Q2 2020 Earnings Call

Company Participants

- Neil A. Chapman, Senior Vice President
- Stephen Littleton, Vice President of Investor Relations and Secretary

Other Participants

- Analyst
- Doug Leggate, Analyst
- Doug Terreson, Analyst
- Jason Gammel, Analyst
- Jeanine Wai, Analyst
- Neil Mehta, Analyst
- Phil Gresh, Analyst
- Roger Read, Analyst
- Ryan Todd, Analyst
- Sam Margolin, Analyst

Presentation

Operator

Good day, everyone. Welcome to this Exxon Mobil Corporation Second Quarter 2020 Earnings Call. Today's conference is being recorded.

At this time, I'd like to turn the call over to the Vice President of Investor Relations and Secretary, Mr. Stephen Littleton. Please go ahead, sir.

Stephen Littleton {BIO 21547394 <GO>}

Thank you. Good morning, everyone. Welcome to our second quarter earnings call. We appreciate your participation and continued interest in Exxon Mobil. I am Stephen Littleton, Vice President of Investor Relations. Before I getting started, I wanted to say that I hope all of you on the call and your families and colleagues are safe, in light of the challenges our world continues to face.

Joining me today is Exxon Mobil's Senior Vice President, Neil Chapman, who overseas our upstream business. After I cover the quarterly financial and operating results, Neil will provide his perspectives and provide an update on the steps we're taking to navigate the current market environment and ensure we remain well positioned for the recovery.

Following Neil's remarks, I will be happy to address specifics on the quarterly reported results, while Neil will be available to take your questions on broader themes, including the corporation's strategic priorities, progress on spending reductions, updates on major projects and views on market fundamentals.

Our comments this morning will reference the slides available on the Investor section of our website. I would also like to draw your attention to the cautionary statement on Slide 2 and the supplemental information at the end of this presentation.

I'll now highlight developments, since the first quarter of this year on the next slide. In the Upstream, liquids realizations fell by about 50% compared to the first quarter. As impacts from the coronavirus ripple to the global economy, significantly reducing demand. In response to the unprecedented market conditions, production was curtailed by approximately 330,000 oil equivalent barrels in the quarter. Despite considerable challenges, including global travel and supply chain disruptions, we were able to maintain strong operational performance in all of our businesses.

We also progressed growth projects such as Guyana with Phase 1 demonstrating nameplate production capacity. And we progress Phase 2 FPSO topside integration in Singapore. In the Permian, the Delaware central processing and exporting facility started up, which enhances our integrated position in the basin, through collection and processing of production from our Delaware Basin assets and enables efficient lower cost delivery to the Gulf Coast markets.

In the Downstream, refining margins decreased from first quarter levels and we're 50% below 10-year annual lows, reflecting the significant reduction in demand and the resulting impact of increased levels of product inventory. Refinery sparing was approximately 30% with reduced demand, however utilization improved through the quarter as we saw early signs of recovery from the lows, including demand for road transportation fuels.

Although bottom of cycle conditions persist in the Chemical business, margins were sustained at first quarter levels with lower realizations being offset by lower feedstock cost. While COVID-19 impacted demand in the chemical industry, the impact across our portfolio was moderated by resilient demand in the packaging and hygiene segments. At a corporate level, our people continue to support COVID-19 response efforts, through our manufacturing operations and donations of critical products and resources, which Neil will highlight a bit later in the call.

We also launched a collaboration with Universities, Environmental Groups and other industry partners to find new and better ways to monitor and reduce methane emissions. The first of its kind effort called Project Astra is focused on developing an innovative sensor network in the Permian Basin to continuously monitor methane emissions, across large areas, to enable quick and efficient detection and repair of leaks, ultimately leading to lower emissions.

Let's move to Slide four, for an overview of second quarter results. The table on the left, provides a view of second-quarter results relative to the first quarter. Starting with first quarter 2020, the reported loss of $600 million included unfavorable identified items of $2.9 billion, driven mostly by non-cash inventory adjustments. Excluding these items, first quarter earnings were $2.3 billion. Second quarter results included a $1.9 billion non-cash benefit from inventory valuation. Largely reversing the first quarter impact due to the improvement in commodity prices relative to the end of March and resulted in a second quarter US GAAP loss of $1.1 billion.

Excluding identified items, there was a $3 billion loss in the second quarter down $5.3 billion from the first quarter, driven by the effects of COVID-19, including the unprecedented decline in oil and product demand, resulting in significant declines in prices. These impacts were in line with the market factors that we previously communicated. Within the quarter, April marked a low point with the results improving through May and June. However, it's worth noting, refining margins remain very challenged, notably in North America with record high product inventories.

Beyond the significant reduction in prices and margins, lower volumes in the quarter, due to the demand impact from the pandemic, reduced earnings by $600 million. Lower operating expenses across all three of our businesses from reduced activity, lower overhead, logistics optimization and supply chain efficiencies improved earnings by $800 million. These efforts demonstrate the progress we've made towards our 15% cash OpEx savings target.

Moving to Slide five. Upstream earnings excluding identified items decreased by approximately $3 billion, largely driven by lower prices with liquids realizations down 50% and natural gas realizations down 25% versus the first quarter. Foreign exchange and other impacts reduced earnings by $360 million. Volume impacts were driven by timing of scheduled maintenance activity and lower European seasonal gas demand. Expenses were lower in the quarter with savings related to efficiencies and work practices, reduced unconventional and exploration activity and market related savings, including lower contractor rates and lower rates on materials and supplies.

On the next slides, I will provide more details on volumes. Upstream volumes decreased by approximately 400,000 oil equivalent barrels per day compared to the first quarter. Due to the challenging market conditions, we curtailed production in unconventional and heavy oil assets starting in April. Additional government mandated reductions were implemented in May. As previously mentioned, natural gas demand was seasonally lower, primarily in Europe. Scheduled maintenance, notably in our LNG portfolio also contributed to lower volumes.

Compared to the second quarter 2019, Upstream volumes decreased by approximately 300,000 oil equivalent barrels per day. In addition to the factors I just referenced, volumes were lower, due mainly to the divestment of the Norway non-operated assets at the end of 2019. It's worth noting that half of the divestment impact was related to gas volumes.

Finally, we saw a continued liquids growth from our investments in the Permian, Abu Dhabi and Guyana, reflecting the continued value growth we are focused on.

Moving to Downstream on Slide eight. Earnings excluding identified items decreased approximately $2 billion relative to the first quarter. Lower margins and demand impacts driven by COVID-19, decreased earnings by nearly $2.6 billion, where refining capacity spared in line with significantly reduced demand. Included in the margin factor, is the absence of first quarter's favorable mark-to-market impact of $1.1 billion and an unfavorable impact of approximately $200 million in the second quarter. This period-to-period impact was driven by significant volatility in the prices of the underlying commodities.

Our trading program is structured to maximize the value from our global asset base, leveraging our logistics and insights across the value chain. We are positioned to capture value, as market disconnects occur. For example, by utilizing storage for crude and products when logistics capacity tightens. And that said, trading and the use of financial derivatives to capture arbitrage opportunities, can introduce additional volatility in our results.

Due to the timing of recognizing open financial derivatives, while not having the physical offset at the same time. Lower turnaround activity increased earnings by $190 million, reduced expenses including logistics efficiencies and lower contract rates contributed another $220 million to the second quarter results.

Moving to the next Slide, I will discuss Downstream results relative to second quarter 2019. Earnings excluding identified items decreased approximately $1.1 billion versus the second quarter of 2019. The drivers are similar to what I just described. Absent of significant mark-to-market effects associated with the swings in commodity prices.

I would highlight the $0.5 billion contribution we saw year-over-year from lower turnaround activity and increased production of higher value products, as a result of the recent investments in our manufacturing facilities. Additionally, we continue to see the benefit of expense reductions and efficiencies discussed on the previous slide, which improved earnings by $340 million.

