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Edited Transcript

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Chevron

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Operator: Good morning. My name is Audra, and I will be your conference facilitator today.

Welcome to Chevron's Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session and instructions will be given at that time. If anyone should require assistance during the conference call, please press star and then zero on your touch-tone telephone.

As a reminder, this conference call is being recorded.

I will now turn the conference call over to the General Manager of Investor Relations of Chevron Corporation, Mr. Wayne Borduin. Please go ahead, sir.

Wayne Borduin: Thank you, Audra. Welcome to Chevron's Third Quarter Earnings Conference Call and Webcast. I'm Wayne Borduin, General Manager of Investor Relations. And on the call with me today are Mark Nelson, EVP of Downstream and Chemicals; and Pierre Breber, CFO.

We'll refer to the slides that are available on Chevron's website.

Before we get started, please be reminded that this presentation contains estimates, projections, and other forward-looking statements. Please review the cautionary statement on slide 2. Now, I'll turn it over to Pierre.

Pierre Breber: Thanks, Wayne. Third quarter earnings were about break-even, improved from last quarter, but reflecting continued challenging market conditions. The reconciliation of non-GAAP measures can be found in the appendix to this presentation.

Special items totaled $220 million including a tax charge related to a settlement agreement on asset retirement funding and other items tied to the expiration next August of the Rokan production sharing contract in Indonesia.

Free cash flow was almost $2 billion and the dividend was flat with last quarter.

Turning to slide 4, cash flow from operations improved as commodity prices increased from their lows in the second quarter. Included this quarter was a $265 million cash payment related to the Rokan settlement agreement.

Our cash flow dividend breakeven was under $50 Brent, due to improved downstream performance and our strong capital and operating cost management. We ended the quarter with a net debt ratio over 17%, well below our competitors. Even after closing the Noble [Energy] acquisition and stepping up its debt to fair value, we expect to maintain the leading balance sheet among the peer group. We're committed to protecting our financial strength during this ongoing crisis.

Turning to the next slide, our 2020 capital spending is trending below our latest guidance. Looking ahead, we expect next year's capital budget to be $14 billion, below the combined 2020 guidance from Chevron and Noble, and well below Chevron's five-year guidance from our March Investor Day.

Our 2021 capital budget will continue to prioritize investments that drive long term value and shows the capital flexibility in our portfolio, including assets recently added from Noble. We'll share additional details in December after formal approval.

Operating expenditures in the quarter were more than 10% lower than our 2019 quarterly average, ahead of our guidance.

Turning to slide 6, relative to the same period last year, third quarter adjusted upstream earnings decreased due to lower realizations and reduced liftings, primarily due to curtailments, partially offset by lower depreciation and operating expenses. Adjusted downstream earnings decreased primarily due to lower sales volumes and margins. The "Other" segment was higher primarily due to various corporate charges.

Turning to slide 7, compared to the second quarter, third quarter earnings increased by about $8 billion, more than half due to the absence of second quarter's special items. Adjusted upstream earnings were up almost $2 billion primarily due to higher liquids realization. Adjusted downstream earnings increased by over $1 billion primarily due to higher sales volumes and margins, and favorable swings in both timing effects and lower-cost-of-market inventory adjustments at CPChem.

The "Other" segment charges decreased primarily due to a favorable swing in accruals for stock-based compensation.

Turning to production, third quarter oil equivalent production excluding asset sales was 3% lower than a year ago. During the past 12 months, we closed a number of asset sales, all signed pre-pandemic. Increased Permian production and higher entitlement effects were offset primarily by curtailments and higher turnarounds. The curtailments were in line with our guidance range and reflect mostly OPEC+ reductions in Kazakhstan and Africa, and market-driven constraints in Thailand.

Now, I'll turn it over to Mark.

Mark Nelson: Thanks, Pierre. As shown on slide 9, the operating environment has improved from the lows in the second quarter, but is still challenged. Some products, like diesel and petrochemicals, have been more resilient during the pandemic and we've been able to develop new customer channels. Conversely, jet demand has only modestly recovered. The tough demand picture has resulted in weak product margins well below cyclical averages. Since the crisis started, we've been focused on what we can control: safe and reliable operations, cost management, and value chain optimization. In the third quarter, our financial results improved due to strong performance in these areas along with some margin improvement in polyethylene and West Coast fuels.

Turning to the next slide, our focus on cost management is delivering results, with third quarter operating expenses nearly 20% lower than pre-pandemic levels in the first quarter. I'm proud of how our employees have risen to this challenge, streamlining work processes, reducing contractor costs, and adapting activity levels to a lower margin environment. Our teams have also delivered on more than 90% of the planned scope of our 2020 turnaround program, deferring only a minor amount of activity. This is a tremendous accomplishment and positions our refinery network to be ready, without a backlog, when the economy is back to pre-pandemic levels. Optimization activities further reduced the cost of this year's planned work, contributing to lower operating expenses.

Turning to the next slide, as always, we're focused on safe and reliable operations. Keeping our employees safe, being a good neighbor, and delivering the products that the world needs are all part of our license to operate. Since the economic slowdown began, we've balanced efficient refinery utilization with the highest margin sales channels for our products. We've consistently placed more than 90% of our high value products into our contracted sales channels, despite volatility in demand. This generates the best margins across our value chains.

The recent acquisitions of marketing assets in Australia and the Pasadena refinery on the US Gulf Coast further extend our value chains in those regions, giving us more opportunities to improve profitability and returns.

Turning to chemicals, GS Caltex continues to make good progress on their new mixed feed cracker. We expect the project to be under-budget and months ahead of schedule. Our local team has done a remarkable job safely progressing the project despite the challenges of COVID-19.

