets at Fair Value	\$337	\$331	\$6	\$—	\$291	\$263	\$28	\$—
Derivatives	34	32	2	—	89	80	9	—
Total Liabilities at Fair Value	\$34	\$32	\$2	\$—	\$89	\$80	\$9	\$—

Marketable Securities The company calculates fair value for its marketable securities based on quoted market prices for identical assets. The fair values reflect the cash that would have been received if the instruments were sold at September 30, 2014.

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

Assets carried at fair value at September 30, 2014, and December 31, 2013, are as follows:

Cash and Cash Equivalents and Time Deposits The company holds cash equivalents and bank time deposits 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 \$14.2 billion and \$16.2 billion at September 30, 2014, and December 31, 2013, respectively. The instruments held in “Time deposits” are bank time deposits with maturities greater than 90 days and had carrying/fair values of \$8 million at both September 30, 2014 and December 31, 2013. The fair values of cash, cash equivalents and bank time deposits are classified as Level 1 and reflect the cash that would have been received if the instruments were settled at September 30, 2014.

Restricted Cash had a carrying/fair value of \$1.4 billion and \$1.2 billion at September 30, 2014, and December 31, 2013, respectively. At September 30, 2014, restricted cash is classified as Level 1 and includes restricted funds related to certain upstream abandonment activities, tax payments, and funds held in escrow pending tax deferred exchanges, which are reported in “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 \$12.0 billion at both September 30, 2014, and December 31, 2013. The fair value of long-term debt at September 30, 2014, and December 31, 2013 was \$12.4 billion and \$12.3 billion, respectively. Long-term debt primarily includes corporate issued bonds. The fair value of corporate bonds is \$11.7 billion and classified as Level 1. The fair value of the other bonds is \$0.7 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 September 30, 2014, and December 31, 2013, were not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value hierarchy for assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2014, is as follows:

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

(Millions of dollars)

	At September 30, 2014				Before-Tax Loss	
	Total	Level 1	Level 2	Level 3	Three Months Ended	Nine Months Ended
Properties, plant and equipment, net (held and used)	\$6	\$—	\$—	\$6	\$2	\$538
Properties, plant and equipment, net (held for sale)	—	—	—	—	—	—
Investments and advances	—	—	—	—	2	33
Total Assets at Fair Value	\$6	\$—	\$—	\$6	\$4	\$571

Properties, plant and equipment The company did not have any material impairments of long-lived assets measured at fair value on a nonrecurring basis to report in third quarter 2014.

Investments and advances The company did not have any material impairments of investments and advances measured at fair value on a nonrecurring basis to report in third quarter 2014.

Note 14. Financial and Derivative Instruments

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

The company uses derivative commodity instruments traded on the New York Mercantile Exchange and on electronic platforms of the Inter-Continental Exchange and Chicago Mercantile Exchange. In addition, the company enters into swap contracts and option contracts principally with major financial institutions and other oil and gas companies in the "over-the-counter" markets, which are governed by International Swaps and Derivatives Association agreements and other master netting arrangements.

Derivative instruments measured at fair value at September 30, 2014, and December 31, 2013, and their classification on the Consolidated Balance Sheet and Consolidated Statement of Income are as follows:

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

(Millions of Dollars)

Type of Contract	Balance Sheet Classification	At September 30 2014	At December 31 2013
Commodity	Accounts and notes receivable, net	\$68	\$22
Commodity	Long-term receivables, net	2	6
Total Assets at Fair Value		\$70	\$28
Commodity	Accounts payable	\$20	\$65
Commodity	Deferred credits and other noncurrent obligations	14	24
Total Liabilities at Fair Value		\$34	\$89

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidated Statement of Income: The Effect of Derivatives Not Designated as Hedging Instruments
(Millions of dollars)

Type of Contract	Statement of Income Classification	Gain / (Loss) Three Months Ended September 30		Gain / (Loss) Nine Months Ended September 30	
		2014	2013	2014	2013
Commodity	Sales and other operating revenues	\$86	\$(85)	) \$112	\$(48)
Commodity	Purchased crude oil and products	(16)	) (37)	) (32)	) (69)
Commodity	Other income	(3)	) 2	(26)	) (5)
		\$67	\$(120)	) \$54	\$(122)

The table below represents gross and net derivative assets and liabilities subject to netting agreements on the Consolidated Balance Sheet at September 30, 2014, and December 31, 2013.

Consolidated Balance Sheet: The Effect of Netting Derivative Assets and Liabilities
(Millions of dollars)

	Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset	Net Amount
At September 30, 2014					
Derivative Assets	\$1,836	\$1,766	\$70	\$8	\$62
Derivative Liabilities	\$1,800	\$1,766	\$34	\$—	\$34
At December 31, 2013					
Derivative Assets	\$732	\$704	\$28	\$27	\$1
Derivative Liabilities	\$793	\$704	\$89	\$—	\$89

Derivative assets and liabilities are classified on the Consolidated Balance Sheet as accounts and notes receivable, long-term receivables, accounts payable, and deferred credits and other noncurrent obligations. Amounts not offset on the Consolidated Balance Sheet represent positions that do not meet all the conditions for "a right of offset."