Moving to the next Slide, I will discuss Chemical results. Chemical earnings excluding identified items decreased by just over $100 million. The margin impact quarter-to-quarter was flat, reflecting similar trends in feedstock cost and product realizations. While we benefited from resilient demand in the packaging and hygiene segments, COVID-19 had a more significant impact on our durables in the automotive sector, resulting an overall reduced volumes impacting earnings by $170 million. Consistent with what we saw across the corporation, reduced expenses including impacts from turnaround and maintenance efficiencies and supply chain, savings improved Chemical earnings by $110 million in the quarter.

Turning to Slide 11. Chemical earnings excluding identified items, increased by more than $150 million relative to the second quarter of 2019. While higher margins from lower fee costs improved earnings by $140 million, this has more than offset by lower volumes from COVID-19 impacts on demand. However, we thought dramatically lower expenses, improving earnings by nearly a $0.25 billion, with drivers consistent with what we saw on the prior slide.

The next Slide highlights the strong progress we've made to-date, reducing spend in response to the current market environment. Back in April, we announced that we will be reducing 2020 CapEx by 30% and cash operating expenses by 15%. Through the second quarter, we are on track to meet or exceed these targets. Cash operating costs in the second quarter were down about 15% relative to the first quarter with reductions across all three of our businesses, as I previously mentioned.

The cost reductions reflect decreased activity, maintenance and turnaround efficiencies, reduced contractor rates and lower structural costs from logistics optimization, is our prior chain efficiencies. As we optimize work processes, including how and where we perform work, we have identified structural opportunities that have lowered our costs. In terms of our capital spend, second quarter was down 25% versus the first quarter.

We are pacing investment in the near term, while prioritizing capital optionality that preserves long-term value. Additionally, we have optimized project execution plans to further reduce spend. Our short cycle investments, particularly in the Permian, provide us with optionality as the market recovers. Want to be well positioned to capture the eventual upswing.

Moving to Slide 13. Let me highlight steps we have taken to improve liquidity and ensure the corporation is well positioned to manage the current market environment. During the quarter, we leverage our access to capital markets by issuing approximately $15 billion in debt, and including approximately $5 billion of Euro denominated bonds. This issuance enabled us to capture attractive euro bond rates and diversify our fixed income investor base. The corporation's total liquidity has increased significantly since year-end 2019.

As Neil will discuss in greater detail momentarily. We believe, we now have sufficient capacity to weather the near-term market challenges and preserve our long-term growth plans and capital allocation priorities.

Let's turn to the next page for a look at the second quarter cash profile. Second quarter cash flow from operating activities was in line with our projections of the COVID-19 impacts. There was an increase in working capital in the quarter, driven by seasonal reduction in payables and a continued inventory build coming out of the first quarter, associated with a steep reduction in demand.

Gross debt increased approximately $10 billion in the quarter reflecting the steps, I just mentioned to increase liquidity in light of the current market uncertainty. As a result, we ended the quarter with $12.6 billion of cash.

Turning to Slide 15. I will cover a few key items for consideration with regards to our outlook for the third quarter. In the Upstream, economic production curtailments are expected to average 60,000 oil equivalent barrels, as market conditions have continued to show improvement. And we are forecasting the impact of 140,000 oil equivalent barrels with a full quarter of government mandated curtailments, in line public announcements.

In the Downstream, we anticipate scheduled maintenance to be down slightly from the second quarter. However, as we reflect on the current business environment, including the high inventory levels, we would expect margins to remain very weak. In Chemical, we anticipate demand improvement in key durable and automotive sectors, partly offset by higher fee costs. Scheduled maintenance is expected to be in line with the first quarter of this year.

Corporate and financing expenses are expected to be about $800 million and we expect continued spending reductions consistent with our announced targets.

With that I will now turn the call over to Neil.

Neil A. Chapman {BIO 18960736 <GO>}

Thanks, Stephen. It's great to be on the call this morning. I hope that all of you joining us and your families are safe and healthy. I want to extend the gratitude to everyone here at Exxon Mobil all of the men and women working on the front lines to fight the virus and to help those suffering from its effects. I'd also like to thank our employees, for all that they are doing to support the response and efforts globally.

As we indicated during the first quarter, we anticipated the COVID pandemic and related economic shutdowns with significantly impact the financial performance of companies across multiple sectors in the second quarter. And we're seeing that reflected in the results announced to date. As Stephen just discussed, the same external factors were evident in our second quarter earnings and cash flows. However there is reason to be encouraged that we may have seen the trough in April, when WTI hit a historic low point and then begin to rebound as economic activity picked up and demand showed signs of increasing.

By the end of the quarter, WTI had risen to around $40 per barrel with Brent trading slightly above that and oil prices have remained relatively stable at that level in recent weeks. I'd like to begin with a few over arching comments on one of the most challenging quarters this industry has seen. We have acted quickly and decisively, while preserving long-term value. The organization has responded with a level of commitment and professionalism that has been exceptional. We rapidly adjusted our plans and ask the organization to deliver on very aggressive new targets. They have delivered it.

Through all of the challenges, this environment has presented, we have safely maintained the integrity and continuity of our operations, while also making the necessary adjustments to COVID-19 to provide a safe work environment for our workforce and support global response efforts. This success should not be underestimated. Essentially all of our global facilities, Upstream, Downstream and Chemical have operated without interruption.

You can imagine the challenge of maintaining a virus free environment on offshore platforms and refineries, where our workforce live and work in close proximity. We had the charter planes to move our rotating operating staff all over the globe without the availability of commercial planes. We've had to lease hotels in multiple cities to quarantine our folks, before they start their 30 day rotations. Our organizations ingenuity has been remarkable.

We responded quickly to the rapidly changing price and margin environment by shifting in facilities when necessary and capturing value from the rapidly changing prices, leveraging our extensive supply chains around the world. I'm very pleased with the progress we've made, reducing costs and pacing investments to adjust to the market conditions.

As Stephen described, we set very aggressive operating and capital expense targets. The organization is exceeding those targets, which positions us very well for the rest of the year. We ended the quarter with more than $12.5 billion of cash, which is in line with the business needs. Given this level of liquidity, we don't see a need to take on additional debt.

Before I dive into the business, I want to highlight some of the amazing work our people have done in response to the COVID pandemic. These efforts included reconfiguring manufacturing operations, optimizing processes and delivery systems, enabling us to increase production of Essential Chemicals that are critical to the world's medical response, including isopropyl alcohol for hand sanitizer and specialty polypropylene for masks and medical garments.

Our people have stepped up, to contribute educational supplies to schools, fuel and PPE for first responders and financial support to food banks and many other related courses. If you haven't already, I encourage you to visit our website to see all of the inspiring ways our employees have contributed during this time of need.

Now I will turn to what we're seeing in the markets. Consistent with oil prices reaching historic lows, our own retail sales reflect a bottoming of transportation fuel demand in April, followed by some encouraging signs of recovery. The shape of the recovery varies by region, though the demand in Asia recently surpassed where it was a year ago. This data is from the International Energy Agency. What we saw was a historic demand contraction for transportation fuels with countries around the world, impacted at nearly the same time. But we are seeing a recovery from the recent lows.

Reflecting the improving demand trends we are seeing, the IEA's view of the next 18 months is similar to ours. They're forecasting a rebound in road transportation fuels with fourth quarter 2020 demand expected to be at similar levels to the fourth quarter of the prior year. The recovery in jet fuel demand is likely to be much slower, but by far the sharpest reduction in demand and the slowest recovery expected.

As you would expect, the impact of lower demand was apparent in the second quarter, the refinery crude throughput about 15% below 2019 levels. This resulted in pressure on margins, which Stephen discussed a few moments ago. Looking more broadly at total liquids demand, the second quarter was down about 20% year-on-year. But it's important to note, the actual loss of demand was not as severe as some had expected, considering the low end of the range was about 30%.

