2Q21 Earnings Conference Call
Edited Transcript

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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 Second Quarter 2021 Earnings Conference Call. At this time all participants are in listen only mode. After the speaker's remarks, there will be a question and answer session and instructions 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 the Chevron Second Quarter Earnings Conference Call. I'm Roderick Green, GM of Investor Relations. And on the call with me today are Jay Johnson, EVP of Upstream, 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 two. Now I will turn it over to Pierre.

Pierre Breber: Thanks Roderick. We delivered strong financial results in the second quarter, with the highest reported earnings in over a year. Adjusted earnings were $3.3 billion or $1.71 per share. The quarter's results included special items totaling $235 million, including a remediation charge in the Gulf of Mexico and pension settlement costs. A reconciliation of non-GAAP measures can be found in the appendix of this presentation.

Adjusted return on capital was near 8% and we lowered our net debt ratio to 21%.

Strong operating cashflow enabled us to meet Chevron's top financial priorities: our dividend was up 4%, we continue to execute our efficient capital program and we paid down $2.5 billion of debt.

Despite lower year-to-date prices and margins, first half 2021 quarterly average free cash flow is near 2018 levels, primarily due to lower capital and operating costs and contributions from legacy Noble assets.

We're maintaining strong capital and cost discipline. C&E is down 32% from a year ago and we're lowering our full year organic C&E guidance to around $13 billion, primarily due to lower spending at TCO and greater capital efficiency across the portfolio.

Operating costs are on track with our March 2021 Investor Day guidance of a 10% reduction from 2019.

Adjusted second quarter earnings were up $6.2 billion versus the same quarter last year. Adjusted Upstream earnings increased primarily on higher prices and liftings. Adjusted Downstream earnings increase in higher chemicals results as well as higher refining margins and volumes. All Other was roughly unchanged between periods.

Compared with last quarter, adjusted second quarter earnings were up about $1.5 billion. Adjusted Upstream earnings increased primarily on higher commodity prices and higher production in the US. Adjusted Downstream earnings increased primarily from strong chemicals results as well as increased refining margins and volumes. All Other charges were roughly flat between quarters and are running ahead of ratable guidance, primarily due to tax charges and valuation of stock-based compensation. The All Other segment results can vary between quarters and our full-year guidance is unchanged.

I'll now pass it over to Jay.

Jay Johnson: Thanks, Pierre. Second quarter oil equivalent production increased 5% compared to a year ago. The increase in production was driven by Noble acquisition and lower curtailments, partially offset by normal field declines, price related entitlement effects and asset sales.

Turning to the Permian, we continue to incorporate greater efficiency into our activities. Even with our reduced activity levels, production is expected to be comparable to last year. Consistent with the guidance we shared in March, we're adding rigs and completion crews in the second half of this year, delivering an expected production rate of over 600,000 barrels a day by year end.

For 2021, we expect free cash flow, excluding working capital, to exceed $3 billion assuming an average Brent price of $65 a barrel.

We're committed to lowering the carbon intensity of our Permian operations. One recent example is shift from diesel fuel to electricity and natural gas to power drilling rigs and completion spreads. This reduces emissions, reduces well costs and takes trucks off the roads, which results in higher returns and lower carbon.

At FGP-WPMP, overall progress is at 84%, with field construction 69% complete. We've recently reviewed our cost and schedule targets. At this point, the net schedule extension from the pandemic is expected to be roughly a quarter for WPMP and two quarters for FGP.

Our cost target remains $45.2 billion. As cost reduction efforts and favorable exchange rates offset an estimated $1.9 billion of incremental costs associated with COVID. The COVID costs include mitigation efforts, de-mob and re-mobilization costs, as well as the expected schedule extension I just mentioned. Although the total project costs target is unchanged, we have increased the project contingency to $1.9 billion to recognize the schedule uncertainty associated with the virus and its variants.

The project is currently at peak workforce and our primary focus is to mitigate the impact of the virus with vaccinations, testing, and isolation protocols to enable our workforce to achieve its productivity.

In the deepwater Gulf of Mexico, the Ballymore project is being developed as a subsea

tieback to our existing Blind Faith facility. The project recently entered front-end engineering and design and remains on track for a final investment decision next year. Earlier this month, we sanctioned the Whale project, which has the potential for future expansion. Fabrication of the Anchor project remains on track with assembly of the production facility hull underway.

In Australia, we've sanctioned the Jansz-Io Compression project, which will support the flow of natural gas to Barrow Island. Repairs to the Gorgon propane heat exchangers are complete, and we now have all five operated LNG trains online in Australia.

In Colorado, our newest generation of production facilities have eliminated the tanks and flair system to deliver a carbon intensity of only six kilograms of CO2 per BOE. The new facilities also have a 60% smaller footprint, higher reliability, and 15 to 20% lower life-cycle cost than a traditional facility design, another great example of higher returns and lower carbon.