Note 15. Accounting for Suspended Exploratory Wells

The capitalized cost of suspended wells at September 30, 2014, was \$4.1 billion, a net increase of \$834 million from year-end 2013, primarily due to drilling activities. During the nine months ended September 30, 2014, \$30 million of exploratory well costs previously capitalized for greater than one year at December 31, 2013, were charged to dry hole expense.

Note 16. New Accounting Standards

Revenue Recognition (Topic 606), Revenue from Contracts with Customers (ASU 2014-09) In May 2014, the FASB issued ASU 2014-09, which becomes effective for the company January 1, 2017. Early adoption is not permitted. The standard provides that an entity should recognize revenue to align with the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for those goods or services. The ASU, which replaces most existing revenue recognition guidance in U.S. GAAP, provides a five-step model for recognition of revenue, guidance on the accounting for certain costs of obtaining or fulfilling contracts with customers and specific disclosure requirements. Transition guidance permits either retrospective application or presentation of the cumulative effect at the adoption date. The company is reviewing the requirements of the ASU to determine the transition method it will apply and to update its assessments developed throughout the FASB's deliberation period. The company is evaluating the effect of the standard on the company's consolidated financial statements.

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

Third Quarter 2014 Compared with Third Quarter 2013
And Nine Months 2014 Compared with Nine Months 2013

Key Financial Results

Earnings by Business Segment

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Upstream				
United States	\$929	\$1,026	\$2,895	\$3,241
International	3,720	4,066	11,325	12,716
Total Upstream	4,649	5,092	14,220	15,957
Downstream				
United States	809	249	1,748	522
International	578	131	1,070	1,325
Total Downstream	1,387	380	2,818	1,847
Total Segment Earnings	6,036	5,472	17,038	17,804
All Other	(443)	(522)	(1,268)	(1,311)
Net Income Attributable to Chevron Corporation ^{(1) (2)}	\$5,593	\$4,950	\$15,770	\$16,493
⁽¹⁾ Includes foreign currency effects	\$366	\$(276)	\$55	\$272

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

Net income attributable to Chevron Corporation for third quarter 2014 was \$5.6 billion (\$2.95 per share — diluted), versus \$5.0 billion (\$2.57 per share — diluted) in the corresponding 2013 period. Net income attributable to Chevron Corporation for the first nine months of 2014 was \$15.8 billion (\$8.29 per share — diluted), versus \$16.5 billion (\$8.52 per share — diluted) in the first nine months of 2013.

Upstream earnings in third quarter 2014 were \$4.6 billion compared with \$5.1 billion a year earlier. The decrease between comparative periods was mainly due to lower crude oil realizations and higher depreciation expenses, partly offset by favorable foreign currency effects and lower exploration expenses. Earnings for the first nine months of 2014 were \$14.2 billion compared with \$16.0 billion a year earlier. Higher gains from asset sales were more than offset by higher depreciation, operating and exploration expenses, lower crude oil realizations and sales volumes and unfavorable foreign currency effects.

Downstream earnings in third quarter 2014 were \$1.4 billion compared with \$380 million in the corresponding 2013 period. The increase was driven by higher margins on refined product sales, favorable changes in effects on derivative instruments and gains from asset sales. Earnings for the first nine months of 2014 were \$2.8 billion compared with \$1.8 billion in the corresponding 2013 period. Higher margins on refined product sales in the U.S., gains from U.S. asset sales and stronger earnings from the 50 percent-owned Chevron Phillips Chemical Company LLC drove the increase.

Refer to pages 29 through 32 for additional discussion of results by business segment and "All Other" activities for third quarter of 2014 versus the same period in 2013.

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, the Netherlands, Nigeria, the Partitioned Zone between

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Saudi Arabia and Kuwait, the Philippines, Republic of the Congo, Singapore, South Africa, South Korea, Thailand, Trinidad and Tobago, the United Kingdom, the United States, Venezuela, and Vietnam.

Earnings of the company depend mostly on the profitability of its upstream and downstream business segments. The biggest factor affecting the results of operations for the company is the price of crude oil. In the downstream business, crude oil is the largest cost component of refined products. Seasonality is not a primary driver of changes in the company's quarterly earnings during the year.

To sustain its long-term competitive position in the upstream business, the company must develop and replenish an inventory of projects that offer attractive financial returns for the investment required. Identifying promising areas for exploration, acquiring the necessary rights to explore for and to produce crude oil and natural gas, drilling successfully, and handling the many technical and operational details in a safe and cost-effective manner are all important factors in this effort. Projects often require long lead times and large capital commitments.

The company's operations, especially upstream, can also be affected by changing economic, regulatory and political environments in the various countries in which it operates, including the United States. From time to time, certain governments have sought to renegotiate contracts or impose additional costs on the company. Governments may attempt to do so in the future. Civil unrest, acts of violence or strained relations between a government and the company or other governments may impact the company's operations or investments. Those developments have at times significantly affected the company's operations and results and are carefully considered by management when evaluating the level of current and future activity in such countries.