Simply put, the demand destruction in the second quarter was unprecedented in the history of modern oil markets. To put it in context, absolute demand fell to levels we haven't seen in nearly 20 years. We've never seen a decline with this magnitude and pace before, even relative to the historic periods of demand volatility, following the global financial crisis and as far back as in 1970s oil and energy crisis. In response to this lower demand, we saw a similarly unprecedented reduction of supply in the second quarter, as OPEC plus was down approximately 11 million barrels a day in May and June.

North American production shut-ins are estimated to have peaked at more than 2 million barrels per day. However, in line with the extraordinary drop we saw in demand, inventory levels increased to unprecedented levels. And we anticipate it will be well into 2021, before the overhang is cleared and we return to pre-pandemic levels. As I mentioned, clearly the industry has taken significant steps to reduce production. We have taken decisive action in this regard as well.

Curtailments impacts in the quarter were about 330,000 oil equivalent barrels per day, roughly 2/3 of these volumes were economic curtailments in unconventional and heavy oil. We bought the majority of production from our shorter cycle unconventional plays, back online in July, as market conditions recovered. For our heavy oil assets, we took advantage of the economic curtailments to pull forward planned maintenance.

At Kearl, we completed a maintenance shutdown on Line 2 and it's now back online. In the middle of July, we shut down Line 1 for similar planned maintenance and this is expected to return to service in late August. Looking ahead to the third quarter, we anticipate an impact of approximately 200,000 oil equivalent barrels per day from curtailments, with about 70% of those mandated by governments.

Turning to the Permian Basin. Second quarter production was nearly 300,000 oil equivalent barrels per day that's a 9% increase versus the second quarter of 2019. We continue to anticipate 2020 production will be about 345,000 oil equivalent barrels per day. It's down just 15,000 barrels per day from what we discussed back in March, despite the curtailments and the sharp reduction in capital expenditure and still more than 70,000 barrels per day above the full-year 2019.

During the quarter, we started up the Delaware Basin Central Processing and Exporting facility, which we referred to as Cowboy. As I discussed in March, this is a key building block in our Poker Lake major development. As we've discussed previously, the short cycle nature of our Permian assets also provides flexibility to pace development, reduce spend and preserve cash in the current environment. We curtailed rig count by about half, ending the quarter with 30 rigs in the Permian Basin and we expect to cut that number by at least half again by the end of this year.

Our activities for the rest of the year will be focused on Poker Lake, where we will continue to leverage our development scale advantage and utilize the above surface investments that we have pursued in the last 18 months including Cowboy. In light of the recent low price environment, we also pushed out the flowback of our largest to date cube development to the third quarter. This is the 27 well cube in the Midland Basin that I referenced at our Investor Day.

Again, this decision reflects our focus on making the appropriate decisions to maximize the value of each well and adapt as market conditions become more favorable, including optimized completion timing for our inventory of drilled uncompleted wells. In Guyana, Liza Phase 1 demonstrated production capacity of 120,000 barrels per day during the quarter. The response to a mechanical issue that we experienced in May was slowed by logistical challenges of mobilizing technical experts and materials in country due to COVID restrictions. But these are close to being resolved and we expect to get back to full capacity with a 100% gas injection in August.

We're still actively investing for the future in Guyana. With four drilling rigs as of the end of June, with one on exploration and three on appraisal and project development drilling. Subsequent to the quarter end, drilling at Yellowtail-2 identified two additional high quality hydrocarbon bearing reservoirs. One adjacent and one below the Yellowtail field. Liza Phase 2 remains on schedule for a 2022 start up. You can see the FPSO in the photo, which is currently in Singapore for topsides integration.

We're continuing to work with the government on approval for the Payara redevelopment plan. Without final resolution of the election results and signing in a new government, there is a potential for delays to the schedule. Having said that, it's very clear that all parties in country understand the importance of progressing the developments quickly, given the significant benefits to all stakeholders, especially the citizens of Guyana.

Let's now turn to the progress we're making on the aggressive cost reduction measures, we put in place earlier this year. Starting with capital expenditures. In April, we reduced our plan for this year by 30% to $23 billion. We're on pace to meet or exceed that target. In fact our annualized run rate in the fourth quarter is expected to be around $19 billion and we expect to be lower still in 2021. Savings during the second quarter were primarily driven by short cycle unconventional activity, but I should note that we're also adjusting the pace of other investments in all of our businesses.

As we previously mentioned, we continue to take a very thoughtful and comprehensive approach to these cost reductions. In partnership with our contractors, partners and governments. You will hear me say several times this morning, the importance of addressing the short-term market challenges, while conserving cash and preserving long-term value and future optionality. This helps us ensure that while investments may be deferred in some areas, the opportunities remain.

Given the continued uncertainty and volatility, we will continue to adjust CapEx reductions as needed. While also being mindful that the pull back we're seeing across the industry today, could very well lay the foundation for the supply challenges in the future. And we want to make sure, we're positioned to capture the eventual upswing.

In addition to our targeted near term CapEx reductions, we also laid out plans to reduce cash operating expenses by 15% in 2020. Again, we are delivering. We're ahead of pace to achieve that target with savings coming from a wide range of activities, including lower unconventional activity, optimizing supply chains, lower material and service costs and work process improvements to reduce support and overhead costs. These are just a few examples, our savings are widespread across the corporation.

More importantly, we're doing it without compromising safety or operational integrity. Over the past few years, we underwent a reorganization of our businesses from what were primarily functional organization structures to aligning along value chains. These reorganizations reduce the senior leadership structure and associated overhead and improved the line of sight across the value chains to better drive performance from our assets.

At our Investor Day in March, we discussed how this organization has provided a new lens on the business to identify and improved ways to drive further efficiencies. You might recall, Darren made the point that our plan for this year included reducing our operating cost on our base assets by more than $1 billion and he said that we would do it even better in 2021. So we came into the current environment, in a good position to respond quickly. We're confident that we will meet or exceed our cost reduction targets for 2020.

Looking ahead to 2021, we see significant potential for additional reductions. Based on identification of further long-term structural efficiencies, reduced activity levels and an evaluation of our workforce requirements, including the potential to further reductions in overhead and management positions.

Our plan is to continue looking at reductions business-by-business and country-by-country. Consistent with our annual budgeting process, we're working through these plans and we would expect to have been finalized during the second half of the year and share them with you early next year.

Let me now address capital allocation. Our long-term capital allocation priorities remain unchanged. In a depletion commodity business, we have to invest in accretive advantage projects to sustain a strong foundation to generate cash flows into the future. In a capital-intensive cyclical businesses, such as ours, it is critically important to maintain a strong balance sheet. This enables us to sustain through the commodity price cycle and be flexible when opportunities present themselves. It has been a strength of this corporation for decades and it is an advantage that we will maintain.

Finally, we have a long history of providing a reliable and growing dividend. A large portion of our shareholder base has come to view that dividend, as a source of stability in their income and we take that very seriously. While we manage our capital allocation priorities over the long-term, we also recognize the need to balance in the near-term to respond to market conditions. In response to the unprecedented environment that we find ourselves in, we've taken decisive action in 2020.

To recap, what we've done so far this year. We've reduced short-term capital spending by more than 30%. We're on pace to reduce cash operating expenses by more than 15%. We've increased debt to a level we feel is appropriate to provide liquidity, given market uncertainties and we will hold it at that level and we're continuing to pay a reliable dividend.

Given the ongoing uncertainty in the business environment, we are developing plans that will enable us to maintain our capital allocation priorities over the near term. These plans contemplate a price environment that is consistent with the range of third-party estimates and in line with the shape of the recovery that I discussed moments ago. The plans will include further reducing operating expenses and identifying additional opportunities to efficiently defer more CapEx. Doing so, will enable us to maintain the dividend and hold debt at its current level.

