35th Annual Bernstein Strategic Decisions Conference 2019
Occidental
Vicki Hollub, President & CEO

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Bob Brackett: Welcome to the first oil and gas session of the 35th Annual Strategic Decisions Conference. My name is Bob Brackett. I'm Bernstein's E&P analyst. We are not expecting a fire drill. So if an alarm rings, take it seriously. The primary route for exit is straight out the back door, straight along the hall. You'll exit onto Park Avenue, the elevated section. Wait there for further instructions. If that path is blocked, hook a left out of the door. Walk around, take the escalator which will not move down, exit onto Lexington, and again wait for further instructions.

I will introduce the CEO of Occidental Petroleum, Vicki Hollub. The format I'd like to introduce, because this is our first session of the conference, in front of you and around you are white cards. This is your conversation. So I heartily encourage you to take those white cards and write the questions you want to ask.

Vicki will come up. She's speak for perhaps 20 to 25 minutes. We will adjourn. We will sit and have a fireside chat. I will start by asking questions. But ultimately we will collect those cards from you. I will organize, but not sensor them. And then I will start to ask your questions for Vicki. If you have a question that you wish to ask out loud, of course you're welcome to ask it out loud.

With no further ado, I will get out of the way. Vicki has made corporate jet based equity research a thing. And I'm sure that and amongst other news, will be the focus of her presentation. Thank you, Vicki.

Vick Hollub: I'll just say thank you to Bloomberg, because we track everybody else's jets too.

So I'm going to just go through a few slides here. And what I really want to start with saying that is for those of you that may not be already investing in the oil and gas industry, and maybe this really applies to any industry, is I really think that what's important to look for is the quality of the assets, first of all. You can't make bad assets good. But if you don't have a really great staff and if your staff is not executing at a very high level, you can make good assets bad. So it starts with the assets, but then it also matters about how your company is performing, no matter what industry you're in.

And then for the oil and gas industry, as others, sustainability of the business is really important as well. And the sustainability, to me there are two parts of that. There's the part about do you have the inventory. Do you have the ability to continue to grow your business over time? And is that growth pretty certain and do you know how you might accomplish that?

And then second, especially for the oil and gas industry, is our social license to operate. And that is a differentiator for us. We have all of those first things that I mentioned. We have the best quality assets we've ever had as a company. We have a team that's performing at a very high level. They're highly engaged, and empowered and doing great things for us. We have the most development inventory that we've ever had as a company too. So all of that we check the box on. But the social license to operate is the one that we check a box that really nobody else can check today. And that box is our ability to lead our industry into a low carbon environment. We believe that it's our moral and social responsibility to take this lead. Because we're the world's largest handler of CO2 for enhanced oil recovery. That gives us an ability to develop a strategy that's going to enable us to take CO2 emissions from industry and take that CO2 and inject it into our enhanced oil recovery reservoirs in the Permian, so over time that is sequestered. Because every Mcf of CO2 that you inject into the reservoir, 40% stays sequestered. So we're sequestering CO2 today and it's a part of our strategy going forward to continue to do that in our operations.

We have some other things that we're doing to advance that too. We don't only have a strategy to capture CO2 emissions from industry. We actually have invested in a company called NET Power that can generate electricity at a lower cost with no emissions. It generates a full stream -- an almost pure stream of CO2 that can be used for enhanced oil recovery. That's why we invested in it. And we can do that all around the world. So that would replace emitting electricity generation from either gas or coal.

The other thing that we've just announced last week as an investment is some direct air capture equipment in a facility that we plan to engineer and design for construction in the Permian Basin. Direct air capture means that you can take CO2 from the atmosphere. That CO2 again, we would use in enhanced oil recovery and in our shale reservoirs. Because we've done the pilot on the shale reservoirs and we know that technically it works. We're now in the process of designing how that would work on a full field development basis.

