Cost Management Initiative

Presented at ISD Dialogue Series III - Services Role in the Energy Sector

By Hamid Batubara
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Rapid & Dramatic Decline of Crude Oil Price

Crude Oil Price 2010 – 2014

Source: IHS CERA
Source: ESDM

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### Projected Key O&G Commodity Price Decline -Based on Credible 3rd Party Indices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2011</th>
<th>2015 Forecast</th>
<th>Forecast Decline / Deflation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel Fuel - Indonesia</td>
<td>213</td>
<td>189</td>
<td>11.3%</td>
<td>IHS CERA (Q4’/14)</td>
</tr>
<tr>
<td>Pipe - Asia</td>
<td>355</td>
<td>252</td>
<td>29%</td>
<td>IHS CERA (Q4’/14)</td>
</tr>
<tr>
<td>Steel - Asia</td>
<td>303</td>
<td>244</td>
<td>19.5%</td>
<td>IHS CERA (Q4’/14)</td>
</tr>
<tr>
<td>Saraline - Malaysia</td>
<td>100</td>
<td>90 (’14 Actual)</td>
<td>10%</td>
<td>Platts</td>
</tr>
<tr>
<td>Potassium Chloride - China</td>
<td>179</td>
<td>123 (’14 Actual)</td>
<td>31.3%</td>
<td>China Bureau of Statistics</td>
</tr>
<tr>
<td>Nickel - LME</td>
<td>265</td>
<td>200</td>
<td>24.5%</td>
<td>London Metals Exchange</td>
</tr>
<tr>
<td>Barite – FOB China</td>
<td>124 (2012)</td>
<td>105(’14 Actual)</td>
<td>15.3%</td>
<td>Industrial Minerals</td>
</tr>
<tr>
<td>Ferrochrome - Global</td>
<td>307</td>
<td>287</td>
<td>6.5%</td>
<td>London Metals Exchange</td>
</tr>
<tr>
<td>Molybdenum - Global</td>
<td>506</td>
<td>395</td>
<td>21.9%</td>
<td>London Metals Exchange</td>
</tr>
</tbody>
</table>

**Key Oil & Gas commodity forecasts demonstrate the appropriateness of Chevron’s request for price reductions**
Supplier Price Growth both Globally and Locally

This trend represents market prices which the Oil & Gas industry can no longer sustain. Forecasts suggest downward movement for 2015.

Composite Supplier's Price Growth from Credible 3rd Party Indices

Source: Statistics Indonesia - PPI

Source: IHS CERA
Partnership Approach to Cost Management

- The sharp decline in oil prices will affect Chevron’s activity level in 2015. Improving our cost structure will help mitigate the impact.

- Historically, Chevron and its business partners have worked together for mutual benefit and have overcome challenges.

- Chevron wishes to maintain these established partnerships, however **together** we must deliver on better management of costs.

- It is important for both Chevron and its business partners to create immediate impact by means of price reductions.
Expectations

- Oil price declines combined with increased supplier pricing has significantly affected our base business and upcoming projects.
- Our regulator SKK Migas has directed us to pursue “special circumstance” negotiations.
- Overall activity levels for 2015 will be impacted, the extent depends on the ability to improve costs for short term and long term expenditures.
  - You represent companies that are business partners with the opportunity to add value, thus we have engaged you first on this critical matter
  - All Chevron suppliers will be requested to contribute
Next Steps / Timeline
– Four meeting types with suppliers

1. Initial Evaluation
   - Chevron Internal
   - Develop market knowledge and priorities

2. Supplier Engagement
   - Jointly with supplier / contractor
   - Share market info and Chevron expectations
   - Jointly with supplier / contractor
   - Understand supplier proposal
   - Clarify as needed

3. One On One Meetings
   - Chevron Internal
   - Evaluate proposals
   - Asses if proposal is consistent with market conditions
   - Determine focus for Feedback Meeting
   - Share results of supplier proposal relative to Chevron expectations
   - Clarify Next Steps
   - Resolve inconsistencies

4. Evaluate Proposals
   - Jointly with supplier / contractor
   - Assess if proposal is consistent with market conditions
   - Determine focus for Feedback Meeting
   - Share results of supplier proposal relative to Chevron expectations
   - Document agreements reached
   - Clarify Next Steps

5. Feedback Meeting (One On One)
   - Jointly with supplier / contractor
   - Update and sign contracts / amendments
   - Summarize longer-term efforts (if necessary)

6. Conclusion Meeting (One On One)

Today (May)

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Conclusion

- Understanding accurate market condition is a key to “fair” renegotiation of existing contracts
  - Some time going up
  - Some time going down

- Partnership with Suppliers plays significant role in a “win-win” Cost Management

- Support from regulators will ensure the renegotiation is within legal framework
Terima kasih
Thank You
Crude Oil

WTI (NYMEX) Price

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)

CLM15 - Crude Oil WTI (NYMEX)

Select Timeframe: 1 Year