Of course, this is a volatile market and we can't know with certainty, how the market will evolve from here. There are simply too many unknowns. While we are developing plans based on what we and other third parties can reasonably expect to happen, we have to maintain a certain degree of flexibility to be able to respond to potential improvement or further degradation.

Before we open up the call for questions, I want to re-emphasize a few key points. Our people continue to demonstrate a commitment to safety and operational integrity and continuity in an incredibly challenging environment. Our company continues to benefit from the integration advantages we've built across the value chain. We remain focused on driving down costs and pacing investments to manage the near-term market challenges.

We've maintained financial capacity in line with our business needs and the market environment. We will continue to be there for the communities and frontline workers, who depend on the products and support we can provide to come up the ongoing pandemic. I'm confident in our organization and our plans. We will overcome the challenges of the current environment, just as we've overcome many challenges in the past.

Thank you and we look forward to taking your questions.

Stephen Littleton {BIO 21547394 <GO>}

Thank you for your comment, Neil. We'll now be more than happy to take any questions you might have.

Questions And Answers

Operator

Thank you, Mr. Littleton and Mr. Chapman. The questions-and-answer session will be conducted electronically. (Operator Instructions) We'll take our first question from Jeanine Wai with Barclays.

Q - Jeanine Wai {BIO 16974257 <GO>}

Hi, Good morning, everyone.

A - Stephen Littleton {BIO 21547394 <GO>}

Good morning, Jeanine.

Q - Jeanine Wai {BIO 16974257 <GO>}

My first question is on the debt. And in terms of the commentary that Exxon, does it need to take on any additional debt, this implies a price and CapEx assumption. Can you provide a little more color on what your price assumption is and what range of demand scenarios would you look at compared to what you laid out in the presentation, which is really helpful. Just wondering also as a message is that Exxon will adjust CapEx to the price environment irregardless of what the impact on production is, in order to just pull the line on that debt?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yeah, good morning Jeanine, this is Neil. Thanks for joining the call. Good to hear from you. Of course, as you are aware in the response to this environment, which clearly has been unprecedented. We've never seen a market demand crisis so far, so deep, we've never seen prices and margins crisis so much. And that's why having a strong balance sheet is so important. And I would tell you that's why the financial discipline of this cooperation over many, many decades has been so critical. It means you can weather the big storms, it means you can weather the large-scale disruptions and of course, it also means, you can reward the loyalty of our shareholders by sticking with them when the business recovers and sticking with the plans we have in place to protect this balance sheet and maintain our dividend.

As we've just been discussing or describing, we took really, really decisive steps for this year, so the short-term capital spending reduction of 30% to 50% in operating expenses. This is very much in line with what we saw in April earnings call, you will recall that Darren laid out our plans then. What we said, we needed to do at that time we've done. The results are on track and are on line with our expectations.

So we set out the plans for this year with these reductions. We're now developing plans. It's going to enable us to maintain our capital allocation priorities over the near term and these plans contemplate a price environment that's generally consistent with third parties. Of course, we have seen the third-party assessments of the price environment going forward converge and we're in line with those.

Our plans to maintain our debt at the current levels and maintain our dividend include further reductions in operating expenses. And we are working hard to identify additional opportunities to what I always describe as efficiently deserve more CapEx and that preserves the optionality and the future value, but response to these short-term needs.

Q - Jeanine Wai {BIO 16974257 <GO>}

Okay. Great. That's really helpful. Thank you very much. By follow up I guess just on this further CapEx reductions that you mentioned. If oil prices are very modest and you're looking to a -- potentially it delayed more projects. You've mentioned in the past that, there is always a cost associated with delaying those projects. And so can you just address that and what kind of targets you might think maybe opportunities to differ. And on the run rate of 19 billion that you're talking about is significantly lower than the 2020 budget. On the flip side of things, given the project backlog, at what point is M&A become a more attractive option, instead of doing things as it means to kind of grow the medium and long-term cash flow. Thank you.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, thanks Jeanine. Well we remain committed to progressing the structural improvements to our earnings and the cash flow that we've laid out for the last three years. But we have to be more selective in pacing those investments in light of the market environment. And of course, and as we've described and actually Darren described as well in April. We've completed a thorough review of all of our ongoing investments and our ongoing investment opportunities. But in our business that means, you got to work with the resource owners, you've got to work with the partners, you've got to work with the stakeholders. We got to identify areas where we can differ spending, but conserve cash in the near term and of course preserve that long-term value.

What we have done and I think we've done really successfully. We've identified market efficiencies, we have identified projects synergies that will offset the cost of these deferrals. But there will be impacts. I mean, that's for sure. And there will be impact mainly in timing and that's to the earnings and cash flow potential that we've previously communicated.

So it's clear, I think from our comments and our actions in the short-term will defend the balance sheet and will protect the dividend by taking short term postponements in capital investments. In terms of what we will do next year, of course, we're working through that now and that's part of our annual planning process and we're working through that now and as you well aware, our planned process concludes with a review with our Board of Directors in November that will be the same this year as it is every year. And when we have clarity on what the capital spend will be next year, of course, we will communicate it to you.

As I mentioned in my comments, my expectation is our capital spending next year will be lower than the fourth quarter run rate. In terms of M&A and could that provide a different option to -- I mean Jeanine, of course, we're looking at that all time. We're looking all the time and if the right opportunity comes up, then we may elect to move on that. But what I would say is, and I said this before and I certainly said at Investor Day, we have, I would say, the very richest set of competitive investment opportunities within this company already.

I mean, I don't think there is a company out there that compete -- can compete with that and so there is no need for us to do an M&A, we don't need to do that. We have very, very attractive investments to make, but we always look at that option.

Q - Jeanine Wai {BIO 16974257 <GO>}

Okay. Thank you.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, thanks Jeanine.

Operator

Next question comes from the line of Jon Rigby with UBS.

A - Neil A. Chapman {BIO 18960736 <GO>}

Good morning, Jon.

Operator

And Jon your line may be muted.

A - Neil A. Chapman {BIO 18960736 <GO>}

We still can't hear you, Jon.

Operator

Okay. We will move on for now to Doug Leggate with Bank of America.

Q - Doug Leggate {BIO 1842815 <GO>}

Thank you. Can you all hear me okay?

A - Neil A. Chapman {BIO 18960736 <GO>}

Sure. Can Doug.

A - Stephen Littleton {BIO 21547394 <GO>}

Yes, can Doug. How are you doing?

Q - Doug Leggate {BIO 1842815 <GO>}

Good morning, Neil, it's good to hear from you and good morning, Stephen. So a lot of questions, I'll stick with two. Neil, you talked about your run rate CapEx in $19 billion in the second half and below that in 2021 and you are still growing the Permian and you're still executing Guyana. Can you then confirm that, that would still include growth capital and what I'm trying to get to is, some idea of what Exxon Mobil's sustaining capital is, in other words, ex-growth, if you can help me with that?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes. Thanks, Doug. Just to clarify one point. Our run rate of 19 is in the fourth quarter, not the second half, just thought you're aware. And what I said -- I expect it will be lower. We will fund all the Guyana opportunities as they come forward. Of course, as we look at our capital spend, we are looking hard at the priorities on them. And Guyana we will continue to fund and you're well aware that Liza 2 is in construction, now I'm confident we'll move on Payara as well.

And in terms of the Permian, one of the great attractions of short cycle, as you can take that capital off quickly. And of course, you can put it back on pretty quickly as well. Our current planning is that, we will continue to reduce the number of rigs we have out in the Permian through the second half of this year. I think, we are about, but remember the number is about 30 rigs in the Permian at the end of the third quarter -- at the end of the second quarter, I would anticipate it will be in the range of 15, maybe 10 to 15 at the end of year.

