

Q2 2022 Earnings Call

Company Participants

- Darren W. Woods, Chairman and Chief Executive Officer
- Jennifer Driscoll, Vice President of Investor Relations
- Kathryn A. Mikells, Senior Vice President and Chief Financial Officer

Other Participants

- Biraj Borkhataria
- Devin McDermott
- Douglas Leggate
- Jason Gabelman
- Jeanine Wai
- John Royall
- Manav Gupta
- Neal Dingmann
- Neil Mehta
- Roger Read
- Ryan Todd
- Sam Margolin
- Stephen Richardson

Presentation

Operator

Good day, everyone, and welcome to this Exxon Mobil Corporation's Second Quarter 2022 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, Mrs. Jennifer Driscoll. Please go ahead, ma'am.

Jennifer Driscoll {BIO 21035568 <GO>}

Good morning, and good afternoon, everyone. Thank you for joining Exxon Mobil's second quarter 2022 earnings call. I'm Jennifer Driscoll, Vice President, Investor Relations. Here with me today are Darren Woods, Chairman and Chief Executive Officer; and Kathy Mikells, Senior Vice President and Chief Financial Officer.

Our quarterly presentation with prerecorded remarks was posted earlier today on the Investors section of our website, along with the second quarter earnings news release. During our live 1-hour conference call, Darren will provide brief opening comments and reference a few slides from the earlier presentation before we move to the question-and-answer period.

May I remind you that during this call, we may make forward-looking statements, which are subject to risks and uncertainties. We encourage you to read our cautionary statement on Slide 2. We also have provided supplemental information at the end of our earnings slides, including reconciliation.

Now please turn to Slide 3, and we'll turn the call over to Darren.

Darren W. Woods {BIO 17692013 <GO>}

Thank you, Jennifer. Good morning and good afternoon, everyone. Thanks for joining us today. Our second quarter operational and financial results were very strong. While the market has clearly been a factor, our results reflect our focus on the fundamentals as well as plans and investments we put in motion several years ago and stuck with through the depths of the pandemic.

They also reflect the outstanding work of our teams across the world to operate our facility safely at high utilization levels, which drove needed production and throughput. We are proud of their commitment to supplying the energy and products the world needs and delivering on our strategic priorities.

Increased production, higher realizations and aggressive cost control generated strong earnings and cash flow. We also delivered excellent safety and operating performance. As global demand recovers, we continued to invest in our portfolio and grew our year-to-date production in the Permian by about 130,000 oil-equivalent barrels per day versus the first half of 2021.

For the full year, in the Permian, we expect to achieve 25% production growth for the second consecutive year. In Guyana, our total capacity is now more than 340,000 oil equivalent barrels per day.

Our Liza Phase 1 development is producing above design capacity with excellent performance. Liza Phase 2 started production earlier this year and has recently reached the design capacity of 220,000 barrels per day. As demand has continued to recover, so as production from our industry-leading refining circuit. We increased throughput by 180,000 barrels per day in the first half of 2022 versus the first half of 2021.

We continue to demonstrate our value as an essential partner during the quarter. For example, Exxon Mobil has recently been awarded an interest in Qatar's North Field East expansion. We have worked closely with the Qataris for decades. This attractive agreement further leverages our experience as a global leader in LNG, giving us the opportunity to help grow Qatar's LNG capacity by 30 million tons per annum by 2026.

Partnerships such as these are also an important part of unlocking future opportunities in our new businesses like carbon capture and storage. We recently signed multiple MOUs to explore the development of large-scale CCS projects in China, Australia, the Netherlands and Indonesia.

Lastly, we further strengthened our portfolio by advancing a significant refining capacity expansion on the U.S. Gulf Coast, discovering new resources in Guyana, progressing LNG production in Mozambique and addressing non-core assets with announced divestments totaling more than \$3 billion.

We continue to invest through the pandemic with the understanding that demand would recover. With the Beaumont refinery expansion, we're on pace to increase our refining capacity on the U.S. Gulf Coast by more than 17% or 250,000 barrels per day in the first quarter of 2023.

During the quarter, we also announced two discoveries in Guyana, adding to the estimated recoverable resource base, which is nearly 11 billion barrels. Natural gas began flowing at the Coral LNG project offshore Mozambique. The project remains on track to achieve the first LNG cargo later this year.

Finally, we progressed our divestment program at an advantageous point in the cycle. Announced asset sales include XTO Energy Canada, our Romanian upstream affiliate and our Barnett Shale gas assets. Barnett Shale divestment closed in the second quarter. The other two are anticipated to close later this year, subject to regulatory approvals.

Overall, it was a very strong quarter in both financial results and in progressing our strategic priorities. The strong second quarter results reflect a tight global market environment where demand has recovered to near pre-pandemic levels and supply has attrited. The situation was made worse by the events in Ukraine, which have contributed to increases in prices for crude, natural gas and refined products.

In the first quarter, average Brent crude prices rose by about \$22 per barrel. In the second quarter, Brent crude prices moved up by another \$12 per barrel, pushing the benchmark marginally above the 10-year range. Natural gas prices remain well above the 10-year historical ranges amid ongoing concerns about European supply.

Refining margins are even more pronounced versus the 10-year range. They remain at very high levels, reflecting the significant impact on refining capacity resulting from the pandemic. In July, we saw some relief as margins moderated with improved supply and demand balances.

Global chemical margins in contrast remain near the bottom of the cycle. However, we did see a slight improvement in the quarter, mainly in Asia Pacific. Margins in North America tightened during the quarter as product prices continue to lag the steep increases in ethane feedstock cost, consistent with higher gas prices.