Back to you, Pierre.

Pierre Breber: Thanks, Jay. In May we closed the acquisition of Noble Midstream. With this transaction complete, we have fully integrated Noble and have achieved greater than $600 million in synergies three months earlier than previously guided.

We also started up the mixed feed cracker at GS Caltex and plan to be at 100% of design capacity, in the third quarter. The project was completed under budget and five months ahead of schedule.

In the third quarter, we're resuming our share repurchase program at a targeted annual rate of $2 to $3 billion. This is a rate that we believe is sustainable through the cycle while continuing to pay down debt.

The restart of our program is consistent with our financial priorities and builds on our track record. We have a history of buying back shares consistently, in meaningful quantities and at a price close to the daily ratable average over the entire 17-year period.

We're continuing to grow lower carbon businesses. This quarter, we started co-processing biofeedstock at our El Segundo refinery, growing renewable diesel production in a capital efficient manner by leveraging existing infrastructure.

We recently announced an MOU with Cummins to develop commercially viable businesses in hydrogen. Also, we've completed front end engineering on a carbon capture project for emissions from the gas turbines in one of our California co-generation facilities. This project leverages two innovative technologies, CO2 concentration, and carbon capture, and has the potential to scale across our full fleet of turbines.

Finally, yesterday we announced the creation of Chevron New Energies, a new organization reporting directly to the CEO. This is [expected to be] an important step to build fast growing, profitable new energy businesses to further advance a lower carbon future.

Now looking ahead. In the third quarter, we expect major turnarounds to reduce upstream production by 150,000 barrels of oil equivalent per day, primarily at TCO, which also reduces our expected curtailments to about 5,000 barrels per day.

We expect to make an incremental pension contribution in the third quarter of $500 million. This is a one-time payment in addition to our regular quarterly contributions.

With higher operating cash flows, TCO expects to pay back part of its loans this year versus our prior guidance of increasing its debt. There's no change in TCO's expected dividend this year. We've adjusted the guidance on the affiliate income line to reflect higher expected TCO earnings. Also, we expect higher dividends from CPChem in line with our share of higher earnings.

On September 14th, we'll be hosting our Energy Transition Spotlight to provide more details on how we plan to lower carbon intensity in our operations and grow lower carbon businesses. We invite you all to join us for this video webcast.

Our objective is unchanged, higher returns, lower carbon. During this quarter, we continue to make progress towards this goal, delivering stronger financial results and achieving important lower carbon milestones. And with oil prices well above our dividend breakeven and an industry leading balance sheet, we will resume share buybacks, sharing part of the cash upside with our investors. With that, I'll turn it back to Roderick.

Roderick Green: Thanks, Pierre. This concludes our prepared remarks. We're 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 all your questions answered. Katie, please open up the lines.

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 at least listening on a speaker phone, we ask you 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.

Our first question comes from Phil Gresh with JP Morgan.

Phil Gresh:
(JP Morgan) Hey good morning. Pierre, I want to pick up where you left off there on capital allocation. You announced that $2 to $3 billion buy back, which adds about $5 a barrel to your breakeven, which I think is about $50 inclusive of a dividend. So obviously you want to have a sustainable plan. You've always talked about that. Oil is at $75 [per barrel] now. So, I guess help us put this in context, I mean we have $15, $20 a barrel of extra oil price at this point. And your leverage is at 21% net debt to cap. So, do you want to keep driving down debt from here or how do you think about things?

Pierre Breber: Thanks, Phil. By resuming the program, we'll now be 14 out of the last 18 years that we have repurchased shares. So that's more than three out of every four years and we're doing it at a level that allows us to continue to pay down debt. As you say, with prices above $70, our debt levels should head below the range I've talked about of 20 to 25%. That 20 to 25% net debt ratio range is really over the cycle. Kind of implies prices between $40 and $60 [per barrel], like we talked about during our Investor Day, but again, with prices well above that, we should head below the bottom of that range.

In terms of the breakeven, I mean, [returning surplus cash] is our fourth priority from a financial perspective, and we feel it's sustainable. We intend to sustain it over the cycle, but I don't necessarily view it as a commitment like we would say our dividend is and bake it into the breakeven calculation.

But the last thing I'll say is at our Investor Day, we showed that at $60 flat Brent nominal over five years, we can generate more than $25 billion in excess cash. That's cash in excess of our capital and our dividend. And so, you see starting this buyback program at $2 to $3 billion a year, it shows that we have more than enough capacity to sustain that at reasonable prices.

Phil Gresh: Got it. Okay. That makes sense. And then the second question, just on the CAPEX side of things, the billion-dollar reduction, you said it was a combination of Tengiz timing and efficiencies. Is there any further breakdown you could give of those two factors? I'm trying to think about how some of this might carry forward as we look at the longer term $14 to $16 billion range you've talked about.

