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Chevron

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Operator: Good morning. My name is Katie, and I will be your conference facilitator today. Welcome to Chevron's third quarter 2021 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 over to the general manager of investor relations of Chevron Corporation. Mr. Roderick Green. Please go ahead.

Roderick Green: Thank you, Katie. Welcome to Chevron's third quarter earnings conference call. I'm Roderick Green, GM of Investor Relations and on the call with me today are Mark Nelson, EVP of Downstream & Chemicals, and Pierre Breber, CFO. We will refer to the slides and prepared remarks 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 will turn it over to Pierre.

Pierre Breber: Thanks Roderick. We reported third quarter earnings of $6.1B, or $3.19 per share, the highest reported earnings in more than 8 years. Adjusted earnings were $5.7B, or $2.96 per share. The quarter's results included two special items – asset sales gains of $200MM and pension settlement costs of $81MM. A reconciliation of non-GAAP measures can be found in the appendix to this presentation. Adjusted ROCE was greater than 13%, and we lowered our net debt ratio to below 19%.

Strong operating cash flow enabled us to deliver on our financial priorities, including the resumption of share repurchases. Compared to before Covid, operating costs are down, upstream production is up, and we're much more capital efficient. Cost efficiency and capital efficiency are essential to navigate commodity price cycles – providing resilience through low periods and leveraging upside when markets are strong.

This has been evident over the past several quarters, and especially so in the most recent one, as we generated company-record free cash flow – higher than the strongest quarters in 2008 and 2011 when oil prices were well over $100 a barrel.

Adjusted third quarter earnings were up more than $5B versus last year primarily on higher prices, margins, and volumes.

Compared with last quarter, adjusted third quarter earnings were up almost $2.5B. Adjusted Upstream earnings increased on higher realizations and positive timing effects primarily related to managing LNG portfolio pricing exposure. Adjusted Downstream earnings increased primarily on higher refining and marketing margins. The All Other variance was positive due to lower corporate charges and the use of deferred tax assets, which previously had a valuation allowance.

Third quarter oil equivalent production increased 7% year-over-year due to the Noble acquisition and lower curtailments, partly offset by price-related entitlement effects and asset sales. I'll now pass it over to Mark.

Mark Nelson: Thanks Pierre. In Downstream and Chemicals, we delivered our best adjusted earnings in more than four years. Demand for our products is strong, with recovery of jet fuel sales expected as international travel gradually returns. And while the improving market environment helps, we're focused on what we can control – safe and reliable operations, capital and cost efficiency, and value chain optimization – to drive higher returns.

Some examples of our self-help actions include using digital tools to improve planning, scheduling, and prioritization of maintenance activity, leveraging data analytics and asset flexibility to increase margins, and adopting new technologies like robotic inspections and maintenance procedures.

During our Investor Day in March, I highlighted that self-help is expected to drive higher returns for Downstream and Chemicals. We're on track to meet that guidance with benefits already flowing to the bottom line.

Chemical's performance is also strong as CPChem responds to current market conditions while continuing to keep a focus on longer-term unit cost reduction. GS Caltex reached 100% design capacity of its mixed-feed cracker, ahead of schedule and under budget. The CPChem US Gulf Coast II project continues to advance towards a final investment decision in a disciplined way that positions the project to earn attractive returns through the cycle. And the Ras Laffan Project is in FEED, and we continue to evaluate this project. We believe in the long-term fundamentals of chemicals. Our investment focus continues to be on the low-end of the supply cost curve, advantaged feedstock, competitive capital and cost structure and strong project execution.

Since our Energy Transition Spotlight, we closed the acquisition of an equity interest in American Natural Gas and its network of 60 CNG retail sites with our partner Mercuria, enabling us to meet customers' needs beyond California. We also delivered first gas through our Brightmark partnership, and all CalBioGas farms are now online.

We sold the first sustainable aviation fuel produced from our El Segundo refinery to Delta Air Lines at LAX.

And earlier this month, we announced an agreement to acquire Neste's Group III base oils business and its NEXBASE™ brand. Pending regulatory approval, we anticipate closing in the first quarter of 2022. The acquisition is expected to provide a capital efficient approach to expand our base oil offerings and coupled with Novvi's renewable products, position Chevron to be the supplier of choice to meet customers' needs now and into the future. Back to you, Pierre.

Pierre Breber: Thanks, Mark.
We recently released an updated Climate Change Resilience Report which includes a stress test of our portfolio under IEA's net zero 2050 scenario, a new target called Portfolio Carbon Intensity that includes Scope 1 and 2, and Scope 3 emissions from the

use of products, and Chevron's net zero 2050 aspiration for upstream Scope 1 and 2 emissions. I encourage everyone to read our latest report, available on our website.

Now looking ahead. In the fourth quarter, we expect lower production due to a planned turnaround in Wheatstone, which was completed last week, and repairs at the Alba gas plant in Equatorial Guinea. In addition, our participation in the Rokan PSC in Indonesia ended in August. Production from Rokan averaged 84 MBOED YTD.

We expect earnings from JKM related spot sales out of Australia to increase around $50 million dollars from 3Q due to fewer spot cargoes as our long-term customers increase deliveries heading into winter. We're also expecting three discrete cash items: a return of capital from Angola LNG, TCO's first dividend in several years, and a federal income tax cash refund. There are no P&L impacts from these items.

During 4Q, we expect to buy back shares at the high-end of our guidance range. Finally, we're lowering our full year C&E guidance to $12-$13B, primarily due to COVID related project spend deferrals into next year, lower non-op capex in the Permian, and continued capital efficiencies.