At CPChem, we've completed FEED at our US Gulf Coast Cracker II project and have placed it on hold as we assess market conditions. We continue to believe in the long-term fundamentals of chemicals and the importance of world scale facilities with access to low cost feedstock. At the same time, any new investment needs to be supported by project economics that will generate strong returns through the price cycle.

Also, CPChem began producing circular polyethylene at scale, an industry first in the United States. The production of PE from plastic waste is an important milestone and underscores our commitment to finding innovative ways to deliver sustainable products to our customers.

Now, turning to renewable fuels, the future of energy is lower carbon and we're delivering more alternative products to our customers. Recently, we announced first gas at our CalBio Renewable Natural Gas joint venture in California, and a new partnership with Brightmark. Our capital committed to RNG ventures is over $200 million. In renewable diesel, we're leveraging existing infrastructure to co-process biofeed at our El Segundo refinery with startup expected in the first half of next year. Also, we sell a range of branded biodiesels and are piloting the sale of R99 in Southern California.

Through Novvi, we recently announced first production of renewable base oil at our 500 barrel a day plant in Texas. This leading technology partnership has developed an innovative and sustainable product with future expansion potential.

And lastly, our GS Caltex hydrogen testing site in South Korea has opened, the first of its kind in Seoul, where customers can purchase traditional fuels as well as hydrogen and electricity.

All of these efforts align with how we're increasing renewables in support of our business, part of our approach to the energy transition which Pierre will now further discuss.

Pierre Breber: Thanks, Mark. We continue to make good progress in our energy transition focus areas. Next year, we expect to fund $100 million of projects identified with our marginal abatement cost curves. The MACC tool helps us select the most cost-efficient projects to reduce carbon intensity across our operations.

As Mark noted, we announced a new joint venture with Brightmark, extending our renewable natural gas portfolio.

Finally, in our partnership with Svante, we're pleased to have been awarded a US DOE grant to help fund the construction of the demonstration carbon capture plant in our California upstream operations. The project is expected to start up in 2022.

These projects reflect Chevron's commitment to low carbon solutions that are both good for the environment and good for our shareholders.

Turning to the next slide, we closed the Noble Energy acquisition earlier this month, and integration is on track. We've completed employee selections, had some early quick wins like paying off the revolver and selling its plane, and assessment of operational opportunities is well on its way.

In the third quarter, Noble generated positive free cash flow, primarily due to ongoing capital and cost management and strong sales in the eastern Med. We're pleased to add Noble assets and welcome its talented employees to Chevron.

Our internal Transformation, launched late last year, is mostly complete, with a new organization in place November 1st. This was an enterprise wide change effort, the largest since our Texaco merger, that modernizes how we work, leveraging digital tools and empowered teams.

Lastly, we recently signed an agreement to sell our Appalachia natural gas business. We expect to close the transaction before the end of the year.

Now, looking forward, in the fourth quarter we expect Noble production to be lower, primarily due to seasonal demands in the eastern Med. Curtailments and planned downtime are both lower than last quarter. Production [in 4Q20] may include additional cost recovery barrels related to the Rokan settlement.

At Gorgon, Train 2 weld repairs are now complete, and we have started commissioning in preparation for LNG production. We expect Train 1 to be taken out of service after Train 2 is back online.

At TCO, remobilization continues. We successfully increased the project workforce to near 15,000 and our plans are to end the year with a project team over 20,000. Earlier this week, we completed our final sealift on schedule. All modules are now in Kazakhstan, a significant project milestone.

And finally, we expect severance payments to lower cash flow.

With that, I'll turn it over to Wayne.

Wayne Borduin: Thanks, Pierre. That concludes our prepared remarks. We're now ready to take your questions. Keep in mind that we do have a full queue so please try to limit yourself to one question and one follow-up. We'll do our best to get to all of your questions answered.

Audra, please open the lines.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time please press star-one on your touch tone telephone. If your question has been answered, or you wish to remove yourself from the queue, please press star-two. If you are listening on a speakerphone, we ask you to please lift your handset before asking your question to provide optimum sound quality. Again, if you have a question, please press star-one on your touch-tone telephone. We'll go first to Neil Mehta at Goldman Sachs.

Neil Mehta:
(Goldman Sachs) Good morning. I have one upstream question here, and one downstream question. So maybe Mark, I'll start on the downstream question, it looked like the downstream results in particularly refining surprised relative to our expectations. Was there anything that you would call out here in the third quarter, as many of the independent refiners had very tough third quarters including on the west coast?

And can you then step back and talk about your big-picture outlook for the refining sector and that part of your business?

Mark Nelson: Thanks for the question, Neil. First, if I step back and look operationally at the third quarter performance overall, I would say that it was first driven by our continued cost management efforts across the downstream and chemicals portfolio, much of which is actually focused in our manufacturing sector. Also, some polyethylene and west coast fuels margin improvement. And then contribution from our lubricants and additives business.

If I step back and look at the refining sector in general, I would say that the pandemic demand shock clearly has retested margin lows. And there's not a real analog for the pace of recovery.

But there are three things that are required to have sustainable improved refining margins.

First demand recovery for all high value products. You know, in our materials, we've certainly indicated that as an industry we're within 5% to 10% of 2019 motor gasoline and diesel levels. But jet is still only half of 2019. And so, we need continued recovery there.

Secondly, we need inventory reduction and we're beginning to see some of that in different parts of the world.

And finally, refinery rationalization. And this is the part that's interesting for us because we've rationalized our portfolio over the past decade. We're now seeing competitors start to do that. And some of the regions of the world like Southeast Asia, Australia, and the US coast, you're hearing people talk about rationalization. Which certainly creates an opportunity for us going forward as the supply and demand balance tightens a bit over time.

Thanks for the question, Neil.

Neil Mehta: Thanks, Mark. And then Pierre, the follow-up is for you. It's on Gorgon. Where do we stand with Train 2 and what do we know about Train 1 and 3 in terms of managing the downtime there?