Pierre Breber: Yeah, let me start then I'll pass it over to Jay. So, we lowered our guidance for this year only to $13 billion. As you say, it's primarily due to lower spend at TCO in part from work that's being deferred and then greater capital efficiencies across the portfolio. I think you can view that as about 50/50, it's a half project that's being deferred and half greater capital efficiency. There's no change in our long-term guidance or guidance through 2025 of $14 to $16 billion. But Jay, maybe you could talk about some of the ways we're being more capital efficient?

Jay Johnson: Yeah, it's really across the portfolio, as Pierre said, but in particular drilling and completion activities. The Gorgon stage two project in Australia has been very efficient and gone ahead of plan from a cost standpoint. The Permian drilling and completion and other U.S. shale and tight has been very efficient. And then we're seeing just overall good discipline on costs, making sure every dollar counts. And it's really consistent with operating in not only this COVID environment but operating with a very disciplined mentality throughout the organization.

Pierre Breber: Thanks, Phil.

Phil Gresh: Thank you.

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

Paul Sankey: (Sankey Research) Good morning, everyone. Just to follow up if I could. You guys obviously have the mega-project at Tengiz as an ongoing development, but the history of these mega projects has been somewhat troubled by very high costs and CAPEX. Is Tengiz going to be the last mega project, do you think? And beyond that would really be looking at the Permian as a sort of a fragmented, but mega development. Is that what we're looking at, and is that how your CAPEX guidance that you just repeated is that sort of how that's set up that we won't see another mega project developed by you or perhaps by any major Western oil? Thanks.

Jay Johnson: Thanks, Paul. In the oil industry, you never say never. But look, we've talked before that, as we move forward with the asset and the portfolio that we have, the preponderance of our capital, 60% and more is going to be going into shorter cycle, high return projects.

Which are very quick to bring new production on. We have low pre-productive capital. They tend to be very efficient and we can adjust based on market conditions and react quite rapidly.

But that doesn't mean all of our investment will always be in just short cycle. The deepwater continues to be an important part of our portfolio. It has very low carbon footprint and it tends to have high returns. And so, we've seen projects like Anchor and Whale and Ballymore in the queue, and we'll continue to see those roll in, but we're going to do that in a very disciplined way.

We talked at the Investor Day about how we are taking action to make these capital projects more efficient, more effective, going to the minimum facility objectives, and really building only what's necessary to deliver the returns that we're looking for. And I think that whole approach, as well as it being a relatively small amount of our capital is going to lead to a much more efficient and higher return outcomes.

Paul Sankey: Thank you very much, Jay. And then the follow-up would be Pierre. How did you come up with the $2 to $3 billion of buyback annually? Can you just talk about the parameters, maybe the oil price assumptions. Thank you.

Pierre Breber: Well, we're thinking of a range of oil prices. I've said in the past, Paul, as you know, that we would start a program when we were confident, we could sustain it over the cycle through multiple years based on our confidence in excess cash flow and the strength of the balance sheet. And so, you certainly can assume that both of those criteria have been met. In terms of the level, it is to continue to pay down debt while we're having these prices. It's nothing really more than that. Again, as I said earlier to Phil's question, with prices above $70, our debt net debt ratio should be below 20%. And so this is a range that allows us to continue to do that is also gives us a range to deal with uncertainty. We feel good about the macro, but undoubtedly there's the [COVID] variants out there that can impact them and you have OPEC+ still having curtailed volumes.

So that flexibility is inherent in the range. It also gives us flexibility to buy more or less, depending on the strength of Chevron stock price, which we've heard from shareholders who have said they want us to try to beat the daily average. I showed a chart that says we don't buy high. We buy very close to daily average. But if we can do a bit better and use some discretion, we've heard from our shareholders that they'd prefer that. So that's the thinking that goes behind the level, the range, and the timing.

Operator: Thank you. We'll take our next question from Doug Leggate with Bank of America.

Doug Leggate:
(Bank of America) Well, thanks. Good morning, everybody. Jay, I wonder if I could go to you first, a small follow up to Paul's question. It seems to us that there's a lot going on in the Gulf of Mexico that's kind of flying under the radar. You mentioned Ballymore, Whale and Anchor. You've got Leopard, you've got nonworking interest in Leopard and Puma and a few other things going on.

And this obviously has been a legacy infrastructure area for you guys, very efficient capital tieback opportunities and so on. So just wondering if I could ask you just to give us a quick update as to what your activity level is there and what your longer-term plans are, because it seems there's a lot more going on and perhaps you've laid out the streets at this point.

Jay Johnson: Well, the Gulf of Mexico has been an important part of our portfolio for a long time, and it continues to be. We're one of the largest lease holders in the Gulf of Mexico. But importantly, what we've been doing is focusing our new lease acquisitions to primarily concentrate in those areas where we already have infrastructure.