Before recapping our financial results, let me touch on the market environment that underpins them. As I mentioned in my prerecorded remarks, large annual investments in oil and gas production are required to offset normal depletion, even more is required to grow net production. Prior to the pandemic, industry investments were below historical levels.

The economy-wide shutdowns during the pandemic exacerbated the problem. We are now experiencing tight markets across most of our businesses as supply lags demand recovery. We clearly see the tightness in supply in refining, where the closure rate during the pandemic was 3x the rate of the 2008 financial crisis.

Given the long investment cycle times, growing supply will not happen overnight. At ExxonMobil, throughout this period, we stayed focused on the fundamentals and let our IOC peers in oil and gas investment. We leaned in when others leaned out, including investments in U.S. refining capacity, notably with our Beaumont refinery expansion.

Our investments over the last five years are paying off today and helping to meet the needs of families everywhere with greater supply than otherwise would be the case. While progressing investments in our traditional businesses, we are also advancing a portfolio of opportunities consistent with our core capabilities in low-carbon solutions. We expect that these two will pay off in the years ahead for our shareholders and for our environment.

With that as a backdrop, let's turn to the second quarter financial results. Earnings totaled nearly \$18 billion on increased production, higher liquids and natural gas realizations and strong refining margins. We continue to drive efficiencies with \$6 billion in structural cost savings versus 2019. We remain on track to achieve more than \$9 billion in savings by 2023.

CapEx was \$4.6 billion in the quarter and \$9.5 billion year-to-date. We remain on track for our full year CapEx guidance of \$21 billion to \$24 billion. Cash flow from operations was \$20 billion, further strengthening our balance sheet. Our net debt-to-capital ratio declined to about 13%, while the growth ratio is now at 20%, the low-end of our target range. We returned \$7.6 billion to shareholders during the quarter in the form of dividends and share repurchases. The increase in distribution reflects the confidence we have in our strategy, the performance we are seeing across our businesses and renewed strength of our balance sheet.

I'll conclude with a few key takeaways. As I mentioned earlier, we are now experiencing tight markets across most of our businesses, as supply lags demand recovery. Our strong performance reflects the sizable investments we've been making over the past several years and our focus on the fundamentals. Those two things put us in a great position to deliver increased production at a time when the world needs it most.

We're continuing to increase production of low-cost barrels in Guyana and the Permian. We're doing all of this while maximizing output of our existing facilities, including a new daily production record set by PNG LNG in July. Our new Corpus Christi complex was

cash and earnings positive in the first half of the year with the world-scale steam cracker demonstrating design capacity.

Our U.S. Gulf Coast refining capacity is poised to increase by about 250,000 barrels per day, with the start-up of the Beaumont refinery expansion project in the first quarter of 2023. Two new LNG projects are also advancing. Coral LNG in Mozambique is set to deliver its first cargo in the second half of this year. Our Golden Pass LNG project, which will provide 18 million tons per year of new LNG supplies, remains on schedule to start up in 2024. Once completed, Golden Pass will increase LNG from the Gulf Coast by 20%.

In addition, we continue to divest non-strategic assets at an opportune point in the cycle. We delivered strong safety and reliability, while controlling costs. These moves are improving our asset mix, lowering our breakevens and boosting our resiliency.

Our Low Carbon Solutions business continues to grow our portfolio of opportunities with the four newly announced carbon capture and storage opportunities in Australia, China, Indonesia and the Netherlands. I'm extremely proud of the work our people are doing. All of their efforts are consistent with our strategic priorities, which our shareholders are being rewarded for.

Today, with an even stronger balance sheet, we are well positioned to continue to invest and to drive shareholder returns throughout the cycles. Our focus on the fundamentals is unchanged. We continue to leverage our core capabilities to advance our strategic priorities and to make the investments needed in this long-cycle business.

With our constancy of purpose and consistent approach, we will successfully address the dual challenge, providing energy and products modern societies need, while lowering society's greenhouse gas emissions, leading industry in the energy transition.

Thank you.

Jennifer Driscoll {BIO 21035568 <GO>}

Thank you, Darren. Please note, we're going to move to our Q&A session. We will continue to ask analysts on the call to limit themselves to a single question, so we can fit in questions from our people. However, please remain on the line, in case we need to ask any clarifications. With that, Jennifer, could you open up the line for questions, please?

Questions And Answers

Operator

(Question And Answer)

Thank you, Mrs.Driscoll. The question-and-answer session will be conducted electronically. (Operator Instructions) We'll take our first question from Neil Mehta with Goldman Sachs.

FINAL

Bloomberg Transcript

Q - Neil Mehta {BIO 16213187 <GO>}

Thank you, team. One macro question and then one micro question. Darren, I want to continue on this theme of energy security, and you're one of the largest energy providers in Europe. And so I would love your perspective on the European energy challenges that are being faced right now. How does the continent ultimately work its way through it? And what is Exxon Mobil's role in providing energy to the region?

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. Well, good morning Neil. I think you're touching on what is a very challenging situation today. And that reflects, I think, the complexity associated with making a massive change to a system that's so critically important to people's lives. And so I think going forward and what we're seeing happening today is a, what I'd say, is a broader net being cast with respect to how we think about the transition and how that evolves. Making sure that we've got a diversified portfolio of energy and one -- and sources of energy that are not dependent on any one nation state, which is, I think, an important step that we're seeing being taken.

I think there'll be a drive over time to make sure that they're leveraging the resources available to them. And I'll just make, one example would be the potential that we see for fracking and unconventional gas in Germany. I think the industry has proven over the years that unconventional gas can be produced safely and you then have a secure source of supply and economically and reliable source of supply. And so I think there's an opportunity where certainly Exxon Mobil could play a key role.