To wrap up the quarter, we continued to make progress toward our objective of higher returns, lower carbon. We're more capital and cost efficient, generated record free cash flow, and are taking actions to lower the carbon intensity of our operations and grow lower-carbon businesses. We're executing a straightforward strategy that is expected to deliver value now and well into the future. With that, I'll turn it back over to Roderick.

Roderick Green: That concludes our prepared remarks. We are now ready to take your questions. Please try to limit yourself to one question and one follow-up. We will do our best to get to all your questions. Please open the lines, Katie.

Operator: Thank you. If you have a question at this time, please press star one on your touch tone telephone. You may ask one question and follow up question. If your question has been answered or you wish to remove yourself from the queue, please press star two. If you are listening to the speaker phone, we ask you please lift 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. Our first question comes from Devin McDermott with Morgan Stanley.

Devin McDermott: (Morgan Stanley) Good morning. Congrats on the great results. So, my first question, Pierre, I think is for you. I just wanted to ask for a little bit more detail on the reduction in the capital expense spending guidance for this year. It sounds like it's a mix of different factors. Some of it is deferrals next year, some of it's a mix of non-op and efficiency gains. Can you just bridge the delta a little bit more detailed for us and also talk about whether or not these deferrals or how these deferrals impact plan 2022 spend?

Pierre Breber: Thanks, Devin. We lowered our CAPEX guidance to $12 to $13 billion. That's from our budget of $14 billion and from our revised guidance that we had in the second quarter [2021] of $13 billion. So, in the last quarter, what's changed. Well, we continue to see non-op spend in the Permian below our expectations, we did have some deferred major capital project spending tied to Hurricane Ida and the Delta variant wave. And then we've continued to see continued capital efficiency in the Permian and across the portfolio. It does not change our CAPEX guidance, our CAPEX guidance for next year and through

2025 is $15 to $17 billion. We do expect higher CAPEX in the fourth quarter and next year, the low end of that range is about a 20% increase from the midpoint of our revised guidance. So, these deferrals are very manageable. And again, I would think from the original $14 billion budget, about half, you can think of deferrals and half I would say is capital efficiency and cost savings where we're getting the same results for less capital.

Devin McDermott: Got it makes a lot of sense. And then my follow up is on cash returns. So very strong free cash flow in the quarter. Your debt target is now below the bottom end of your target range. It's good to see the increase in the cadence of the buyback in Q4. I guess my question is what are some of the things you're looking for to further increase that buyback target back to something closer to the pre-COVID run rate?

Pierre Breber: As you say, Devin, our guidance for fourth quarter is at the high end of the range. So that's a $3 billion annual rate or $750 million in the quarter. And as I said last quarter, and I'll restate now, we'll increase the buyback range when Chevron's net debt ratio was comfortably below 20%. We ended third quarter with a net debt ratio a little bit under 19% down from 21% at the end of the second quarter. We just got below 20%, but we're fast approaching a net debt level where we could increase the buyback range further. As a reminder, Devin, I know this, we intend to maintain our buyback for multiple years through the cycle. And we're positioning our balance sheet below our mid cycle range. So that'll enable us to continue buy backs even if the cycle turns.

Devin McDermott: Got it. Very helpful. It makes sense. Congrats again on the strong quarter.

Pierre Breber: Thanks Devin.

Operator: We'll take our next question from Neil Mehta with Goldman Sachs.

Neil Mehta:
(Goldman Sachs) Yeah. I just want to echo great results here. Pierre, I want you to take a moment to talk about the global gas market. You spend a lot of time looking at this over the years. How do you see it playing out from here? There are a lot of moving pieces as it relates to your gas portfolio, but one would be just any thoughts around spot cargoes and the other would be, it looked like you had some timing effects in the quarter that supported earnings. I would think that would unwind later on, but just any modeling advice there? So, a lot of moving pieces there, but to your thoughts on the gas portfolio.

Pierre Breber: Thanks Neil. First, I'd say that we are seeing high gas prices. It does feel more cyclical than structural. We've seen demand, very resilient through COVID on natural gas in particular and supply has been impacted in part by lower associated gas, just a slowdown in some supply activity. So, seeing demand and supply a little bit out of sync is something that we've seen in the past. And we expect that markets will work. We're seeing a commodity pricing right now, and we expect markets to rebalance over time.

We have a very strong natural gas business. We have a nice position in North America, Australia, Eastern Med through Noble Energy and in Africa, and so we're well positioned there. There's not much in the short term that we can really do to increase supply. We have a position in the Haynesville, and we could increase activity there. But that'll have a modest impact on a company of our size.

I think over the medium to longer term, we're working expansion opportunities in, particularly in the Eastern Med. And I think this is positive for signing up customers and enabling kind of the next phase of expansion there. So, it's something that we're certainly well positioned for and we're looking to expand supply into it.

In terms of the quarter, a couple of things. Yeah, we did have a trading timing effect that was related to LNG. And that's really tied to how we manage our overall portfolio pricing. We have customer contracts that are oil linked and JKM link, and then we have various supplies, and we try to match up the pricing. And in order to do that, we essentially went long some JKM paper, which clearly was mark to market positive in the quarter. Now that's going to be matched against some physical deliveries in future quarters. We call that timing cause we expect to see that unwind when those physical cargoes are delivered.

And then the last piece of guidance we had was really on fourth quarter [2021] earnings effects. We guided towards $50 million of increased earnings in Q4 versus Q3 from Australia LNG spot cargoes. And that's just to make the point that we are going to have the spot cargoes. We have all five trains operating. The Wheatstone planned turnaround is complete, and we'll have actually more cargoes delivered in fourth quarter when you think of contract and spot. But because it's heading into winter and many of our customers are on the Northern hemisphere, their nomination seasonally picks up heading into the winter. And so, they will have higher takes under the long-term contracts, which are oil linked, and that means we'll have fewer cargoes getting the higher JKM prices.