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 growth. Refer to the "Results of Operations" section, beginning on page 29 for discussions of net gains on asset sales during 2014. 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 production and inventory levels, production quotas imposed by the Organization of Petroleum Exporting Countries (OPEC), 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. External factors include not only the general level of inflation, but also 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. 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 above shows the trend in benchmark prices for Brent crude oil, West Texas Intermediate (WTI) crude oil, and U.S. Henry Hub natural gas. The Brent price averaged \$109 per barrel for the full-year 2013. During 2014, Brent averaged \$102 per barrel in the third quarter, \$106 per barrel for the nine-month period, and ended October at about \$84. The majority of the company's equity crude production is priced based on the Brent benchmark. While geopolitical tensions and supply disruptions earlier in the year supported crude prices, more recently the price for Brent-related crudes has reflected softness in the global economic recovery, continuing strength in U.S. production, seasonal refinery maintenance activities globally and higher production from Libya.

The WTI price averaged \$98 per barrel for the full-year 2013. During 2014, WTI averaged \$97 per barrel in the third quarter, \$100 per barrel for the nine-month period and ended October at about \$81. WTI traded at a discount to Brent throughout 2013 and the first nine months of 2014 due to high inventories and excess crude supply in the U.S. market. Near record-high U.S. Gulf Coast refinery runs supported by product exports reduced inventories in September and October, resulting in compression of the Brent-WTI spread.

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). After peaking early in the second quarter of 2014, the differential has eased in North America as light sweet crude oil production in the U.S. midcontinent region remained robust, while refinery crude runs reached near-record levels. Outside of North America, the return of supply from Libya and easing of geopolitical tensions elsewhere has pressured light sweet crude markets relative to 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 35 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. In the U.S., prices at Henry Hub averaged \$4.62 per thousand cubic feet (MCF) for the first nine months of 2014, compared with \$3.67 during the first nine months of 2013. At the end of October 2014, the Henry Hub spot price was \$3.84 per MCF. 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.

Outside the United States, price changes for natural gas depend on a wide range of supply, demand and regulatory circumstances. 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. International natural gas realizations averaged \$5.91 per MCF during the first nine months of 2014, compared with \$5.96 per MCF in the same period last year. (See page 35 for the company's average natural gas realizations for the U.S. and international regions.)

The company's worldwide net oil-equivalent production in the first nine months of 2014 averaged 2.567 million barrels per day. About one-fifth of the company's net oil-equivalent production in the first nine months of 2014 occurred in the OPEC-member countries of Angola, Nigeria, Venezuela and the Partitioned Zone between Saudi Arabia and Kuwait. OPEC quotas had no effect on the company's net crude oil production for the third quarter or

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nine-month periods of 2014 or 2013. At their June 2014 meeting, members of OPEC supported maintaining the current production quota of 30 million barrels per day, which has been in effect since December 2008.

The company estimates that net oil-equivalent production for the full-year 2014 will average about 98 to 99 percent of the previously-announced target of 2.610 million barrels per day, based on an average Brent price of \$109 per barrel. This estimate is subject to many factors and uncertainties, including quotas that may be imposed by OPEC; price and other production entitlement effects; changes in fiscal terms or restrictions on the scope of company operations; delays in construction, start-up or ramp-up of projects; fluctuations in demand for natural gas in various markets; weather conditions that may shut in production; civil unrest; changing geopolitics; delays in completion of maintenance turnarounds; greater-than-expected declines in production from mature fields; or other disruptions to operations. The outlook for future production levels is also affected by the size and number of economic investment opportunities and, for new, large-scale projects, the time lag between initial exploration and the beginning of production. Investments in upstream projects generally begin well in advance of the start of the associated crude oil and natural gas production. A significant majority of Chevron's upstream investment is made outside the United States.

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 these seeps have emerged. A Brazilian federal district prosecutor filed two civil lawsuits seeking \$10.7 billion in damages for each of the two seeps. On October 1, 2013, the Court dismissed the two civil lawsuits and approved a settlement under which Chevron and its consortium partners agreed to spend approximately \$43 million on social and environmental programs. On November 11, 2013, the Court announced that the settlement was final. The federal district prosecutor also filed criminal charges against Chevron and eleven Chevron employees. On February 19, 2013, the court dismissed the criminal matter, and on appeal, on October 9, 2013, the appellate court reinstated two of the ten allegations, specifically those charges alleging environmental damage and failure to provide timely notification to authorities. On February 27, 2014, Chevron filed a motion for reconsideration. The company's ultimate exposure related to the incident is not currently determinable, but could be significant to net income in any one period.

Refer to the "Results of Operations" section on pages 29 through 31 for additional discussion of the company's upstream business.

Downstream Earnings for the downstream segment are closely tied to margins on the refining, manufacturing and marketing of products that include gasoline, diesel, jet fuel, lubricants, fuel oil, fuel and lubricant additives, and petrochemicals. Industry margins are sometimes volatile and can be affected by the global and regional supply-and-demand balance for refined products and petrochemicals, and by changes in the price of crude oil, other refinery and petrochemical feedstocks, and natural gas. Industry margins can also be influenced by inventory levels, geopolitical events, costs of materials and services, refinery or chemical plant capacity utilization, maintenance programs, and disruptions at refineries or chemical plants resulting from unplanned outages due to severe weather, fires or other operational events.

Other factors affecting profitability for downstream operations include the reliability and efficiency of the company's refining, marketing and petrochemical assets, the effectiveness of its crude oil and product supply functions, and the volatility of tanker-charter rates for the company's shipping operations, which are driven by the industry's demand for crude oil and product tankers. Other factors beyond the company's control include the general level of inflation and energy costs to operate the company's refining, marketing and petrochemical assets.