And as we've talked before, with our focus on returns, we're looking for those opportunities where we can do exploration. And if we find something that's normal, it can be tied back into our existing infrastructure, much like a Ballymore. If we find something that ends up really big and justifies a greenfield development, we can go the route of a Whale project. Where we continue to focus on the minimum functional objectives, building facilities that are replicative in nature, so that we are building on the learnings of the past.

We've developed a deepwater asset class. We're taking learnings from the Gulf of Mexico, from West Africa, from deepwater Australia, sharing those rapidly between these different asset groups to make sure that we're staying on the forefront of efficiency. We have an exploration program that's laid out. We keep that at a pretty low level these days, so that it can be very efficient, very focused. We have a good resource base across the portfolio, but we're always looking for that next high return, low carbon barrel. And the Gulf of Mexico represents a good hunting ground for that.

Doug Leggate: So, Jay, I don't mean to press you, but I mentioned a couple Leopard, Puma, and I think you've got Silverback as well. Can you give us an update on those?

Jay Johnson: We will release information on those in due course, but at this point in time, we're not sharing information.

Doug Leggate: Okay. Thanks. Pierre, my quick follow-up is plenty of cash flow coming in, extraordinary capital efficiency. As Paul pointed out, not a huge amount of big projects in front of you, what are you thinking currently on M&A? Because clearly you did a fantastic job incorporating Noble. What's your latest thinking in terms of what that might fit and use of cash going forward? And I'll leave it there.

Pierre Breber: We're very happy with Noble. As we just said, we've started declared the integration complete more than double the initial synergies, completed NBLX. We were the first to announce first to close quality assets low premium and done at a good time from an exchange ratio perspective.

As you know, we're always looking, we have a very high bar and we certainly don't need to do a transaction. We just talked about our portfolio and how we can sustain and grow it in a very capital efficient way. Just the last thing I would say is, and we've shown this, that we don't really view cash as being something that's required to do M&A.

In our business with oil prices, volatility doing it on a stock basis as we did it with Noble makes a lot of sense. It kind of keeps you hedged in case prices go up or down between a buyer and seller. I wouldn't connect any kind of balance sheet actions as being an indicator one way or the other on M&A. We're going to be disciplined with our capital. It's all capital, whether it's organic or inorganic. And of course, we'll only take action if we see it in the interest of our shareholder.

Doug Leggate: All right. Appreciate the answer. Thanks, guys.

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

Neil Mehta:
(Goldman Sachs) Hey, thank you. Jay, the first question is for you. I appreciate the update here. Can you just go through some of the modeling work that you've done to get to that $2 billion of contingency and give investors your latest read in confidence interval around the costs. It did seem like a good update relative to what was feared and the summer's always so important in Kazakhstan. Just talk about the key things that you're going to be watching for over the next couple of months to ensure that you're on track.

Jay Johnson: Thanks, Neil, I'd be happy to. At TCO, the team's just done an extraordinary job of responding to the impact of the virus. And as we said, we've been able to capture cost savings, which have largely offset along with some of our foreign exchange gains offset, the incremental costs due to COVID.

At this point in time, we've reached our peak workforce on FGP, and so we are maintaining that workforce. It is something where we have to continue to stay focused on mitigation, particularly with the rise in the Delta [COVID] variant and other variants that we are exposed to. The vaccination program continues to go well. We have 42,000 members of our workforce that have gotten their initial dose and about 30,000 that are fully vaccinated now. And we continue to try and work with the Kazak government to increase those numbers.

Because we were so successful in completing the fabrication and that fabrication was done with such high quality and it's been proven to be now dimensionally accurate, we've had our modules showing up at site within one to three millimeters of accuracy on where pipes land and the connections between modules. It's really helped us move forward. From that standpoint, all of the modules going through the shipping program to arrive at Tengiz, they've all been successfully moved to site, re-stacked and set on their foundation. We have that entire program behind us. All the heavy equipment for this project has been set on foundations throughout the project. Our heavy lift program is complete and being demobilized. And now we're just focused on the interconnections and the hookup and preparing for the turnover to completions and start-up.

So normally at this point we would be decreasing our contingency because we have eliminated so many of the traditional risks, but in this case, we've actually increased it to $1.9 billion. And that's primarily due to our uncertainty around future impacts from COVID. This pandemic is far from over around the world. And so, while we're doing well, and we've been very successful at mitigating any potential impact to this, as you said, critically important summer, we need to stay that way. We're monitoring our productivity. We are very focused on being capitally efficient here.

Our focus is on delivering this project at $45.2 billion. We've allowed the schedule to slip a little bit because it's just too hard to try and catch up. We didn't feel that was a good use of resource. So, our predominant focus is on the cost and we're managing the schedule within that cost parameter.

Neil Mehta: Thanks, Jay. Following up here on the asset level, can you talk about how you see the cadence of activity in the Permian? You talked about exiting the year close to 600,000 barrels a day. Remind us where you are right now. And do you see the Permian still as a growth engine for you, or are you planning on running the business more for free cash

flow and with less growth in mind, as we think about 2022?