So higher prices clearly in JKM, Q4 versus Q3 figure cargoes. That's a net benefit of about $50 million. We also have some exposure out of our, both Angola, LNG and Equatorial Guinea. And you can think about another $50 million or so from spot cargoes from those operations. So, sorry, it's a long answer to cover the full breadth of natural gas this quarter.

Neil Mehta: Yeah. There's a lot of moving pieces now. That's great. And then, Pierre, you're tracking really well on CAPEX this year. Now I think initially $14 [billion], then $13 now. It looks like as low as $12. Next year, if I remember CAPEX is $15 to $17, is the range that you talked about. Is it fair to assume that the lower capital spend this year would suggest that you'd be on the lower end at that range and any moving pieces that you would, as we should think about as you set up the 2022 spend level?

Pierre Breber: You'll see us increase capital in the fourth quarter just to get to that $12 to $13 billion cause we're at $8.1 billion through third quarter, and you'll see that in the Permian. Two more rigs, two more completion crews. We'll have higher activity levels at Tengiz. We're going to maintain peak manpower through the winter and then activity tends to be backloaded. So back-end loaded. We have some project milestone payments. We have exploration wells that'll be drilling in the fourth quarter. So, you'll see an increase in fourth quarter.

We will announce our 2022 budget in December, like we normally do. It'll be within the guidance. I think it's fair to say it'll be towards the low end of the guidance. Again, even being at the bottom of the guidance of $15 billion of organic capital, that's at least a 20% increase off the mid-point of the guidance we just gave for this year. So again, I don't want to get ahead of that, but you should expect to see capital in the lower end of that guidance range.

Neil Mehta: Good stuff. Thanks guys.

Operator:	Thank you. We'll take our next question from Doug Leggate with Bank of America.
Doug Leggate: (Bank of America)	Well, good morning, everybody. Pierre and Mark, thanks for taking my questions. I hate to ask a housekeeping question, but you got to help me out a little bit on tax. The way I'm thinking about this is that there's been a lot of changes and post Noble. Your mix has changed and obviously they've got a lot more profitability in the US with a low tax rate. So, can you help me, is what's going on with tax sustainable, or was it a mix issue or was there something unusual going on? Cause we saw your tax get low. And I'm worried that we are carrying too high a tax rate going forward.
Pierre Breber:	The tax benefits in the third quarter, which we cited, are real. This is a deferred tax asset. It was acquired through Noble. At the time of closing the transaction we put a valuation allowance against it because these tax attributes expire after a certain number of years and based on projections of financial performance at that time, we thought they would expire without us being able to use them. Our financial performance is so much stronger that we actually were able to use them in the third quarter, so that reduces our taxes both on an earnings and on a cash basis. So, it's very real and it's an additional synergy from Noble and it's not something that was included in our synergy estimates. That is not something that necessarily will recur. We'll do a review of all of our tax attributes at year end and see again, what deferred tax assets could have value going forward based on a change in conditions. But again, I would cite that that was in the All Other segment. It's not something that you would expect to recur.
Doug Leggate:	That was really helpful. Thanks. I don’t suppose I can get you to quantify what that Noble contribution was time.
Pierre Breber:	Well, it's the primary variance in that segment. So, we talked about lower corporate charges and tax benefits.
Doug Leggate:	My follow-up is really on the balance sheet issue, but obviously going back five years ago, you guys didn't carry any net debt as a lot of projects going on back then, but when you think about the cost of debt, which is obviously very, very low, and we'll see if it stays there versus the way you think about per share dividend. So, I'm trying to think Exxon talks now about 20 to 25% has been the right level for them. It seems you're heading well below that kind of level. So, what is the right level for you given that you can obviously refinance at a very economic level and obviously step up the buy backs if you chose to?
Pierre Breber:	When I became CFO, I answered this question that we didn't have a hard target on our net debt ratio, but 20 to 25% is a good place for us to be through the cycle. And there could be times where we go above it. For example, when we showed our stress test, the only company in the industry to show a stress test last year at $30 Brent for two years, to give confidence to our investors that we could maintain the dividend, our net debt ratio did go above 25%. So that's appropriate. We do not need to be anywhere close to where we were before with no net debt, but when prices are above mid-cycle, we should be below the low end of the range. And we are, we got to less than 19% now, and we're fast approaching a range where we could increase our buyback guidance.

So, it's very close to where we're at all the excess cash that we'll be generating under these conditions. And we show that at $60 even prices well below where we're at now, that we can generate $25 billion of excess cash over five years. This is cash in excess of our capital and our dividends. All that cash will be returned to shareholders over time in the form of a rising dividend. And again, our dividend is up 12% since pre COVID, the biggest increase in the sector and in a buyback that's ratable and we maintain through the cycle. We bought back shares 14 a last 18 years. And so, when we set a buyback rate, we intend to maintain it through the cycle. That means we'll maintain it when the cycle turns, and which means that we can in fact be doing it off of debt for some time period. And we'll rebalance back into the range when we continue to buy back shares if and when the cycle does turn down.

Doug Leggate: Well, let's hope that it's not anytime soon. Cause last year we still got the scars from last year. Thanks so much, Pierre, for your answers. Appreciate it.

Pierre Breber: Thank you, Doug.

Operator: We'll take our next question from Jeanine Wai with Barclays.

Jeanine Wai: (Barclays) Hi, good morning, everyone. Thanks for taking our questions. We wanted to follow up on Devin's questions and I guess Doug's question as well, getting back to the buyback. Pierre, you've already commented that you plan to maintain the buyback through multiple years through the price cycles, which is great. I think we remember prior commentary that the goal is to not have to reduce the buyback once it started.