The company's most significant marketing areas are the West Coast of North America, the U.S. Gulf Coast, Asia and southern Africa. Chevron operates or has significant ownership interests in refineries in each of these areas.

Refer to the "Results of Operations" section on pages 31 through 32 for additional discussion of the company's downstream operations.

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

Operating Developments

Noteworthy operating developments for the upstream business in recent months included the following:

• Australia — Completed construction and testing of the first LNG tank for the Gorgon Project. All 18 Gorgon and Jansz-Io wells have been successfully drilled, and completion activity is ongoing.

• Australia — Installed the offshore platform gravity-based structure for the Wheatstone Project.

• Bangladesh — Announced first gas from the Bibiyana Expansion Project.

• Canada — Announced the sale of a 30 percent interest in the Duvernay shale play for \$1.5 billion.

• United States — Announced a significant crude oil discovery at the Guadalupe prospect in the deepwater Gulf of Mexico.

• United States — Reached a final investment decision for the Stampede Project in the deepwater Gulf of Mexico.

• United States — Drilled approximately 460 wells year-to-date in the Permian Basin and continued the horizontal pad-drilling program.

• United States — Reached an agreement to sell natural gas liquids pipeline assets in Texas and southeastern New Mexico for \$800 million.

In the downstream, construction of Chevron Phillips Chemical Company's new ethane cracker and polyethylene units in Texas is progressing on-schedule and on-budget.

The company purchased \$1.25 billion of its common stock in third quarter 2014 under its share repurchase program.

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 5, on page 10, for a discussion of the company's "reportable segments," as defined under the accounting standards for segment reporting.)

Upstream

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
U.S. Upstream Earnings	\$929	\$1,026	\$2,895	\$3,241

U.S. upstream earnings of \$929 million in third quarter 2014 were down \$97 million from the corresponding period in 2013. Earnings decreased due to lower crude oil prices of \$240 million and higher operating expenses of \$140 million, largely reflecting the economic buyout of a long-term contractual obligation. Partially offsetting these effects were higher gains on asset sales of \$150 million in the current period, lower exploration expenses of \$70 million and higher crude oil production of \$70 million.

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U.S. upstream earnings for the first nine months of 2014 were \$2.9 billion, down \$346 million from the corresponding 2013 period. Earnings decreased due to lower crude oil prices of \$290 million, and higher operating and depreciation expenses of \$280 million and \$260 million, respectively, partially offset by higher gains on asset sales of \$350 million in the current period and higher natural gas realizations of \$150 million.

The company's average realization per barrel for U.S. crude oil and natural gas liquids in third quarter 2014 was \$87, down from \$97 a year ago. The average nine-month realization per barrel for U.S. crude oil and natural gas liquids was \$90 in 2014, compared to \$95 a year earlier. The average natural gas realization in third quarter 2014 was \$3.46 per thousand cubic feet, compared with \$3.23 in 2013. The average nine-month natural gas realization was \$4.09 per thousand cubic feet in 2014 and \$3.37 in 2013.

Net oil-equivalent production of 677,000 barrels per day in third quarter 2014 was up 22,000 barrels per day, or 3 percent, from the third quarter a year earlier. Net oil-equivalent production of 661,000 barrels per day in the first nine months of 2014 was up slightly from a year earlier. Production increases in the Permian Basin in Texas and New Mexico and the Marcellus Shale in western Pennsylvania were partially offset by normal field declines in both comparative periods.

The net liquids component of oil-equivalent production of 464,000 barrels per day in third quarter 2014 was up 4 percent from the corresponding 2013 period. The net liquids component of oil-equivalent production of 454,000 barrels per day in the nine-month period was up slightly from the 2013 period. Net natural gas production was 1.28 billion cubic feet per day in third quarter 2014, an increase of 3 percent from the 2013 comparative period. Net natural gas production was 1.25 billion cubic feet per day in the nine-month period, a slight increase from the 2013 period.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
International Upstream Earnings*	\$3,720	\$4,066	\$11,325	\$12,716

* Includes foreign currency effects \$344 \$(188) \$144 \$259

International upstream earnings of \$3.7 billion in third quarter 2014 decreased \$346 million from the corresponding period in 2013. The decrease between quarters was primarily due to lower realizations and sales volumes for crude oil of \$440 million and \$240 million, respectively, along with higher depreciation and operating expenses of \$150 million and \$80 million, respectively. Foreign currency effects increased earnings by \$344 million in the 2014 quarter, compared with a decrease of \$188 million a year earlier.

Earnings for the first nine months of 2014 were \$11.3 billion, down \$1.4 billion from the corresponding period in 2013. The decrease between periods was primarily due to higher depreciation, exploration and tax expenses of \$430 million, \$190 million and \$150 million, respectively. Lower crude oil realizations and sales volumes for crude oil of \$250 million and \$230 million, respectively, and lower natural gas prices of \$150 million, also contributed to the decrease. Partially offsetting these items was an increased gain on asset sales of \$340 million. Foreign currency effects increased earnings by \$144 million in the first nine months of 2014, compared with an increase of \$259 million a year earlier.