Jay Johnson: In the Permian, as you know, we scaled back activity significantly last year and we've maintained a lower level of activity, but at the same time, even with a constant level of activity, because the efficiency is getting better, we're actually getting more output from those reduced levels.

We did add an additional completion crew in July, and we expect to add another one before year end. Well, we currently have five drilling rigs out there and we expect to add at least one or two more in late third quarter and fourth quarter. So, we are seeing our activity levels start to increase in the second half [2021] as we see markets, not in balance, but starting to move in the right direction towards approaching equilibrium. We'll continue to monitor where we are in terms of the overall market signals that come to us, but we're going to continue to be very disciplined and focused.

Our returns remain the number one objective. We are going to stay disciplined around those returns, but we are moving back into more and more efficient factory drilling, again, as opposed to having to be focused on lease retention as we were over the last 18 months or so. I think the Permian is going to continue to be a critical asset in our portfolio. What we've demonstrated is that we can generate free cash flow while we continue to grow. And that's because we maintain that discipline focus on the balance as we look forward.

Pierre Breber: Neil, in our earnings supplement, a memo item, the Permian unconventional total production service 577,000 barrels of oil equivalent in the second quarter. Okay. Thanks, Neil.

Neil Mehta: Thanks, Pierre.

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

Paul Cheng: (Scotia) Hi, good morning guys. Two questions. In the Permian, Jay, when you're looking at what you're going to do in the next year or the next couple of years, what does the OPEC+ curtailment mean to whether the market is still fundamentally long supply or not? And does that's weigh into your decision-making process?

Jay Johnson: Well, I think of course it does. And that's because we're not just being triggered by an instantaneous price or some price threshold to signal a need for more activity. As we've talked about, as we gave you guidance at the Investor Day, we've given you our forward look of the Permian with the expectations of how markets recover.

Now, we've seen demand recover in the marketplace quite rapidly, and in most of the products, other than maybe international jet fuel, we're seeing a demand starting to return to pre-pandemic levels. But the supply picture is still a fundamentally oversupplied world, and that's why we're being cautious, we're being balanced. And we're going to continue to monitor the market as we continue to decide how to ramp up our activity levels in the Permian.

The Permian has very low carbon intensity. So, it's a good place for us to continue to develop new barrels, not only for us, but for the world. But it also has high returns for us. It remains a key target for increased capital allocation, but we're not going to be driven by

an output target or a production target we're driven by the opportunity to make returns.

Paul Cheng: Or maybe just let me ask in another way, Jay, if you determined next year the market is still fundamentally oversupplied, will you still grow the Permian production?

Jay Johnson: We've given you the guidance. We're going to continue to be disciplined as we have in the past, and I'd rather not speculate beyond that, Paul. I've given you about as much as our thinking as I can.

Paul Cheng: Okay. The second question, actually, this is for Pierre, in the next several years when you're looking at $14 to $16 billion a year in CAPEX, do you have a target percentage on how much you're going to spend in the new ESG initiative business?

Pierre Breber: Yeah, we talked at our Investor Day about $3 billion in total to lower the carbon intensity of our operations and grow low carbon businesses that was through 2028. And in terms of updates to that, I'll wait and put another advertisement for our Energy Transition Spotlight. So that'll be September 14th, it'll be webcast for everybody. We will go deeper into our actions to advance a lower carbon future. And we'll have more to say then. Thanks, Paul.

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

Manav Gupta:
(Credit Suisse) Hey guys you and your partner recently FID Whale. Can you help us with some more details, CAPEX, volumes, anything which will help us model the project a little better, so you get credit for it in the estimates?

Jay Johnson: Well, thanks for the question. What I would say is we're not the operator. And so, for those types of questions, we like to refer you to the operator as the best source of information for those types of things.

I will say Whale is a really good asset. We're happy to invest in this project. We expect low carbon intensity from the production from this asset. We're looking for good returns. It's also based on many of the principles that we have been talking about for better capital efficiency. It's based on a minimum facility objective, where this facility is largely a replica of a previous Gulf of Mexico development. There was great cooperation between Chevron and the operator to develop just what was the right balance between using exactly what was done before and what enhancements or innovation needed to be incorporated into the facility. So, we're quite happy with this project and look forward to seeing it progress, but I'll refer to the operator for the details.

Manav Gupta: My quick follow-up here is CPChem mostly was very strong in the quarter. My question is at one point, you and Qatar Petroleum were actually looking to build two JV crackers, and then obviously the pandemic happened. And so how should we think about those crackers? Is there a possibility they can be brought back in the table given the tightness you're seeing on ethylene chain margins, or should we think about them as projects, which might not be pursued ever?