So, we wanted to just check in on that and how you think of the trajectory of any buyback increases. It sounds more ratable versus opportunistic. We know there's a tremendous amount of free cash flow coming your way, but also it seems like investor expectations are running alongside that versus being more ratable and that the strip is in backwardation. We just wanted to kind of check in on the trajectory.

Pierre Breber: Thanks Jeanine. If you look back to our history, we've never ended a buyback program at the rate that we started. We tend to increase them, and I think you might be right that we haven't decreased them. Look, I'm not opposed to that. We have a range we're using the range, right? We're in the middle of the range in the third quarter. By the way it's the first quarter since we've resumed buybacks. We bought back shares in the first quarter of last year, pre-COVID. And now we're using the top of the range. And as I said, we're fast approaching a net debt level where we can increase that range further. So no, our focus is on being ratable and maintain it through the cycle.

Investors, our investors, our shareholders have different views on buybacks, where we have the most common ground is do it consistently. And do it through the cycle when times are good and when times are tougher. And so we're setting the rates at a level that we have confidence that we can maintain it through a commodity price cycle.

Jeanine Wai: Okay, great. Thank you for that. Our second question is really on the Permian and the outlook on capital allocation. Can you just talk a little bit about what you're seeing on inventory and supply demand and maybe how close are you to potentially accelerating in the Permian a little bit beyond what you've already laid out? And I guess on that, we know that it doesn't get much attention, but could you also be thinking about increasing activity in other short cycle plays? Thank you.

Pierre Breber: We're going to increase capital in the fourth quarter and into next year. And so that'll be in the Permian and it'll be in other locations. Again, as I said, even the bottom end of our guidance range, $15 billion represents at least a 20% increase from where we expect to end up this year. And we're seeing that in the fourth quarter, we'll see two additional rigs in the Permian, two additional completion crews.

We're beginning to see a non-op pickup. Also again, that's part of the reason why we lowered our guidance. Non-op has been a bit below our expectations. And you can see it in other basins. We have a great portfolio with a number of short cycles, but we're not changing our overall CAPEX guidance range. Our CAPEX guidance anticipated that we would be in a recovery mode, and it would increase over time.

And we showed a five-year outlook on the Permian that shows that we can grow production as an outcome of a very capital efficient and also carbon efficient development of resource that we can grow that production from 600,000 barrels a day to a million barrels a day. We're executing our plan. There's really no change in what we're doing, it's playing out the way we expected and seeing a buildup in activity in the Permian and across other parts of our portfolio is what we had planned to do. And we're going to do that in a very capital and cost-efficient way.

Operator: We'll take our next question from Phil Gresh with JP Morgan.

Phil Gresh:
(JP Morgan) Hi, Pierre. First question here, just kind of circling around the capital allocation base a little bit more. Back in March, you talked about having $25 billion of excess cash or greater than $25 billion in excess cash over five years at $60 implicitly suggesting the dividend would be covered around $50ish Brent, I believe. I'm just curious if, as you've progressed through this year, the performance that you've seen, et cetera, if anything changed that to make you think that that break even would be moving lower or is that still an area where you're comfortable with?

Pierre Breber: That's an area where we're comfortable with. It's just keeping oil prices constant, right. We're seeing Mark Nelson's Downstream and Chemicals group perform very well. We talked about natural gas pricing being strong, both in North America, Europe, and international LNG. So those things aren't held constant. So, if you look at this quarter's result, I think you'd see our break even would be a little bit lower, but in terms of mid-cycle assumptions for refining margins, chemical margins, natural gas prices and then an oil break even about $50 is certainly where we're at now. That, of course, that changes as our dividend goes up and other things over time, cause it's a dividend break even. It's covering our capital and our dividend, but that math is still intact.

We are a better company than we were a few years ago. We showed that chart where our costs are lower. Our production is higher and we're much more capital efficient. We can sustain and grow this enterprise with less capital and that helps us deliver higher returns and lower carbon.

Phil Gresh: Got it. Okay. And then just the follow up question on Wheatstone. There were some reports from your partners about reserves being written down there. I just wanted to get your commentary. How do you think about this? Does that mean something in terms of future capital requirements given that this a longer cycle project, just any commentary you'd have there? Thanks.

Pierre Breber: It's unrelated to Chevron. So, if you recall, the Wheatstone project was the first project in Australia and maybe the world where there was third party - the reserves, the resources came from two different joint ventures. And so, it was Apache at the time and now it's Woodside. It was really Woodside announcing that the fields that supply their portion of that's toll through Wheatstone that those reserves have a write-down. Chevron does not have an interest in those reserves. The Chevron fields that supply Wheatstone are not affected. And again, it's unrelated to Chevron activity. It's only that they essentially, we share the facility through them, and those fields are also being processed through.

Wheatstone is doing very well. We had a planned turnaround that covered a portion of third quarter and early into fourth quarter, as I said, it was completed last week. And we expect to have all five of our Australia trains operating this quarter. And as I said, we expect more cargoes. There's a lot of focus on JKM, but of course our oil link contract prices will also be higher because they adjust with oil prices are higher and then they adjust with oil prices on a three-to-six-month lag.

Phil Gresh: Great. Thanks for the clarification on that.

Operator: We'll take our next question from Ryan Todd with Piper Sandler.

Ryan Todd: (Piper Sandler) Thanks. Maybe a high-level question; when you did your Energy Transition Spotlight event a little while back, you said a share of the capital budget of low carbon businesses being close to 10% of the capital budget. You've seen one of your peers here in the US raise theirs to a similar level. As you think about the feedback that you've received since then, I mean, our view was that it was a pragmatic balance between allocation of capital towards good low carbon businesses, but not too much to kind of protect returns dilution going forward.

Is 10% of the budget as you've seen feedback over the last couple of months, do you think that 10% of the budget is enough, or do you think that's going to be something where you're going to see increasing pressure to kind of creep that higher going forward?