So social license to operate means a different thing for OXY. It means a more proactive approach. It means being a leader. And it means also helping others do it around the world. We get calls from people all over the world wanting help to do the similar thing where they operate. So with those things mentioned, I want to talk about and share our story, because we do have quality assets. We do have a great staff. We have the development, sustainability and the social license to operate. And we have a value proposition that we've delivered over the past couple of decades. That value proposition is to provide our shareholders with a growing dividend, while investing in upstream oil and gas development that will deliver 15% to 20% return on capital employed, and to do all of that while maintaining a strong balance sheets. That's been our value proposition and will continue to be.

And today one of the things we'll talk about is not only where we are and what we did in 2018, but I'll talk about also what our recent acquisition efforts are going to generate for our company. So now I'll move onto what I feel like is the most important slide here is to talk about where are assets are today.

Occidental started in California as a small company that for a long time was struggling, and we'll be 100 years old next year. But we started a long time ago. And it wasn't until our first CEO went out and actually hired great geologists and geophysicists that we started having major success. So the company really started being quite successful with the discovery of gas and then oil in California, and so much so that it gave the company the capability to go to Libya and after a major had abandoned an area, and to drill and develop there successfully. That Libya exploration success propelled us into exploration success in South America, in the Middle East, in the North Sea. So we've been – we're an exploration company.

When exploration became difficult, we transitioned to building one of our other core niches now and that is our enhanced oil recovery business. So we went from exploring for success to enhanced oil recovery, and we use that enhanced oil recovery to enable us to be able to partner with companies internationally: national oil companies, governments to be able to build the business even more. And our first major partner in contract in the Middle East was with Qatar. Then we went and developed partnerships with other countries and places. We're now in Oman and in Colombia. We have those kinds of partnerships. Then we went beyond that to build major facilities, partnering to build major facilities. So when you look at all of those things, we have over time developed and expanded our core competencies to include pretty much everything that is important to be successful in the oil and gas industry.

So today we started a -- or got to in 2013, as we were going through trying to pare down what we were doing as a company, starting I guess back in the early '90s, we were in 28 different countries. And we owned about 4 or 5 different companies. That was too much for us, 28 different countries. We pared that down over time and got more focused on the oil and gas industry and the chemicals business. So in 2013, we were in 8 countries internationally and had a chemicals business and a midstream business. That was our picture in 2013.

And what we felt like in 2013 is that still wasn't good enough. That wasn't good enough for our shareholders. Because there were 4 countries internationally where we felt that they were never going to deliver the return on capital employed metrics that we had set for our company. So we exited 4 countries internationally. We looked at our domestic portfolio, found that there were at least four areas that could not deliver domestically. We existed those. And some of those challenges to get that return on capital employed, some were subsurface, where just reservoirs weren't what they needed to be. Others were infrastructure or scale was not there for us.

Then we spun off California. We spun off California because we knew that while those were good projects, they weren't the kind of projects that would be able to compete with our projects in the Permian Basin. So then doing all of that, we divested 40% of our production and got to where we are today. And where we are today is again, as I started out, the best set of assets we've ever had. And we are now is in the Middle East we're in Oman, Abu Dhabi, Qatar, Colombia in South America, and the Permian Basin in the US. And we have a chemicals business that is very competitive with its peers on an apples-to-apples product basis. And we're the top-three marketer of PVC, Chlorine and Caustic Soda in the world. Our midstream business exists to help us get our products to market and to ensure that we get maximum realized prices for it.

So in all the areas that we operate today, we are either the largest or the lowest-cost operator and we have the scale to continue to grow. In fact last year, what happened to us in Oman, because of our track records and our performance over time, we were awarded four new blocks in Oman. We more than doubled our acreage in Oman. We now have 6 million acres in Oman. And again, that was all based on performance we got that.

In Abu Dhabi we were awarded a massive block, Block 3 that has more acreage actually than our Permian Resources business. And we got that because it's just across the border from our Oman North development. So the ADNOC felt like because we had done so well in our development in Oman that we had the knowledge, skills and ability to develop that Block 3 better than our competitors. So we were competing with majors to get that Block 3.