Pierre Breber: We're continuing to advance those projects. And when I say we, I mean, our joint venture Chevron Phillips chemical company in partnership with the Qataris, as you said. So, I'd say the Gulf Coast project is a bit ahead. FEED was completed late last year, and then we're working together on determining next steps in including when a Final Investment

Decision will occur. And we continue to advance the project in Ras Laffan.

They both are very competitive projects that work off of a low-cost feedstock. So, their advantaged, we think relative to others around the world. At the same time, you know it is tight right now with strong demand, tight inventories, and some of the carry-on effects from Winter Storm Uri. But we are seeing capacity additions coming on in the medium term. And so, Mark Nelson, our head of Downstream, his team are focused on having very capital efficient projects. So, it's not enough to just have the ethane feed advantage, but it's having a really capital and cost-efficient development. And that's what the teams are working on.

Operator: We'll take our next question from Biraj Borkhataria with Royal Bank of Canada.

Biraj Borkhataria: (RBC) Hi, thanks for taking my question. The first one is on Agbami. One of your peers highlighted redetermination at the Agbami field in Nigeria, and you're a majority owner. There’s actually limited details on this outside of the headlines, but would you be able to confirm whether this impacted you or you had a change in ownership in that field and whether there's any cash impact in the second quarter, and then I have a follow-up on a different topic.

Pierre Breber: Yeah, we won't comment specifically on that, Biraj. It's commercially sensitive. We have a longstanding practice of not discussing commercially sensitive matters.

Biraj Borkhataria: Okay, fine. Second question is actually just a more general question on inflation. Would you be able to talk about across services and raw materials and whatnot, what you're seeing or any, any worrying signs of inflation across the portfolio?

Pierre Breber: We are not. We've talked in the past about isolated areas. I mean, for example, steel costs that go into our tubulars and our wells is up, but it's a fairly small component of a well cost, maybe about 10%. We are certainly seeing tightness in trucking services that has impacted us at time in some wage, labor costs increase, increases there. But I think there's more talk about it than we're seeing in terms of action. I'd say our COGS is pretty well under control in the Upstream and Downstream segments.

Biraj Borkhataria: Okay. Thank you.

Operator: We'll take our next question from Stephen Richardson with Evercore ISI.

Stephen Richardson: (Evercore) Hi, good morning. Pierre, I was wondering if you could talk a little bit about in terms of the New Energies business. I'm curious as you go further down this road and build out this business plan, is you're seeing there just seems to be a consistent theme here, which is policy frameworks in different geographies and are they conducive to actually building a business?

And so curious your perspective on finding enough high return businesses that have the right market and policy framework today versus some of the things that you might have to wait on. And just in the context of making sure you don't tie up some capital on some things that have some externality. So just curious on that point.

Pierre Breber: Well, we operate in California, which has a lot of policy support in this area, and we're

the leading downstream player here with the leading brand and have a large upstream business. But you're right, policy does vary, but there's enough policy to advance these businesses.

Now there are two main parts to our lower carbon activities. The first is to lower carbon intensity of our operations and that's largely does not inherit on policy or at least certainly the first steps we put out a 2028 target that has a 35% reduction to 24 kilograms per barrel. And that's something we're taking action on. And then we're also advancing lower carbon businesses. The announcement yesterday was really focused on hydrogen and carbon capture. Our downstream team is advancing renewable fuels. We've talked about renewable natural gas and renewable diesel previously.

What we're trying to do around lower carbon really is connected to our assets, capabilities, and customers. So, one thing we're not doing in lower carbon is large scale wind and solar. And we're certainly having renewable power supplier operations, again, part of lowering the carbon intensity, but not pursuing it as a standalone business. That's a decision that we're making because we don't feel like we have the competitive advantage.

But when we get to renewable fuels like renewable natural gas, renewable diesel, sustainable jet, hydrogen, carbon capture, these are areas that are adjacent to our business, where again, we have capability, we have customers and we have assets that we can leverage. [For example], we sell [conventional jet] to United [and other] airlines. Airlines [are] going to buy sustainable jet. Sustainable jet is going to be a percentage of jet for some time period, 2%, 5%, 10%. Mixed with conventional, we're the natural player in that space. So again, we'll share more on September 14th, but that's a little taste of what you should expect from us.

Stephen Richardson: Great. Thanks very much. I appreciate the clarity.

Operator: We'll take our next question from Jon Rigby with UBS.

Jon Rigby: (UBS) Thank you very much. I think the question for Jay is you've referenced a couple of times carbon intensity around projects, and I think the operator on Whale highlighted it in the FID statement. I just wonder whether you could talk a little about that. I was struck actually by the comment you made in the prepared remarks around the Colorado very, very low carbon emissions by BOE.

So a few things, one is, can you talk about how you feature carbon emission profiles into your FID process that alongside sort of traditional NPVs, IRRs, payback periods, et cetera. And secondly, whether as you look at your portfolio, as it stands right now, which obviously been built up over years and decades, whether there's work that can be done around it, that both solves for lower carbon emissions and actually is I think, as Pierre referenced, if you're adding renewables as a sort of power source, whether you can actually also make an economic return as well in conjunction with that.

