# Q3 2020 Earnings Call

## Company Participants

- Andrew P. Swiger, Senior Vice President and Principal Financial Officer
- Jack P. Williams, Senior Vice President
- Stephen Littleton, Vice President of Investor Relations, Corporate Secretary

## Other Participants

- Devin McDermott, Analyst
- Doug Leggate, Analyst
- Jason Gabelman, Analyst
- Jeanine Wai, Analyst
- Jon Rigby, Analyst
- Neil Mehta, Analyst
- Phil Gresh, Analyst
- Sam Margolin, Analyst

## Presentation

### Operator

Good day everyone and welcome to this Exxon Mobil Corporation Third Quarter 2020 Earnings Call. Today's call 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 third quarter earnings call. We appreciate your participation and continued interest in ExxonMobil. I am Stephen Littleton, Vice President of Investor Relations. Before getting started, I wanted to say that I hope all of you on the call, your families and colleagues are safe, in light of the challenges our world continues to face as a result of the Coronavirus pandemic.

Joining me today are, Senior Vice President of ExxonMobil, Andy Swiger, the Corporation's Principal Financial Officer; and Jack Williams, who oversees the Downstream and Chemical businesses. After I cover the quarterly financial and operating results, Andy and Jack will provide their perspective, including an update on the steps we're taking to navigate the current market environment. Following those remarks, I will be happy to address specifics on the quarterly reported results while Andy and Jack will take your questions on broader themes, including market dynamics and the recovery, the corporations response, our financial and strategic priorities, progress on our drive for efficiencies and updates on major projects.

Our comments this morning will reference to slides available on the Investors section of our website. I would also like to draw your attention to the cautionary statement on slide two and the supplemental information at the end of this presentation. I'll now highlight developments since the second quarter of this year on the next slide.

In the Upstream liquids realizations increased by approximately 75% with demand and prices recovering from lows encountered in the second quarter. This more than offset lower gas realizations. As market conditions improve all economic curtailments were brought back online by the end of the quarter. However, government mandated curtailments continue through the quarter. Despite the considerable challenges associated with the pandemic, we have been able to achieve our best ever safety and best reliability performance in the Upstream in five years. We continue to progress industry awareness developments in Guyana with the FID of Payara. In addition, we announced two new discoveries on the Stabroek block, Yellowtail and Redtail, marking our 17th and 18th discoveries in Guyana.

In the Downstream, we achieved the best reliability and safety performance in the last 10 years. Unfortunately, industry refining margins fell to record lows, reflecting continued excess industry capacity and high levels of product inventory. Bottom of the cycle conditions persist in the chemical business with margins falling from the second quarter, primarily impacted by higher feedstock cost. Demand remained resilient. We continued strength in the packaging and hygiene segments and recovery in the automotive and construction sectors.

Across the corporation, we reduced CapEx by over $1 billion from the second quarter, making further progress towards our 30% reduction target. During the quarter, we signed an agreement with Global Clean Energy Holdings to annually purchase 2.5 million barrels of renewable diesel for five years starting in 2022. We also expanded a joint agreement with Global Thermostat to advance and scale direct air capture technology that removes carbon dioxide directly from the atmosphere.

Let's move to slide four for an overview of our third quarter results. The table on the left, provides a view of third quarter results relative to the second quarter. Starting with the second quarter, the reported loss of $1.1 billion included favorable identified items of $1.9 billion, driven by the non-cash inventory adjustments we noted in the second quarter. Excluding these items, the second quarter was a loss of $3 billion. Third quarter results were a loss of $700 million, including a $100 million non-cash benefit from inventory valuation. Excluding identified items, there was a $800 million loss in the third quarter, a $2.2 billion improvement from the second quarter. Significant improvement in Upstream liquids price was partially offset by lower gas realizations, as well as lower refining margins. Higher volumes across all three of our businesses increased earnings by $700 million as demand continued to recover from the unprecedented levels seen in the second quarter.

Finally, lower operating expenses improved earnings by an additional $200 million compared to the second quarter. It's worth noting that the benefit of OpEx savings delivered by our organization increased earnings by $1 billion versus the third quarter of 2019. On the next slides, I will cover a brief summary of results for each business. Note that the earnings comments are excluding identified items.

Upstream earnings increased by approximately $1.5 billion, driven by higher liquids prices, partially offset by lower gas realizations, mainly due to a lag crude index LNG contract pricing. Volume impacts, including the recovery of economic curtailments, increased earnings by $140 million. Lower expenses, including the benefits of captured structural efficiencies, improved earnings by another $110 million.

Moving to slide six, is a comparison of third quarter 2020 results relative to the third quarter 2019. Upstream earnings decreased by approximately $2.5 billion compared to the third quarter of 2019, reflecting the current price environment. The unfavorable volume impact was driven by curtailments and divestments. Lower production and exploration expenses were offset by unfavorable one-time tax items.

On slide seven, Upstream volumes increased by 34,000 oil equivalent barrels per day compared to the second quarter. With the challenging market conditions, we curtail production in unconventional and heavy oil assets starting in April, by the end of September, those volumes were back online. Government mandated reductions were implemented in May and continued through the third quarter. Those curtailments average 140,000 oil equivalent barrels per day. Despite the environment, we achieved growth of 50,000 oil equivalent barrels per day, primarily in the Permian. Scheduled maintenance, and a third-party diluent supply outage at Kearl, decreased volumes by 90,000 oil equivalent barrels per day. Decline was partially offset by higher entitlements.

Moving to slide eight, compared to the third quarter of 2019, Upstream volumes decreased by approximately 230,000 oil equivalent barrels per day. Volumes were lower due to curtailments mentioned on the prior slide, as well as the divestment of our Norway non-operated assets at the end of 2019. Despite the current business environment, we saw continued liquids growth from Permian, Abu Dhabi and Guyana.

Moving to the Downstream on slide nine, earnings increased by approximately $380 million, relative to the second quarter. Margins increased by $70 million, despite record low industry margins, which decreased earnings by $470 million; favorable trading, supply chain impacts, marketing margins more than offset these impacts. Demand recovery, primarily in road transportation fuels and in lubricants, increased earnings by $300 million. We spared about 25% of refining capacity in the third quarter. Reduced expenses, including savings from maintenance and turnaround efficiencies and fewer contractors, increased earnings by $60 million.

Moving to the next slide, I will discuss downstream results relative to the third quarter 2019. Earnings decreased approximately $1.5 billion, primarily driven by the low industry margin environment I just discussed. This was partially offset by $400 million of favorable trading, optimization and marketing margins. Lower volumes associated with COVID-19 demand destruction decreased earnings by $80 million.