In Colombia, we've added six new blocks over the past year and a half. And so everywhere we are, we have quality assets that we're developing today, significant development opportunities going forward. So when we talk about our company having transformed from exploration to enhanced oil recovery, we've now been long known for our expertise in that and to using that skill to partner and to get partnership opportunities. Now we're at another point where we have this ability to transform our company. And what's driving this opportunity for transformation, just like all the other transformations we've been through before as a company, is a new ability and niche and core competence that we've developed and that is in the shale play.

And so that's what I want to talk about a little bit more. We're now in a unique position to acquire Anadarko, because of the skills that we've developed in the shale play. And we're delivering results there. So if you look at the things that we accomplished in 2018, I'm going to go into a little detail on this. But looking at the column that says, focused on returns, we generated in 2018 a 14% return on capital employed, the best we've done since 2011. And in 2011, WTI prices were $95. In 2018, they were $65. And in 2011, our return on capital employed was 11%. So that's a big difference. And the big difference going from 11% to 14% with $30 lower oil price, what caused that difference was better quality investment and our execution of our development of those assets.

We also delivered a 27% cash return on capital employed and 45% of our cash flow from operations we delivered to our shareholders, which is consistent with what we've done over time. We've grown our dividend since 2002 at a CAGR of 12%. So we were able with that dividend of $2.3 billion to in addition to that, deliver $1.3 billion of share repurchases in 2018. I'm going to say, in case I forget to say it later, part of the reason for this Anadarko transaction is to ensure that we can continue to do both of those things, to grow our dividend and to provide share buybacks.

Now on cash flow generation, our cash flow for working capital exceeded our CapEx and dividends by $800 million in 2018. We achieved a breakeven plan that we had set out to do after our portfolio optimization. When we lost the 40% of our production and the cash flow associated with it, our plan was to restore that cash flow and to get ourselves to a $40 breakeven price so that we could ensure that we could pay our dividend, maintain our production, and all of that through the cycles. If prices averaged $40, so we would be good. We would still be providing value. We achieved that breakeven 6 months ahead of schedule.

So now when you look at the operational excellence that we achieved in 2018, we're not only working on the Permian. We talk mostly about the Permian. But we have operations around the world that they're still delivering great things for us. OxyChem generated the highest earnings in over 20 years and our international business delivered $1.4 billion of free cash flow. In our international operations, Al Hosn, we were able to increase that capacity by 11%. And if you remember, Al Hosn is the huge facility that we built in the middle of the desert in Abu Dhabi. It was a $10 billion project. At the peak of construction we had to have 40,000 worker on site, had to build a small city to house them. Because there was nothing around. We did that on time and on budget. So again, maybe this is another example of our ability to build major projects. And in the Permian

Basin, we're drilling wells that I'll show you later, are beating our competition not only on a cost basis, but with the ultimate delivery of the wells.

So with respect to our sustainability under our integrated business column here, getting back to our development inventory going forward, we have for the past few years been generating and replacing more than 150% of our production. So we keep adding reserves, adding more reserves than what we're producing on an annual basis and that will continue to happen for the foreseeable future.

And OxyChem generated its free cash flow for the 20th consecutive year. So and the bottom bullet point there is about the Low Carbon Ventures that I talked about earlier. So in every phase of our business we are delivering. In every phase of our business there are exciting things happening. So we approached this potential acquisition with Anadarko from a position of strength. We looked at what Anadarko looked like. And incredibly, Anadarko had also done what we had done. They had divested of all of their assets that were not delivering good returns. They divested of everything that they didn't feel like should be core to them, and then the only other company that we've seen that was in as good of a position as our assets were. The big difference was though we have had a breakthrough in the way that we develop our shale wells. That breakthrough came from two different aspects of how we're developing our shale plays.

One is a new and enhanced subsurface model. I won't go into details here. But our subsurface model is different than the way others are doing it. We do our designs in our shale play and in our shale wells based on a model that was put together with data from 24,000 wells with 3D seismic and the application of data analytics, but with the knowledge that we needed a paradigm shift in how we look at where the fracs propagate and what the frac barriers are. So that model we believe is unique to us and maybe one or two other companies. That model has enabled us to now to be a consolidator of other shale players or other companies who have shale, where they're not getting the most out of their shale.