Jay Johnson: Thanks for the question. Pretty broad question. So, I'm going to start broad, but then I'll focus in on the Gulf of Mexico. In the upstream portfolio is we take stock of where we are as Chevron our entire upstream portfolio, as best we can determine sits at roughly half of the industry average for carbon intensity worldwide. We're starting from a good position.

We've been very focused on starting to bring our carbon down for some time now. And so, we set our initial goals back in 2016 for carbon intensity reduction for the upstream. Since 2016, we've actually reduced our flaring by 60% and our methane emissions by 50%. And we've done that largely through what we call the Marginal Abatement Cost Curves.

And just as we do an exploration, we don't have every business unit out there making their own independent decisions, but rather they bring their ideas for carbon reduction investments to the center. And then we look across the entire enterprise, not just upstream, but upstream and downstream, midstream. And we invest into those opportunities that give us the greatest carbon reduction for the least amount of capital. And that's in keeping with our focus on being a higher return company.

What we've been able to find so far is that the projects have been relatively low hanging fruit. And so, we've seen these big reductions in carbon that's occurred since 2016. And in fact, we reached our 2023 targets in 2020, three years ahead of schedule. And so, we've already set new targets, which we talked to you about at the Investor Day in March for 2028. And that's the path that we're working towards now. And that's to get down to an average of 24 kilograms of CO2 per barrel equivalent across the entire portfolio.

Places like the DJ basin, where some of the Noble teams have done a great job of designing out the parts of the process that have the highest emissions have resulted in those huge gains. And so, as we said, not only are we seeing a 15 to 20% lower lifecycle cost, we're seeing high reliability, 60% footprint reduction, and they're down in the six kilogram per CO2 per barrel equivalent range, which is tremendous. To put that into comparison the entire Gulf of Mexico, our operations last year in 2020, were at seven kilograms per CO2. And that's why we think it's so important there's good information for policy makers to understand that places like the Gulf of Mexico allow us to produce a very critical supply of energy to the United States and to the world, but also do that in a very carbon efficient manner.

In terms of our decision-making, these are all elements that we have to balance as we make investment decisions, but we are bringing these factors and these criteria into the equation as we evaluate where we're going to allocate capital and how we're going to move forward.

Jon Rigby: Perfect. That's great. Thank you.

Pierre Breber: Thanks, Jon.

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

Jason Gabelman: (Cowen) Yeah, thanks for taking my questions. First on the buyback, if I recall correctly last year there was concern around what OPEC+ would do and that factored into both your shareholder distribution strategy, as well as your Permian production strategy. Are you kind of confident now that OPEC+ is going to continue to manage the market and did that factor into your strategy or your decision to resume buybacks or were those kind of looked at independently? And then secondly, just a clarification on TCO FGP. Can you remind us what the free cash flow flip is from 2022, which is the last full year of project spend to 2024 when the project is fully up and running. Thanks.

Pierre Breber: Thanks, Jason. I'll start with the second one. We haven't given asset level free cash flow guidance for TCO. You're absolutely right, that you will see increased dividends from Tengiz, from our ownership interest in TCO, both as capital rolls off and as the project starts up. It's a big part of the company's guidance of 10% annual free cash flow between now and 2025. A lot of that comes from the Permian. A lot of it comes from Tengiz. And as you also know, we'll get the loans repaid back that shows up in a different part of the cashflow statement, but it's still cash. So, there's another thing asset specific that we've shared, but it's included in our overall free cash flow guidance that I'll refer you to our Investor Day. And perhaps as we get closer to the startup, we can share that in a more specific way for you all.

In terms of the share buyback, again, we look at those criteria. Are we comfortable we can sustain it and confident we can sustain it over the cycle. There are uncertainties, I cited the Delta variant [COVID] as an uncertainty and OPEC+. So, if OPEC+ are going to take the actions that are in their interests, we don't have any greater insight into that. It is an uncertainty, but we have enough confidence in all the investments and assets that Jay's been talking about, the strong downstream and chemicals performance that we've seen, the economic recovery that we've seen, the discipline on the supply side that we've seen from companies in this country and really around the world that we feel good that we can keep this program in place for multiple years and also pay down debt while we're doing it.

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

Ryan Todd:
(Piper Sandler) Thanks. Maybe a quick follow-up on some of the balance sheet conversation from earlier. I know, Pierre, you said that this is one of those times with an oil price where it is you're likely to trend below the 20 to 25% net debt target, but is there a floor on the debt level, in terms of the balance sheet that where you start to feel like you're under levered at some point, either from an absolute debt level point of view, from a debt to cap point of view, or even from like an efficient retirement of debt point of view that would start to skew excess cash more towards buyback or dividend growth?