We also have a fairly large refining footprint in Europe. We've been working hard to upgrade those facilities, make sure that we're driving their emissions footprints to zero and developing plans to do that. And within this current crisis, have really stepped up the efforts to reduce our consumption of natural gas. In fact, if you look at our refining circuit, we reduced the use of natural gas by 65%. That's the equivalent gas use for about -- for powering about 2 million homes in Europe. And so there are some substantial steps that we can take with respect to optimizing our current operation.

Longer term, we're opening up -- looking at projects to expand our LNG import facilities. And of course, we are bringing LNG projects online. We've got the Golden Pass project here in the U.S., which will allow us to export LNG from the U.S. into Europe. And so we've got Mozambique, and that's coming on the back-end of this year. And of course, we've got work going on in PNG. And so bringing more LNG supplies to help offset some of the Russian gas going into Europe will be another really critical step forward in the diversification of supplies for Europe.

Q - Neil Mehta {BIO 16213187 <GO>}

Thanks, Darren. And the follow-up is around capital returns. Just talk through how you're thinking about the dividend where there hasn't been a reset this year at least and whether it makes sense to return back to dividend growth and return of capital, a very strong buyback number in the quarter. How are you thinking about tracking towards the \$30 billion that you outlined a couple of months ago?

FINAL

Bloomberg Transcript

FINAL

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Sure. I'm happy to take that. So look, as you know, our first priority is to continue to invest in the business. And we talked last quarter about the fact that we expect it to build our cash balance to between \$20 billion to \$30 billion, which gives us both a strong balance sheet and a strong cash balance, which we view as a competitive advantage that provides us flexibility through the cycle.

We're trying to strike the right balance in terms of share repurchases and dividends. As you know, we raised our quarterly dividend by \$0.01 in the fourth quarter of 2021. And last quarter, we tripled the size of our share repurchase plan, which is now up to \$30 billion of share repurchases this year and next.

So we're definitely focused on being efficient as we look to return capital to shareholders. And obviously, the share repurchase program has a secondary benefit of reducing the nominal size of our dividend. So I'd say we're trying to strike the right balance. Our Board reviews this pretty regularly, and we feel good about where we're at right now.

Q - Neil Mehta {BIO 16213187 <GO>}

Thank you, Kathy.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Thank you. And just a reminder, a single question per analyst, please. Jennifer?

Operator

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

Q - Douglas Leggate

Thank you. Good morning, everyone. Thanks for taking my questions. Darren, I wonder if I could ask first about natural gas in Europe. And specifically, your European gas production, obviously has come down a bit over the years, but it was some -- it was up sequentially in the second quarter where normally we see a seasonal downtrend for you guys in the summertime. Is this how we should think about your European gas production going forward that for obvious reasons, it's more of a flat line? And I wonder if you could address any specific issues around whether Groningen could be revisited by the Dutch government after given everything that's going on?

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. And good morning, Doug. It's good to hear you again. With respect to demand, you're right. If you go back in time under more normal circumstances, we do see a seasonal decline in the second quarter with gas demand, and that's historically been in the numbers, and we tend to foreshadow that in the first quarter typically. This year obviously, circumstances in Europe are very different, and we actually foreshadowed the first quarter that we didn't expect to see the same kind of seasonal dip because of the shortages that we were seeing in Europe at the time.

FINAL

And so, I think going forward, obviously, a big question mark will be how the whole landscape and supply picture shapes up in Europe. And also obviously, a big factor in gas demand will be weather. And so, I think I wouldn't take this quarter as the new norm. I think we've just got to stay attuned to how the landscape develops there, what supply looks like, and then obviously keep an eye on the weather.

With respect to your question on Groningen, it's -- the capacity is there, it's something that the Dutch government obviously has control of and evaluates the circumstances and make decisions in terms of the production that they request our joint venture there, NAM, to produce. And so, that will be a function of how the Dutch government kind of weighs off the demand for gas versus the supplies and the role that we're going to play. But the capacity is there.

Q - Douglas Leggate

Okay. Thank you for that. Kathy, I wonder, a very quick follow-up on Neil's question. I wonder if I could just ask very specifically. When you joined, I seem to recall you expressing some concern of the absolute scale of the dividend burden. Now I realize there's a lot of operational cash flow growth in the future for Exxon. But when we think about the balances of buybacks, dividend policy and so on, is your objective to reduce that absolute dividend burden to help us kind of calibrate what that might look like going forward? And I'll leave it there. Thank you.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes. So let me start with the Board, and we are very focused on ensuring that we take an efficient approach in terms of how we're returning capital to shareholders. And obviously, share repurchases are a very efficient way to do that. As we look at the dividend, I'd say there's a number of things that we continue to evaluate. I mean clearly, we think it's pretty critical that we have a competitive dividend. And today, we think we do have a competitive dividend.

We do look at that nominal level of the dividend and share repurchases do have a secondary benefit of reducing that level. But I'd also tell you, importantly, all the actions we're taking in the business reduce our breakevens, right? We talked about that a lot at Investor Day. Our breakeven came down to \$41 a barrel from \$44 kind of last year. We have a trajectory as we looked at the plan that we presented at Investor Day and based on that price set to kind of bring our breakevens down farther to \$35 a barrel.

So that just builds more resiliency in the business, which makes I'd say, the overall kind of dividend much easier for the company to both sustain and in the future to grow. So that is how we look at it and how we think about that. And as I said previously, we're trying to strike the right balance in terms of growing that dividend and doing buybacks, which have the secondary benefit of reducing that nominal dividend, and they also are a very efficient way for us to return capital to shareholders.

