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國際運輸勞連

International Transport Workers' Federation
Federación Internacional de los Trabajadores del Transporte
Fédération internationale des ouvriers du transport
Internationella Transportarbetarefederationen
Internationale Transportarbeiter-Föderation
Международная федерация транспортников
التنظيم عالمياً، النضال من أجل حقوقنا

Please WITHHOLD Support from Nominating Committee Chair Robert Denham and Audit Committee Chair Ronald Sugar at Chevron's (NYSE:CVX) Annual Meeting on May 26, 2015

20 April 2015

Dear Chevron Shareholder,

We write to urge you to **WITHHOLD** support from directors Robert Denham and Ronald Sugar at Chevron's upcoming annual meeting for the following reasons:

- We believe that withholding support from Audit Committee Chair Ronald Sugar is appropriate to send a message that recent disclosures about critical projects should be improved. Mr. Sugar also serves as a Trustee of a university to which Chevron has contributed over USD 59 million, which in our view undermines independence.¹
- During Robert Denham's tenure as chair of the Nominating Committee, the board has remained insular, which we are concerned may limit the perspectives to which the board is exposed. Withholding support from Mr. Denham would communicate that shareholders want a diverse, less enmeshed board. Additionally, Oaktree Capital, a private equity firm of which Mr. Denham is a director, purchased Chevron's renewable energy business in September 2014.²

Shifting and Poor-quality Disclosure May Keep Investors from Having a Complete View of Future Prospects and Risks

The International Transport Workers Federation is an organization of unions involved in the transportation sector. Our membership includes affiliated unions that represent workers at Chevron and its sub-contractors.³ We are concerned that Chevron is facing some very difficult challenges — geo-political change, falling oil prices, and an unsteady economic recovery — which create uncertainty about the company's prospects. Given these challenges, we believe it is especially important that shareholders are provided with timely and accurate information regarding Chevron's risks and prospects.

The Charter for Chevron's Audit Committee states that the Committee "assist[s] the Board of Directors in fulfilling its oversight responsibility with respect to the Corporation's fair dissemination of accurate information in compliance with securities laws." While we are not now asserting that Chevron has violated SEC rules or laws, we believe that

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¹ See Announcement from Viterbi, "Longtime Partner of USC, Chevron Reveals a Lifetime Investment" from November 13, 2014. Available online at http://viterbicms.usc.edu/sites/74592_cisoft1167873786/assets/026/93515.pdf

² See Opterra Energy Press Release September 9, 2014. <http://www.prnewswire.com/news-releases/oaktree-transforms-opterra-energy-group-with-acquisition-of-chevron-energy-solutions-energy-services-business-274473231.html>

³ We do not directly hold shares in Chevron but many of our affiliates participate in employee benefit funds that have holdings in the company. We represent workers at Chevron and its subcontractors in countries across the globe, several of our affiliates are involved in on-going labour disputes with Chevron and/or its subcontractors.

certain disclosures should be improved, as discussed below, to give investors a fuller picture of Chevron’s prospects and risks.

Chevron’s growth is highly dependent on the development of a few projects. In particular, the Gorgon and Wheatstone projects in Western Australia are likely to propel the company’s growth for many years to come. Chevron has told investors that its growth prospects depend on adding roughly 700 MBOED by 2017. Of this additional capacity, roughly one-quarter is likely to be added by the Gorgon project. Then again this past March in a presentation to security analysts, Vice-President Jay Johnson described Gorgon, Wheatstone and the Jack St. Malo projects as, “the next generation of projects that will not only drive our growth but will also renew our base.”

However, disclosures about the cost, timing and working conditions on the Gorgon project have frequently been revised. Chevron management has repeatedly changed estimates about the scale of delays and cost overruns. Initial estimates for the Gorgon project from securities filings in 2009 indicated that the project would be complete by mid-2014 and cost roughly USD 37 billion. Chevron now projects Gorgon to have first gas delivered in the fourth quarter of 2015, and the cost overrun is estimated at USD 14 billion or roughly 45% more than initially calculated. But project partner Shell has released far different estimates, counting on project commencement between 2016 and 2018.