Pierre Breber: Well, there is, I won't cite a number and it's because we don't have one internally. I mean, there's no hard and fast number, but undoubtedly with the flexibility of our capital program with the cash flow generation, I mean, the reason why I've cited that 20 to 25% range, which is arguably higher maybe than we would have had it five years ago when we had a lot of long-dated capital projects and you would have wanted, we would have wanted and had in fact, the debt level quite a bit lower because we had long dated commitments. We are, as we talked about earlier, getting to the near the end or a couple of years away from Tengiz being completed. The vast majority of our capital program is much more flexible. So that gives us this higher range. I'd like to get comfortably below it.

If you're asking the question, would we increase the share buybacks? Yeah, that's absolutely possible. If we get our debt ratio comfortably below the 20%, and that we look out again in terms of our cash flows, we can increase the range. We showed the history of our share buybacks. We haven't kept it at the rate that we've started it at. We've increased it at times. We've decreased it. And so, you'd expect us to continue to do the same thing.

Ryan Todd: Great, thanks. And maybe a separate follow-up on energy transition activities. I mean, you continue to be fairly active in renewable natural gas. You've done a modest amount. I

know you mentioned some co-processing you've seen in renewable diesel, or maybe we just don't have a lot of detail on it yet, but how are you thinking about the opportunity set as you look down the line for renewable diesel and sustainable aviation fuel? I mean, would you consider doing something more meaningful, including the potential conversion of an asset or likely focus on smaller steps, like co-processing?

Pierre Breber: Well, again, we'll share more at the spotlight. The co-processing that we just started is, it's a two-stage process. It will be up to the capacity of up to 10,000 barrels a day by year end. So, we kind of brought on the first phase was another phase. We'll be the first US refinery to co process through an FCC in the second phase. And again, that'll give us the capability to produce up to 10,000 barrels a day. We did it this way in part because it's very capital efficient, we are leveraging existing kit. It's literally just a tank and some pipes, and so we can do this in a very capital efficient way.

There's undoubtedly a growth in renewable diesel on the demand side, but there's also growth on the supply side. Renewable markets work in commodity markets just like the conventional products do. And so, we're going to continue to be disciplined in how we approach it, and so this is a very competitive project and I think you'll see more from us again when we talk about it on the Spotlight on September 14th. Thanks, Ryan.

Operator: We'll take our next question from Sam Margolin with Wolfe Research.

Sam Margolin:
(Wolfe Research) Thanks. How are you? Just one for me on LNG as an asset class in the context of low carbon. I'm pretty sure it would be below your target on a per unit basis, but look, gas prices are very high globally. LNG prices are very high. There's some opportunities out there in LNG. And I'm just wondering on sort of Chevron's official position on how that marries with your broader emissions targets?

Jay Johnson: Well, this is certainly a part of when we look at our portfolio, we consider the LNG assets and production to be part of the Upstream. So that's in all of the numbers that we've given you, and we continue to look for opportunities to make those operations more efficient and lower. Our carbon intensity.

We think natural gas is an important fuel. It's an important transition fuel. It's going to play a critical role as the world continues to lower its overall carbon footprint. And so, we are going to stay focused on incrementally creeping capacity of our existing facilities. We'll look at the opportunities to use existing ullage or upcoming ullage and other facilities to increase our production through those facilities. But most importantly, we want to leverage the investments that we've already made to continue to focus on higher returns as we go forward. So, it's a part of the portfolio, but it doesn't occupy any particular premium or special place.

Sam Margolin: Okay. That's it for me. Thank you.

Pierre Breber: Thanks, Sam.

Operator: Our last question comes from Neal Dingmann with Truist Securities.

Neal Dingmann:
(Truist Securities) Morning, all. My one question is just really on protection, you guys in the past though, you've used interest rate swaps and other factors, just wondered there's a lot of discussion

these days about hedges and all. I'm just wondering, obviously you've got a fantastic balance sheet, but nobody worries on that side, but just wondering kind of your policy and strategies, how you think about various protection. As I mentioned interest rate swaps, hedges sort of all the above. Thank you.

Pierre Breber: On the commodity price, we don't have, except for transportation, but we don't have flat price commodity hedges. And in terms of our debt, I mean, we tend to have a fair amount of variable debt or short-term debt and commercial paper and others, but undoubtedly, we also have some term debt that's fixed. So, I think our average interest cost is around 2%. Our mix is probably less than half variable, but as you say, we are very strong credit, very strong balance sheet. And so, we don't pay for a lot for insurance and we don't think our shareholders want that. I think our shareholders want certainly exposure to commodity prices, so they enjoy the upside. And then they want us to maintain a strong balance sheet. Thanks, Neal.

Neal Dingmann: Absolutely. Thank you.

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

Operator: Thank you. This concludes Chevron's Second Quarter 2021 Earnings Conference Call. You may now disconnect.