And then I'd say, importantly, we want to make sure we're taking an approach as it relates to our cash balance and our overall balance sheet that enables us to sustain both investments and shareholder returns through the cycle. That is how we generate the highest value for shareholders. And so we're very focused on doing that.

Q - Douglas Leggate

Thanks Kathy. Our breakeven point is very resilient. So, thank you.

Operator

We'll go next to Devin McDermott with Morgan Stanley.

Q - Devin McDermott {BIO 19137879 <GO>}

Great. Good morning. Thanks for taking my question. I wanted to ask about the Permian business specifically, and you continue to post strong results there. And there were some comments in the posted prepared remarks, I think a bit of an acceleration or increase in activity broadly in short cycle in the back half of the year, and I think that's referencing the Permian specifically. So I just wondering if you could comment if that reference refers to an acceleration activity versus your prior plans? And then also, as you think about the outlook over the next several years, can you talk a little bit about some of the inflationary trends that you're seeing in the shale business, and then also the ability to offset that with efficiency gains?

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. Good morning, Devin. I'll touch on that and then see if Kathy has anything to add. With respect to Permian, the plan that we've laid out some time ago and we're currently executing is -- hasn't changed, and we had a very slight ramp-up as we head through the year, but nothing significantly different than what we have been doing. The plans that we have in place should deliver, and our current production is in line with that 25% growth versus last year, which, as you know, was on top of 25% growth the year before.

And as we saw on the package, if you look at our tight oil production in the U.S. versus 2017, we expect to end 2022 at 3x the level of production. So I would say the strategy remains in place, the plans that we're executing remain in place. We're looking for opportunities within the construct that we define to extend and expand the activities. But frankly, given the tightness in the market, the availability of rigs, there's not a whole lot of opportunity to move there. And maybe I'll ask Kathy to cover the inflationary topic.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes. So overall, I'd say we feel really good about how we're managing inflation to-date. Our overall structural cost savings kind of plan and program is very much on track. As of this quarter, we're now at \$6 billion in overall savings kind of relative to 2019. So we're feeling pretty good about that. As we look at our kind of cost on a year-over-year basis, we obviously had a kind of seasonal increase in costs sequentially as we had a little bit more planned maintenance activity, but we feel very good that we're executing consistent with our plans and that we remain on track.

We're obviously not immune to inflation. We did a great job certainly during the pandemic, especially when you think about our kind of longer projects that our global project group was executing in terms of ensuring that we were -- at that point in time when we were in a deflationary environment, really working hard with our service

FINAL

providers to extend contracts and looking to revised schedules associated with some of our projects, but still moving the engineering forward on those things so that we could spool them up as the market environment improves.

So we feel good about where we're at with our CapEx programs overall, and we feel good about the cost savings that we're driving. I'd also say it isn't always going to look exactly the same kind of quarter-to-quarter. We obviously just made some significant changes in our organizational structure that were put in place in April. Those will, over time, also drive additional efficiencies for us. And we are working at constant, I'd say, pipeline in this area to ensure that we're both driving greater efficiency across the business, but also effectiveness, which is equally important. So I'd say we feel really good about where we're at.

Q - Devin McDermott {BIO 19137879 <GO>}

Great. Thanks. And I'll leave it there to get back on track with the one question.

Operator

We'll go next to Stephen Richardson with Evercore ISI.

Q - Stephen Richardson {BIO 19149224 <GO>}

Great. Thank you. Good morning. Darren, I was wondering if you could talk a little bit about the refining outlook. It's probably a more volatile environment than we've seen in a long time, certainly with less Asian exports are certainly out of China and what's going on in Europe. So I was wondering if you could maybe just talk about that and based on your background, some insights there would be helpful.

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. Happy to do that, Stephen. Thanks for calling in. Yes, you say it's a volatile area. I think the thing that's really changed in the refining landscape, which has impacted -- we're seeing that impact across a lot of industries and parts of our business is the pandemic. If you go back since 2020 and as we've mentioned in our prepared presentation, 3 million barrels a day of refining capacity has come out of the circuit since the pandemic.

And what has typically happened, which is 3x the rate of historical levels. And typically, historical levels have been offset by new builds coming in. And of course, a lot of those new builds got pushed out because of the pandemic and the lack of revenue in the extremely negative and poor refining margins. And so, we've created this hole with a lot more capacity coming offline without a whole lot of new capacity, typically out and developing in parts of the world in Asia and the Middle East. That capacity is not coming on. So we've got this gap, demand recovers, and we don't have the capacity to meet that, which has led to a record high refining margins.

So I think the solution there is with time for additional capacity to come on, we're pleased that we had justified a fairly large expansion in our Beaumont refinery. Essentially, based on transportation differentials that generated a reasonable return with potential upsides in times of tight markets, which obviously we're going to be seeing as we bring this refinery

Bloomberg Transcript

FINAL

expansion on. It's the biggest expansion over a decade in the U.S. And it's one that takes advantage of the utilities and the units that we already have and the connection that we have with the Permian. So a very advantaged project coming onto the market at a really good time.

Outside of that, I don't see a whole lot of additional expansions here in the U.S. And then as we mentioned in the presentation, over the next two years, probably 1 million barrels a day of capacity, including the 250,000 barrels at our site coming on in the marketplace, which is still fairly short of the capacity that came off. And so, our view is we're going to see what I say, the tighter supply and demand balance.

