executive summary

At Chevron, we believe the future of energy is lower carbon, and we support the global net zero ambitions of the Paris Agreement. This report builds on our previous four reports and has updates throughout, including key updates to pages 32–44 to reflect our response to stockholders on net zero and our contributions to support our customers in addressing their emissions (Scope 3).

reliable and disciplined oversight

Our governance structure calls for Chevron's full Board of Directors and executive leadership to exercise their oversight responsibilities with respect to potential climate change–related risks and energy-transition opportunities. This oversight is executed through regular engagement by the full Board of Directors and also through deeper, focused engagement by all Board committees. This occurs primarily through the Board's Public Policy and Sustainability Committee, as well as the Board's Management Compensation, Audit, and Nominating and Governance Committees. At the executive level, we manage potential climate change–related risks and energy-transition opportunities through the Enterprise Leadership Team and the Global Issues Committee, each of which meets regularly throughout the year. We periodically reassess our governance structure to enable Chevron to maintain a Board composition and governance framework that is effective for managing the Company's performance and risks as we deliver value to our investors.

risk assessment and management

We face a broad array of risks, including physical, legal, policy, technology, market, and reputational risks. We utilize an enterprisewide process to assess major risks to the Company and seek to apply appropriate mitigations and safeguards. As part of this process, we conduct an annual risk review with executive leadership and the Board of Directors and assess our risks, safeguards, and mitigations.

higher returns, lower carbon

Our primary objective is to deliver higher returns, lower carbon, and superior shareholder value in any business environment. Chevron's strategic and business planning processes bring together the Company's views on long-term energy market fundamentals to guide decision making by executives and to facilitate oversight by the Board of Directors. The world's energy demands are greater now than at any time in human history. Chevron has a long and celebrated history of producing oil, gas, and other products that enable human progress, which it proudly continues today, as it pursues the energy future. Most published outlooks conclude that fossil fuels will remain an important part of the energy system for years to come, and that the energy mix will include increasingly lower carbon sources. As part of our strategic planning process, we use models and internal analysis to forecast demand, energy mix, supply, commodity pricing, and carbon prices—all of which include assumptions about future policy, such as those that may be implemented in support of the Paris Agreement's goal of "holding the increase in the global average temperature to well below 2° C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5° C above pre-industrial levels."

In 2020, more than 60 percent of our total Scope 1 and 2 equity greenhouse gas (GHG) emissions (i.e., participating share of emissions both from facilities that Chevron operates and from our nonoperated joint ventures) were in regions with existing or developing carbon-pricing policies.* In this environment, and into a future likely to include additional lower carbon policies, we seek to find solutions that are good for society and good for investors.

We use carbon prices and derived carbon costs in business planning, investment decisions, impairment reviews, reserves calculations, and assessment of carbon-reduction and new energy opportunities. We believe that our asset mix and actions in new energies enable us to be flexible in response to potential changes in supply and demand, even in lower carbon scenarios like the International Energy Agency's (IEA) *Net Zero by 2050* (NZE 2050) scenario or under higher-emissions scenarios like the Intergovernmental Panel on Climate Change AR5 Representative Concentration Pathway 8.5 that models a hypothetical upper bound of physical risks. We believe the likelihood of either scenario is remote and do not rely on either scenario in our current business planning.

success in a lower carbon future

Affordable, reliable, ever-cleaner energy is essential to achieving a more prosperous world. We have a strategy that combines a high-return, low-growth, lower carbon–intensity† traditional business together with faster-growing, profitable, lower carbon new energy businesses that leverage our strengths.

in summary

Chevron has world-class capabilities and people—and we intend to apply them to advance Chevron's growth to a lower carbon future. Higher returns, lower carbon: We believe we must deliver both to earn a higher valuation for our stockholders and benefit all stakeholders.

* Scope 1 includes direct emissions. Scope 2 includes indirect emissions from imported electricity and steam. Scope 3 includes all other indirect emissions, such as the use of products by customers.
† Carbon intensity refers to a measure of CO_2e per unit of production. For more information, see page 61.

Q&A

with the honorable jon m. huntsman jr., former ambassador and member of the PPSC

"If Chevron is to lead responsibly on climate, then ambitions are required. We support the Paris Agreement, which calls for achieving net zero GHG emissions in the second half of this century."

As you return to the Chevron Board, including serving on the Public Policy and Sustainability Committee, what do you see as the greatest policy issue facing the Company today?

Huntsman: Chevron is a world-class company with a significant global reach. Of all the policy issues facing the Company, the one that transcends all others is climate change. We must lead and be solution oriented, which gladly is recognized by Chevron leadership, starting with the Board. We are well-positioned to confront the post-COVID environment, which will carry both social and economic challenges. But at the same time, we will expect that Chevron helps advance a lower carbon economy. With 140 years of navigating difficult circumstances and policy issues, Chevron is better prepared than ever to lead as a responsible and respected global energy company.

Some are calling for Chevron to establish an ambition for net zero by 2050. What is your view on the issue?

Huntsman: If Chevron is to lead responsibly on climate, then ambitions are required. We support the Paris Agreement, which calls for achieving net zero GHG emissions in the second half of this century. Chevron is already a leader in producing energy at a carbon intensity well below the average of the global system and is in the best-performing quartile of all oil and gas producers. Addressing the world's need for affordable, reliable, and lower carbon energy is a priority that must be tailored to our broader goals around sustainability while generating a competitive return for investors. Our Board is deeply engaged on this issue and has aligned the Company's ambitions to advance these opportunities.