Pierre Breber: Yeah, thanks, Neil. Well, as I said, the weld repairs are complete. We verified them with non-destructive testing. We've also completed pressure testing of the kettles. So we're now in the process of getting back online. So, we've started the recommissioning process from the turnaround and the extended turnaround.

The next steps are to dry out the systems, and then we'll begin cooldown. We expect this to take several weeks, which will put first LNG production in the second half of November.

In terms of Train 1, as I said, we expect that to be taken down soon after Train 2 is back online. And then we would inspect Train 1 and depending on whether repairs are required or not, that'll determine how long Train 1 is down. And then sequentially, then we would look to Train 3 after that one.

Neil Mehta: Okay. Thanks guys.

Operator: We'll move next to Jeanine Wai at Barclays.

Jeanine Wai: (Barclays) Hi, good morning, everyone. Thanks for taking my questions.

Wayne Borduin: Good morning, Jeanine.

Jeanine Wai: Good morning. My first question is on sustaining CapEx, and the second one is on the upstream with Eastern Med. So the second half 2020 CapEx run rate, that's below your multi-year sustaining upstream capital estimate of $10 billion. You've accomplished a lot this year with cost reductions and efficiency improvements, so my first question is whether there's an update to that $10 billion in sustaining capital number that you provided a few quarters ago. And I know we've got Noble in the mix now, too.

Pierre Breber: Thanks, Jeanine. No, there isn't. I mean, the $10 billion is really an estimate, right. It's based on, Chevron-only, how to sustain production in the short term. Noble gave out an equivalent number around $800 million.

To be clear, we're not trying to sustain short-term production. Mark just talked about, we're in an economy that's impacted by a pandemic and demand for our products is below normal levels, and pre-pandemic levels. And therefore, we have over supplied markets.

We are trying to sustain the long-term value of the enterprise. So, if you look to our 2021 capital guidance of $14 billion, it includes an upstream capital, around $11 billion or so, higher than the sustaining level. But not all of it is going to short-term production. Some of it is going to long-term production like our project at Tengiz.

So we're focused on sustaining long-term value, not short-term production. That's true with Noble. But there's no real update to those numbers. The efficiency improvements are rolling through, but this is an analytical estimate that's not so precise that we're going to be updating it frequently.

Jeanine Wai: Okay, great. Thank you. Understood. My second question is on the Eastern Med. Could you provide any initial indications or thoughts on how you expect to monetize Leviathan and a lot of the other discovered resource in the area? I guess specifically, do you think that regional demand growth could be strong enough in the medium term or longer term to avoid either greenfield LNG or a pipeline to Europe? And then if I could squeeze one more in there, if there's any commentary on the headlines on the pricing dynamics, that would be helpful. Thank you.

Pierre Breber: All right. Thanks, Jeanine. Well, I won't comment on some of the headlines you've read. Those are commercial matters that we'll discuss in private with our partners and with our customers.

We've had a very smooth transition with our operations in the Eastern Med, and across all the Noble assets our integration is on track. The employee selections in the United States have already happened. We feel really good. We're pleased with the people who are joining us in the eastern Med included. So you know, Noble employees are top-quality and we're very pleased to be welcoming them to Chevron.

As you know, it's a good resource. It's free-cash-flow positive. The project's been completed. It's in an area where there's demand opportunities, in particular backing out coal. But it's only been a few weeks. So you know, our focus right now is to have a smooth integration with Noble. We're pleased again with the operations and the free cash flow generation. We're going to work with potential customers, existing customers, future customers, to find the mots cost-efficient way to develop that resource. There is upside to it, and again, there's market. But, we'll determine that all in time.

Thanks, Jeanine.

Operator: We'll move next to Phil Gresh at JP Morgan.

Phil Gresh:
(JP Morgan) Hi, good morning. First question here, if I look at the third quarter, it looks like your Brent base breakeven price somewhere on the order of $50 a barrel, and you're talking about this restructuring plan that's been underway and kind of completing here. So, I'm just curious how you think about the cost side of the equation and the ability to further lower the operating costs and the breakeven moving forward, given you've given us the capital number here already.

Pierre Breber: Yeah. You know, we we have the [dividend] break-even a little bit below $50, it's important to note that it doesn't factor in downstream margins or chemical margins and other parts of our business, which Mark has addressed. And those can vary make a difference, obviously, on where the breakeven is. Margins in that sector are pretty low, and as they recover, that lowers our breakeven. Because again, it's just looking at the oil price and not all the other assumptions.

In terms of cost, our costs were down more than 10% this quarter. We've provided guidance that we expect to end the year on a Chevron-only basis here, because fourth quarter will have Noble operating expenses. But if you just looked at Chevron only, we would be down a billion dollars. Again, we've characterized that as activity related and other actions that we've taken to manage through the pandemic and the crisis that we're in.

We've also provided guidance, and we've completed our Transformation. We launched that Transformation, which is an enterprise-wide restructuring. We started that almost 12 months ago and we are completing our employee selections right now. It's a tough time for our employees as they're being notified, and we'll have the new organization in place November 1. We've talked about a billion dollars of opex reductions from the Transformation.

And then finally, we have the Noble synergies. We've talked about $300 million of total Noble synergies, and not all of that is operating expense.

So all of that is rolling through. We'll bring that together for you, likely at our Investor Day on any kind of updated guidance. But it's all consistent with your question, which is, we're working hard to get our breakeven down. You know, we've sustained our dividend so the comparisons are consistent and we continue to make progress both through capital discipline and cost management, to lower our breakeven, preserve our balance sheet strength, ending the quarter with the leading balance sheet in the industry, a net debt ratio of 17%. That's essentially what we're doing, and we'll continue to do it as we're in these challenging times.