The average realization per barrel of crude oil and natural gas liquids in third quarter 2014 was \$93, compared with \$104 a year earlier. The average realization per barrel of crude oil and natural gas liquids in the first nine months of 2014 was \$98, compared with \$100 a year earlier. The average natural gas realization per thousand cubic feet in third quarter 2014 was \$5.73 compared with \$5.88 in the 2013 period. The average natural gas realization per thousand cubic feet in the first nine months of 2014 was \$5.91 compared with \$5.96 in the 2013 period.

International net oil-equivalent production of 1.89 million barrels per day in third quarter 2014 was down 39,000 barrels per day, or 2 percent, from third quarter a year ago. Production increases from project ramp-ups in Argentina, Brazil and Nigeria and improved reliability at Tengizchevroil were more than offset by normal field declines, production entitlement effects in several locations and the effect of asset sales. International net oil-

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equivalent production of 1.91 million barrels per day in the first nine months of 2014 was down 39,000 barrels per day, or 2 percent, from the corresponding 2013 period. Production increases due to project ramp-ups in Nigeria, Argentina and Brazil were more than offset by normal field declines, production entitlement effects in several locations and the effect of asset sales.

The net liquids component of oil-equivalent production of 1.24 million barrels per day in third quarter 2014 and 1.25 million barrels per day in the first nine months of 2014 decreased 3 percent for both respective periods. Net natural gas production of 3.94 billion cubic feet per day in third quarter 2014 increased 1 percent from third quarter a year ago. Net natural gas production of 3.95 billion cubic feet per day in the first nine months of 2014 decreased 1 percent from the corresponding 2013 period.

Downstream

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
U.S. Downstream Earnings	\$809	\$249	\$1,748	\$522

U.S. downstream operations earned \$809 million in third quarter 2014 compared with earnings of \$249 million a year earlier. Higher margins on refined product sales, primarily reflecting higher production volumes in refining and higher marketing and trading margins, increased earnings \$390 million. Gains from asset sales were \$250 million in the current period, compared with \$140 million in the prior-year period. Lower operating expenses of \$60 million, reflecting lower turnaround activity at the company's refineries, also contributed to the increase.

Earnings for the first nine months of 2014 were \$1.7 billion compared to \$522 million a year earlier. Higher margins on refined product sales, primarily reflecting higher production volumes in refining and higher refining and marketing margins, increased earnings \$700 million. Gains from asset sales were \$500 million in the current period, compared with \$200 in the prior-year period. Higher earnings from the 50 percent-owned Chevron Phillips Chemical Company LLC of \$170 million and lower operating expenses of \$110 million also contributed to the increase.

Refinery crude oil input of 921,000 barrels per day in third quarter 2014 increased 90,000 barrels per day from the year-ago period. The increase was primarily due to lower planned turnaround activities at the refinery in El Segundo, California.

For the first nine months of 2014, crude oil input was 851,000 barrels per day, up 109,000 barrels per day from the corresponding 2013 period. The increase was primarily due to higher volumes in Richmond, California as a result of the second quarter 2013 re-start of the crude unit.

Refined product sales of 1.22 million barrels per day were up 27,000 barrels per day from third quarter 2013, mainly due to higher jet fuel, gas oil and kerosene sales. Sales of 1.20 million barrels per day in the nine-month period were up 33,000 barrels per day, reflecting higher gas oil and kerosene sales. Branded gasoline sales for both third quarter and the first nine months were largely unchanged from the corresponding 2013 periods at 526,000 and 519,000 barrels per day, respectively.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
International Downstream Earnings*	\$578	\$131	\$1,070	\$1,325

* Includes foreign currency effects \$21 (\$86) \$(91) \$20

International downstream operations earned \$578 million in third quarter 2014 compared with \$131 million a year earlier. The increase was mainly due to a favorable change in effects on derivative instruments of \$220 million and higher margins on refined product sales of \$100 million. Foreign currency effects increased earnings by \$21 million in the 2014 quarter, compared with a decrease of \$86 million a year earlier.

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Earnings for the first nine months of 2014 were \$1.1 billion compared with \$1.3 billion a year earlier. The decrease was mainly due to lower margins on refined product sales of \$260 million, partially offset by a favorable change in the effects on derivative instruments of \$150 million. Foreign currency effects decreased earnings \$91 million in the 2014 quarter, compared with an increase of \$20 million in the year-ago period.

Refinery crude oil input of 838,000 barrels per day in third quarter 2014 decreased 47,000 barrels per day from the year-ago period. In the nine-month period, crude oil inputs decreased 39,000 barrels per day to 819,000.

Total refined product sales of 1.51 million barrels per day in the 2014 third quarter decreased 56,000 barrels per day from the year-ago period. Sales of 1.49 million barrels per day in the first nine months were down 34,000 barrels per day from the corresponding 2013 period. The decrease in both periods reflects lower gas oil and kerosene sales.

All Other

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Net Charges*	\$ (443	) \$ (522	) \$ (1,268	) \$ (1,311
)
* Includes foreign currency effects	\$ 1	) \$ (2	) \$ 2	) \$ (7
)

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

Net charges in third quarter 2014 were \$443 million, compared with \$522 million a year earlier. The change between periods was mainly due to the absence of the 2013 impairment of a power-related equity affiliate, lower corporate tax items and lower corporate charges. These decreases were partially offset by additional environmental reserves.