And that really is just a short-term to manage our current capital planning. Those rigs that we have in the Permian will be focused on that Poker Lake development. So what we're doing is, we're concentrating, we're concentrating developments in the Permian in that core activity and Poker Lake that we've talked about that last two times -- last two Investor Days.

I would tell you in terms of ongoing sustaining capital. I'm always reluctant in our business to put a number to that, because as your portfolio changes and as you make divestments, it's not a number to lock in and I'm really, really reluctant to put a number on that. I would tell you it's somewhat easier in the chemicals and downstream businesses. I mean, I think an order of magnitude on sustaining capital in those businesses will be in the $2 billion to $4 billion range. But I think in the Upstream, it's more difficult to quantify in that way.

Q - Doug Leggate {BIO 1842815 <GO>}

I understand, its tricky and I appreciate at least you framing the answer. Gosh, I'm going to go to Guyana, if I may on my second question. You used an interesting turn of phrase up, there is a potential for a delay. And if preface my question like this. Our understanding is that the Payara holds well ahead of schedule, moved I believe in Indonesia, right now there thereabouts. My understanding is also that Bay phase has not yet finished its review of the development and although we do not yet have a government. Everything seem to be ahead of schedule. So what exactly are you signaling on Payara, in terms of the risk or the potential for delay?

A - Neil A. Chapman {BIO 18960736 <GO>}

Doug, it's really very simple. Everything we and the partners can do to progress Payara on schedule. We are doing and we've done. I've said to our organization many times. We need to be ready to move as soon as the government is ready and we are ready, we are ready to FID this project. But we need an approved development plan and that approved development plan needs to come from the government. And all the work with Bay phase and on the development plan that's been worked for a long, long time.

Of course, we are waiting for a resolution like everybody else, of the election. I think you're very familiar with what's happening down there. There was a vote, there was the re-count and then there's been a series of legal actions that have taken place since that time. What we know, is it all parties in Guyana want to progress this development. Of course, we are in regular contact with both President Granger and the APNU-ASC coalition and we're also in discussions with the PPP and Jagdeo and Irfan Ali. And what we continue to stress to the government is that, if the project does get delayed, it's a loss of value to the country. And they understand that it's very, very clear the government understand that, it's very, very clear, the Ministry of Energy understands that. It's very important that we get this development plan, so that we can FID in the September timeframe.

There are weather conditions that if you meet -- miss a certain window, it could result in delay of some months and that's what we're trying to work towards. I'm confident and this will get resolved, but Doug it's -- we need that approval of the development plan and that's what governments have to do and obviously we'll work with them and as I said, we are ready to go.

Q - Doug Leggate {BIO 1842815 <GO>}

Thanks, Neil and thanks for the clear statement on the dividend.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yeah. And I appreciate it. Good to hear from you, Doug.

Operator

All right. Next question comes from the line of Neil Mehta with Goldman Sachs.

Q - Neil Mehta {BIO 16213187 <GO>}

Thank you, Steve and thank you, Neil. The first question I had was around the dividend and I think Neil your comments there was -- this is -- it's an imperative for you guys to defend? Can you just talk about the business logic and the financial logic behind defending the dividend. Especially in light of some of the dividend reductions we've seen and are likely to be upcoming from your competitors. Yes. I mean, we see it this way and Neil, I tell you our capital allocation priorities, as I said in my prepared comments, they are unchanged and I don't think you'd expect anything different. I always see the three legs of a stool, it's a commodity business, so you've got to invest in advantage projects, you've got to invest in accretive projects. That's the way to sustain a strong foundation and to generate future cash flows. But of course, the business is cyclical, we know that, it's volatile, we know that. That's the norm and therefore, it's important to maintain a strong balance sheet. And that's what we've done for years. It enables us to sustain through the commodity cycle, it enabled us to work through this quarter. And that's really, really important. But third, we have a long history in this corporation of providing this reliable, and I would tell you and as you know, growing dividend for 37 years, a large portion of our shareholder base. I mean, Stephen may correct me, if I think something like 70% of our shareholder base of retail investors.

A - Stephen Littleton {BIO 21547394 <GO>}

Yes. That's correct.

Q - Neil Mehta {BIO 16213187 <GO>}

And the investor sets come to view that dividend as a source of stability in their income. And that's something we take really, really seriously. So we manage this capital allocation priorities over a long-term. But obviously it's a balance and obviously we recognize the need to balance in the near term to respond to what we seen in these market conditions and market environment. And that's why we've had the cuts in, CapEx and OpEx and that's why we took on more debt in the last four months to a level that we feel is appropriate to provide liquidity, given the uncertainties of the market.

But as I said, we don't plan to take on any more debt. We are now developing plans that will able us to maintain those capital allocation priorities over the near term and that includes sustaining the dividend. And our plans contemplate a price environment that's consistent with third parties. Of course, we look at sensitivities on the upside and the downside of that. We were aware of what those will be and that is why we are moving on further reduction of operating expenses and further shorter, shorter reductions in capital expenditure. That will enable us to maintain the dividend and that will enable us to hold our debt to current levels.

Now Neil, I mean, you're well aware, we can't know with certainty, how the market will evolve from. There is too many unknowns, of course. So you have to maintain a degree of flexibility. To be able to respond, should the recovery not play out as expected. But I -- we feel very confident that we will be able to maintain that level of debt and maintain that dividend, certainly for the coming year or months. Great. Sorry to keep on going back to the capital spending question. But I did think that is an incremental point of disclosure. So I just want to clarify some things here. So Neil, are you saying as the end of the year, your fourth quarter annualized headline CapEx, not cash CapEx will be $19 billion and then in 2021, you anticipate you will be below that or else equal right now. And then can you just talk about the buckets where you could see some downside relative to the plan that you had outlined? Yes, well, you are correct. That is what I said. In the fourth quarter, we expect to be at an annual running rate of $19 billion. And what I said was, I expect, I anticipate, will be lower than that $19 billion in 2021. Of course, we have an annual planning process. That's the way we work in this company and we ultimately review that plan with our Board of Directors in November and that will be finalized. And that's why, I'm always saying, I expect we will do that, we will finalize the plan ultimately with the Directors and we'll communicate that to you at that time. I think in terms of where we're taking those cuts? Clearly, the short cycle in the unconventional space, is a way you can turn on capital and turn off capital relatively quickly. And so the quickest cuts and the largest cuts we've made as we discussed has been in the unconventional space. Not just in the Permian, Neil, I would tell you, it is across all the unconventional space and that will continue. In the downstream and chemical projects, it's really a question of deferral. So we're not stopping any of these projects, we're deferring them, we're postponing them. And we are working with our partners and we're working with EPC contractors and we are working with local authorities and that is why we've not been specific at this stage, which project we're deferring over what period and when. When we have clarity with all of our partners of course, we will share that with you. Thanks, Neil and thanks Steve.

A - Neil A. Chapman {BIO 18960736 <GO>}

Sure.

Operator

Next question comes from the line of Doug Terreson with Evercore ISI.

Q - Doug Terreson {BIO 1504903 <GO>}

Good morning, everybody.

A - Stephen Littleton {BIO 21547394 <GO>}

Good morning, Doug.

A - Neil A. Chapman {BIO 18960736 <GO>}

Good morning.

Q - Doug Terreson {BIO 1504903 <GO>}

Neil, Economic Value Added or EVA for Exxon Mobil and really every super major peer has declined steadily during the past decade or so, even though we've had a range of commodity prices and margins. And we're now seeing the stock of the super majors falling to three and four decade lows versus S&P 500. And on this point, one read could be that companies are investing cyclically or counter cyclically, which I think is all's view, despite secular deteriorating -- or deterioration competitive conditions that is a decline in value creation that we've seen.

So two questions. First question is, how do you think about the secular/cyclical risk part and the implications for spending? And then second, with Exxon Mobil stock at a 40-year low versus S&P 500, why wouldn't this argue for additional transformation of the company's business structure, financial metrics, executive pay incentives or whatever you think is important? Or do you think that the current plan is sufficient and it will eventually accomplished the objective? So what's the market missing here?