Phil Gresh: Okay, great. Thank you. My second question would just be as it relates to 2021 production. Obviously, you gave us a capex number here. On the last call, you talked about the Permian potentially declining, high single digit rate year-over-year in '21 on an organic basis. Obviously, you're layering in Noble here. So I didn't know if maybe you could provide any early read on '21 production, whether it's standalone or pro forma or if not a hard number, maybe some moving pieces around it?

Pierre Breber: Yeah. We'll provide our production guidance as we normally do. That'll be on our fourth quarter call at the end of January. We did provide guidance for the fourth quarter so we do a quarter ahead.

I think you've hit some of the pieces there, again. I would add the Rokan PSC expiration which I've referred to. We had a settlement agreement, which is a really good agreement, that assures the certainty around the funding for abandonment and adds a little drilling activity to keep production managed heading into that contract expiration. But that's going to be in August of 2021. So I'd point that out.

And again, as you know in the Permian, Jay talked about a potential decline of 6% or 7% if we stay at those activity levels. So I don't really have more to say. We'll provide that guidance when we finalize our plans, get formal approval of our capital budget, and we'll do it at our regular time during the fourth quarter earnings call.

Phil Gresh: Okay. Thank you.

Wayne Borduin: Thanks, Phil.

Operator: Next, we'll move to Devin McDermott at Morgan Stanley.

Devin McDermott: (Morgan Stanley) Hey, good morning. Thanks for taking the question.

Pierre Breber: Hi, Devin.

Devin McDermott: So, the first one I wanted to ask on is actually around some of the latest investments and momentum you've made on emissions reductions, and there's been some positive announcements here over the last few months. And I think the disclosure on this marginal abatement cost curve is interesting as it shows there's opportunities to potentially reduce emissions while also boosting returns, the negative implied cost of carbon that you have there.

The question specifically is we think about over the next few years here, any sense of the depth of opportunities where you can actually have this nice win-win of driving down costs while also reducing carbon intensity? And then as you think about planning longer-term, any intentions of expanding your mission production goals that already exist, perhaps to post-2023, in line with Paris climate like some of your peers have done, and just how you're thinking about that longer-term.

Pierre Breber: Sure. On the second question, as you said, we have four carbon-intensity reduction metrics. They go out to 2023. 2023 was chosen because that's the first stocktake date under the Paris agreements, and so we're aligned with those. We're the only company, the first company, only company in our sector to do it on an equity basis. Many do it on an operatorship basis. And then we do oil and gas metrics separately because they serve a different market.

So the $100 million that you're referring to is something that we expect will be recurring, so we see opportunities for a number of years to be able to invest that kind of expenditure and achieve what we'd call cost-efficient carbon reductions. But if [inaudible] will we extend at some point in time? I think yes. It would be logical for us to go to the next Paris stocktake date. But we're right now focused on delivering on those 2023 targets. We also have those as part of the incentive pay of almost every Chevron employee.

So, we're making good progress on that. But I would think all of our energy transition activities and Mark referred to a number in his business, they really support making our business more sustainable in a lower-carbon future. And they do it in a way where we earn returns, so the renewable natural gas that Mark was talking about also generates returns.

And then of course, then we're looking at some of the new technologies, and those obviously are at a different stage of maturity. So, we're taking a number of actions that we believe address climate change, that lowers carbon and does it in a way that's good for the environment and good for our shareholders.

Devin McDermott: Great. That makes a lot of sense. And then my second question is just on the portfolio composition post-the Noble transaction. So you recently executed on the Appalachia sale. And you've done a good job in terms of pruning the portfolio and divesting non-core assets over time as we kind of look forward here post- this transaction. Any updated thoughts on further opportunities for divestitures and whether or not [inaudible] you could address things like Noble midstream or anything within the Noble portfolio that might be non-core? And lastly, whether or not, as part of the Noble transaction, guaranteeing Noble's outstanding debt is part of what you're envisioning?

Pierre Breber: Okay, Devin. I got the asset sales. What was the question about Noble debt at the end?

Devin McDermott: Whether or not that'll be guaranteed by Chevron.

Pierre Breber: All right, thanks. Well, let me just address Noble debt. You know, we're reviewing options. We haven't made a decision. And again, we'll notify bond holders when we make that decision, and you should expect that in the next couple of months.

In terms of asset sales, we're on track to complete the program that we talked about. You know, it was 2018 to 2020, a three-year program, of $5 billion to $10 billion before tax proceeds. We expect to close our US natural gas sale here before year-end and when we complete that, we'll be right in the middle of that range.

In terms of what else is in the public domain, the most significant ownership interest that we've talked about is selling our interest in Northwest Shelf, and that's a commercial matter. And we won't comment on it.

But I guess I would just say we're in a different place than many of our competitors, right. Mark referred to the rationalization we've done on our refining network over the last decade, and even before. I referred to a number of asset sales that we've completed in the last 12 months. You saw that in our production chart. All that were signed pre-pandemic at good values.

Obviously, we just bought a bunch of assets, or a company that comes with high quality assets. And I won't comment on any specific assets in the Noble portfolio.

So we're very value-driven. The gas assets that we have, that we're planning to close here before the year-end, and in our interest in Northwest Shelf, it held up better in this post-pandemic world. Also, if you think of Northwest Shelf, it's almost like an infrastructure investment as the resource behind the plant comes down and it becomes more of a tolling facility going forward.

So you'll continue to see us to be disciplined in how we manage our portfolio. I would not expect us to have any kind of big program announcement. We'll have the ongoing portfolio rationalization that's been part of the Chevron approach to management for a long time.

Devon McDermott: Thank you very much.

Operator: We'll go next to Paul Cheng at Scotiabank.

Paul Cheng:
(Scotiabank) Thank you. Good morning. Two questions. I think one is for Mark and one is for Pierre.