Foreign currency effects decreased net charges by \$1 million in third quarter 2014, compared to a \$2 million increase in net charges in the 2013 period. Net charges for the first nine months of 2014 were \$1,268 million, compared with \$1,311 million a year earlier. The change between periods was mainly due to the absence of 2013 impairments of power-related equity affiliates and lower corporate charges. This decrease was partially offset by additional environmental reserves, a 2014 impairment of a mining asset and higher corporate tax items. Foreign currency effects decreased net charges by \$2 million for the first nine months of 2014, compared to a \$7 million increase in net charges in the 2013 period.

Consolidated Statement of Income

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Sales and other operating revenues	\$ 51,822	\$ 56,603	\$ 158,383	\$ 166,206
Sales and other operating revenues decreased	\$4.8 billion in the three-month period and \$7.8 billion in the nine-month period, primarily due to lower crude oil sales.			

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Income from equity affiliates	\$ 1,912	\$ 1,635	\$ 5,543	\$ 5,703
Income from equity affiliates in the quarterly period increased mainly due to higher downstream-related earnings from GS Caltex in South Korea and Caltex Australia, higher upstream-related earnings from Tengizchevroil in				

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Kazakhstan and the absence of 2013 impairments of a power-related affiliate, partially offset by lower upstream-related earnings from Petropiar in Venezuela and Angola LNG. Income from equity affiliates in the nine-month period decreased mainly due to lower upstream-related earnings from Petropiar and Petroboscan in Venezuela and Angola LNG, and lower downstream-related earnings from GS Caltex in South Korea and Caltex Australia. Partially offsetting these effects were higher earnings from Chevron Phillips Chemical Company LLC and the absence of the 2013 impairment of power-related affiliates.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Other income	\$945	\$265	\$1,956	\$781

Other income for the quarterly period increased primarily due to higher gains on asset sales and a favorable swing in foreign currency effects. The nine-month period increased primarily due to higher gains on asset sales.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			

Purchased crude oil and products \$30,741 \$34,822 \$95,408 \$102,005

Purchases in the quarterly period decreased \$4.1 billion primarily due to lower purchases of crude oil. Purchases in the nine-month period decreased \$6.6 billion primarily due to lower crude oil and refined products volumes.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			

Operating, selling, general and administrative expenses \$7,525 \$7,263 \$21,839 \$21,440

Operating, selling, general and administrative expenses increased \$262 million between quarterly periods, largely due to higher transportation and environmental reserve expenses, partially offset by lower employee, and construction and maintenance expenses. Expenses increased \$399 million between the nine-month periods, primarily due to higher transportation expenses.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Exploration expenses	\$366	\$559	\$1,475	\$1,135

The decrease in exploration expenses for the quarterly period was mostly due to lower charges for well write-offs and lower geological and geophysical expenses. The increase in the nine-month period was primarily due to higher charges for both well write-offs and geological and geophysical expenses.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Depreciation, depletion and amortization	\$3,948	\$3,658	\$11,920	\$10,551

Depreciation, depletion and amortization expenses in third quarter 2014 increased mainly due to higher depreciation rates for certain oil and gas producing fields and higher accretion expense, partially offset by lower impairment expense related to upstream properties. The nine-month period increased mainly due to higher depreciation rates for

certain oil and gas producing fields and the impairment of a mining asset.

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	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Taxes other than on income	\$3,236	\$3,366	\$9,422	\$9,852

Taxes other than on income decreased in the quarterly period due to lower domestic excise taxes. The nine-month period decreased primarily due to lower consumer excise taxes in Thailand, reflecting lower sales volumes, along with a decrease in duty expense in South Africa.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
Income tax expense	\$3,236	\$3,839	\$9,980	\$11,068

Effective income tax rates for the 2014 and 2013 quarters were 37 percent and 44 percent, respectively. For the comparative nine-month periods, the effective tax rates were 39 percent and 40 percent, for 2014 and 2013 respectively. The decrease in the effective tax rate between the quarterly periods primarily resulted from the net impact of changes in jurisdictional mix, foreign currency remeasurement effects and equity earnings. The decrease in the effective tax rate for the nine-month comparative period was primarily due to changes in jurisdictional mix and the tax effects related to the sale of interests in Chad and Cameroon, partially offset by other ongoing tax charges.