One of the real question marks out there is, what happens with demand. I would tell you, even at 2019 levels, the market is relatively tight. And so, I expect a tighter market and maybe elevated margins versus what the historical norm is. But I would expect much lower than what we've experienced here in the second quarter.

But -- and then with time, we'll see that capacity come back on out in Asia and the Middle East. And the world market is very efficient, and those barrels will flow to the demand centers and balance things off. And so, I think this will be a few year price environment, and we'll get back to what I think is a more typical refining industry structure.

Q - Stephen Richardson {BIO 19149224 <GO>}

Thanks so much. Appreciate it.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

We'll go next to Jeanine Wai with Barclays.

Q - Jeanine Wai {BIO 16974257 <GO>}

Good morning. Thanks for taking our question.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning, Jeanine.

Q - Jeanine Wai {BIO 16974257 <GO>}

Good morning, Darren. Our question maybe just moving to the asset side of things on Guyana. Exxon has had really tremendous success there, and not only just from a resource perspective. Are we at the point where we should be maybe adjusting our thinking on what timelines are just given the really good execution that you've had so far? I guess, where we're going at is each phase has come on faster, capacity is creeping up in the meantime and infill opportunities, they continue to look really promising. So at what point should we kind of be compressing timelines? Thank you.

FINAL

A - Darren W. Woods {BIO 17692013 <GO>}

Thank you, Jeanine. Well, you're right, we have seen really good progress in what's happening on Guyana. I think it illustrates one of the advantages of a consistency of approach and just moving from one development to the other. We started off with Liza 1 with a smaller concept to get started and recognize that we would build on that and extend on the design that we had. So we had a concept of design one, build many.

Obviously, as our discoveries mature and we get a better understanding of the reservoir and the development opportunities there, we will adjust those designs. So I think it's a function of really the development plans that we put in place and the right project to most efficiently deliver -- to develop those resources, and that will change as we move around that block and with the different structures and resources.

So I wouldn't say, I think stay tuned as our plans mature and we get a better line of sight to it. We'll give you updates and let you know how we see that coming. I think with Payara, we did bring that one forward and announced that recently given the progress we're making. And as we continue to progress the other ones, we'll update you and the rest of the market on how we see those things coming together.

But I'm very encouraged and feel good about the progress we're making and hope to see continued advancement in bringing those projects forward faster.

Q - Jeanine Wai {BIO 16974257 <GO>}

Thank you.

Operator

We'll go next to Sam Margolin with Wolfe Research.

Q - Sam Margolin {BIO 17168841 <GO>}

Good morning. Thank you. My question is on the low carbon side. The earnings release had a nice reminder of the list of projects you've announced and what you're involved in. Earlier this week, we had a bill drafted in Senate that addressed the key categories in low carbon for you, which are carbon capture, hydrogen and biofuels. And so now that you've said as you scope the low carbon business, you're not interested in sort of reacting to policy, you want to be ahead of things, and you want to try to anticipate some of the incentives that come down. So I wonder if this bill is aligned with what you had anticipated. If assuming it passes, if you think we're in the zone where your efforts here are really going to be supported or if you think there's more work to do or other regions where there might be better opportunities in the U.S.? Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. No, thanks for your question. I think it's very timely and relevant. What I would say is, and what we've been talking about is we're pleased with the broader recognition that a more comprehensive set of solutions are going to be needed to address the challenges of

Bloomberg Transcript

FINAL

an energy transition. And so the discussion evolving from just wind and solar and EVs to carbon capture, storage and biofuels and hydrogen is really important.

And the recognition globally and with governments, particularly our government, that those are important technologies that need to be developed. And importantly, the markets need to be catalyzed and early investments incentivized, we think, is a really important development. And so while we -- I'm not real familiar with what's in the legislation since it's just come out. I think it is encouraging to see the recognition and the desire to try to catalyze investments in this space because as we've said, we think they're going to be absolutely critical for society to achieve its longer-term ambitions and to make significant reductions in emissions. And so it's a step in the right direction.

Our portfolio, we're trying to develop a diversified approach. We've got many of the projects within the portfolio that reduce our own emissions and do it economically. The total return is at about 10% on that portfolio. And of course, Dan running low carbon solution, is working hard to improve upon that.

And then we've got other large projects that where we anticipate incentives coming in either through the market or through policy that we started the planning and development on. So that as that policy develops, we'll have a project ready and moving into execution. Blue hydrogen is one where that will be beneficial if those incentives come to pass, given the concept that we have there.

So I'd say generally a step in the right direction. I would also tell you, moving beyond the U.S. and more broadly looking around the world, a much more significant and serious effort in terms of looking for opportunities in the carbon capture, hydrogen, ammonia space and the biofuel space. And I've been pleased at the interest for governments all around the world and partners all around the world to engage with Exxon Mobil and to leverage the capabilities that we can bring to the space to help develop large-scale projects that make significant reductions in emissions. So I'd say really positive vectors in this space, and we feel good about how we're positioned.

Q - Sam Margolin {BIO 17168841 <GO>}

Thank you.

Operator

We'll go next to Jason Gabelman with Cowen.

Q - Jason Gabelman {BIO 18730121 <GO>}

Good morning. Thanks for taking my question. I wanted to ask about the current investment environment just given what's going on geopolitically in Russia. And I think there's two schools of thought out there, one that this is kind of accelerating a push to invest in new lower carbon energy because the current energy system has all these geopolitical risks. And another one that, in fact, we need to invest in more hydrocarbons because the world is clearly short that. So I'm just hoping you could kind of frame broadly where you think the industry, government, how the conversations have gone and if you

think the crisis that we're currently in is accelerating the push towards greener energy or hydrocarbons? Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. You bet, Jason. I think the short answer is yes. It's incentivizing, I think, both of those. And I think that's appropriate to look where there's an opportunity to take advantage of what I'll call the natural endowments in terms of sun and wind to deploy those technologies and renewable technologies to generate power. But at the same time, I think there's a recognition that there are deficiencies in those technologies. And while they offer an important solution and are necessary, they're not sufficient. And so I think at the same time, a recognition that we need to do more, particularly with gas given its cleaner footprint.