Pierre, what would be a reasonable allocation of future capital in the new, renewable, low-carbon initiative? And let's assume that at some point you probably will set up a target to be net-carbon-zero on at least scope 1 or 2, maybe over the next 15 to 20 years. Do you need other new business like some of your peers have gone into, the renewable power business, in order to achieve that? So, that's the first question.

The second question is for Mark. If I looked at over the last couple of quarters, one of the big performance difference between you guys in the US comparing to your cousins in Europe, they have far stronger downstream results, mainly because of their marketing assets and also their trading operations. On that basis, do you think for Chevron that is the right recipe so that you may want to further boost your marketing assets? I mean, you've been selling down your marketing assets over the past 10-plus years. And for trading, historically, you guys look at it as a cost center while your European peers, look at it as a profit center to trade around the asset. So, is that the right approach for you, or that you don't think is right fit for you? Thank you.

Pierre Breber: Okay. Paul, I'll start. And look, we're going to be disciplined with our capital. That's true in our conventional business and you've seen that with the announcement of our organic capital budget. That's true in our acquisitions. You saw that when we walked away from Anadarko and collected a $1 billion termination fee. And I think you've seen that in how we executed the Noble transaction, being the first to announce and complete [an acquisition]. And it's going to be true in energy transition. No one at Chevron has an open checkbook. And that's true in our conventional business. That's true in our M&A. And that's true in energy transition.

What you see is, investments now that are on the order of hundreds of millions of dollars. We talked about $100 million into our marginal abatement cost curve investments. $200 million [committed] in renewable natural gas.

So, the investments really are limited by what we believe are or reflect what we believe are the opportunities that are again, good for the environment, address climate change, and good for our shareholders.

In terms of do we need to adopt a change in strategy, I think we've been pretty clear that we're not going to diversify away or divest from our core business. The actions we're taking around the energy transition are geared to making these businesses that are good businesses, that play an important role in society, and making them more sustainable in a lower-carbon future. So, I think you should expect us to continue to do that. We are going to operate in businesses where we have competitive advantage, where we have a value proposition for shareholders, that is advantage relative to other alternatives. And again, we're going to do that in a way that is part of a lower-carbon future.

So maybe we'll go to Mark on the downstream question.

Mark Nelson: Thanks for the question, Paul. You know, on the marketing question, we've consistently indicated that we are interested in strengthening our value chains. In fact, you could say that here in the third quarter we've demonstrated the benefit of linking our refinery production to higher margin product placement, and that's kind of our view of a value chain. And I would suggest that the recent Puma transaction is an example of us strengthening our value chain in Asia, where we have essentially added terminals and retail stations in Australia where we can now place our Asian joint venture refinery production in a very strong market where we own the strongest brand. And we acquired that on June 30th and the first three months in, it's working just as we would have had expected. So I think that goes to the concept of strengthening our value chain.

To your comment on the trading portion of our portfolio, our trading business is designed first to ensure that we flow product; second, that we optimize around those value chains; and then we trade in those areas where we have demonstrated considerable expertise, and it's vital to our downstream business. They're critical partners in regard to how we run our business and make those value chains work, and they continue to look for opportunities to increase their impact. So, I appreciate the question because the way we think about our value chains is important to us.

Paul Cheng: Thank you.

Pierre Breber: I'll just add, I think our shareholders support our approach to trading, because I think they understand the added risk and volatility that can come with trading earnings. And it generally attracts a low multiple, because of that in particular a resource company.

Paul, thanks for your questions. We appreciate it.

Paul Cheng: Thank you.

Operator: We'll go next to Doug Leggate at Bank of America.

Doug Leggate: (Bank of America) Thank you. Good morning, everyone. Mark, maybe I could take advantage of you being on the call. I just wonder if you could offer some perspectives on how you see this bottoming process of the downstream cycle playing out. What signposts are you seeing in any of your markets in terms of any green shoots or any expectations that we're going to be here for a while? And I guess what's behind my question is, is Chevron totally done with rationalization in your downstream portfolio?

Mark Nelson: Well, Doug, thank you for the thoughtful question. Given the unique situation we're in, if I go back to the question Neil asked about as it relates to margins in general. I mentioned three things that we have to see to feel like we are on a path for greater sustainable margins in the downstream business. And it is that demand recovery for all high value products. And you can see some of those things happening in our

Asian markets, where we see Australia past its 2019 levels. We see certain Southeast Asian markets going beyond their levels. And with our strong brand, we've been able to go past industry rates of growth in some of our areas, so I think those are opportunities that will help us on the demand side of the equation.

The inventory reduction, I think the industry has demonstrated over time that it will work through that. But that will take a little bit of time.

And finally, as I mentioned earlier, the refinery rationalization as an industry, while we've done the predominance of our rationalization we're always looking at strengthening the value chains in which we've chosen to compete. And we'll continue to look at that over time. But the green shoot, I would say, is the amount of companies that are announcing suggested rationalizations. And I think if those come true you might see getting to those recovered margins sooner than maybe we would naturally expect.

We won't presume that. We will stay focused on the self help side of the equation, things that we can control like lowering our operating costs, certainly running efficiently with the desired yields, and then using data analytics to place and price our products.

So we'll focus on what we can control, but we're hoping that some of those green shoots actually come to fruition.

Doug Leggate: Thank you. My follow-up is for Pierre, if I may. Pierre, just some clarification on the CapEx. What's the cash CapEx number unrelated, given the head count reduction and so on you've had. What should we think of as apples-for-apples, operating cost reductions as we look at '21 versus '20? I'll leave it there. Thank you.

Pierre Breber: Yeah. So again, we'll give all the details on our capital program when it's formally approved. But a cash equivalent excluding affiliates of about $10 billion is a good number to use right now.