This is not a typical project; almost 90% of Chevron’s capital expenditure for the past few years has gone towards upstream projects and the single most significant project for Chevron has been Gorgon. When contrasted with similarly sized and complex projects the Gorgon project is one of the longest-delayed and most over-budget projects. In an analysis conducted by the research firm Enalytica and presented to the state legislature in Alaska, Gorgon is ranked as the second most over-budget and longest delayed LNG project.

Project and major owners	Delay	Percent over-run
Sakhalin 2 (RUS- Gazprom, Shell, Mitsui & Mitsubishi)	2 Years	120%
Gorgon (AUS – Chevron, Exxon, Shell)	1.5-2+ Years	45+%
Queensland-Curtis (AUS –BG Group, CNOOC)	Unknown	36%
Gladstone LNG (AUS-Santos, Petronas, Total & KOGAS)	Unknown	15%
Papua New Guinea (PNG- Exxon, Oil Search & Santos)	Unknown	26%
Angola (ANG- Chevron, Sonangol, BP, Eni and Total)	1.5-2 Years	Unknown
Pluto (AUS – Woodside & Kansai)	1.5 Years	33%
Snohvit (NOR- Statoil, Hess, Petoro and GDF Suez)	1.5 Years	21%

Source: Enalytica and company reports

Adding to the uncertainty about this project are comments made recently by Chairman and CEO, John Watson, who answered questions in January about labour relations on the Gorgon project by claiming, “We’re monitoring very closely contractor performance and productivity on the Island; we’re working with the unions on contracts and industrial relations.”

In reality, industrial relations on the project are deteriorating. As the project has been further delayed, more collective bargaining agreements have come up for renegotiation and several unions are proceeding towards votes authorizing industrial actions up to and including strikes. As recently as April 10, 2015, workers at CB&I, one of the major construction contractors on the Gorgon project, rejected a collective bargaining proposal, making strikes or other activity more likely.⁴

Gorgon is not the only major project where additional disclosure would be useful to investors. In last year’s annual report, Chevron did not disclose that its operations in Angola had ceased due to a pipeline rupture. Chevron acknowledged that fact only after it was reported in the *Wall Street Journal*. Chevron is currently reporting that the

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⁴ See Workplace Express, Friday April 10, 2015 “Industrial Action on Horizon After Workers Vote Down Revised Gorgon offer”



pipeline will be repaired and the project operational by early 2016, but we believe this may be overly optimistic given the potential for civil unrest in Cabinda.⁵

Finally, there is also evidence that more robust oversight — including oversight of financial reporting — may be needed in some of the company’s operations in the Congo. Recent litigation in the Southern District of New York, *Osman v. Chevron*, reveals documents including a putative Chevron power-point presentation entitled “Lessons Learned in the Congo.” Included in the presentation’s narrative are statements that in setting up operations in the Congo there was “Inadequate due diligence in hiring; Finance was not involved in the initial recruitment of accountants when the business was set-up in 2003.” The presentation also states, “Lack of in country management oversight meetings impeded cross functions of communications.” These allegations underline the importance of Audit Committee oversight of financial reporting. (This litigation is on-going and none of the allegations from it have yet been proven in court.)

We are concerned about the independence of Mr. Sugar, who chairs the Audit Committee. He has been a trustee of the University of Southern California (USC) since 2003. He and his family have invested significant time and resources in supporting USC. With his wife, who is an alumna of the university, Mr. Sugar donated USD 5 million and created the Ronald and Valerie Sugar Dean’s Chair of the University of Southern California Libraries. He also served as the Judge Widney Professor of Management and Technology and chaired the Academic Affairs Committee on the Board of Trustees. In 2014, Chevron was recognized by USC for providing over USD 59 million in support for its engineering program.⁶