So we looked at Anadarko's assets. We looked at their execution on development. And when you look at their DJ Basin position, their Powder River Basin position and their Delaware Basin position; they have high quality assets in all of those areas. And Anadarko is a good performing company. But until you've kind of gotten that unique niche around how to model the subsurface, it's really hard to get the most out of these wells. So we feel like that in the Delaware Basin, where their acreage is and in the DJ and in the Powder River, that we're going to be able to, working with their incredible employees, we're going to be able to take best practices from them and apply our subsurface modeling, our oxy-drilling dynamics, which has everywhere we've applied it, has lowered our cost by 30%; we believe we will be able to take all of that and create much more incremental value than our competition.

We've looked at this acquisition for two years now. We felt like we knew it, all the details of it. But then when we got a chance to do our due diligence, we expected to find something we didn't know. We found out more information, but it validated our assumptions that we had when we made the first offer to Anadarko back in 2017. So we're excited about this. They have high quality African assets as well, but that's not within what we feel like our strategy should be. So we have an agreement with Total that upon closing with Anadarko, we will start the process to sell those assets to Total. So what this creates for us is an opportunity to have more leverage, more scale around the world.

It significantly grows our domestic position. Today about 60% of our production comes from the US. And after this transaction, about almost 80% of our product will be US based, but with still significant development opportunities both in the US and internationally. So, it's an exciting time for us to be able to do this. It makes sense for us, because of the fact that we know that the shale development is 75% of the value of this deal. And when you look at our competition who really focused more on the Gulf of Mexico and Mozambique that was the value of those two areas is only about 15% of the deal. So, we are going to be able to execute on the biggest part of the deal and get the most value out of it.

Now to return back to talk about the return on capital employed, I'm showing it here to show that while we beat ourselves in terms of return on capital employed versus what we'd done in the past, we also beat our peers. So all the numbers are rolling off to show that we are from an execution standpoint beating our competition and delivering value to our shareholders. The y-axis on this shows the return on capital employed from a percentage basis. The y-axis shows the total yield, which is dividend plus repurchases over market cap. And the bubble represents our dividends plus repurchases as a percentage of operating cash flow.

So on all three of those metrics, almost all three of those metrics, we're beating our competition. But we're definitely where we need to be to beat them all when you consider all three of those metrics. So I'm really happy with where our execution is and where we're headed and confident that now we'll be able to deliver on this acquisition.

The other thing about this acquisition in addition to providing us the opportunity to do what we do best, it's highly accretive to cash flow and cash flow per share. So it strengthens our dividend proposition over time and will enable us to grow it. And after we've lowered our debt, we will be able to resume our share repurchases again. We're going to pause them until we get our debt from the transaction down. As a part of this, we expect to divest of $10 billion to $15 billion of our portfolio. And again, $8.8 billion of that is already coming from the Africa assets to Total.

And just hit a few other slides before we go to Q&A, so one thing that's important again is when you're talking about the portfolio, what this means for us is we'll be the #1 producer in the Permian Basin, the #1 is CO2 enhance oil recovery projects in the world, the #1 producer in the DJ, #1 in the Uinta Basin, #1 independent producer in Oman. #4 in the Gulf of Mexico, but with the scale and the infrastructure to add wells at a lower cost, and we'll have a leading position of high-margin production in Colombia. We'll be the largest private surface and mineral acreage owner in Wyoming. As I said earlier, we're the top producer of PVC, chlorine and caustic soda. We'll have a leading midstream international business that's Al Hosn and Dolphin, and the midstream MLP that Anadarko currently has today, Western, and then our major projects expertise.

We have identified the synergies, but they're all the things I've talked about and we have a little more detail on those in the slides. Here this shows the degree of cash flow accretion, 30% in 2020; 40% in 2021. So what's most important is after the dividend, the preferreds are paid, it's still 4x the free cash flow per share and 10x in 2021.