Pierre Breber: I'll start. And then I'll ask Mark to talk a little bit about some of our renewable fuels' activities in his portfolio. We have good shareholder support and alignment for our strategy and objectives of higher returns, lower carbon. That's both lowering the carbon intensity of our traditional operations and then growing low carbon businesses that leverage our strengths, our capabilities, assets, and customer relationships. And they target the sectors that cannot be easily electrified, the hard-to-abate sector. So, this is things like air travel, industrial emissions, heavy duty transport.

The $10 billion of capital is connected to some pretty ambitious targets that go up to 2030. It's 150,000 tonnes per annum of hydrogen, 25 million tonnes per year of carbon capture and storage. That's all consistent with that capital guidance. We are more in the execution mode and getting it done versus let's say competing on CAPEX targets. It's not easy to do. These are ambitious targets. They have challenges, lots of opportunity, but let me ask Mark to talk a bit about his portion of that on renewable fuels.

Mark Nelson: Thanks for the question, Ryan. I could use a real tangible example. You think about our El Segundo refinery and our diesel hydrotreater conversion. We've said a few things are really important to us when it comes to renewable diesel. We've said that the ability to sell it at the appropriate margin, the ability to have the right kind of feedstocks and the ability to be capital efficient is critical for us to be successful.

In Southern California in the El Segundo refinery are an example of all of that. We've already increased our sales. We're getting close to 40%, but let's say over 30% of renewable and biodiesel in Southern California. We have our Bunge joint venture where we're working towards definitive agreements as we speak. And yet they're already supplying us at the El Segundo refinery.

And finally, and perhaps most importantly, capital efficiency. We indicated in our Energy Transition Spotlight that we expect to be a leader in the capital conversion of particular hydroprocessing units in our system. And we believe we can do that for less than a dollar per gallon of annual capacity. And that's including any pre-treatment requirements. That gives us the ability to produce both renewable diesel and conventional diesel, just with a catalyst change if that's necessary.

So, when you step back and you think about that work that's been done initially at El Segundo where we did our co-processing investment for very, very little money. We were able to test tanking and piping and metallurgy needs, and now we're working towards a full conversion of that diesel hydrotreater here by the end of next year. That won't be easy, but the team is working really hard on it, making very good progress, and that would be 100% renewable diesel capacity and over 10,000 barrels a day. Thanks for the question.

Ryan Todd: Great. Thanks, Mark. Maybe a follow up on some of your comments earlier, Pierre, where you mentioned when you were talking about gas markets, and you mentioned the Eastern Med opportunities. We haven't talked about that much in a little while. In your conversations with potential buyers of that gas in the basin. I mean, in the past when it was operated by Noble, there was talk of everything between European targets to pipelines to Egypt, to floating LNG, all sorts of opportunities. Any thoughts on what may look like the most sense there in the Eastern Med and opportunities for whether it's shorter term debottlenecking and an opportunity there versus longer term project development?

Pierre Breber: All options are still on the table, Ryan, and it's commercially sensitive. So, we don't want to show our hand in any way. I mean, the point is that this is a great resource. There's some very low-cost expansions that can be done and then some larger expansions that can be done over time. What's really changed is that was in a geography that a year ago looked over supplied for natural gas, and now it looks much tighter. And as you know, natural gas business internationally is really dependent on getting customers to sign up. And I think customers are more motivated now. And look, it's probably overdone, as I said earlier, we expect the markets to correct, but it is a better time for us to be engaging.

It's a great resource in many cases is backing out of coal. It has expansion opportunities. It's been free cashflow positive from the moment that we closed Noble. It's just a great asset and it's well positioned now to have opportunities to grow in the future.

Operator: Thank you. We'll take our next question from Paul Sankey with Sankey Research.

Paul Sankey: (Sankey Research) Hi Pierre if I could start with you. Would it be possible to try and normalize your exposure to LNG given that there's so many moving parts over the course of the past year or so? I'm just noting that you said during your comments that your spot exposure will be somewhat different in Q4 as a result of customers pulling long-term contracts. If we could just take it apart a bit and sort of normalize into 2022, 2023, where are your volumes and how much of that is going to be long-term versus spot? If you could have a go at that, thanks.

Pierre Breber: Paul, we'll cover that more in our fourth quarter call when we give full year guidance on a number of items. We have a long-term contract that'll begin next year. So, it'll take our weighting to long-term contracts a little bit higher. Again, we've been notionally around 80% but that's why we very consciously just provided guidance for this quarter as it will change a little bit next year, but we'll do that on the fourth quarter call.

Paul Sankey: Okay, I'll move on to Mark, but if I could just slip a quick one, a few in regard to modeling, Do I assume that we put everything into buyback in terms of free cash flow? Are there any other items that you would highlight? Maybe pension or something that we should just be aware of going into 2022 and how much will you consider your buyback to be? Thanks.

Pierre Breber: Over time, the vast majority of the excess cash will be returned to shareholders in the form of higher dividends and the buyback. We did a one-time pension supplement last quarter. It was really tied to the very low interest rates from a year ago. It sounds like a long time ago, but under the pension benefit guarantee corporation rules the funding requirement is fixed by on the year end interest rates. And so, we were a little bit underfunded and therefore would have paid a little higher, what's called a variable interest rate essentially, higher than our cost of borrowing. And so that's why we supplemented it. Obviously, we're in a much different place in terms of interest rates now, and you'd expect our pension contributions to be, as they have been, and we provide guidance on pension in our 10-Q filings. So, I would not expect anything on that end.