We continue to see the benefit of expense reductions and efficiencies, which improved earnings by $360 million. On slide 11, I will discuss Chemical results. Chemical earnings increased by almost $200 million for the second quarter. Lower margins, reduced earnings by $80 million reflecting higher feedstock costs. Strong reliability, coupled with improved demand, resulted in higher volumes, which increased earnings by $220 million. It is worth noting, in the third quarter, polyethylene sales were a record high. This also highlights our strong reliability in the quarter. We continue to capture market and supply chain efficiencies. Reduced expenses, including reduced contracted utilization and activity pacing, improved earnings by $40 million.

Turning to slide 12, chemical earnings increased by more than $300 million relative to the third quarter of 2019. Earnings improved due to higher margins from lower fee costs and higher sales volumes. We also benefited from our cost reduction efforts, which improved earnings by $170 million in the quarter.

The next slide provides an update on the progress we made reducing our costs. In April, we set a target to reduce 2020 cash operating expenses by 15%. Through the third quarter, we are on track to exceed the reduction target, delivering additional cost savings. Cash operating costs are approximately 20% lower versus the third quarter of 2019, and are down almost 15% relative to the first quarter of this year. The cost reductions reflect decreased activity, maintenance and turnaround efficiencies, reduced contractor rates and lower logistics and supply chain costs. The reorganization of our businesses, along with value chains, has been critical in identifying and delivering these improvements. Importantly, we have realized these savings while improving safety, reliability and the environmental performance of our operations.

Now moving on to capital spend on slide 14. Third quarter capital spending was down more than 20% versus the second quarter. Reductions continue to be driven by pacing of short cycle unconventional investment. In the third quarter, we also reduced Downstream product spin as we ramped down activity. Importantly, our corporate project organization in collaboration with our contractors have managed to more than offset the cost of deferral preserving the overall value of the projects. Jack will share some additional details later in the call on this.

Let's turn to the next page, where you can see the impact of these activities on our cash profile. Third quarter cash flow from operating activities was up $4.4 billion from the second quarter, with higher crude prices, increased volumes, and the benefits of OpEx savings. We also saw a benefit from working capital with lower product inventory. Gross debt decreased by about $700 million to $68.8 billion. We ended the quarter with $8.8 billion of cash.

Turning to slide 16. I will cover a few key considerations for the fourth quarter. In the Upstream, production is expected to remain in line with the third quarter. The announced government mandated production curtailments are expected to average 220,000 oil equivalent barrels in the quarter, an increase of approximately 80,000 oil them barrels from the third quarter. The impacts of increased curtailments are anticipated to be offset by seasonally higher European gas demand.

In the Downstream, we anticipate demand to be roughly in line with the third quarter with higher scheduled maintenance. In Chemical, we anticipate margins to be impacted by increased supply from capacity additions and improved industry utilization, with a recovery from hurricanes and reliability events. Our scheduled maintenance is expected to be in line with third quarter, Corporate and financing expenses are anticipated, they'll be about $900 million. Capital spending is expected to be higher than the third quarter with one time milestone project payments.

With that, I will now turn the call over to Andy.

## Andrew P. Swiger {BIO 5737938 <GO>}

Thank you, Stephen. First and foremost, we hope all of you and your families are safe and healthy. As we've discussed on previous calls, the challenges presented by COVID-19 are unlike anything the industry has ever seen, as is the response of our employees and contractors. They have gone to great lengths to safely maintain operations, manufacture and deliver the products society needs for sanitation and hygiene, as well as provide the fuels that ensure these and other critical supplies get to the places they are needed. They have responded to unprecedented market conditions with all three of our businesses at, or significantly below, bottom of cycle conditions. We could not be more proud of the exceptional efforts and response of our workforce.

We are navigating this near-term uncertainty by achieving record safety and reliability performance, delivering better than expected cash savings that are on pace to exceed our 2020 OpEx and CapEx targets, while maintaining operations integrity and pacing projects to preserve long-term value and position us for the eventual recovery.

This slide shows the demand impact of the pandemic. The corresponding industry response and third party projections for the market recovery after the second quarter lows. Crude and product inventories rose to a peak in June as the reduction in demand outpaced supply cuts. In the third quarter, inventories have started to fall as demand recovers and exceeds current supply levels. Third-party estimates suggest liquids inventory decreased by about 200 million barrels in the third quarter and they expect demand to return to pre-COVID levels in 2021. Of course, the demand projections shown here, lead to a few critical questions. How will the supplier respond? What will be the resulting supply and demand balance? And what price is required to achieve this? In light of this, it is worth looking at the fundamentals. I'll start with the next slide with Upstream supply.

In the Upstream, which is a depletion business, capital investment is required to add supply to offset ongoing decline. This chart shows an obvious, but sometimes overlooked relationship. Industry investment levels rise and fall at price or more specifically the industry's level of revenue. Low price environments lead to low investment levels, and therefore, less new supply to offset depletion. Eventually, available supply declines, leading to a tight supply and demand balance and higher prices. Over the past five years, we have seen a steady decline in conventional spending, which has been somewhat offset by North American unconventional growth. Pre-pandemic,, the industry was already investing at levels below historic rates and below what would be required to meet future demand and overcome natural depletion. All of this, based on recent estimates, from the International Energy Agency.

The overall impact of the pandemic this year has been dramatic, significantly reducing current investment levels, which exacerbates the problem. On top of this, industry exploration continues at multi-decade lows. Meanwhile, underlying production decline of 5% to 6% per year continues relentlessly. Looking forward, if the industry is to meet credible third party estimates for energy demand, we will need to significantly increase investments. This is shown here with a range of third-party estimates for the required level of future investments. For the industry to fund at this level of investments, prices will have to rise.

With that, I'll now turn it over to Jack.

## Jack P. Williams {BIO 16876429 <GO>}

Thanks, Andy. Moving to slide 22. I'm going to extend the point Andy just made on crude prices to refining and chemical margins. This chart puts the current refining and chemical margins into the context of the last 20 years. Refining is a high cyclical industry with significant ups and downs. But today's net refining margins are below any low experienced in the prior 20 years. Demand for diesel and gasoline has recovered much faster than jet, which is still 45% below pre-COVID levels. The large differences in the demand recovery for the different transportation fuels, put significant pressure on refinery operations, with excess jet production having to be blended into other products, which has driven second quarter and third quarter net refinery margins negative and to record low levels.

Chemical margins are also close to the bottom of cycle conditions. Although chemical demand has remained strong, particularly in the packaging and medical markets, the excess supply for major investments on the Gulf Coast in Asia continues to pressure margins. Industry's responding by shutting down capacity and refining and pushing out new investments in Chemicals. This is a typical response we've seen historically, as producer struggled to maintain operations in very challenging financial conditions. We expect this will continue until supply and demand come into balance and margins recover.

So, in summary, we see a recovery on the horizon across each of our businesses. We believe it is less a matter of if, but more a matter of when. This uncertainty led to actions we've taken this year, which underpins our plans for 2021. As was mentioned on this call last quarter, we acted quickly and decisively earlier this year to the challenging economic environment while retaining flexibility and positioning the business for the recovery that will inevitably come.