So with that, this is a key slide and this is on our website. Go take a look at it. But when you look at the overall improvement of the wells in the Permian Basin, they're starting to plateau. Ours are not. Even though we've improved almost 150% since 2015, we still improved 25% from 2017 to 2018. So we're still improving. And this shows that the OXY is in the red, Anadarko in the blue, Chevron next to it. This shows what our cumulative production is by operator over a 6-month period. This shows that we certainly are outperforming our competition there.

And this shows that the key part of their Delaware is right in the middle of our two core areas, Southeast New Mexico and Barilla Draw. And they're right there in the middle in the pinkish color. So they're right where they need to be for us to take full advantage of optimizing that development. We have 23 of the best wells in the top 100. That's the most of any other, even though we're only drilling 4% of the wells.

So the deal was structured with 78% cash. Timeline is we hope to close in the second half of 2019 and we're already working on the integration. It's going well so far. We'll have a clean team that will be able to capture additional synergies that we haven’t already identified and then we'll implement that after the deal. And then in the short term, our cash flow will be the same as it's always been, maintenance, dividend and growth capital, and then share repurchase is paused until we've lowered the debt. And with that, I think I'll move on now to Q&A.

Bob Brackett: I'll remind the audience that I'll start the conversation, but I'd encourage you to write questions on the white cards around you. If you have a question, just sort of wave the white card, and we'll try to find people, colleagues in the back that will come and collect and bring them up to me. I'm going to start with a question we've been asked, is all the analysts have been asked to ask the question, and I think I know the answer. But what are you investing in today that will have the biggest payoff in five years? I might say Anadarko, but rather than put words in your mouth, I will leave that to you.

Vicki Hollub: Well, it's our continued development too. It's a continued development of what we have in not only the Permian, but other areas. We're having success in everywhere we operate. But another thing that we're really excited about is what the Low Carbon Ventures team will be able to do for us. In five years, based on what they've been able to do in just the short time that we formed the team, they've done amazing things and they're getting really creative. I think in five years, you're going to see headlines that really differentiate what we're doing versus others.

Bob Brackett: And I'll play off that. In what year will OXY move more CO2 than hydrocarbon?

Vicki Hollub: I think that we've debated that internally. And the thing about this Low Carbon Ventures team is that while it is really beneficial for the United States and for the places that we're going to do it internationally, which will be in all of our operations; this is helpful for the world. Because you absolutely cannot meet the goal of the Paris Accord without carbon capture. It will not happen. And even when I went to the summit at the Vatican last year, that was the outcome of that. That was the conclusion. The Pope himself knows this that without carbon capture and sequestration or use, we cannot meet the Paris Accord limitations.

And so it has to happen. But what our team has been able to do is to figure out a way to make it happen, but to also generate value for our shareholders. And because of our CO2 enhanced oil recovery niche, that's possible. And it's going to happen. It's happening today. That's one of the things that in addition to the Anadarko acquisition that we're really excited about. For us it helps us to lead the industry into a low carbon environment. And if you don't have that capability, if you don't have something that you're doing to offset your carbons production with scope 1 through 3 emissions, then you're going to have a problem being sustainable over time.

Bob Brackett: Contrast your sustainability strategy with, say, investing in other types of renewables, be it wind or solar or biomass.

Vicki Hollub: So I hope the one thing that you always notice about us, always notice about us is that we don't try to do things that are not within our core competence. And that's key to everything we do. We're not going to build windmills ourselves and sell them. We're not going to build solar ourselves and sell it. Because that's not our core competence. We don't know this. How could we have a niche in that? We are allowing others to build solar in our Oman operations and Permian. We'll use renewables, but we're not going to be a seller of renewables. Because that's not what we do best.

Bob Brackett: And coming back to an oily world, talk where you think oil prices are going. And regardless, talk about how OXY prepares for bottom cycle, mid cycle, top cycle oil prices.