A - Neil A. Chapman {BIO 18960736 <GO>}

We could discuss this for a long time, Doug. So I'll try and be succinct. Look in terms of how do we think about this business. We don't think the long-term has changed. It is a cyclical business, the fundamentals have not changed. The population will continue to grow, economies will continue to grow. This relationship between societal progress or you can describe it as human development and energy consumption is absolutely clear and the demand for energy by all third parties is going to be up 25% by 2040.

So we don't see that has changed and in our business, of course, which is a depletion business. It's not just a question of the growth in demand, it's the depletion as well, which as you know, demand for crude oil and again I apologize I don't know these numbers exactly right, it's about 0.7% annual growth and gas is probably 1.3%, but the depletion is about 6%. So there is a need for hydrocarbons to come into the market and people to invest in hydrocarbons to meet that energy demand and the winner will be the company with the strongest portfolio and the company with the strongest operating results. And that's what we've been discussing at our last however, many three investor meetings.

And of course, we've talked about and be very, very quick. We've got the strongest set of development opportunities in the Upstream and we've got the most -- we got one of the most aggressive divestment programs and we're driving cost out of the business. In the Downstream, we're not focused on growing fuels, we're focused on upgrading fuels, basically to distillate, diesel, jet fuel and base stocks to meet market demand and of course in chemicals, chemical demand, which is growing fast, is driven by this growth in middle class and we feel very well positioned in our business.

So I don't see anything changing, there is no evidence of any think is changing to any of that. I mean that is for sure. In terms of what do we need to do and should we be doing more? I would tell you, Doug, that's what we're focused on. You only win in this commodity business, if you have the lowest cost structure. And driving cost out of your business and upgrading your portfolio is what this business is all about. In terms of some of the comments or have executive compensation and in terms of workforce reduction.

Of course, we are looking at every element of that, as you would imagine, when we go through a quarter like that. But I would tell you, we were already looking at all of this and we started that process, as we reorganized this company back in I guess 2018 and 2019 with our big changes in organization structure in both the Upstream and Downstream. So I would tell you in my opinion, we're looking for structural efficiencies to improve this portfolio to be the most competitive in an industry and in a business where we believe the long-term fundamentals are not changed and we don't see any evidence that changed at this stage.

A - Stephen Littleton {BIO 21547394 <GO>}

I guess, Neil, the comment I would add, as we did restructuring in the two businesses along the value chain construct. What we're able to really identify is the overall cost of delivery of our products. And we're identifying efficiencies across that entire value chain, at a rate far higher than we really anticipated and that's where we're going to start seeing additional efficiencies going forward.

Q - Neil Mehta {BIO 16213187 <GO>}

Yes. Stephen is right, Doug. And I would tell you that this evaluation that we're going through as part of this year's plan to set up our cost structure for future years '21 and beyond. We are looking at very significant efficiencies and lower operating expenses. And I know you're going to ask me okay, what say what is the number that is part of our planning process that we'll share with somebody at the end of it. You know what I'm going to say, Doug.

But as I said in my comments, we do see the potential for further workforce reductions, including overhead and management positions. But we will look at that reductions by function, by business, by country and that will be the basis. We will conclude those plans during the summer months and we'll review that with the Board in November.

Q - Doug Terreson {BIO 1504903 <GO>}

Okay. So it sounds like, we'll hear about kind of an updated plan for potential or normalized earnings that you provided in the past, maybe next spring. Is that a good way to think about it?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, that would be our intent. Yes, exactly right.

Q - Doug Terreson {BIO 1504903 <GO>}

Okay, thanks a lot guys.

A - Neil A. Chapman {BIO 18960736 <GO>}

Sure, I appreciate it. Thanks, Doug.

Operator

Next we'll go to Roger Read with Wells Fargo.

Q - Roger Read {BIO 6161944 <GO>}

Hi, thank you. Good morning. Can you hear me?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, sure, can, Roger.

A - Stephen Littleton {BIO 21547394 <GO>}

Good morning, Roger.

Q - Analyst

Great. Good morning, Stephen and good morning, Neil. I'd like to maybe come at the CapEx question, a little different way. Bear with me a second, but as we think about what happened in the post-2014 CapEx cuts, we saw a tremendous amount of improvement in productivity and efficiency and cost reductions just from your contractor, subcontractor universe. It doesn't look like there is a same level of cost cuts to come out of that particular part. So as I think about a CapEx cut from the roughly 30 billion to the sub 20 billion range, you've mentioned referrals, but are we going to see a more significant impact on -- whether it's Exxon or the industry in terms of the ability to bring new oil and gas projects to market, as maybe the main result here? I guess what I'm trying to think it of is, is this one going to have this particular downturn going to have a bigger impact on the industry deliverability. You kind of touched on that on the intro, just interested in getting your thoughts on that.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yeah, well, I think, look it is -- when you look across the industry and we read the same reports that you do and there has been a dramatic cut back in our industry on capital expenditure. And history says there is a result of that. This is a depletion business and when we all know what happens, when you don't invest in this business. It certainly suggests that will be the case this time around. But I obviously, I can only really talk about what we are doing and why? We're taking these short-term steps, while preserving the long-term value. That is our objective.

I would tell you that, we are working very hard with the contractors, the material suppliers on every angle to drive further efficiencies and cost out. The contracting industry is hungry, because there's been so much CapEx taken out of the business and people have suspended and postponed so many projects. So we're working very, very hard and I have to tell you in the Downstream, Chemicals and Upstream, I'm -- well, first of all, I'm really pleased how well the EPC contractors are working with us. It is a great -- it illustrates the great partnership we have with them. And jointly, we're taking efficiencies and we offsetting the cost of these deferrals with increased efficiencies. That's what I'm saying, that's what we're seeing in the business.

In terms of ability with the industry stops investing will that impact the long term of the ability to step up and reinvest again? There is always that chance, but experience in a commodity business suggests that, when the demand is there, the market will deliver. I don't see any difference here. I am very optimistic though, as a result of not just the oil-crash in '15, '16 but what we've seen today will fundamentally push this industry to do things more efficiently and take structural cost out of construction in a way that we have not previously seen.

Q - Roger Read {BIO 6161944 <GO>}

Okay, I think so. I mean it's always amazing to me just how much productivity efficiency comes out of the industry, whichever the cycle, but especially in these down-cycle moments.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes. And I would tell you as a business owner, Roger, it's unbelievably frustrating, right. Because, we should be gaining efficiencies in the base case. So but I agree with you, when times get like this, then it's extraordinary how the industry can find opportunities to do things more efficiently and take more cost out. Sorry, I interrupted your second question.

Q - Roger Read {BIO 6161944 <GO>}

No, It's quite all right. The second question, shifting gears a little bit back to Guyana that Doug mentioned earlier. Between your partner having their call -- in his call today, in a nearby country there was another discovery in the deeper zones, your partner talked about some of the deeper zones. I was just wondering, how are you looking at that opportunity and how that fits within the sort of greater than 8 billion of discovered resource, so far. How -- where does it fit in the overall package? What did the Yellowtail-2 really tell you about that and some of the other opportunities there?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, well, I think you're probably aware. Our latest appraisal well which is on a prospect we call Yellowtail-2 and we discovered two -- I would tell you additional high quality hydrocarbon bearing reservoirs and that -- it's very positive for us and it's very positive for the country and our partners. One was adjacent to Yellowtail and one was below Yellowtail. So that further gives us great confidence and we just get more learnings in terms of the potential at lower depths or deeper depths. We're now on a prospect called Redtail and I would anticipate we'll get some initial results in August on Redtail.