Well, I'm not sure I can say much more on OpEx. I think Devin asked that question. Again, we have a billion of reductions we've seen this year, a billion that we'll see next year through Transformation, Noble synergies, and as I said, we'll put that all together and provide some guidance here in [1Q21].

Thanks, Doug.

Doug Leggate: Thanks, fellas.

Operator: We'll take our next question from Paul Sankey at Sankey Research.

Paul Sankey:
(Sankey Research) Good morning, everyone. Can you hear me?

Pierre Breber: Yeah. We hear you, Paul.

Paul Sankey: Hi. You've talked about your industry-leading balance sheet, and we've seen some incredible deterioration in values around the various other oils, even globally. In terms of acquisitions, I assume that you're now very happy with your Permian position. It feels as if it's difficult to find anything that would improve your position. Can you talk a little bit about that? And I assume that you don't want to add debt without there being a compelling opportunity, which I assume there kind of isn't, globally. It just seems that you're in such a strong competitive position, I wonder if you're thinking about actually doing some more deals. Thanks.

Pierre Breber: Thanks, Paul. Look, we're focused on integrating Noble successfully and we're off to a really good start. I also talked about our Transformation again, that's enterprise-wide restructuring that we've been working on for almost a year now and will go into effect November 1st. And so those are really our priorities.

As we've said, we have a high bar for M&A, and Noble cleared that bar. And so it's quality assets. It meets our criteria of quality assets at a good value, at the right time. I'm just not going to speculate about future M&A.

If I do talk about our financial priorities, I mean, I think we've been pretty consistent and clear on what they are. Sustain and grow the dividend. We've done that for 33 straight years. Invest to support long-term value, and we're doing that in our organic program. And of course we've done that through our Noble acquisition. And maintain a strong balance sheet, which we've been able to do with a net debt ratio of 17.5%.

In terms of the Permian, and I think you said it very well, we have the leading position. Noble provides a nice bolt-on. Again, our M&A is not focused necessarily on the Permian. It's focused on assets that are accretive to our shareholders, that are good value for our shareholders, that add quality assets.

Thanks, Paul. Do you have a follow-up?

Paul Sankey: I do, actually, yeah. It's a totally different subject. Could you talk about your OPEC curtailments, and anything you can add on the neutral zone? Thank you.

Pierre Breber: Yeah. In terms of the neutral zone, the production was about 30,000 barrels a day, our share, in the third quarter. So that startup is going well. In terms of our curtailment overall, the guidance we provided was about 100,000 barrels of oil equivalent so that's oil and gas equivalent. And the majority of that is OPEC+ related, so 80% to 90% of that is OPEC+ related. And that's again in countries like Kazakhstan, Nigeria, and Angola.

Paul Sankey: Just quickly.

Pierre Breber: Thanks, Paul.

Paul Sankey: Where are you headed on neutral zones, just quickly? Where will that go to?

Pierre Breber: We haven't provided any guidance. We're focused on continually having a safe and gradual ramp-up. So again, we're at a near 30,000 barrels a day, Chevron share, and we'll update you at year-end.

Paul Sankey: Thank you, sir.

Pierre Breber: Thanks.

Operator: We'll go next to Biraj Borkhataria at RBC.

Biraj Borkhataria: (RBC) Hi. Thanks for taking my questions. The first one I had was on a clarification on TCO. The co-lending figure has gone down for the last couple of, six or seven quarters. Is it safe to assume, given that issue is mobilizing the workforce, that the bit that's missing from 2020 just gets pushed to 2021? That'd be my first question.

Pierre Breber: Yeah. So there's two parts to that. Let me just address you know, TCO project spending is down a billion our share this year relative to what we've planned, in part due to the demobilization. But we said about half of that are true cost-efficiency savings, and about half will be deferred to next year and future years. That's sort of related to the lending but not entirely, right. The lending is also dependent on dividend policy and prices, but you're correct that you've seen that the lending has come down, or guidance on it has come down during the course of the year. Which is again a combination of lower project spending, but also where prices have gone.

Biraj Borkhataria: Got it. Makes sense. And then the second question on a slightly different topic, but when you're looking at project sanctions just in the context of your energy transition approach, do you currently assume a carbon price even where countries themselves did not have a sort of fiscal framework in place? And if so, can you kind of tell us what the carbon price you're using is?

Pierre Breber: Yeah. We don't disclose our price forecasts for oil and gas prices. We think it's commercially sensitive. We don't disclose our carbon price forecast. We look at it under a variety of scenarios, but both commodity prices and carbon pricing. And we look at it by jurisdiction because it can vary.

The investments that Mark referred to certainly are policy-supported, so they generate in some cases low-carbon fuel credits or renewable fuel standards, the federal standard. And so again, it really varies by jurisdiction. We are looking at returns again. We're trying to make investments in energy transition that are both good for the environment and good for shareholders, and some of that return is policy-enabled. But it really does vary by jurisdiction.

Thanks, Biraj.

Biraj Borkhataria: Thank you, Pierre. Thanks.

Operator: We'll go next to Roger Read at Wells Fargo.

Roger Read:
(Wells Fargo) Thank you. Good morning.

Wayne Borduin: Good morning, Roger.

Roger Read: I guess two questions I have for you. The first, I know you said all the modules are in Kazakhstan now, but any more update you can provide, like how many people are actually able to muster to the site and kind of thought process as we head into the typically slower winter season, for what this might imply for budgetary and timeframe of startup on the next phases?

Pierre Breber: Yeah. Thanks, Roger. Look, the remobilization is going well. I said we're near 15,000 workforce on the project, and we're heading to end the year above 20,000. So far, our safeguards are working well. We've kept the rate of infection very low. And we're seeing our work progress in line with expectations.