Looking to 2021, we're focused on continuing this year's progress. Despite the challenging environment resulting from COVID, our operations are delivering world-class performance. Our safety, and the reliability of our operations, have been at or close to record levels in all three of our businesses. We're committed to maintain this performance in 2021. In terms of cash OpEx, in April, we gave the organization a target to reduce operating expenses for the year by 15%. We're well on our way to delivering even larger reductions and will achieve further structural efficiencies next year. We reduced this year's CapEx plan by 30% to $23 billion and similar to OpEx, expect to finish the year below our reduction target.

To achieve this, we took steps to delay or postponed projects in construction. We challenged our organization and partners to offset any value impact from these delays with additional execution efficiencies, and our project teams delivered. In 2021, we expect to drive CapEx lower than this year to between $16 billion and $19 billion. Portfolio high grading activities are continuing. Our current conditions are challenging. We're making progress and anticipate additional assets in the market over the next 12 months.

And finally, there will be no change to our capital allocation priorities of investing in industry advantaged projects, maintaining a strong balance sheet and paying a reliable dividend. The progress we've made this year gives us confidence as we head into 2021. The work done over the last couple of years to improve our organization and drive efficiencies paid off in responding to the pandemic. Let me cover this in a little more detail.

A critical change has been the move, from an organization focused on our functions to an organization aligned along the value chain of our businesses. This reduced the senior leadership structure and associated overhead, while improving line of sight across the business and increasing efforts to drive higher value from our assets. The new organization is also giving us the opportunity for deeper structural efficiencies, which we began working on in the second half of last year.

As the pandemic hit, we were well positioned to accelerate the implementation of these efficiencies in response to the significant deterioration of economic conditions. The structural changes include a significant reduction in the size of our workforce driven by increasing spans of control, high grading activities, accelerating the use of digital technologies and leveraging the lower activity levels. These workforce reductions have been developed on a country-by-country, business-by-business basis. As you are likely aware, we've recently made announcements in Australia, Europe and then here in the US this week. Overall, we anticipate a reduction in our global workforce, which includes employees and contractors, of 15% by year-end 2022 versus 2019 staffing levels. The vast majority of these reductions are occurring in above field or above side organizations. Our operating organization are driving further cost reductions in areas such as maintenance and logistics and supply chain, while continuing their focus on delivering world-class safety, reliability and environmental performance.

Our Global Projects organization, formed last year, continues to build on our industry-leading project execution competency. This organization is focused on prioritizing our project portfolio to maximize value while capturing efficiencies in the current market. A single corporate organization for project execution has been critical and leveraging the scale of the corporations investments and effectively working with the contractor community, our partners and host governments to efficiently reduce spend while preserving optionality and long-term value.

Our projects organization is managing the industry's most attractive portfolio of projects. We continue to aggressively advance our highest value projects and maintain exploration activities in both Guyana and Brazil. We are also taking advantage of the more favorable cost environment to progress the Corpus Christi chemical project and deliver it ahead of schedule and under budget. We're efficiently pacing short cycle Permian developments and working with our partners to defer other Downstream Chemical and LNG projects. Importantly, we're not canceling any projects that are in execution or in the funding process. These remain attractive investments and while the value of these projects may be deferred, it will not be diminished.

Let me now turn to our progress in Guyana. With the announcement of two discoveries on the Stabroek Block during the quarter, Yellowtail 2 and Redtail 1, recoverable resource estimate is now approaching 9 billion oil equivalent barrels, positioning it as the largest new conventional liquids play in the last decade. The Liza 2 project remains on schedule for 2022 start-up, the FPSO is under construction in Singapore, and the first offshore installation campaign is underway. Also in the quarter we sanctioned the Payara project, our third major deepwater development on the Stabroek Block.

We anticipate first production in 2024 and we'll have a capacity of 220,000 barrels of oil per day and a resource base of 600 million barrels of oil. The FPSO construction will follow Liza 2, utilizing many of the same contractors and fabrication yards. And we're building out the in-country community required to be successful over the long term. In total, there are now more than 2,000 Guyanese citizens supporting the project activities and more than 2,500 Guyanese companies registered with the projects center for local business development that is focused on building local business capacity.

Turning to the Permian. Our focus in the Permian is on preserving value as we continue to pace our activity levels. We expect Permian production to total about 360,000 oil equivalent barrels per day this year, which is about a third, higher than last year and consistent with our plan despite a more than 35% reduction in CapEx spend and a 14,000 barrel per day, year-to-date reduction due to COVID related economic curtailments. Our team has done an exceptional job in driving down drilling and completion cost through improved performance and productivity. We're currently operating about 15 rigs as we head into next year and we expect further reductions stabilizing at around 10 to 12 rigs. We will obviously keep a close eye on the market and make necessary adjustments as the environment evolves.

At this time, our expectation is that our development activity level will hold fairly steady in 2021. With current plans, next year's production is expected to average approximately 400,000 oil equivalent barrels per day. At this time, I'll hand the call back over to Andy to talk about our portfolio prioritization.



**Andrew P. Swiger** {BIO 5737938 <GO>}

Thanks. As Jack just highlighted, we have an attractive set of investment opportunities that is continuing to grow. But the constraints brought on by the pandemic, we are actively managing this portfolio of investments, with a focus on advancing our highest value projects. As our opportunity set grows and conditions evolve, we continue to reassess our investment portfolio and prioritize our spend. Each project must remain advantage versus industry, and competitive with our other opportunities. We work to ensure our assets remain a good strategic fit, provide material growth potential, and ultimately create differentiating value. This is a continuous process and an essential element of our annual planning process. It is particularly important this year as we work to develop plans within the constraints brought on by the pandemic. With the challenging price environment and our current debt levels, added emphasis is being placed on evaluating our entire portfolio for the potential of additional asset divestments.

While continuing to progress our previously announced divestment program of $15 billion, we may expand it through a reevaluation of our North American dry gas assets, which are currently included in the corporation's long-term development plan. More specifically, we are evaluating the opportunity to bring the value of some of these assets forward by removing them from the development plan and marketing them through our divestment program. In total, the assets under consideration, have carrying values of approximately $25 billion to $30 billion, which could be at risk for impairment, depending on the candidates for divestment and the current estimate of their market value.

We expect to complete the review as part of our planned process, which will be finalized with the board in November, and will be shared with all of you as part of future earnings calls and at our analyst meeting early next year. Given the importance of the current market conditions on our plans and decisions, I'd like to return to the price and margin environment and the earnings potential of the corporation.

Historically, our three businesses, each significant in the industry, are typically a different points in their business cycles, which helps mitigate the impacts of their downcycles. In this unprecedented environment, all three businesses are simultaneously experiencing prices and margins below the 10 year range, significantly impacting the corporations earnings. We see the impact in the broader industry, with mounting losses, reduced investments and increased closures. And while questions remain around future demand recovery, one thing is certain, current conditions cannot continue. Supply and demand will eventually meet, prices and margins will respond. This suggests there is much more margin and price upside than downside going forward, and therefore, an expected increase in earnings. For perspective, the earnings range over the prior 10 year period has been between $2 billion and $8 billion per year in the Downstream, and between $1 billion and $5 billion per year in Chemical, far cry from where we are today.