And I think a recognition as I was just speaking with Sam about that, the challenge here is emissions. Not oil and gas itself, it's the combustion of oil and gas and the emissions associated with that. And so dealing with emissions through carbon capture and storage is another opportunity to address the problem at a much lower cost and in a much quicker time frame.

And so my sense in the conversations I'm having with governments around the world is a recognition of this broader approach, a basket of technologies are going to be needed and emphasis should be put on all the ones for the right reasons at the right time and consciously and explicitly recognizing the deficiencies and making sure that we're mitigating those deficiencies.

It was just in Europe and having a conversation with some of the government leaders there and clearly recognize the challenge associated with renewables, wind and solar and the intermittency issue and a recognition that gas and gas fired power gen will be an important backstop to address that intermittency. So I think there's a much more holistic approach being taken and a more thoughtful one. And I think that's encouraging.

Q - Jason Gabelman {BIO 18730121 <GO>}

Thanks.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet. Thank you.

Operator

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

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Hi. Thanks for taking my questions. Just one quick follow-up and then one question. So the follow-up is on Groningen again. I understand it's a government decision, but you talked about the technical capacity to increase volumes there. Are you able to quantify

FINAL

Bloomberg Transcript

what is the capacity because in the past, that field has produced sort of up to 50 Bcm historically, many, many years ago.

And then the question I had is on your comments on Liza. You mentioned the first phase was producing above design capacity. I asked a few quarters ago about Papua New Guinea, which is also producing above capacity, and you have quite a good track record there of increasing the nameplate capacity more than once. So could you talk about the opportunity at Liza? And potentially quantify how far above capacity you could go for the additional units? Because presumably, your targets are based on design capacity only. But it'd be good to get some color on that. Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. You bet, Biraj. What I would say is on Groningen, there's significant capacity there. Obviously, there's a balance that has to be struck and I know the Dutch government is very focused on responsible production there as are we. And so I think it won't be a limit of the capacity. It will more be a limit as to what the government thinks is necessary to produce given the circumstances there. So I don't know that there's a -- I wouldn't think of it as a capacity limit with respect to the facilities that we have there, but more of what do we want to do to try to balance the risk and the rewards associated with production out of that field.

On the expansion and going above design capacity, I would tell you, been very, very pleased and frankly proud of the organization and the work they've done really across the entire portfolio. You mentioned Liza and PNG, which are both really good examples and the ones that we've highlighted. But I would tell you, almost all the new projects that we're bringing on, as we line those out and get them up and running, the teams get very quickly focused on debottlenecking and optimizing and taking it above production capacity.

And so I think we've got a long history of that. And I think the way we have organized our technology and engineering organization now where we can leverage the learnings and capabilities and competencies every part of the organization on to any one particular asset is a huge, huge competitive leverage. And in fact, that's part of the improvements that we're seeing.

In fact, at PNG, we brought downstream -- historical downstream optimization technology into that upstream -- traditionally upstream facility, and that's making a big difference, and we're seeing that across a number of different platforms. So I don't have a new number to give you in terms of how to think about these. I would just tell you that you should feel comfortable that the organization would continue to push and strive for getting the most -- the kit that we build and the projects that we bring online. And we'll give you updates as we're moving through here on the organization successful with that to let you know how we're doing and growing that production.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Could you say how far about nameplate capacity Liza 1 is producing?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

10% above.

Q - Biraj Borkhataria {BIO 17234528 <GO>}

Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

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

Q - Roger Read {BIO 6161944 <GO>}

Yes. Thanks. Good morning.

A - Darren W. Woods {BIO 17692013 <GO>}

Good morning.

Q - Roger Read {BIO 6161944 <GO>}

Maybe coming back to a couple of the policy questions that have been asked. You have a Slide 5 in the presentation, right, shows investment maybe where it should be versus where it is and where it's projected. And then I'm just curious, as we think about some of the policy you talked about maybe checking the box of all of the above as you're meeting with various governments. Would that allow the global investment to get back on the track necessary as we look out over several years? And if not, wouldn't that indicate that we're going to be looking at multiple years of above normal or above, let's call it, mid-cycle commodity prices? Because when I think about a \$41 breakeven, maybe a \$60, \$65 mid-cycle, but an underinvestment situation that says oil prices are likely to exceed that. Doesn't that set up Exxon very well to, I think, one of the questions asked earlier, be more aggressive on the cash returns front. Just curious how you think about that sliding together.

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. Well, I think, Roger, it's a complicated space you're asking about, but a good one. I do think if over time, policymakers focus on what I think the real challenge with the energy transition is, which is dealing with emissions and the broader door opens for, say, carbon capture and storage or hydrogen and specifically blue hydrogen that, that opens up the door for additional oil and gas and the receptiveness of oil and gas coming on the marketplace, which I think frankly, is important just given the costs associated with the transition.

If you can find ways to use existing infrastructure and don't have to rewire your entire industrial processes and power generation systems, that's going to be a win for society as we bring down emissions. And so that may open the door. I think that will just -- time will

tell. And if that does, obviously, the demand changes. And maybe that incentivizes more investment and get you back into the range that's shown on the chart.