Vicki Hollub: Well, I don't know about oil prices. And I don't even want to say. My team cringes every times someone asks me that question. So I'll just talk about how we address it. We try to make sure that in a $40 world we can still add value to our shareholders and that we can even for short periods of time, that we can sustain our business under $40. So if we can make sure that all the decisions we're making about our business are true to that assumption and that goal, then we'll be okay.

Bob Brackett: And then so if I think about a $60 world where we're in, we should see similar results to, say, last year? And what about in an $80 world? Do you see that as sustainable and what does OXY look like in that world?

Vicki Hollub: Well, this Anadarko, when you model it, what you're going to find, this Anadarko acquisition for us will create a cash flow generating machine. That's at $60. At $80 it would be unbelievable. But one of the things that we don't have to do with this acquisition, we feel like actually rather than trying to increase our growth rate in the upstream oil and gas business, with the strength that this brings us and our ability to leverage all of our investments, we can actually drop to a 5% growth rate. We can then grow our dividend, but consistent with our premise that we need to be sustainable at $40. So in an $80 environment that would generate the opportunity for some really significant share buybacks.

Bob Brackett: And then I've got some questions from the audience and they're related to the APC deal and we'll start at the high level. Vicki, what's your plan to win back investors who were upset over the structuring of the APC deal?

Vicki Hollub: I think that as investors learn more about what this means for us and as they model it, they're going to really like this deal. We already have some long-only that have modeled it that actually I stole their words of one of them who says it's going to be a cash flow generating machine. What I believe investors are worried about is the leverage. And I can tell you that we're going to approach de-levering with the same determination that we approached making this deal happen. We don't want like the leverage either. It was necessary to get the deal done. We had no other way to get the deal done. But with the leverage, we have a plan. We're already working on it. I believe we will beat the plan that we have in place. We will be able to achieve the divestitures. It's just a matter of timing and the timing, I believe, is going to be sooner than most people expect.

Bob Brackett: Sort of following on that, what's been the feedback from holders in regards to Anadarko and how do you prove Anadarko is the right move?

Vicki Hollub: Well, I think across the board people like the Anadarko assets. They like the fact that and they accept the fact that we're the right acquirer for those properties, because we're the best in the shale play right now. And so we're the best in being able to capture the most value out of those assets. So with that, I think that it's really a matter of again, addressing the leverage.

Bob Brackett: Why did OXY give Berkshire such generous terms for their investment in the context of other long-term shareholders' interests?

Vicki Hollub: The Berkshire deal was important to make and the timing was critical, because we were heading down a path where there was going to be a point of no return and a point where we weren't going to have the ability to make this happen. So Berkshire could do it in an hour. And they could do it on public information. And they could do the full amount and they could have provided even more. So with all of those things said, given the timing that we had, there was no other choice.

Bob Brackett: Can you speak to contingency plans should Anadarko be ready to close, but Total is delayed? And I think specifically around Algeria are the questions I'm getting.

Vicki Hollub: We'd love to close the Total deal at closing with Anadarko. But we don't think that will necessarily happen. What Total has said is the closing could be into 2020. We believe it could be sooner. We don't see the issue with Algeria to be a problem. We think it's a matter of communicating with Algeria. Total is a major operator in Africa. I think any country would want -- and any national oil company would want to partner with Total. They have a proven track record. And I think the Algeria oil minister recognizes that and I think it's on the track, is on board to go with this.

Bob Brackett: Do you expect Mozambique to request a tax payment like they did for Exxon in 2017 for the deal?

Vicki Hollub: I'm not certain of that. We are in discussions. Total has sent a group to Mozambique. And we're working closely with Anadarko. So we're not really sure whether that will be the case or not at this point.

Bob Brackett: Do you expect delays in Mozambique LNG?

Vicki Hollub: No. Total is committed to continue down the same path at the same pace.

Bob Brackett: And I think, where's the free cash flow in shale production?