And while we may not see a return to average earnings in the near term, we should at least move to the bottom end of the historic range, which we see as the minimum levels demonstrated by a decade of industry experience. This is the basis upon which we are building next year's plan. If we see a recovery, just to the bottom of the 10 year range, and our Brent crude price in the range of credible third party estimates, we will be able to maintain the dividend while holding gross debt flat with second quarter levels.

This morning, we've given you an overview of how we are navigating the challenging near-term market environment and discussed how market forces will restore supply and demand balances and improve the price and margin environment. The longer-term fundamentals remain robust, economies will recover, people's lives will improve, and the demand for energy will grow. In the short term, you've seen adjustments in our capital allocation, but our long-term capital allocation priorities remain unchanged; investing at advantaged projects, maintaining a strong balance sheet and paying a reliable and growing dividend. We're developing a 2021 plan consistent with the uncertainties and in line with the simultaneous low margins and prices in each of our businesses. Our CapEx will be further reduced to the range of $16 billion to $19 billion. We're further reducing our cash operating expense with a focus on overhead. We are looking to increase divestments and working to maintain the dividend, while holding gross debt at second quarter levels. Of course, we all recognize the uncertainty in today's market. We are keeping a close eye on developments and importantly on maintaining the flexibility to respond as conditions evolve.

With that, I'll turn it back to Jack.

### Jack P. Williams {BIO 16876429 <GO>}

Before we open up the lines for your questions, I want to reemphasize that we're pleased with the operational performance we've achieved. We're on track to better the spending targets we established earlier this year and we're positioning our portfolio for the future.

And with that, I'll hand it back to Stephen to begin our Q&A session.

### Stephen Littleton {BIO 21547394 <GO>}

Thank you and your comments Jack and Andy. We'll now be more than happy to take any questions you might have. Operator, please open up the phone lines for questions.

## Questions And Answers

### Operator

Thank you, Mr. Littleton, Mr. Swiger and Mr. Williams. The question-and-answer session will be conducted electronically. (Operator Instructions) We'll take our first question from Sam Margolin with Wolfe Research.

### Q - Sam Margolin {BIO 17168841 <GO>}

Good morning. Thank you for taking the question.

### A - Andrew P. Swiger {BIO 5737938 <GO>}

Hey, Sam.

### Q - Sam Margolin {BIO 17168841 <GO>}

So, on the capital program, you guys, basically already gave us a hint as to sort of the categories that you're committed to at close to pre-COVID levels and the ones that you see the most opportunity to (inaudible) back. So, I guess I'll just focus my first question on the Permian. How much capital reduction in 2021 was already built-in because you've completed a lot of your facilities and infrastructure spends by that point? And then, how much do you think is the reduction in activity from what was planned before the crisis? Thank you.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Yeah. Thanks for the question, Sam. I mentioned earlier, we're at 15 rigs now, going down to about 10, and we think 10 to 12 rigs will be where we're going to be in '21. Of course, with an eye towards what the market does. That's substantially down from our earlier plans, where we were planning to continue to, more or less, stay at a rig level in the kind of 50 rig, 50 to 60 rig level in the Permian. Growth is substantially down.

But look, I just want to just reinforce that the decision to reduce the spin due to the cash flow constraints is not at all a reflection of our development results, it's quite to the contrary. We're very pleased with how things are going. I mentioned the efficiency improvement that we've seen. We're continuing to gain experience with the cube developments and confirming those are a lot of value in that approach. So, we're very confident in the quality of the resource, including the unique development plan we have in the Delaware Basin, and then also the logistics integration we had at the Gulf Coast. So, we really like what we're seeing out there. We're just going to curtail activity because we have the discretion to do so and defer and move some of that capital to other opportunities.

## Q - Sam Margolin {BIO 17168841 <GO>}

Okay, great. And I think I have a follow-up, and I think it's for Andy, and it's about asset sales. A lot of your businesses are organized in JVs and equity affiliates and from the perspective of a Stock Analyst that usually doesn't mean anything. But right now, the dividend at Exxon's level is stressed, just given the environment. And that's a problem because it doesn't always align with the capital priorities of affiliates. So, instead of thinking about disposals by Asset category or segment, does it make sense to think about them from the perspective of asset class and maybe affiliate positions? And JVs are a logical place to look for disposals, because at the very least, you sort of align production with your cash -- your uses of cash priorities?

## A - Jack P. Williams {BIO 16876429 <GO>}

Sam, thanks for the question. Our review for divestment candidates is quite comprehensive and it looks across every sort of different way you can cut the business. In terms of what we think is no longer a strategic fit, it's all the criteria for divestment, regardless of whether it's in a JV, an equity company, or a more conventional type of arrangements there. So, as we go through this and it's a process of continual renewal and review, we don't really find this sort of categories that you have suggested as being, as representing any sort of a barrier to analysis. There may be some friction depending on agreements in some of these arrangements and so forth, but by and large with how it's existed, we've worked with the operator or the other partners to reach a resolution and be able to put the right assets into the market at the right time.

## Q - Sam Margolin {BIO 17168841 <GO>}

Thank you so much.

## Operator

Your next question comes from the line of Devin McDermott with Morgan Stanley.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Good morning, Devin.

## Operator

Devin, your line might be muted. Okay. We'll move on to Phil Gresh with JP Morgan.

## Q - Phil Gresh {BIO 15118761 <GO>}

Yes. Hi, good morning. Can you hear me?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Good morning, Phil.

## Q - Phil Gresh {BIO 15118761 <GO>}

Okay, great. Andy, I want to come back to slide 29 where you were talking about the dividend coverage potential in 2021. If I look at the oil price, you're implying for the third quarter, being at the low end of historic range around $40 oil, and then you assumed recovery in refining margins there. I think the 2021 would imply the $2 billion of the $2.8 billion recovery there to get back to the low end, if I understood that correctly. So, I guess, are you trying to imply that you think you can, if you get a little bit of recovery in refining, that you can cover your dividend in the low 40s organically?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

I think, let me -- and this is a really important point and I think the question that's on a lot of people's mind. So, I'd like to take a little bit of time to go back through and really cover the way we're thinking about this. From an overall messaging point, our objective is to maintain the dividend, advance the highest value investments, and maintain the debt at a cost competitive limit. With prices at the low and at the historical ranges, looking at those bars there at the low end of those historical ranges, the plans we're working on to accomplish this, that will accomplish this, why is that? Because of the actions we've taken; the OpEx reduction, the workforce reduction, capital reduction to a level optimized to preserve long-term value, yet at a level that preserves flexibility and access to debt markets. And prices and margins, as we've said, are at a historic lows across all three businesses. That's obviously not where we are today when you look at those diamonds.