From our perspective, what will change our investment is finding these advantaged opportunities. I think our view has been and continues to be that we're going to look for the opportunities where we can leverage the capabilities and competitive advantage of the corporation and generate above-industry average returns.

The portfolio we've been advancing does that. We've got others that we're working on potential opportunities in the pipeline that we think will do that. And so as we are successful at securing those opportunities or developing them, you'll see those come into the portfolio. And frankly, the size of that investment will be a function of kind of how big those -- or the number of those projects that we find that are advantaged are. And so that's kind of the -- how I would summarize it.

Q - Roger Read {BIO 6161944 <GO>}

Can I just ask one kind of clarification on that? If you think about -- and I understand you're doing a lot of things in a lot of different places. But if you think about your investment relative to those various lines, right, what's projected, what's necessary and where Exxon is today, where do you feel Exxon hits on that curve?

A - Darren W. Woods {BIO 17692013 <GO>}

Well, I would say, Roger, you've got to put what we're doing today and what we've got plan going forward in the context of what we've been doing over the last five years. You will recall back in 2018, we talked about aggressively investing in these opportunities and doing it countercyclically. While others were pulling back, we were leaning in. And that meant that we spent -- and you will recall this, I got a lot of pressure on this and criticism is spending that money upfront out of the cycle, which I think is paying off today. And I think that was the right strategy is not to ramp up spending in the heat of the moment or the heat of the market.

And so, that strategy is paying off. You've got to look across that time cycle and I would say, aggregate the investments that we've been making. My expectation is we'll see -- we'll continue to see cycles in this industry, and we're going to continue to look for the opportunities, particularly in the down cycle to bring advantaged investments forward. And that's the way we're going to be thinking about and looking at it.

Q - Roger Read {BIO 6161944 <GO>}

Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet.

Operator

We'll go next to Neal Dingmann with Truist.

FINAL

Q - Neal Dingmann {BIO 6416564 <GO>}

Good morning. Thanks for your time. Darren, my question is, again, on shareholder returns. Specifically, given the massive amount of cash, you don't have in the book post the nice quarterly cash flow, would you all consider externally ramping up some more of the shorter cycle return assets like your Permian position given based on our number, what looks like to be notable discounts that many of the independent producers are trading at versus the spread?

A - Darren W. Woods {BIO 17692013 <GO>}

Yes. So in terms of our organic opportunities in the Permian, it will -- we're not going to step outside of the strategy that we developed in terms of driving capital-efficient production in the Permian. You'll recall we've talked about the corridor approach that we're pursuing in the Delaware. The fact that we've pre-invested in facilities there. We've got a very aggressive technology program that we've been working on for some time now. That's being built and brought into our production and drilling there. And one of the reasons why we're seeing some of the advances and cost and efficiency is driven by a lot of that work we've been doing in the technology space.

We've got more technology that we're looking to bring into that. And so that's helping the development and the productivity of that development. We don't want to get too far ahead of that. So there are a lot of parameters that we're keeping an eye on to make sure that we deliver on our commitments to produce there at very low cost, have very low breakevens and high cash flow. That's the way we're thinking about it.

Q - Neal Dingmann {BIO 6416564 <GO>}

But no thoughts like we did in '17 rate. I do think '17 buying -- externally buying other assets in the Permian outside of the largest position you already have?

A - Darren W. Woods {BIO 17692013 <GO>}

I think we are always looking for acquisition opportunities. That has been -- that's always on the radar. And as you know, the key secret or the key advantage there you got to find is assets that fit with your advantages that you can bring additional value and improve value through an acquisition. So absolutely, that remains on the radar. I think as we work these technologies, as we advance our processes and techniques, that opens up additional advantage, which we can then look at and apply to other potential opportunities. So that's kind of the formula that we have there, and we're keeping our eyes open.

Q - Neal Dingmann {BIO 6416564 <GO>}

Well. Thank you, Darren.

A - Darren W. Woods {BIO 17692013 <GO>}

You bet. Thank you.

Operator

Bloomberg Transcript

We'll go next to Manav Gupta with Credit Suisse.

Q - Manav Gupta {BIO 20380315 <GO>}

Hi, guys. My quick question here is, we are hearing some worries on -- we have a debate if U.S. is in a recession or not in a recession. Globally, also the same debate. I'm just trying to understand whether it's your refining business or your chemicals business? Are you seeing any early signs of recessionary demand kicking in or demand destruction, whether it relates to the refining business or maybe your commodity chemical business? If you could help us understand how demand is trending in somewhat of a challenging GDP or global economic data. Thank you.

A - Darren W. Woods {BIO 17692013 <GO>}

Sure, Manav. I'll take a crack at that and then see if Kathy has anything to add. I think certainly, the dialogue that I've heard externally in this space is, it's a complex picture to try to dissect to understand. And of course, the debate are we in a recession, not a recession, I think, is important factor of this complicated landscape that we're looking at.

I would say within our industry, it's no less complicated when you think about a lot of the supply constraints, some logistics challenges that we're facing. So it's difficult to get a really clear read on what's driving variation demand quarter-on-quarter, month-on-month given some of those logistics challenges that we're seeing, inventory withdrawals and builds. And so a complicated space. I think bottom line is I wouldn't tell you that we're seeing something that would say we are in a recession or a near recession. But I would also say that it's a complex picture frankly.

The demand destruction question that you asked, I wouldn't tie and what we have seen is, obviously earlier this year as prices really spiked up, there is a level of discretionary demand, and we saw some of that demand come off with very high prices. As prices have come back down again, you're seeing some of that recover. And so I would say that's just the normal price response that you see with respect to demand and not tied to, say, a more macroeconomic picture.