With your background as a diplomat, policymaker, and businessperson, how do you think Chevron can best support the global effort to reach the goals of the Paris Agreement?

Huntsman: The best way a company can support this effort is to report on the carbon efficiency of the products they sell, along with making continuous carbon efficiency improvements and advancing new technologies that expedite all of the above. Companies like Chevron that are global leaders must play a role in informing good policy, driving innovative solutions, and working with others to lower the carbon intensity of the global economy. None of this will happen without strong and unprecedented global collaboration around Paris Agreement goals while maintaining economic growth and enhancing the standard of living for all. As I return to the Board, I've never been more optimistic or impressed about what Chevron is doing to support the global energy transition.

3.1.2 Policy: Trends, framework, and impact analysis

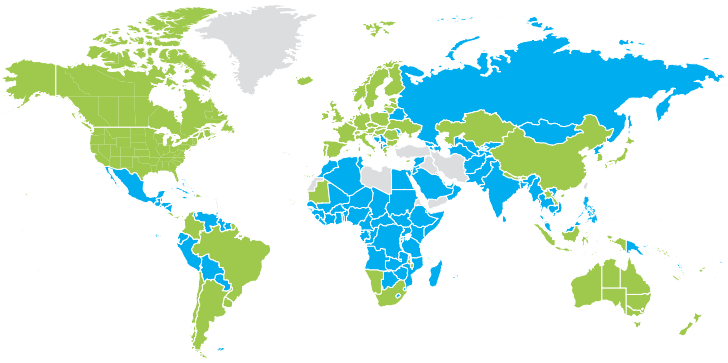
Policies, like those that support the Paris Agreement, can change the amount of energy consumed, the rate of energy-demand growth, the energy mix, and the relative economics of one fuel versus another. Tracking and anticipating policy trends helps us identify potential changes in energy mix and supply/demand scenarios and adjust our outlooks accordingly.

Policy trends: The Paris Agreement, which went into effect in 2016, aims to hold "the increase in the global average temperature to well below 2° C above pre-industrial levels and [to pursue] efforts to limit the temperature increase to 1.5° C above pre-industrial levels."* Under the agreement, each country may pursue its own strategies for achieving its Nationally Determined Contributions (NDCs). According to the IEA, the current NDCs do not appear to enable achieving the goals of the Agreement,[7] although new, updated, or reconfirmed NDCs are intended to be submitted.

According to the IPCC, achieving the Paris Agreement's goals will require peaking emissions as soon as possible and global net zero emissions by "around 2070" (2065–2080). The IPCC finds that achieving a 1.5° C scenario with high confidence and without any temporary overshoot would require net zero by "around 2050" (2045–2055). Other IPCC scenarios reach net zero later this century, but they achieve 1.5° C outcomes through greater adoption of carbon dioxide removal opportunities. Achieving a 1.5° C goal will require nations to reduce emissions across all sectors of the economy. It will also require increasing removals by sinks, such as nature-based solutions (e.g., forestry), and through technology solutions (e.g., CCUS).

The IPCC finds there are numerous potential pathways to achieving the goals of the Paris Agreement. All pathways include the continued use of oil and gas, even in rapid decarbonization scenarios. To achieve net zero emissions by 2050, direct air carbon dioxide capture and storage and carbon capture and storage (CCS) are required to be scaled up and globally deployed. Without this technology, the IPCC climate models cannot achieve theoretical solutions to reach net zero in the desired time frame.

Exhibit 4. Nearly all countries have endorsed the Paris Agreement and some are supporting net zero ambitions



Endorsed Paris Agreement

Endorsed Paris Agreement and government support for net zero

As of October 2021.

Sources: United Nations Treaty Collection, treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en; United Nations Framework Convention on Climate Change, unfccc.int.

to achieve global net zero, markets should be empowered to incentivize the most carbon-efficient producers

We support the Paris Agreement and its goal of "holding the increase in the global average temperature to well below 2° C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5° C above pre-industrial levels," which per the IPCC implies reaching global net zero in the second half of this century. We believe that the optimal approach is to drive the most efficient and cost-effective reductions economywide, paired with natural and technological emissions removals. Narrow sectoral or geographic metrics are less efficient than broad economywide solutions, which are uniquely able to incentivize the most efficient and cost-effective reductions. Chevron supports a price on carbon, applied as widely and broadly as possible, as the best approach to reduce emissions. We work to encourage national policies to support international linkages (for example, through Article 6 of the Paris Agreement), with the goal of ultimately building up to a liquid and integrated global carbon market.

Individual companies contribute to achieving the goals of the Paris Agreement through their participation in policies that may be included in the NDCs of the countries in which the companies operate. We work with governments to encourage well-designed policies that can strengthen the NDCs, such as carbon pricing and rewarding the most efficient and least carbon-intensive producers. Most energy forecasts agree that oil and gas will continue to be a significant source of energy—even in a net zero scenario for years to come. We believe the transparent reporting of performance will enable the market to reward the most carbon-efficient producers.

*UN Intergovernmental Panel on Climate Change (IPCC), *Special Report: Global Warming of 1.5 °C*, 2018, ipcc.ch/sr15/.