But if you look at the mounting losses across the industry, the reduced investments we're seeing, the rationalizations, the project cancellations, the deferrals, it's clear to us that we're going to see an improvement in the industry. Our base plan conservatively assumes a gradual economic recovery and modest prices, not unlike our past plans and consistent with third-party ranges, including the oil price, which you asked about. It's really hard to predict the pace and a path to recovery for each of the businesses, and they do offset to some extent as we've talked about here. As an example, our gas business is currently running ahead of our assumptions. Refining is also up, as you point out, from the third quarter lows. We have built some contingency into our plans and believe we have enough to accommodate the uncertainty. But as I said, we keep a close eye on weather developments.

## Q - Phil Gresh {BIO 15118761 <GO>}

I guess, maybe to clarify before my second question, are you implying any amount of asset sale proceeds in your ability to maintain the dividend without increase in gross debt in 2021?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

The plans have a modest amount of asset sales in there. As I said, we have a lot in the market. We are in active discussions. We have bids coming in. And again, as I also talked about, we're looking at the plans and finalizing the plans of potentially putting even more into the market. So, there is a modest level of asset sales in those plans.

## A - Jack P. Williams {BIO 16876429 <GO>}

That's not just -- also the Downstream as well.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Across the businesses.

## Q - Phil Gresh {BIO 15118761 <GO>}

Right. Okay. And do you have a broader view on 2021 production overall? Obviously, you said the Permian is going to grow, but at this level of capital spending, $16 billion to $19 billion, how does that correlate to what production could look like more broadly?

## A - Stephen Littleton {BIO 21547394 <GO>}

Yeah. Phil, as you can imagine, it's pretty difficult to get a good grasp on what production is going to do in 2021 with all the curtailments and we're surely not going to get out in front and try to predict what OpEx is going to do, and we're producing in several of the country. So, there's a lot of -- there's a wide band of uncertainty, but broadly speaking, we would see production staying around -- about flat year-on-year.

## Q - Phil Gresh {BIO 15118761 <GO>}

Okay, thanks.

## Operator

All right. Next we'll go to Jeanine Wai with Barclays.

## Q - Jeanine Wai {BIO 16974257 <GO>}

Hi, good morning everyone. Thanks for taking my questions.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Good morning, Jeanine.

## Q - Jeanine Wai {BIO 16974257 <GO>}

My first question is just continuing on with the balance sheet and dividend line of questions and I don't mean to keep hitting on it, but I think it is important for the market and investors. So, we appreciate all the details on '21. There is still some uncertainty about Exxon not intending to take on the additional debt, but can you just clarify that if in the event that realized prices and margins are lower than your expectation, can you just clarify whether you would take on additional debt in order to fund high return projects along with the dividend? Or is your comment intended to signal that the company does not intend to take on any additional debt, period?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Jeanine, thanks for the question. As we've said in the past, we really want to ensure that we remain competitive access -- cost competitive access to debt. Why is that? We do have refinancing needs going forward in the future as term debt matures. But we also want to maintain a level of balance sheet flexibility. We believe that going above the $70 billion level, that second quarter level, is going to impact those objectives.

Again, when we think about what might happen in the future, lot of hypotheticals there. Our plans comprehend a bunch of uncertainty. We do need to get back to the bottom of cycle type conditions. This is not a cycle. The pandemic is out with cycle experience there in order to be able to continue to move forward in a way that we've talked about. But I would say that if things go along the way they are, if they were to persist this way, and we don't think they will, because the energies can't survive. And there's going to be a lot of measures being taken by a lot of people's to react to the situation.

## Q - Jeanine Wai {BIO 16974257 <GO>}

Okay, great, that's very helpful. My second question is, maybe just looking out to the medium and longer term and sustaining capital. Last quarter you identified Downstream and Chemical sustaining capital as about $2 billion to $4 billion collectively on the Upstream side, how does the second half '20 run rate's been compared to what would be considered necessary to maintain productive capacity over the longer term? We know that you're spending some money in the back half of this year on several longer term, medium term project growth like Guyana and Tengiz, for example, but will those projects that you're spending on now, will they contribute at a level that's necessary to offset declines elsewhere in the portfolio down the line? Thank you.

## A - Jack P. Williams {BIO 16876429 <GO>}

Thanks, Jeanine. Let me take that one. As we think about where we're spending our money this year, our CapEx this year and where we'll likely be spending in next year, you mentioned Tengiz and Guyana, the Corpus cracker is another one, Bacalhau in Brazil is another one. And then, we're continuing on with the Golden Pass development as well. And then, we already talked about the Permian. So, those are kind of the headline large major projects that are attracting capital today and likely will be next year. And then, there is a modest amount of, in all three businesses, that were spending at kind of a local level, the plant level, the local field level, that it's kind of in the low single digits of billions of dollars. So, that's kind of where we are standing right now. And as I mentioned, that's -- we think production's largely going to be fairly flat next year. And then, that's without really much contribution from any of these projects I just talked about.

So we -- as we look forward, obviously, the rate at which we'll look at potentially growing our CapEx is going to be dependent on how the market evolves but we do see growing it over time. We see growing it at a more moderate pace. [ph] Retention [ph] that we talked about before, again, depending on where we see the market. But we feel that the level we've given for 2021, provides sufficient capital to progress the big developments that we want to, these really industry leading developments that are ongoing, and still maintaining a modest amount of activity, kind of in the base that as you said offsets decline.

## Q - Jeanine Wai {BIO 16974257 <GO>}

Okay, thank you very much.

## Operator

All right. We'll go back to Devin McDermott with Morgan Stanley.

## Q - Devin McDermott {BIO 19137879 <GO>}

All right. Good morning. Hopefully, you can hear me this time. I'm sorry about the phone issues before.

## A - Jack P. Williams {BIO 16876429 <GO>}

We can hear you now, Devin. Thanks.

## Q - Devin McDermott {BIO 19137879 <GO>}

Excellent. Thanks for taking the question. So, I wanted to ask on the earnings potential across from your different business units. In the deck, you have a very helpful slide 29. You talked about in your prepared remarks as well, the contextualize is what we're seeing right now relative to history. When you think about those different buckets, two areas we've started to see a recovery, back into the 10 year ranges would be Chemicals and natural gas.

The first question I have is on the Chemical side. And we think about what differentiates Exxon's portfolio versus a lot of peers historically, you have this large, very profitable high return Chemicals business, and it was historically a big cash flow generator. And since we last had strong industry margins, there has been some expansions and improvements across that business. And it's kind of hard from our seat to really drive the difference between moves in some of the benchmark margins and underlying profitability and cash flow in the business.

And my question is, given what's changed in that portfolio, to the extent that we see a recovery in Chemicals margins back into those historical ranges or something, in my opinion, that we saw in 2017 or 2018. Are there material differences in the business now that will drive cash flow and earnings higher or lower as we look out over the next few years?