We're going to move into the Kaieteur block in August on a prospect called Canje. And of course, subsequent to that, we've got other exploration prospects that we're drilling up in later this year, one in Hassa-1 and one in Bulletwood, which is on the Canje block. If my memory is correct that was what we're doing. In terms of Suriname, I think you're aware, we are in Block 59 down there and we're in Block 52 with our partner Petronas.

And we are looking to drill a well on Block 52 with our partner, potentially in the fourth quarter of this year. I think the learnings and the understanding of the whole resource base in that offshore area Suriname and Guyana, the more we find and the more we drill, the more we understand about that whole prospects. But I would tell you that, everything we've seen this year is consistent with what we've been talking about. And we are very encouraged and very excited by the prospects going forward.

Q - Roger Read {BIO 6161944 <GO>}

Great, thank you.

A - Neil A. Chapman {BIO 18960736 <GO>}

Thank you, Roger.

Operator

All right. Next we'll go to Sam Margolin with Wolfe Research.

Q - Sam Margolin {BIO 17168841 <GO>}

Hello. Good morning.

A - Neil A. Chapman {BIO 18960736 <GO>}

Good morning Sam.

A - Stephen Littleton {BIO 21547394 <GO>}

Good morning Sam.

Q - Sam Margolin {BIO 17168841 <GO>}

So belabor the CapEx topic that something that I think we landed on, that's pretty important, especially for investors. In the past your process of budgeting CapEx was never explicitly tied to your expected sources of cash. And actually as a matter of fact, the management committee will make it very clear that they were completely decoupled of time and that's not just wasn't the right way to run the business. And so, I mean, do you think it's a fair interpretation of your comments to say that there is a real fundamental change in the way and that the sources of cash includes disposals and other non-operating factors are now a prominent part of that process and we should think about it, that way or is this just a unique circumstance to the moment?

A - Neil A. Chapman {BIO 18960736 <GO>}

No, I don't think it's a fair way of characterizing it. I mean, in the short term, we have elected to do the following. We've elected to take no more debt on, because we want to protect the strength of our balance sheet. We want to and we feel the great commitment to our dividend. And so what other knob do you turn, when you are in that situation, it's capital expenditure. I see this as a short-term reduction in capital expenditure to manage the current situation.

We retain a very competitive balance sheet. I mean, you know that, you've seen this, it's very competitive versus our peers and we want to protect that. And so we're doing that by taking shortcuts and expenses. It doesn't change our fundamental belief that you need a strong balance sheet and you need to invest in the most attractive prospects, the most competitive prospects that are out there. So again, Sam, I don't think it's a fundamental change, I think it's a response to the short-term environment.

Q - Sam Margolin {BIO 17168841 <GO>}

Okay. I apologize for belaboring that. I just wanted to clarify. And then on a related note, within this process of migrating from the near term. The focus is to be on Permian (Technical Difficulty), it seems like the LNG projects may have (Technical Difficulty) sort of tied with some other poles for the company (Technical Difficulty).

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, Sam. We kind of lost you there, but I'm going to -- sorry, I'm going to try and interpret what I heard. It was around LNG and the LNG projects and you're aware that we have two significant opportunities in Mozambique and in Papua New Guinea. I think we continuing in Papua New Guinea to work with the government on the Pnyang fiscals and that process is ongoing. We're continuing to work with our partners in Mozambique, both the government and our partners on the timing.

I think consistent with what you see in our capital spending and consistent with what you see across the industry that could be a time component in terms of a delay. You will recall that both those two projects, even in 2018, we were talking about them coming online in the 2025 type of period. There is a chance that will slip a few years or a little bit of time beyond that. Yes. Sorry Sam, we lost it. If that wasn't the question you looking for, that's what I heard.

Q - Sam Margolin {BIO 17168841 <GO>}

No, I was going to ask (Technical Difficulty) tied in some of our ESG efforts as well, but if I have had bad connection, I'll leave it there and ask Stephen later. Thanks.

A - Neil A. Chapman {BIO 18960736 <GO>}

Thanks, Sam.

Operator

All right. Next we'll go to Phil Gresh with JPMorgan.

Q - Phil Gresh {BIO 15118761 <GO>}

Hi, good morning. I guess, I'm going to also -- I'm going to ask another follow-up, I suppose on this topic. But as we look at the current cash balances for the company and your CapEx plans, is there a minimum level of cash that you're -- I guess, basing your commentary on that you would not plan to be adding additional debt? And are there any -- is there anything in there or inorganically in plan around asset sales or is that commentary completely organic in nature?

And I guess the bigger picture question is, you're talking a lot about efficiency improvements and lowering costs. So structurally, the 30 billion to 35 billion in CapEx you've talked about is that something that through efficiency gains and things you believe actually, it would be lower in the future.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes Let me try and address them in order. Asset sales, I mean, but it's not the best environment for selling assets. But I can assure you that we are in the market with multiple assets and we are progressing asset sales, whether they will finalize or come to fruition, time will tell. But I think it all depends on what you're selling, what market, what location, what's the age of the asset, et cetera. And so we are extremely active in that space. But I never like to try and predict what will happen in the future of that, because it depends on both the buyer and the seller.

So, but we're still progressing and in terms of cost savings, as I mentioned earlier on and how that impacts CapEx. I'm optimistic that when times get really tough for everybody in that supply chain of project development and project execution, you identify and drive new efficiencies. So you would hope that they can be retained and you would hope and we certainly plan that will benefit from those in the long term. Will it change our capital expenditure from $33 billion, which was our original plan for this year down to $23 billion just through savings, I think it's probably a little bit optimistic, frankly.

But we do see savings coming out and we do see savings coming for the long term. In terms of the cash balance, what we did was we took a more long-term debt over the last four months of what we regard is, attractive -- certainly relatively attractive prices. But that was to provide more flexibility during this period. And when you're in a volatile period, higher cash is what we wanted to do. And of course, it provides the optionality to reduce short-term debt. But that's all part of our debt management, cash management, capital allocation process.

A - Stephen Littleton {BIO 21547394 <GO>}

I guess Neil also add, currently Phil, we have a pretty high cash level given the amount of uncertainty that's out in the market. But if you go back in time, we've historically carried a cash balance in the $5 billion or lower. And so right now, obviously we're in a unprecedented time, we thought it's appropriate -- we had the appropriate level of liquidity to manage this through to the next couple of quarters, just to make sure we see how the recovery is going to respond. But I'd look back on our history, use of that cash balance is substantially lower.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes.

Q - Phil Gresh {BIO 15118761 <GO>}

Okay. Thank you. Follow-up question. I suppose it's somewhat related to Doug Leggate was asking about, with respect to sustaining capital. It's just more specific to the Permian. As we look at the exit rate that you're talking about for the rig count and implicitly for capital spending. I think your guidance for this year of 345 of production would obviously imply something a bit higher than that as an exit. But are you -- I guess with this 19 billion or less of spending with that -- should that imply to us that we will let Permian production decline in 2021 or do you feel that there are levers available to you that, that would not be embedded in that plant?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, I would tell you. Let's talk about Permian this year first. Our outlook for this year is pretty close to what I said on Investor Day. I think it's again -- you'll correct me here, it brings 345 Kbd and so that's about just 15 below and that really reflects, because of the way we are developing the Permian with these large-scale developments and large cube developments. The capital you invest last year has a material impact on the results this year. And so that's why it's only a 15 kbd reduction.

In terms of the following year, we haven't finalize those plans yet. And of course, if there is no investment, these wells decline rapidly. But you're aware that we have a considerable number of DUCs sitting out there. You will also be aware, it's a much higher cost of frac than it is to drill and that's really were important. So just looking at drilling rigs alone, doesn't tell you the full story. I don't anticipate that our volumes will reduce next year. We will finalize that through the planning process, we will finalize that with our board in November. And of course we'll share that with you at the Investor Day in the first quarter next year.