Although Mr. Sugar is considered independent under the NYSE’s listing standard and SEC rules, we believe that Chevron’s support for USC may undermine Mr. Sugar’s ability to question Chevron’s management. The Delaware Chancery Court, in a 2003 opinion in a case brought against Oracle Corp., denied Oracle’s motion to terminate a derivative action on the basis that some members of a special litigation committee recommending termination were not independent because they were professors at Stanford, to which Oracle had contributed substantial sums. The court evaluated independence by taking into account “the thickness of social and institutional connections” as well as purely financial factors.⁷ In our view, the thickness of the connections among Mr. Sugar, USC and Chevron should be considered in evaluating Mr. Sugar’s suitability to serve as Audit Committee chair.

Nominating Committee Chair Robert Denham is Insufficiently Independent and Has Presided Over the Committee as the Board Has Become More Insular

Director Robert Denham has served as Chair of the Nominating Committee since 2011. In that capacity, he is responsible (along with the other committee members) for vetting and nominating new directors.

The Charter of the Nominating and Governance Committee states,

The Committee shall investigate suggestions for candidates for membership on the Board of Directors and shall recommend prospective Directors, as required, to provide an appropriate balance of knowledge, experience and capability on the Board of Directors, including stockholder nominations for the Board of Directors.⁸

On Mr. Denham’s watch, the board has continued to be composed of directors affiliated with just a few companies. Multiple directors are affiliated with Coca-Cola, Amgen, and Wells Fargo. Over the course of Mr. Denham’s tenure as chair, while there has been director turnover, the strength of these ties does not appear to have diminished significantly.

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⁵ See description of attacks on expatriates and Angolan Armed Forces <http://travel.state.gov/content/passports/english/country/angola.html>

⁶ <http://news.usc.edu/1019/Top-flight-Trustee/>

⁷ See Oracle Corp. Derivative Litig., 824 A.2d 917, 938 (Del. Ch. 2003)

⁸ See Charter. <http://www.chevron.com/documents/pdf/boardnominatingandgovernancecommitteecharter.pdf>

Companies with two directors or executives on the Chevron board

Company	Affiliated Chevron Board Members
Coca-Cola	Carl Ware, former executive Alexander Cummings, Jr. executive
Amgen	Ronald Sugar, Amgen Board Member Kevin Sharer, ex-CEO
Wells Fargo	Enrique Hernandez, Wells Fargo Board Member John Stumpf, CEO

With this concentration, the board loses an important opportunity to draw on a greater range of experiences and opinions, as the Nominating Committee Charter asserts should be represented on the board. Moreover, there is evidence that greater interconnectedness is associated with governance practices that may not be in the best interests of shareholders.⁹

Additionally, while Mr. Denham is a seasoned executive with extensive business experience, including serving as the Lead Independent Director at Chevron, one of the companies on which he is a Board member, OakTree Capital, bought Chevron's renewable energy business in September 2014.¹⁰ We believe that at a minimum this creates the appearance of an affiliation that may undermine Mr. Denham's ability to exercise independent oversight.

In addition to withholding support from Mr. Sugar and Mr. Denham's re-election to the board, we note that two shareholder proposals on the ballot may provide mechanisms for increasing accountability and independence of the board. Proposal 10 urges the adoption of a "proxy access" bylaw that would allow significant long-term shareholders to nominate a limited number of candidates for election to the board. As well, Item 11 advocates for an independent board chair.

If you need additional information, please contact Ahmer Qadeer at Qadeer_Ahmer@itf.org.uk or Tom Powdrill at Powdrill_Tom@itf.org.uk.

Sincerely,



Stephen Cotton
ITF General Secretary

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⁹ See Paul Hodgson, "Why Should We Care About Corporate Interlocks?" *Forbes*, Dec. 5, 2012.

¹⁰ See announcement at <http://www.prnewswire.com/news-releases/oaktree-transforms-opterra-energy-group-with-acquisition-of-chevron-energy-solutions-energy-services-business-274473231.html>