## A - Jack P. Williams {BIO 16876429 <GO>}

Thanks, Deven. Appreciate the opportunity to talk about the Chemicals business a little bit. If you look at why we're doing this as well as we are this year in Chemicals, it's really this polyethylene weighting we have. It's holding up very well in this kind of COVID environment we're in, as well as some reductions in operating expenses. That's across all the businesses, including chemicals, and that's certainly providing a tailwind. We're also running very reliably this year. I referred to that earlier and that has benefited us because others have had difficulties. And so, we've really benefited from that good strong performance.

And then, the other kind of unique part of our Chemicals business is this integration with the Downstream. And that has benefited both the Downstream and Chemicals this year as we've been able to really nimbly, kind of, optimize the feedstocks that we've been moving into our crackers. And sometimes cracking some distressed refining streams. Then moving between chemicals and gas a bit as those as those feedstock prices have moved around. So, having a really good year this year in the Chemicals business, and it's certainly helping us get to this environment. As you look forward, I mentioned the Corpus cracker that will be coming online at the end of 2021. That's certainly going to be helpful as we look going into the next cycle. And then, we have these other projects that are paused, but certainly not canceled; the polypropylene expansions and then especially Chemical expansions, Baytown. And then, further out, we're still looking at the opportunity to add a cracker in China, So, we are adding -- we are looking at investments today -- going forward on investments today and we'll be substantially adding the Chemicals earnings capacity and cash flow capacity going forward. But as we get into the that next, kind of, top of cycle conditions, I would expect us to be at or above, quite frankly above, where we've been back in the 2016-2017 time period.

## Q - Devin McDermott {BIO 19137879 <GO>}

Got it. That makes a lot of sense and very helpful color. The second question I have, and it's on the other color we've seen, a sharper recovery here is on the natural gas side, and some comments on the call about the potential divestiture of the North America or US had dry gas assets, that the bigger recovery here, I think that we've seen is in global LNG, moving pretty sharply off of balloons in terms of what the prices have turned it over the past few months. Some of the deferrals and capital also push out some of the LNG projects, I think that you had previously in the plan. I was just wondering if you could address the role of natural gas in LNG specifically to have in your portfolio going forward. And your views, if you think you have some on the sustainability of some of this stronger pricing that we're seeing right now globally for natural gas?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Hi, Devin. Thanks for the question. It's obviously, the phenomenon, if I look just first at North America, I know your question's on LNG, is driven by people looking at supply and demand (inaudible) related to the relative under investment that's been going on there for a while. That's important. Because it's also in the long term when you think about LNG. That will come into play down the road as well. North America is an important source of LNG supply these days. But the concept of under investment leading to supply and demand issues in the long term is also fundamental with the LNG business as well. We have seen a good business continuing to go forward in LNG. A lot of the businesses are still unrelated to our linkages with crude price, index prices to crude and so forth, so it's rebounded. It is rebounding with the crude price run up in the third quarter there. That's a good thing.

I think as the world resumes economic growth, you're going to continue to see the LNG business grow very strongly, probably above GDP as it was before. There is no reason not to believe that's going to happen, as it works its way into more power generation around the world, industrial applications, so forth. And to the extent that there is a hiatus in LNG investment. We are deferring some of our projects with a short term time, probably underpins a continuing strong fundamental future for that business.

## Q - Devin McDermott {BIO 19137879 <GO>}

All right. Thank you very much.

## Operator

Alright. Your next question comes from Jon Rigby with UBS.

## Q - Jon Rigby {BIO 1760839 <GO>}

Yeah, hi, good morning guys. Two related questions. The first one specifically, and you referenced a couple of times is your ability to, you just down halt projects but maintain value, sort of, classically that's never been the case, where you can you start to demobilize people and contractors, within time remobilize them again, that's a classic way of getting cost overrun. So, I just wondered, specifically whether you could just go through how you are addressing that? I think it will be intrinsically interesting. And secondly, just sort of (Technical Difficulty) related to that. I think Darren said in the first quarter that (Technical Difficulty) it was the three legs stood for with the balance sheet, the CapEx and the dividend. And you made the point, I think rightly, that CapEx pays for future dividend. So, at what point, are we going to see flex in the balance sheet? We discussed that we can make our own assessment about the dividend, but we can't so much, in terms of, along the wavelength of value creation that supports the longer term planning of the business. So, how much more flex have you got to keep pushing out what -- you've made the point in multiple meetings during the March (Technical Difficulty) a very good project, how much flex have you got to keep pushing those projects out? Thanks.

## A - Jack P. Williams {BIO 16876429 <GO>}

Okay. John. That's a bit of a mouthful there. So, let me take the first piece on the projects and then I'll let Andy address that second question you had. On the projects and the ability to defer and take pause in some of these projects and not reduce the value -- let me just talk about the Global Projects organization and the value that organization brings. As I mentioned earlier, kind of a single face to the contractor community, I think this organization is increasingly unique in industry. A lot of project management expertise and experience in this organization. And we are going to be, as we are continuing to look at the workforce, making sure we're keeping that competency, because we think it's very important for our fundamental competitive advantages we have going forward.

So, we really leaned on that organization hard as to how we can manage through this period, pause some of these projects, and as I mentioned earlier, retaining the value. And so, a lot of this is, number one, leveraging a different environment. We have a much different supply demand environment on the Gulf Coast today than we had last year, much different, down something like 20%. That creates a different competitive dynamic and those labor costs are coming down. And we are able to leverage that, not only for the paused projects, but for projects we're continuing to execute with negotiating with those rates, what appropriate rates would be. So, we had a bit of a, kind of a stress situation in the Gulf Coast that has eased considerably, and that has helped us with cost.

The other thing we're doing is we're pausing these projects as we're looking at the scopes of projects, and making sure, it gives us extra time to go through and scrub those and make sure they are absolutely fit for purpose and that we can -- they're absolutely minimum kits. So, like, for instance, I mentioned before that we had taken a pause on the projects in Fawley in the UK. And there is on where we looked at the scope and we decided we could remove one tank from the scope, and that reduced cost. So, things like that that we're looking at the scopes.

And then, the other thing is, in these paused times, we're able to completely finish engineering. And so, go out into the field, restart and have complete engineering done, and really have efficient execution once we get back to construction. So, the organization worked at it very hard, took a lot of time, and made sure for every single project, what scope to do and want to finish, when is the right time to restart, what work are we going to do to leave the project in a good shape, what are we going to do in the meantime before we restart, and line all that out. And when you add all that up, we're able to preserve all the value.

And with that, I am going to hand over to Andy for the second part of the question.



## A - Andrew P. Swiger {BIO 5737938 <GO>}

Sure. Hey, the three-legged story you referred to that Darren talked about, I mean that is our capital allocation priorities; investing in advantage projects, to maintaining a strong balance sheet, and then paying the reliable and growing dividend. The CapEx piece of it is fundamentally important because as you quite rightly reflect, the CapEx we spend now is what those investments (inaudible) what pay are the future dividends. We worked very hard on the 2020 and the 2021 CapEx levels, to get them to the point where we're maintaining progress on just the highest priority investments we're pausing, and deferring the remainder. And as Jack just pointed out, were doing that very carefully to ensure that we're preserving the bag and all that.