So again, if you go to our financial priorities, Paul, you know them well, sustain and grow the dividend. It's up 12% as pre-COVID. The biggest increase in the sector. Our capital guidance is going to be up, but it's no change from the guidance range. And it's in a very tight guidance range and very capital efficient and lower where it was pre-COVID. We're going to pay down a little more debt. As I said, we're fast approaching a level where we can increase our buyback range. And so, then the balance is excess cash. And over time it goes to shareholders. We're not going to sweep it out each quarter because investors are very clear that they want us to maintain a buyback through the cycle.

Paul Sankey: I guess that would mean no specials?

Pierre Breber: I think it's time for you to ask the question to Mark.

Paul Sankey: Thanks, Pierre. Mark, a very general question, but could you talk about how capacity is changing downstream, both in refining and in chemicals? Cause I know we're adding a lot of chemicals, obviously we're also shutting down a lot of downstream. Firstly, is there any way that Chevron's dramatically changing its capacity and exposure downstream?

And secondly, could you talk about that in the context of where you see a US and global capacity? I know this could take two hours. I apologize, but if you could generally say how global capacity has shifted in the more numbers you could give us the better. Thanks.

Mark Nelson: Yeah. Thanks Paul. So, let's start with the refining side of the business and use margin as the proxy for capacity being utilized. We've said demand has to recover for five value products. Inventory has to fall into traditional ranges, and then we need some degree of refinery rationalization, either closures or conversions throughout the system. If you're in the US today, I think you're seeing much of that much of that demand recovery with jet still to come. And that's even with the offices not completely open and still some restrictions in place. Inventory tending to find itself in traditional boundaries and starting to see some closures and/or conversions in some of our markets, especially the US west coast, which means the market could actually be tight on things like motor gasoline, even jet five or six years from now. So, you see that in the United States.

If I shift to Asia, I would say that demand recovery on jet is a little bit behind that of the US, especially given our exposure to Southeast Asia. Inventory reduction falling into those ranges is starting to happen. Some of that with China stopping some of its exports for the moment, but demand catching up with refinery capacity in Asia still needs to happen. And that means that we both need some, perhaps some rationalization as well as demand just to catch up with the capacity that's there. And so, my high-level comment would be that in the United States, we're seeing the actions to bring refinery margins into balance over time, getting closer to historic ranges in just a half phase behind that maybe in Asia.

And then for the pet chem side of the equation, pet chem margins have had a strong run this year on the back of good demand and considerable supply disruptions. We would expect to see margins come off as we get to the fourth quarter, normal seasonal type of drop-off, but we're actually preparing for, with capacity growth over the next few years, we expect that to outpace demand. We're at that part of the cycle. And even in 2025, we're presuming we'll be on the lower portion of the margin cycle. So that means that there'll be a period of catch-up there in regard to demand catching capacity. Hope that got to your question.

Paul Sankey: You did. Thanks. And just from a Chevron point of view, is there any major changes in your capacity over the next five years that you anticipate in refining and chemicals?

Mark Nelson: Other than the comments we've made about - you remember it was about a decade ago that we did much of our, what I'll call rationalization, meaning taking things out of our portfolio and we've highlighted our Energy Transition Spotlight that we have this opportunity for this very capital efficient conversion of individual hydroprocessing units. And we will certainly do that over the next decade to get to that 100,000 barrels a day of RD and SAF capacity.

Pierre Breber: Thanks, Paul, we're going to have to go to the next one.

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

Roger Read:
(Wells Fargo) Thank you. And good morning. Pierre, I'm going to hit you on a capital returns, buybacks and balance sheet. No, I'm just kidding. Mark, I would like to ask you about the group oil base three acquisition, kind of how that fits in the overall structure and what we should think about there, and whether or not we've seen some stories about renewable feedstock for Group III, maybe how you see that working in over time.

Mark Nelson: Yeah. Thanks, Roger. As mentioned in the prepared remarks, we're excited about the announced acquisition of Neste's Group III base oil business and the NEXBASE brand and the reason for that is it's a very capital efficient acquisition of both off-take of supply, appropriate qualifications and the NEXBASE brand itself. And what that does for us is allows us to expand our offerings. So, we're going to add that to our existing Group II, II plus and Novvi will be offering to have a complete offering for the base oil needs for our customers in the future.

And think about that Novvi brand that we talked about. I think in the energy transition spotlight, we shared that Walmart would be selling online our Havoline PRO-RS, the first renewable lubricant line. And we've actually brought some of that forward and starting next Monday, we will have our installer base in North America, specifically the United States and Canada in particular running a whole line of Havoline PRO-RS. We're creating that demand for the renewable portion of that offering. And it really gives us something where we can be that supplier of the future for our base oil customers. Thanks for the question, Roger.

Roger Read: Yeah, absolutely. And then if we could come back to some of the things on the CAPEX. You've referenced delays out of the Gulf of Mexico due to the storms, which totally makes sense. As you look at the development and some of the exploration, I think you're looking to do out there the next couple of years. Is there any change to that or any sort of change in the order projects we should pay attention to?

Pierre Breber: No, we have a steady stream of projects really with Anchor that has been under way, Whale that recently went to a final investment decision, and Ballymore, which is coming along. So, you'll see a very rate-able development program.

Gulf of Mexico is a high return, low carbon asset, some of the lowest carbon intensity barrels in our portfolio, in the single digits and is a business that we've been invested in for decades, have know-how and competitive advantages and can find attractive investment opportunities. It's sort of a modestly growing part of the portfolio.

If you think of the biggest growth that we have going forward clearly is in the Permian, which I referred to earlier. Tengiz is a project that we're investing in, and that project is going very well, and the project will come on in a couple of years, but when you get to Gulf of Mexico, the Rockies or Colorado, a few other places also have very attractive investment opportunities that can deliver both higher returns and lower carbon.

Operator: Thank you. We'll take our next question from Biraj Borkhataria with RBC.