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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		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
U.S. Upstream				
Net crude oil and natural gas liquids production (MBPD)	464	448	454	452
Net natural gas production (MMCFPD) ⁽³⁾	1,278	1,242	1,245	1,241
Net oil-equivalent production (MBOEPD)	677	655	661	659
Sales of natural gas (MMCFPD)	3,697	5,643	4,099	5,795
Sales of natural gas liquids (MBPD)	23	12	19	13
Revenue from net production				
Liquids (\$/Bbl)	\$87.42	\$97.18	\$90.41	\$94.64
Natural gas (\$/MCF)	\$3.46	\$3.23	\$4.09	\$3.37
International Upstream				
Net crude oil and natural gas liquids production (MBPD) ⁽⁴⁾	1,235	1,279	1,248	1,281
Net natural gas production (MMCFPD) ⁽³⁾	3,935	3,910	3,945	3,983
Net oil-equivalent production (MBOEPD) ⁽⁴⁾	1,891	1,930	1,906	1,945
Sales of natural gas (MMCFPD)	4,290	4,072	4,328	4,279
Sales of natural gas liquids (MBPD)	28	27	29	27
Revenue from liftings				
Liquids (\$/Bbl)	\$93.45	\$104.29	\$97.74	\$100.16
Natural gas (\$/MCF)	\$5.73	\$5.88	\$5.91	\$5.96
U.S. and International Upstream				
Total net oil-equivalent production (MBOEPD) ⁽⁴⁾	2,568	2,585	2,567	2,604
U.S. Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	629	636	611	614
Other refined product sales (MBPD)	593	559	591	555
Total refined product sales (MBPD)	1,222	1,195	1,202	1,169
Sales of natural gas liquids (MBPD)	120	121	117	124
Refinery input (MBPD)	921	831	851	742
International Downstream				
Gasoline sales (MBPD) ⁽⁵⁾	319	325	317	303
Other refined product sales (MBPD)	703	762	698	745
Share of affiliate sales (MBPD)	483	474	471	472
Total refined product sales (MBPD)	1,505	1,561	1,486	1,520
Sales of natural gas liquids (MBPD)	55	63	55	62
Refinery input (MBPD)	838	885	819	858

⁽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	74	70	72	74
International ⁽⁶⁾	436	471	456	457

⁽⁴⁾ Includes: Canada — synthetic oil

	48	43	43	42
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Venezuela affiliate — synthetic oil	32	30	32	23
(5) Includes branded and unbranded gasoline.				
(6) 2013 conforms to 2014 presentation.				

Table of Contents**Liquidity and Capital Resources**

Cash, cash equivalents, time deposits and marketable securities totaled \$14.5 billion at September 30, 2014, down \$2.0 billion from year-end 2013. Cash provided by operating activities in the first nine months of 2014 was \$25.0 billion, compared with \$24.6 billion in the year-ago period. Cash capital and exploratory expenditures decreased \$561 million between periods.

Dividends The company paid dividends of \$5.9 billion to common shareholders during the first nine months of 2014. In October 2014, the company declared a quarterly dividend of \$1.07 per common share, payable in December 2014.

Debt and Capital Lease Obligations Chevron's total debt and capital lease obligations were \$25.7 billion at September 30, 2014, up from \$20.4 billion at December 31, 2013.

The company's primary financing source for working capital needs is its commercial paper program. The authorized borrowing limit under this program is \$20.0 billion and the outstanding balance at September 30, 2014, was \$10.4 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 \$13.7 billion at September 30, 2014, and \$8.4 billion at December 31, 2013. Of these amounts, \$8.0 billion was reclassified to long-term at both September 30, 2014, and December 31, 2013. At September 30, 2014, settlement of these obligations was not expected to require the use of working capital within one year, as the company had the intent and the ability, as evidenced by committed credit facilities, to refinance them on a long-term basis.

At September 30, 2014, the company had \$8.0 billion in committed credit facilities with various major banks, expiring in December 2016, which enable the refinancing of short-term obligations on a long-term basis. These facilities support commercial paper borrowing and can also be used for general corporate purposes. The company's practice has been to continually replace expiring commitments with new commitments on substantially the same terms, maintaining levels management believes appropriate. Any borrowings under the facilities would be unsecured indebtedness at interest rates based on the London Interbank Offered Rate or an average of base lending rates published by specified banks and on terms reflecting the company's strong credit rating. No borrowings were outstanding under these facilities at September 30, 2014. In addition, the company has an automatic shelf registration statement that expires in November 2015 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 Aa1 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. The company also can modify capital spending plans during extended periods of low prices for crude oil and natural gas and narrow margins for refined products and commodity chemicals to provide flexibility to continue paying the common stock dividend and maintain 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. The company expects to repurchase between \$500 million and \$2 billion of its common shares per quarter, 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. During third quarter 2014, the company purchased 9.8 million common shares for \$1.25 billion. From the inception of the program through third quarter 2014, the company has purchased 169.9 million shares for \$18.8 billion.

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Noncontrolling Interests The company had noncontrolling interests of \$1.2 billion and \$1.3 billion at September 30, 2014, and December 31, 2013, respectively. Distributions to noncontrolling interests totaled \$18 million during the first nine months of 2014 compared to \$93 million for the same period in 2013.

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 September 30, 2014, and 1.5 at December 31, 2013, respectively. The current ratio is adversely affected by the fact that Chevron's inventories are valued on a last-in, first-out basis. At September 30, 2014, the book value of inventory was lower than replacement cost.

Debt Ratio — total debt as a percentage of total debt plus Chevron Corporation Stockholders' Equity, which indicates the company's leverage. This ratio was 14.1 percent at September 30, 2014, and 12.1 percent at year-end 2013.

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 \$29.0 billion in the first nine months of 2014, compared with \$28.9 billion in the corresponding 2013 period. The amounts included the company's share of affiliates' expenditures of \$2.4 billion and \$1.8 billion in the 2014 and 2013 periods, respectively, which did not require cash outlays by the company. Expenditures for upstream projects in the first nine months of 2014 were \$26.9 billion, representing 93 percent of the company wide total.