So the key for us going forward - to holding costs and schedule - is to complete the remobilization, sustain a full workforce during a pandemic using our safeguards, and achieve our progress milestone. So as you say, I don't want to say early days, but we're in the middle of the remobilization. We're heading into winter. We need to see how this all progresses, and we'll know more by our Investor Day. And we plan to provide an update then.

Having all material and modules on the ground is a really important milestone. It does mean that we can just address all of the work in place, and so those are really the keys for us going forward in terms of again, maintaining constant schedules.

Roger Read: Okay, great. And then a quick unrelated follow-up if I could. As you look across your various operations, and leave Noble out of this, but everybody's cut spending, everybody's cut drilling. Just curious if you see anything in the way of decline rates that are either better or worse than what you would have anticipated, thinking whether it's Permian or Gulf of Mexico or just international.

Pierre Breber: The short answer is no, that we're not seeing any surprises. I mean, the Permian is a little bit higher than our early guidance. If you recall at our market response press release, I think it was March 24th or 25th, we guided to the exit rate on the Permian being down 20%. We'll be a little bit better than that. So our production in the Permian was 565,000 barrels oil equivalent. We think our exit rate, Chevron-only, will be around 550 [thousand barrels oil equivalent] and again, that's a little better than we had guided to back in March.

Now, we'll have the Noble Permian production on top of that. That's about 50 [thousand barrels oil equivalent] so we expect to be near 600 [thousand barrels oil equivalent].

So we're managing. Again, we are managing declines very well. We are not putting a lot of capital to add short-term production because of over-supplied markets, but we're pleased with how we're operating in the upstream. Just like Mark's talked about, safe and reliable operations, we're seeing the same in our upstream operations.

Mark Nelson: Thanks, Roger.

Roger Read: Great. Thanks.

Operator: We'll move next to Sam Margolin at Wolfe Research.

Sam Margolin: (Wolfe Research) Thanks, good morning everybody. Thank you.

Wayne Borduin: Morning, Sam.

Sam Margolin: My question is about your renewable gas business. You know, if you look at the California Air Resource Board, carbon intensity scores, actually, when I first saw it, I thought it was a mistake because renewable gas is like a negative 400 or something totally off the charts.

I guess you're constrained by the CNG market, which I don't know how big it is. But given the emissions benefits of this product, are you able to offset all or at least a significant amount of your obligations from the refining business under the LCFS?

Mark Nelson: Sam, this is Mark. Thank you for the question, and kind of the recognition of why we would be considering the renewable natural gas as part of our value chain. I mean, you should expect us to be a strong player in the RNG space in policy-enabled markets like the west. As you've indicated, it is the most cost and carbon-efficient fuel from an LCFS and RFS perspective, and it's actually low execution risk. And so, it leverages our strengths, our ability to partner with folks, especially on the feedstock side. And then our ability to place the product. We've got to your second element, that you need a place to put this over time. And so, we're excited about the CalBio and the Brightmark, and even the Adopt-a-Port announcements that we've made. And I think you'll see us to continue to wisely grow here.

Thanks for the question, Sam.

Sam Margolin: Oh, sure. Okay. And I mean, I guess it's a related follow-up but one of the things that you've said, that I think is differentiated from a corporate level, is that you know, you manage your capital planning not really on the basis of prices, but on how you see the demand outlook shaking out, or directionally. Because you know, the price can change, and it might not necessarily reflect actual conditions. But, in light of that, you know, you mention that we're transitioning to a low carbon world. Some things could change depending on the election. But can this renewable gas business, you know, if there really is market share to be had, can it scale beyond California? What other geographic footprints are out there for you, and you know, basically just in terms of scope, what are you thinking here?

Mark Nelson: Yeah. The short answer is, growth is clearly plausible. We tend to look at this in regard to our existing value chains, where we have our strengths and where we can execute well. And we'll consider growth in that context. But there's certainly upside potential.

Sam Margolin: Okay. Thank you so much.

Pierre Breber: Thanks, Sam.

Wayne Borduin: Thanks, Sam.

Operator: Next we'll go to Manav Gupta at Credit Suisse.

Manav Gupta: (Credit Suisse) Thank you for taking my question. You have two high-class refining assets in California, and we saw that the earnings are stronger in the downstream as Neil pointed out. The governor over there is indicating that he wants to ban the internal combustion engine in 2035, the sale of new vehicles. Is that in any way changing the way you plan your business in California, or you think that he does not have the legal authority, as many legal experts are pointing out?

Mark Nelson: Thank you for the question. I'm actually a native Californian, and when I think about California, I think of generally, under normal conditions, a very strong economy, and a tremendous desire for affordable mobility. And with that backdrop for the foreseeable future, to be successful in California from a fuels perspective, I think you have to have reliable refineries, a strong brand, both to place the product and to keep a connection with the customer, and an ability to participate in California's lower carbon future. And we've been here in California for over 100 years. And I think we are well-positioned to engage with the government to build a path towards the lower-carbon future. And we will actively participate that and believe we can do so.

Manav Gupta: Okay. A quick follow-up. A quick follow-up is, you have had Noble assets for about a month, are there any upside surprises, thoughts like synergies you think you can do better on, any integration you think you can do better on since you acquired those assets?

Pierre Breber: Thanks, Manav. Look, it's going very well. Again, we're pleased to have been the first to announce a transaction and to complete it. It's a good fit and I won't go through all that again. A very successful first month.

Synergies are on track. We expect that there will be more as we operate as one company. In the first few weeks we've been able, for example, to see contracts and look at procurement opportunities. We're also starting to see operational synergies. We'll update you sometime in [1Q21]. Just give us some time to fully assess the opportunities. We expect the synergy number to be higher. I don't have a number for you now. We're going to do that work and we'll advise you in due course.

Manav Gupta: Thank you.

Operator: We'll take our next question from Jason Gabelman at Cowen.