Biraj Borkhataria: (RBC) Hi, thanks for taking my questions. Two questions. The first one was just thinking about the balance sheet. Because of your conservatism and the way, you manage your balance sheet, you've been able to make some counter cyclical moves and Noble was obviously the most recent one. Given we're at the high point of the cycle now, can you talk about any plans to accelerate asset sales? I know it's not needed for the balance sheet, but it's interesting to hear whether you think there are any opportunities out there. And if so, are they across upstream, downstream or chemicals.

And then the second question is on Tengiz. It's good to see that the dividend come through after a number of years, are there any loan repayments due in 2022? And then finally, just a quick comment to say, thanks for the [portfolio carbon intensity] calculation tool, which you published. It's actually quite difficult to dig into some of those figures and understand all the variances. So, appreciate the transparency there.

Pierre Breber: Well, thank you, Biraj, for recognizing PCI. Our teams will be very happy to hear that we wanted to make a tool that was transparent where you could use it for other companies, because I know comparability is of interest to investors. And so, it's based on again, transparent reporting data and comparability. And so, thank you for taking advantage of that. And I encourage others to check it out.

Let me just talk about TCO, because as we look back, we had a very successful spring and summer campaign there. We hit our productivity targets and we achieved a lot of our milestones when we had a full workforce. So, we had a Delta variant wave, which caused some higher levels of isolation in the middle of the third quarter, but we ended the quarter with positive rates, very, very low, and we're back to our full workforce.

And as I mentioned earlier, we intend to maintain a peak manpower workforce level through the winter months. We have a vaccination rate over 85% for that workforce. We're well positioned to make a lot of progress this winter. Now we have to be thoughtful about it because it can get cold there. We're sequencing the work in a way that we're saving the work that can be done indoors or in sheltered locations during the coldest months of the winter. So, no change clearly in the guidance that we provided on second quarter in terms of budget and schedule, but I wanted to give an update. Things are going very well in Tengiz and we're looking forward to a very productive winter season there.

In terms of the dividend, you're right. It's the first dividend in three years, so that's nice to see. We did have a modest loan repay back that occurred last quarter. And look, we'll give guidance on 2022, just like with Paul's question, when we look forward. It'll depend clearly also on oil prices, but that's something that we'll give guidance on our Q4 call.

In terms of asset sales, yes, we acquired Noble or announced the acquisition when Brent was in the low forties and now Brent is in the low eighties. And so, it's a commodity business. It has cycles, ups and downs. And when you buy or sell assets, timing makes a difference, where you are in the cycle and of course strategic fit and all the elements. We're very, very pleased with the Noble transaction. We talked about the timing of it, the first to do it, the synergies that were doubled and the tax benefits that we saw this quarter and interest costs savings. We did tender number of bond offerings earlier this month, a lot of those bonds were Noble bonds, again, that was not included in our synergies because we weren't quite sure we could achieve that, and we'll save over $100 million [per year] in interest cost savings.

So, Noble just keeps contributing to the company. And that's part of the reason why we're a better company now than we were several years ago. But it's a different market. So yeah, I view it more as a sellers' market than a buyer's market right now.

And so, you're seeing us modestly increase some assets that don't compete for capital as well in our portfolio. In fact, one of them is our position in the Eagle Ford. So that was a Noble legacy position. Chevron legacy was not in it, so we don't have quite the scale that we would like. But again, essentially buying that position at $40 [Brent] and now we have it on the market, that's in the public domain. And obviously we expect to get a much higher value than for what was implied in the purchase price.

We have some other us onshore assets that are on the market again, that we feel are very attractive to a lot of industry players, but just won't compete for capital as well in our portfolio. Thanks, Biraj.

Biraj Borkhataria: Okay, understood. Thank you.

Operator: We'll take our next question from Paul Cheng with Scotiabank.

Paul Cheng: (Scotiabank) Hey guys. Good morning. Two questions. So, the first one is for Mark. Mark, you guys did the Pasadena refinery and at the time you're saying that it's a one off because [it accompanied your] Pascagoula refinery. There's quite a lot of refineries available for sale in here. So, wanted to see with the substantial number of the refining capacity being shut, does it change the way how you're looking at that business or that you think you already have sufficient enough capacity and supplementary, and you really don't need to add?

And also in the retail marketing, some of your peers that have been aggressively building that up and including in the US and you guys have out of that business for more than 10 years, is there any plan to going back so that on the energy transition, including the EV charging and all that?

The second question is for Pierre. You talk about, say the TCO dividend. How about the Angola LNG? Can you give us some idea that if the current commodity price holds, should we assume every year that both Angola LNG and TCO is going to pay the dividend? And any kind of sensitivity you can provide that if the change in the oil prices, how that impact on that dividend payout going to look like.

Mark Nelson: All right, Paul, thank you for the questions. I'll take them, I guess, in reverse order. I think your second question was really about retail marketing. And as you know, we have three world-class brands and we've taken a capital light approach to selling our branded fuels.

In fact, one of the metrics that we often look at is the OPIS Brand Power Rating, and we continue to be well at the top of that list. And what that means is the majority of our retail sites around the world that you would see are owned by retailers who have specifically chosen our brand. And so, we have our brand, our fuel and generally not our capital. We also happen to have one of the strongest retail convenience franchising offerings out there, ExtraMile that you've probably seen. In fact, I think we hit our 1,000th site this year with very, very little attrition.

And we believe that our limited capital approach provides us the majority of the margin and sustainably delivering high returns and still allows us to stay connected with customers. And as part of that offering to customers, we have EV charging stations in seven countries around the world, and we're partnering with our retailers to continue to expand that offering as customers need it.