A - Stephen Littleton {BIO 21547394 <GO>}

And Neil, if you don't mind, I'll add. I think Phil, also depend on what's the business environment look like and that's the beauty of the Permian. We'll be able to flex up or down depending on what we see in terms of the margin.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes.

Q - Phil Gresh {BIO 15118761 <GO>}

Okay. So on the 19 billion your base case would be -- it would not decline, if this is the conclusion?

A - Neil A. Chapman {BIO 18960736 <GO>}

Certainly at a $19 billion capital spending, it would not decline there.

Q - Phil Gresh {BIO 15118761 <GO>}

Okay. Thank you.

A - Neil A. Chapman {BIO 18960736 <GO>}

Sure. Thanks.

Operator

All right. Next we will go to Jason Gammel with Jefferies.

Q - Jason Gammel {BIO 21747565 <GO>}

Thanks very much. Moreover on the topic of the Permian, something that you might be able to address Neil, what you're seeing on the performance from wells that had been curtailed, but are now been brought back online. Are you seeing pretty flush production from those well?

A - Stephen Littleton {BIO 21547394 <GO>}

Yes, actually it's something we looked at very closely when we shut in these wells. We wanted to be sure that when we bring them back online that they come back, what I always describe is the same position on the type curve and that's indeed, what we're seeing. We were confident that, if we shut in, we'd resume at or above where it left on that decline curve and Jason that's what we're seeing.

Q - Jason Gammel {BIO 21747565 <GO>}

Excellent maybe if I could just shift over to the Downstream, you talked about the margin environment is still being pretty poor. How are you able to given the flexibility of your system shift around product yields. And I'm thinking really integration of petrochemicals and being able to more maximize feed into that system and away from fuels. And then also how are you doing with jet fuel, just given the significant inventories and weak demand for that product.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, I think, Jason, I have to start with jet fuel frankly, because of all transportation fuels, jet is obviously lagging the most and from our perspective, it's very clear that's because of the lower international flights. That's the biggest issue. When you produce jet, what are you going to do with it? You've got to push as much jet as you can into the distillate pool and into diesel pool. And actually the demand for diesel is quite strong, but the margins are still relatively low and that's because the refiners are pushing Jet in -- up to the limits of the product quality, pushing jet in there, which is giving a -- if you like an oversupply into that jet pool.

It is interesting on the diesel or distillate demand. I am just throwing a little bit of data, we see US truck vehicle miles back to the pre-COVID levels. That is a really significant point. And so once you see commercial transportation going back to those pre-COVID levels. That is important, but of course we see passenger vehicles lagging and jet is lagging a lot. In terms of chemicals, chemicals is a really interesting story in terms of what's happening in the demand for chemicals.

It's very different depending on the products that you're making. If you are making products that's going into the packaging or medical industry. So things like polyethylene, the demand is very, very strong and actually polyethylene demand is up 2% year to date. But not all polyethylenes are same. Some go into packaging and some go into durables and construction. So think of things like pipe, construction pipe, pipe in your houses. So it's very, very different.

Overall, we see strong demand for products that are going into packaging medical, weaker demand for products that go into auto and construction. And that's important, because it depends what feedstock you put into your steam crackers to make the right products. Of course, over the last quarter, we saw a contraction of the feed advantage between whether you're cracking ethane, which of course is gas or you're cracking naphtha. There was a little differentiation in the second quarter between those feedstocks.

And at that time, refiners are putting more and more liquids into their feedstocks. Certainly from a US perspective, as this quarter has evolved in the last month or month and a half, what you've seen is the advantage for gas i.e. ethane in the US chemical plants. That advantage has started to open up again, which means, more chemical producers are putting more gas in the feedstock of their chemical plants, which means they are backing out naphtha. That's really what's happening.

Q - Jason Gammel {BIO 21747565 <GO>}

Really helpful, Neil. Thank you for that.

A - Neil A. Chapman {BIO 18960736 <GO>}

Sure, Jason. Thanks.

Operator

All right. And we have time for one more question. We'll take that from Ryan Todd with Simmons Energy.

Q - Ryan Todd {BIO 15158570 <GO>}

Great, thanks. Maybe just a couple of quick ones on the Downstream. Could you provide some color on the timeline for the Beaumont expansion and whether that will be impacted from the timing point of view in terms of what you're eventual outlook is for Permian production over the coming years.?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, I would tell you, Ryan. As I mentioned earlier on. We're still working with our partners and our EPC contractors, in terms of which of these downstream projects that we are postponing, how long that postponement will be? And we're just not in a position yet to communicate that externally, not because we haven't fund our plans, we are still working with our contractors on that. So in due course, we will give you some further details or more details on that. But what I would tell you is, there is likely to be a postponement on that. The magnitude of that postponement on that project and we'll come back to you later on, whether it's months or longer than that?

A - Stephen Littleton {BIO 21547394 <GO>}

Neil, if you don't mind, I'd probably add to the fact that if you think about what we're doing at Beaumont is really our connected back to what's going on in the Permian. So let being able to sync those up is going to be pretty critical longer term.

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, it is, it is true.

Q - Ryan Todd {BIO 15158570 <GO>}

Okay, thank you. And then maybe one final one. I think, we've seen -- over the last couple of quarters, we've seen pretty significant impairments from a number of your peers regarding both, it is driven by both kind of short-term and long-term pricing assumptions as well as some certain assumptions on carbon transition. I mean, can you talk a little bit about where you are in the process of revisiting some of those long-term assumptions? If anything in particular, where the oil sands have been hit pretty hard like some number of your peers, where the oil sands kind of falls in terms of the year long-term views regarding this?

A - Neil A. Chapman {BIO 18960736 <GO>}

Yes, I know, I appreciate you asking that question. Thank you, Ryan. I will start with impairment saying, it's really quite difficult to compare between companies on write-offs and impairment to depends on the quality of the resource. It depends on the carrying costs, it depends on your price margins assumptions, it depends on your development plans. And you also have to put this context on this. There are different accounting rules, as I think you're aware.

In Europe IFRS go straight to a discounted cash flow, GAAP rules are an undiscounted cash flow. So those are two very significant points. And I would just offer that as background. For us in addition to our normal monitoring for impairments throughout the year, we follow a very rigorous process each year, following those GAAP accounting rules. It is part of our annual plan process. During that process, we will refresh our views for long-term demand and supply and industry conditions each year.

We look at that supply outlook, we look at the cost of supply for oil and gas. That drives the supply-demand outlook, that informs our view on prices. And as I've said previously and we have said previously, our prices are generally within the range of third-party assessments. We are going through that work now on pricing. And we have not finished that work. When we have finished that work, we will review with our Board, of course.

But again, as we have seen previously, what we're seeing so far, it is in line with third-party assessments. As part of that process and as part of that plan process, we look at the development plans for all of our resource base and that would of course include oil sands. And the key part here is, when we plan to develop each resource. And when we've completed that work, if changes to our long-term views on prices or if changes to our development plans are sufficient then we will follow the normal test for impairment and that's the process we follow. With following that process this year and that process will be finalized with the Board review in November.

Q - Ryan Todd {BIO 15158570 <GO>}

Okay. Thanks, Neil.

A - Neil A. Chapman {BIO 18960736 <GO>}

Does that answer your question?

Q - Ryan Todd {BIO 15158570 <GO>}

Yes. Thank you.

Q - Neil Mehta {BIO 16213187 <GO>}

Okay.

A - Stephen Littleton {BIO 21547394 <GO>}

Right. We want to thank you for your time and thoughtful questions this morning. We appreciate you allowing us the opportunity to highlight second quarter results and the decisive actions we are taking to manage through these challenging times and position ourselves for the eventual recovery. We appreciate your interest and hope you enjoy the rest of your day. Thank you and please be safe.

A - Neil A. Chapman {BIO 18960736 <GO>}

Thanks, everyone.

Operator

That does conclude today's conference. We thank everyone again for your participation.