Kathy, if you have anything to add?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Yes. The only other thing I would add to that is, overall, when you look at demand recovering from the lows of the pandemic, one of the laggards has been jet, obviously. And so jet continues to lag, but is obviously starting to pick up now as people are starting to travel and obviously, international travel restrictions have reduced, which means people are also starting to travel a bit more internationally.

But we continue to also see some effects of COVID. The fact that China was in lockdowns in the second quarter, certainly kind of impacted our Chemicals business a little bit, right? And so we saw a bit of our volumes coming off there, specifically in Asia, responding to that. So there's going to continue to be these impacts, both the ongoing recovery from the pandemic. And then obviously, some COVID impacts and now kind of intersecting with a bit more uncertainty associated with just the overall macro environment.

The last thing I'd say is we tend to be an organization that prepares for the worst and hopes for the best. So I'd tell you, we're certainly preparing for every eventuality.

Q - Manav Gupta {BIO 20380315 <GO>}

Thank you for those response, and congrats on a great quarter.

A - Darren W. Woods {BIO 17692013 <GO>}

Thank you.

A - Kathryn A. Mikells {BIO 3743077 <GO>}

Thank you.

Operator

We'll take our next question from John Royall with JPMorgan.

Q - John Royall {BIO 17723205 <GO>}

Hey, good morning. Thanks for taking my question. My question is on the Chemicals business. I know you've had some headwinds in 2Q from both a margin and a volume perspective. You had called out China lockdown specifically, and that piece might be a little tough to forecast. But can you speak to your outlook there for the second half in both the U.S. and globally in the Chemicals business?

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. I'll start off on that and then see if Kathy wants to add anything. I would tell you, what we're seeing here in the second quarter, and we made reference to is while the ethane advantage that we have in the U.S., North America still is an advantage versus the rest of the world as gas prices go up and crude prices moderate and more naphtha is out there. That advantage weakens, and we saw that with respect to the margin. But still reasonably healthy demand and good demand growth year-on-year.

China obviously is an important market. And so, as we move in and out of lockdowns there, that will have an impact on our Chemicals demand. And the automotive market is an important market. And with some of the challenges they've had there with chips and production issues that has had in the short-term impacts, and we'll have to see how those get resolved.

My expectation is as that gets resolved in automotive production, that was to pick up, we'd see that again recover within our portfolio. So that's kind of the landscape that we see today and really be a function of where does China end up going with respect to its response to COVID.

Kathy, anything to add?

A - Kathryn A. Mikells {BIO 3743077 <GO>}

FINAL

Yes. The only thing I would add is, as we look forward, there are more supply coming on in chemicals specifically. And so we can see projects. Most of them are targeted in China, and China is obviously long term, one of the fastest-growing markets for Chemicals, but we're also seeing some additional supply that's going to come on in North America. And this is obviously part of the cyclical in the business. Supply tends to come on in large chunks, and it takes a little while for overall supply and demand to then come back in balance. So that's the only other thing that I would add.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Thanks. I think we have time for one more question, Jennifer.

Operator

Looks like we have time for one more question. Our last question will be from Ryan Todd from Piper Sandler.

Q - Ryan Todd {BIO 15158570 <GO>}

Yes. Thanks. Maybe just one follow-up on some of the earlier comments on the low carbon businesses. On the carbon capture front, you called out a number of projects in the release, you're progressing in a number of those different projects around the world. As you look at these -- I mean, how would you describe the commonalities in these projects? What is and isn't working on carbon capture? Are there technical similarities that are driving progress in these locations or specific progress or projects, political or fiscal support? And what are some of the key things that you need to see either technically or regulatory-wise to kind of -- to grow this business further, I'd say?

A - Darren W. Woods {BIO 17692013 <GO>}

Sure. Yes. Thanks, Ryan. I think if you look at today's technology, it has applicability. It's economic for more concentrated streams of CO₂. As you move down the seriatum of emissions, so to speak, and the CO₂ concentration becomes more and more dilute, that existing technology becomes more and more expensive. And I think that's one of the key challenges. And so one of the areas that we're working with our technology organizations is developments in technology that allow more economic capture of more diluted CO₂ streams. And so I would say that's one constraint that's going to require technical advances to make it more affordable going forward.

But outside that, within the streams that have the necessary concentration to make existing technology work, key variables will be storage and access to storage. And access to storage that's geographically close, logistically close because another key point will be the transportation cost. And so kind of requires concentrated streams of CO₂, good logistics systems and storage -- abundant storage that's close by.

You put those things together, you've got an equation that you can make these projects work with relatively modest incentive schemes. And in fact, that's what you're seeing with the Houston Hub carbon capture projects that we've tabled a very large source of somewhat concentrated CO₂ streams that's logistically close to a good storage in the Gulf of Mexico. So all those equations come together. That require additional incentives, but

something that would be reasonably inexpensive compared to the cost societies currently bearing to remove CO2.

And as you move around the world, the projects that we're looking at have similar constructs to make that -- those projects viable. And then obviously, the governments are looking at what kind of policy would be required to help support those projects.

Q - Ryan Todd {BIO 15158570 <GO>}

Thank you.

A - Jennifer Driscoll {BIO 21035568 <GO>}

Thank you, Ryan. Thank you, Darren. I think we're out of time. I appreciate everybody's questions today. We will post the transcript of the Q&A session on our investor website early next week. Have a nice weekend, everybody, and I'll turn it back to our operator to conclude our call. Jennifer?

A - Darren W. Woods {BIO 17692013 <GO>}

Thanks.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2023, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.