For the programs that we've talked about in 2020 and 2021, that 2020 were in the range of $16 billion to $19 billion, that is about, in our judgement, that's the level that we think is the right one there. Obviously, as I said, we've maintained a little bit of contingency. There's a little bit of flex and all that. But that's really the level that we have judged to be the right one to balance getting through this crisis we're in. Now the pandemic, this way below the bottom of the cycle type thing. Preserve those opportunities and then be able to start moving the CapEx up in the outer years as the conditions in the world improve. As we have said they certainly must, given where industry is right now.

## Q - Jon Rigby {BIO 1760839 <GO>}

Got you. Thanks.

## A - Jack P. Williams {BIO 16876429 <GO>}

Thanks, Jon.

## Operator

All right. We'll go next to Neil Mehta with Goldman Sachs.

## Q - Neil Mehta {BIO 16213187 <GO>}

Good morning team. I guess the first question, there's been a lot certainly that you guys have talked about and that's been written about, carbon, and a lot of your peers who have come out with explicit carbon targets, I just wanted to know where Exxon is in that journey in terms of coming out with carbon targets and how are you thinking about setting them to the extent that's the path you choose to go down?

## A - Jack P. Williams {BIO 16876429 <GO>}

Yeah. Thanks, Niel. Let me just take a step back a little bit on how we see things and what we're doing. Basically, we see a world that's going to need more energy going forward; through population, through GDP growth, and a lot of that goes through the non-OECD countries. Energy consumption is tied to the population and GDP. And we don't think the current solutions set is really complete. We think we need more solutions there. And as you think about the size and the complexity of the infrastructure we have today, it's going to take some time to change that. So, to get to your specific question, near-term, what are we focusing on? We're focusing on mitigating our emissions operations and with that we have a commitment to reduce our carbon intensity over time. And that's what we're working on. And so, we kind of release that through our carbon and energy summary every year, how we're doing in that regard in terms of absolute carbon emissions and also the intensity, and that's kind of where we're focused.

If you think about all the assets that we had -- that we're producing back in, I think 2005, if you look at those today, we've had a significant reduction of those assets. Now, we've brought some new assets on but those reductions in the base through things like Cogen and energy efficiency, have been able to offset the emissions of the new assets we brought on.

And then, longer term, we really think we need to be focusing on these high emissions sectors, PowerGen, commercial transportation, and industrial where the technologies are just insufficient to drive deep emission reductions and that's where we're looking for breakthrough technologies. I don't know, Andy, if you want to talk a little bit about the work we're doing there. And that's where we think we can uniquely contribute to society in terms of mitigating the risk of climate change.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Yeah, Jack. You're absolutely right. The world does not have the complete solutions to get to where we need to meet that dual challenge of meeting the needs associated with economic growth while reducing emissions. Our focus is on, as Jack said, what we can do on our own operations, the targets set there, very much on the technology to fill those solution sets. And we talked a little bit about our nature and call. We talked about the Global Thermostat, the arrangement that we have (inaudible) front. Stephen mentioned that. And you've seen other ones from time to time there. But we have a large research program ongoing in these sectors. We talked about algae in the past. We've talked about carbon capture and sequestration in general many times. These are the things that the world is going to need and these are the things that we have a unique capability in many cases. To take a lot of the ideas that are out there in society that people come to us and others with, and lack the specific capabilities or capacities to make the advancements in things like material sciences to improve something, to improve a particular catalyst that might be unnecessary. And they certainly lag the broad experience of process engineering that we have that is necessary to bring some of these technologies to scale.

There are many things in flight there, but a lot of it is R&D. And I think in a world that is impatient for solutions. It's very hard to be patient to allow the R&D to happen, but we are, and we have that kind of posture towards it. And we certainly hope to be able to talk more and more about that in the coming years.

## A - Stephen Littleton {BIO 21547394 <GO>}

Okay. Andy, if you don't mind, I'd probably have to give a little bit of perspective of the progress we've made since our targets that we set back in 2018. When we said we were going to reduce our methane emissions by about 15% and (inaudible) by 25%. And Neil, I can tell you we're clearly on target to not only achieve that but exceed those targets. So, it is a focus area and it's something that we take very seriously.

## Q - Neil Mehta {BIO 16213187 <GO>}

And then, Stephen, around carbon specifically, has that -- for many investors is a prerequisite, in a world where ESG is an important part of investing?

## A - Stephen Littleton {BIO 21547394 <GO>}

Agree.

## Q - Neil Mehta {BIO 16213187 <GO>}

Okay. And then the follow-up question here is around refining. This question is for you, Jack. As you look at the next couple of years, recognizing demand is very uncertain, how do you see the refining landscape playing out? Do you see the market as being structurally oversupplied with tight crude differentials or do you actually see a path where capacity retirements can help to normalized margin over time?

## A - Jack P. Williams {BIO 16876429 <GO>}

I think both of those. I agree with both of those statements. The industry is currently oversupplied and rationalizations will -- we'll work that over time. Since the start of the pandemic, we've already had a million barrels a day of announced refining closures. So, again, as I mentioned earlier the refining industry is under stress. And as you look to some low to medium conversion refineries, especially those that are not in good geographical locations where you have a growing demand, they're all under water. And so, we've already had some closures. I expect there will likely be more. And the deeper, the longer we stay in this sort of environment, the more announcements will come out. So, yes, I do think we're oversupplied right now and the market will take care of that through these closures.

## Q - Neil Mehta {BIO 16213187 <GO>}

Thanks team.

## Operator

All right. We'll next go to Doug Leggate with Bank of America.

## Q - Doug Leggate {BIO 1842815 <GO>}

Thanks, good morning everyone. Andy and Jack, thanks for both of you guys getting on the call and letting it run a little long. I appreciate you getting me on. Andy, I'm going to sound a little bit on the dividend. I'd like to pre-phase my question like this, if the market is not prepared to pay for the recovery that you're laying out, which it clearly isn't, given where your stock is trading. Every time you pay a dividend that you can't afford, you're transferring value from equity to debt or basically your share price is going down. And that's basically what's happening right now. So, if the market is not paying you for that dividend despite the 60 plus years that you've [ph] paid this dividend, why would you continue to do that? And I'm curious what the view of the Board and the credit agencies are on this issue. And I guess the bottom line is what conditions would it take for you to say, you know what, we're not getting paid for this dividend, let's just cut and run and use the cash to preserve equity value?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Doug, this is something that we have thought long and hard about. We've discussed with our Board every quarter when we make the dividend discussion. But I'll tell you, we fully understand the importance of the dividend to our shareholders. It's very important to them and we're very thoughtful on that. What we've done is said to ourselves, let's look and see, and balancing in capital allocation and balancing with how we see the largely (inaudible) of the world evolving. What the right plan is to be able to meet our shareholders needs, interest in the dividend, at the same time moving the business forward there.