Your second question was I think about the refinery portfolio in general, and maybe Pasadena specifically. We're very pleased with our refining portfolio today. And it's really because of that hydroprocessing capacity that we have across our system. It gives us flexibility to deal with the fuels of the future and renewable fuels in particular, in a very, very capital efficient way.

Specific to Pasadena, again, we have an opportunity there. The premise of the acquisition continues to hold for us in processing our equity crude, being able to supply our own service stations in Texas, Louisiana area. And then of course having the intermediates back and forth between Pascagoula and Pasadena, that's all working as we would expect. And we've shared that we think there's an opportunity there to have very efficient expansion of light tight oil processing capacity. And we've hinted that that's going to be a hydroskimming focus. We're working on that real hard and look forward to talking more about that next year. Thanks for your question, Paul. Pierre?

Pierre Breber: Yeah. And on Angola LNG, so it's in our looking ahead slide, Paul. We guide towards $300 million of return of capital. It's essentially a dividend. It's just kind of an accounting characterization of it as return to capital. It's cash, is the bottom line. And in terms of guidance going forward, let's just say Angola LNG does sell into the spot market, essentially both on oil linked strips and into Europe TTF or international JKM markets.

It does have exposure to international natural gas pricing. $300 million will be a nice return of capital here in the fourth quarter. And again, just like with Paul Sankey's question, we'll provide guidance for our full LNG portfolio on the fourth quarter call for 2022. That'll include Australia, Angola LNG, and our interest in Equatorial Guinea, which is again, another asset that was acquired through Noble Energy. Thanks, Paul.

Operator: We'll take our next question from Manav Gupta with Credit Suisse.

Manav Gupta: (Credit Suisse) Hey guys, two questions. I'll ask them upfront. The first one is I'd like to pick your brain on the mid-cycle chemical margins here. Historically we thought the mid cycle would be more like 25 cents. Obviously right now we are more like 65 [cents]. And even though you did say the margins will decline, some of the bigger chemical ethylene players are out there saying we will settle for the next two, three years above the mid cycle level. So, while the mid-cycle could be 25, you could still see 35 to 40? So that's the first question.

And the second question is you're seeing you get into the CNG distribution for the first time. And I'm wondering if this is associated with your strategy of developing RNG and basically controlling the entire value chain. So, you can distribute your RNG that you're going to produce through your distribution network.

Mark Nelson: Thanks, Manav. Got your questions. So first on petrochemical margins, we indicated as we look to the longest of terms, we expect pet chem demand to continue to grow in line with the long-term GDP growth. We believe in kind of the next four to five years we do see capacity growth in the next couple of years going past demand, which brings us to towards the bottom portion of the margin cycle. And so, I think we shared in our investor day discussions last year that we brought our view down, and again, erring on the side of conservative and perhaps, but that it was going to be 20 cents per pound in regard to where we could expect those margins over time. Anything above that, of course we will take, and it drives us in our CPChem joint venture to make sure that we continue to work on our unit cost reductions, which they have done a very good job on and will continue to do going forward. And so, we see that as our number looking forward.

And then when I get to your comment on the RNG portfolio, you read it exactly correctly. Our close on the 60 American Natural Gas sites is really about us leveraging our strengths. When we talk about renewable natural gas, we say a couple of things. We say it leverages our strengths and biofeedstocks are really important. The strengths in particular, our value chain, activation and partnerships. And the two areas where you can see this at play actually in the formal presentation would be in the gas that's now coming from CalBio from all of the farms that we have there. And then our Brightmark activity experiencing their first delivered gas. On the 60 CNG sites that American Natural Gas CNG sites with Mercuria that allows us to follow the request of our customers if you will. We're trying to get CNG to those customers throughout our portfolio. And that's the first step in doing it in the platform for us to grow.

Operator: Thank you. Our last question will come from Jason Gabelman with Cowen.

Jason Gabelman: (Cowen) Yeah, thanks for squeezing me in. I may have missed it, but can you just discuss the drivers of why TCO is declaring this dividend now and kind of what we should look to, to assess, if they'll declare it next year and just some background on how we could calculate that?

And then my second question just on cost inflation, what you're seeing across your projects, if it's impacting TCO at all, or any of your either large, long cycle projects or short cycle in the Permian? Thanks.

Pierre Breber: Thanks, Jason. Yeah, I should've mentioned, TCO is paying a dividend and it was in the plan, but it could be higher than was planned, which is why we've guided to a range primarily because two things. One, clearly the macro environment is stronger. So, it is produces light oil that attracts trades to a tight discount to Brent with the fiscal terms and the rest of it is generating excess cash. And also, we've seen at the project, some real cost savings. Again, we've seen some deferrals, but that would be factored into retaining cash in TCO, but we've seen some underlying greater efficiencies, and we've seen some foreign exchange benefits there. It's a function of things going well, both from a market environment and from an execution of the project.

Again, in terms of 2022, we will provide guidance on the fourth quarter call like we have in prior years. We've guided historically to that cash flow line, which is the difference between dividends and affiliate earnings. I think we also might just give separately range, on expected dividends from Tengiz and other major affiliates.

And then in terms of costs, we're not really seeing any cost increases. Rigs, US onshore rigs are maybe creeping up, but they're still well below where they were pre-COVID. And in general, the industry is operating below capacity. So, although there are pockets of goods and services that we use that are tied to the general economy, like steel and clearly steel is up, but the majority of our costs are tied to industry specific major equipment and that's still operating below capacity. It could increase in the future. I know there's a lot of talk about it, but what we're seeing up to date is costs are well under control.

Roderick Green: I would like to thank everyone for your time today. We appreciate your interest in Chevron and everyone's participation on today's call. Please stay safe and healthy. Katie, back to you.

Operator: Thank you. This concludes Chevron's third quarter 2021 earnings conference call. You may now disconnect.