Jason Gabelman: (Cowen) Yeah, hey. I wanted to sort of go back to this marginal abatement cost curve, which seems like a useful framework to use moving forward. Two kind of related questions on it. One, does this enable you to kind of get to net-zero by 2030? It seems like your European peers are pushing towards that, and I'm assuming the US is going to ultimately face pressure to hit net-zero on its own emissions by 2030. And do you have any sense of what you'd need to spend to achieve that, now that you have this kind of cost curve model? And does Algonquin, the partnership with Algonquin, how does that kind of figure into this? I think you've been partnered with them for a couple quarters. Just wondering if that unlocks some of the opportunities within the goal of reducing carbon intensity? Thanks.

Pierre Breber: Yeah. Jason, look. We support the Paris agreement and as Mark says, we're going to be part of a lower-carbon energy future. Our focus is on results, not pledges. And so what you're seeing are actions today that are addressing carbon intensity. I'm just not going to get further. We have our 2023 carbon intensity metrics I referred to earlier, that we're likely to update those in time to get to the next stocktake periods. But our approach, again, is really focused on delivering results that we think address climate change and are good for the environment.

In terms of Algonquin, it's early days, but yeah. We see opportunities there. That does both, right. It sort of increases renewables in support of our business. You've seen us do that in the Permian and in Bakersfield with wind and solar projects, that are providing power to our operations that we otherwise are buying off the grid. And Algonquin is working on opportunities in other areas of Chevron operations. This does take a little bit of time. You've got to do some of the engineering work and the development work. But so far, that joint venture is going well.

Jason Gabelman: Great. And just clarification, I appreciate, on slide 9 you included downstream earnings excluding timing effects, which is definitely useful. Is that a disclosure you plan on including going forward? And is 3Q '20, does it imply kind of no timing effect this quarter, just looking at where the graph, where the bar is on the graph? Thanks.

Pierre Breber: Yeah, Jason. So, in the last slide is the appendix. You see that we actually give the absolute timing effects for US and International downstream.

So for a long time, we've been showing the variance. But as you said, you couldn't figure out the absolutes in each quarter. So now, we've shown that for going back to 2017. And yeah, you should expect us to continue to do that going forward.

Jason Gabelman: Great. That's helpful. Thanks a lot.

Pierre Breber: Thanks, Jason.

Wayne Borduin: Thanks, Jason.

Operator: We'll go next to Pavel Molchanov at Raymond James.

Pavel Molchanov: (Raymond James) Thanks for taking the question. You do not have a massive footprint in Europe compared to just about all the other supermajors, but I am curious your thoughts, another regulatory issue, the European climate law getting ready to be passed five weeks from now, and what the impact on your upstream and/or downstream operations might be.

Pierre Breber: Well, as you say, Pavel, although we've operated in Europe upstream and downstream for many decades, and I worked there in Aberdeen when the first carbon tax was enacted, we sold the majority of our upstream operations. We have a little non-op position still. And again, no large-scale refining or marketing. We do have some lubricants and additives businesses in there.

So I think again, we support the Paris Accord. We believe the future of energy is lower-carbon. We expect more policy. I think it gets to what Mark was addressing, was getting the balance between those worthwhile policy goals, and providing affordable, reliable energy, that the world economies need.

Pavel Molchanov: Just a quick follow-up, since we're a week ahead of the election. Can you remind us, on the combined Chevron-plus-Noble Permian acreage position, how much of the acreage is Federal?

Pierre Breber: Yeah. It's about 10% is Federal in terms of total Permian acreage.

Pavel Molchanov: Perfect. Thanks very much.

Pierre Breber: Thanks, Pavel.

Operator: We'll go next to Neal Dingmann at Truist Securities.

Neal Dingmann:
(Truist Securities) Morning, afternoon almost now, guys. You've talked a lot about these details on the renewables. But my question was more particularly on the Novvi partnership. I'm just wondering, you know, again, on that, out of the Deer Park facility could you talk about maybe some details and what industries you all might target, once that starts rolling out of that facility?

Mark Nelson: Well, the concept for Novvi for our downstream business is to provide a renewable base oil to round out our base oil offering, both for our own business and for the business of others. The product, itself, which is a technology partnership between ourselves, leveraging our isodewaxing technology and some other patented solutions, allows to take multiple types of bio feedstocks and turn them into what I would consider higher-performing base oils. There are other applications even in cosmetics and things like that, that will be investigated over time. But we do see an opportunity for expansion of that joint venture, should the economics continue to warrant it. Thank you. Thanks for the question.

Neal Dingmann: Sure. And then one maybe just quick follow-up on that, you certainly are doing a great job of continuing to move not only Novvi, this CalBioGas, and just to continue moving in the renewables in general. Do you all have sort of any target, or kind of metrics on where you would like to be as far as what you think renewables might be as a part of your potential total business two or three years from now? Or is it just too early to determine that?

Mark Nelson: I'll give the first answer. Then maybe Pierre can build on this. I think it's too early for us to say about how big it could become, but we do intend to continue to grow it as part of our business. And I think we can do that successfully while we improve returns, as well.

Pierre, would you add anything?

Pierre Breber: Yeah. That's just well said. Again, I think I addressed earlier, no one has an open checkbook in Chevron to spend money. That's true in the conventional business and acquisitions and energy transition. We're going to pursue the opportunity that's good for the environment, good for our shareholders. And that'll grow over time. Thanks, Neal.

Neal Dingmann: Very good. Thanks for your time, guys.

Wayne Borduin: Well, we've gone through all the questions in the queue, and I want to thank everyone for your time today. We do appreciate your interest in Chevron and everyone's participation on today's call. Please stay safe and healthy. Audra, back to you.

Operator: Thank you. Ladies and gentlemen, this concludes Chevron's Third Quarter 2020 Earnings Conference Call. You may now disconnect.