So, we've constructed a plan that based on the things what we see happening in the market. The calibrations of what the business is doing, balance all of those sort of things and retain a little bit of flexibility as it goes forward. Now, as we talked about before, we do see ourselves moving back to bottom of the cycle conditions because the industry simply cannot continue on at these levels here, and in that plan, we will be able to maintain the dividend. We get into some situation where we're back in a world like we've been in the second and third quarters, obviously, all bets are off. And I think that's true across the industry. But we also don't think that's sustainable. So, that's really the rationale behind it and that's the way we've talked about it with the board and that's where we talk about it with outside agencies, that's where we talk about with our general investor class when we have those discussions.

## Q - Doug Leggate {BIO 1842815 <GO>}

Sorry, Andy, to push you on this. What conditions would you see then, how long with this have to go on for you to say we can't do this any longer?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Doug, as I said we put the plan together for 2021 based on our best assessment of the market. It has some contingency on it, some flexibility on it, but were we to run out of that contingency, obviously we'd have to look to pull the next lever.

## Q - Doug Leggate {BIO 1842815 <GO>}

Thank you for that. Can I do my quick follow-up? It's really just about visibility on the disposal front. You talked about $15 billion. You haven't done a whole heck of a lot yet. So, I'm just curious if you can give us any visibility or line of sight as to what you think is a realistic maturation of that disposal plan over the next 12 months? And I'll leave it there. Thank you.

## A - Jack P. Williams {BIO 16876429 <GO>}

Yeah. Thanks, Doug. I'll take a shot at that one. We have quite a bit out in the market right now. We talked about, I think 11 out in the market. We're in fairly advanced discussions on a few of these assets. So, we do think that they're going to have some impact in '21 and '22. As you mentioned, it's a pretty difficult market on asset divestment. We're going to make sure we get value. We have something above our attention value. We are going to be patient. As Andy said, there is very little reliance on that in terms of where we see things in 2021, but we're going to continue to have productive discussions with prospective buyers. And we are seeing good interest. There is no question, we're seeing good interest. These will make some buyers within their portfolio is pretty nicely. So, we're going to continue on, Doug, in that regard. And again, just stick to the fact that we're going to make sure we get value. The assets, we'll keep them in our portfolio.

## Q - Doug Leggate {BIO 1842815 <GO>}

Thanks very much.

## A - Andrew P. Swiger {BIO 5737938 <GO>}

Operator, I think we have time for one more question.

## Operator

Yes, sir. We'll take that last question from the line of Jason Gabelman with Cowen.

## Q - Jason Gabelman {BIO 18730121 <GO>}

Yeah, Thanks for squeezing me in and taking time on the call. I'll just leave it at, or actually my first was on just -- the cost reductions really haven't been touched upon that much. And you kind of said you're on path to exceed 15% cost reductions, maybe achieve something close to 20%, but it's still unclear what the structural amount of those reductions are versus what's related to lower activity. So, can you just kind of talk a little bit about the dividend buckets, those cost reductions fall into? And I have a follow-up.

## A - Jack P. Williams {BIO 16876429 <GO>}

Okay, Jason. Yes, I think, clearly, if you look back in March and April, we're talking about these reduction targets, really, a good bit of that was activity reduction. As we were sparing capacity and refineries and we were curtailing production activity in some of Upstream areas as we were having less chemical demand for the first month or two.

And the idea was okay, we're going to certainly make sure we capture all the OpEx reductions in those areas. But also recognizing -- and quite frankly, coming into the year, we were already working on the structural efficiencies. Some of that culminated in the workforce announcement that we made earlier and that I reiterated in the prepared presentation. But those efficiencies have been brought about by the reorganization of the businesses along these value chains versus the functions. And it just freed up a lot of capacity in terms of our ability to really get line of sight to the assets and to really up, be able to operate more efficiently, take away some friction, take away from what we call doing business with ourselves, and that kind of thing.

As I mentioned before, often in presentations, leveraging digital technologies to where we can, we're more flexible in where we do work and making sure we're doing that in the most cost effective way. So, clearly, initially, there was a lot of reduction based on activity and those are being replaced with structural efficiencies as we move forward and those will play out, not just in 2021 but in 2022 going forward.

## Q - Jason Gabelman {BIO 18730121 <GO>}

Got it. Is there a magnitude or a number you could put on those structural efficiencies?

## A - Andrew P. Swiger {BIO 5737938 <GO>}

I'm not really in position to give you a number on that.

## Q - Jason Gabelman {BIO 18730121 <GO>}

Okay. And then, my second question is just kind of tying two things that have been mentioned on today's call, that global decarbonization effort and then global refining overcapacity. It seems like the push to decarbonize is focused in advanced economies in areas where you are heavily concentrated (inaudible) of your refining footprint.

So, do those two things kind of -- the fact that OECD economies are pushing to decarbonize most of the energy growth that's happening in non-OECD, and your footprint for refining is predominantly in OECD countries. Do those teams frame how you think about your refining footprint going forward? The [ph] subtext being there could be more pressure in your legacy refining geographies than some other places we're seeing underlying demand growth? Thanks.

## A - Jack P. Williams {BIO 16876429 <GO>}

Yeah, Jason. That's a good question. It's certainly plays a role. But as we look at our refining circuit and think about that going forward, we are fortunate that we had some highly complex refineries that very importantly are integrated with chemicals. That Chemicals integration is probably the overlying factor that we look at in terms of asset refiners that we think long-term are going to be very competitive.

But we are looking, I think I've showed you before, this net cash margin for all refineries around the world, and the fact that we need to be on the left hand side of that with all our refineries. So, we've invested. We've made some investments in some of those; Antwerp, Rotterdam, Beaumont being some examples, Singapore, that we're going to make substantial moves to look to the left.

And those are the refineries we think long term are going to be competitive in long term, but belong in the portfolio. So, we're making that call between ones we're going to invest. The ones that are already there are highly integrated refineries in the Gulf Coast, Baytown, Baton Rouge, and increasingly, Beaumont. And then, those that we're pushing in that direction with some good strategic investments to kind of shore up some of the conversion capacity gaps we've had.

But clearly, as you look at kind of a medium, low complexity refineries, in an OECD country, that's not integrated with Chemicals, yeah, those are going to be a challenge going forward and that certainly plays into our thinking.

## Q - Jason Gabelman {BIO 18730121 <GO>}

Thanks, I appreciate the thought.

## A - Stephen Littleton {BIO 21547394 <GO>}

All right, thank you for your time and thoughtful questions this morning. We appreciate you thought on us, the opportunity to highlight third quarter results. We appreciate your interest and hope you enjoy the rest of your day. Thank you, and please be safe.

## Operator

And this concludes today's call. We thank everyone again for their participation.