Capital and Exploratory Expenditures by Major Operating Area

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Millions of dollars)			
United States				
Upstream	\$2,129	\$2,067	\$6,217	\$5,913
Downstream	376	517	1,144	1,287
All Other	157	159	378	446
Total United States	2,662	2,743	7,739	7,646
International				
Upstream	6,535	7,605	20,644	20,566
Downstream	208	230	623	690
All Other	5	7	20	17
Total International	6,748	7,842	21,287	21,273
Worldwide	\$9,410	\$10,585	\$29,026	\$28,919

Contingencies and Significant Litigation

MTBE Information related to methyl tertiary butyl ether (MTBE) matters is included on page 16 in Note 11 to the Consolidated Financial Statements under the heading "MTBE."

Ecuador Information related to Ecuador matters is included beginning on page 16 in Note 11 to the Consolidated Financial Statements under the heading "Ecuador."

Income Taxes Information related to income tax contingencies is included on page 14 in Note 8 and page 20 in Note 12 to the Consolidated Financial Statements under the heading "Income Taxes."

Guarantees Information related to the company's guarantees is included on page 20 in Note 12 to the Consolidated Financial Statements under the heading "Guarantees."

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Indemnifications Information related to indemnifications is included on page 20 in Note 12 to the Consolidated Financial Statements under the heading “Indemnifications.”

Off-Balance-Sheet Obligations Information related to the company’s off-balance-sheet obligations is included on page 20 in Note 12 to the Consolidated Financial Statements under the heading “Off-Balance-Sheet Obligations.”

Environmental Information related to environmental matters is included on page 20 in Note 12 to the Consolidated Financial Statements under the heading “Environmental.”

Other Contingencies Information related to the company’s other contingencies is included on page 21 in Note 12 to the Consolidated Financial Statements under the heading “Other Contingencies.”

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the three months ended September 30, 2014, does not differ materially from that discussed under Item 7A of Chevron’s 2013 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

The company’s management has evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company’s disclosure controls and procedures were effective as of September 30, 2014.

(b) Changes in internal control over financial reporting

During the quarter ended September 30, 2014, 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.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published an updated Internal Control - Integrated Framework (2013) and related illustrative documents. The company adopted the new framework effective January 1, 2014.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Ecuador Information related to Ecuador matters is included beginning on page 16 in Note 11 to the Consolidated Financial Statements under the heading "Ecuador."

Government Proceedings As previously disclosed in the second quarter 2014 Form 10-Q, on April 2, 2014, Chevron U.S.A. Inc.'s Richmond Refinery received a settlement offer from the Bay Area Air Quality Management District (BAAQMD) seeking to resolve alleged violations of the Refinery's Clean Air Act Title V Operating Permit. The company has reached a settlement agreement with BAAQMD and paid a civil penalty of \$278,000 to resolve certain alleged violations.

As previously disclosed in the third quarter 2013 Form 10-Q and the 2013 Form 10-K, in July 2013, Chevron Products Company, a division of Chevron U.S.A. Inc., received a Notice of Violation from the California Air Resources Board (CARB) for the Richmond and Montebello (California) terminals alleging the selling or offering for sale of gasoline containing more than the maximum allowable ethanol content. The company has reached a settlement agreement with CARB and paid a civil penalty of \$247,278 to resolve the alleged violations.

Item 1A. Risk Factors

Chevron is a global energy company with a diversified business portfolio, a strong balance sheet, and a history of generating sufficient cash to fund capital and exploratory expenditures and to pay dividends. Nevertheless, some inherent risks could materially impact the company's financial results of operations or financial condition.

Information about risk factors for the three months ended September 30, 2014, does not differ materially from that set forth in Part I, Item 1A, of Chevron's 2013 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⁾
July 1 – July 31, 2014	3,695,791	\$131.23	3,688,246	
August 1 – August 31, 2014	3,917,062	127.29	3,916,729	
Sept. 1 – Sept. 30, 2014	2,168,349	123.49	2,165,602	
Total	9,781,202	\$127.94	9,770,577	

(1) Includes common shares repurchased from company employees 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 stock options. The options were issued to and exercised by management under Chevron long-term incentive plans and Unocal stock option 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 September 30, 2014, 169,893,892 shares had been acquired under this program (some pursuant to Rule 10b5-1 plans and some pursuant to accelerated share repurchase plans) for \$18.75 billion at an average price of approximately \$110 per share.

Item 4. Mine Safety Disclosures

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 C.F.R. §229.104) is included in Exhibit 95 of this Quarterly Report on Form 10-Q.

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.
(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)	Section 1350 Certification by the company's Chief Executive Officer
(32.2)	Section 1350 Certification by the company's Chief Financial Officer
(95)	Mine Safety Disclosure
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Schema Document
(101.CAL)	XBRL Calculation Linkbase Document
(101.DEF)	XBRL Definition Linkbase Document
(101.LAB)	XBRL Label Linkbase Document

(101.PRE) XBRL Presentation Linkbase Document

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

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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/ MATTHEW J. FOEHR
Matthew J. Foehr, Vice President and Comptroller
(Principal Accounting Officer and
Duly Authorized Officer)

Date: November 7, 2014

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EXHIBIT INDEX

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(32.2)*	Section 1350 Certification by the company's Chief Financial Officer
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Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). The financial information contained in the XBRL-related documents is "unaudited" or "unreviewed."

*Filed herewith.

Copies of 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.