Vicki Hollub: The free cash flow is coming from the DJ. The Delaware Basin for Anadarko was going to be cash flow positive this year. And our Permian Resources business is free cash flow. So we will have a lot of cash flow coming from the Gulf of Mexico and from two of the three shale basins. The Powder River is in early development right now, so it won't be cash flow -- it's just right now in appraisal mode and we're letting others appraise that as we work on the DJ and the Delaware.

Bob Brackett: And this is variations of a theme. And it comes back to your new subsurface model. What's your recovery factors for shale wells producing before you implemented your new subsurface model versus after you've implemented?

Vicki Hollub: I haven't made that calculation, actually.

Bob Brackett: Where do you think recovery factors go for tight oil in the Permian?

Vicki Hollub: I think there will be continued improvement and what we can get out of the shale wells, we are really pushing technology as much as we can and so we believe there's still room for continued improvement. We showed in that graph, we improved 27% last year. We'll continue to improve. I think new technologies will also change the game for us and make recoveries go higher in the future.

Bob Brackett: And if we think about the drivers of well productivity gain, the obviously one in historic has been lateral length. That seems to be plateauing toward 10,000. We've seen sand-per-foot intensity. That's clearly sort of plateaued. And then it's been sort of locating the best zones. Is that consistent with how you approach sort of improving well productivity year-over-year or what are the key drivers?

Vicki Hollub: Well, we're continuing to focus on ensuring that we engineer the design based on what our subsurface model shows. We actually, if you look at those wells, top 100 wells, the others our competition in that list use 27% more proppant. So we're now trying to ensure that we design based on what we see. So we believe that new technologies and techniques will be developed and have to be developed that enable us to ensure that our simulation is near wellbore and more consistent.

Bob Brackett: If you could only drill one well in the Permian, where would you put it?

Vicki Hollub: That would be hard. I would say, so three years ago I would have said the Barilla Draw area.

Bob Brackett: Southern Reeves, yeah.

Vicki Hollub: Yeah. Two years ago I probably would have said Southeast New Mexico. But now with what I'm seeing, I think that we'd have to drill half of it in New Mexico and half in Barilla Draw.

Bob Brackett: So half north of the state line.

Vicki Hollub: Yeah.

Bob Brackett: But what about -- and so in between would be extrapolating into Anadarko?

Vicki Hollub: Yes, and in between we do believe that's a really good area and expect similar results to both Southeast New Mexico and Barilla Draw.

Bob Brackett: If you could drill only one reservoir, what would you drill?

Vicki Hollub: You're talking about shale? I don't know. I mean the Bone Spring, the Wolfcamp, and we've had -- the good thing is initially we thought if the Wolfcamp A is the best reservoir then it's going to be consistently the best reservoir. But what we found is that we're having success in multiple. And we actually in all the areas we operate, we're seeing the opportunities for more than one tier 1 reservoir within the (inaudible).

Bob Brackett: And if there's any -- I see a question from the audience. We have perhaps two more minutes. Great?

Unidentified Audience Member: (Inaudible)

Vicki Hollub: Yeah, I would say on the Total thing, if Total achieves what they want to achieve, it will be very fast. And so I referenced the 2020 because I don't want to not meet expectations. So there are many that expect us to have that done before the end of the year. And in terms of things going south, you're talking about post-acquisition?

Unidentified Audience Member: Yeah, (inaudible).

Vicki Hollub: Post-acquisition we're still going to be pretty close to where we were from a breakeven standpoint before. We'll be only a few dollars higher because of the increased debt. But we'll still be in a situation to be able to provide our dividend to our shareholders.

Unidentified Audience Member: (Inaudible)

Vicki Hollub: Yeah, I think this gets us in a position where we can execute and we can do it in areas where we know we can execute, we know we can achieve this. So we'll be back in the fairway. We won't be doing share repurchases until the leverage is down. But yes, that's the model that we want to get back to. We want to get back to as we've done over the past two years, consistently deliver the results and exceed expectations. That's where we want to be. And we will get back there. It's just going to be a matter of getting the leverage down and then the share repurchases come back. And then you have a stronger investment. You have a stronger company and you have more free cash flow. You have more money returned back to the shareholders in that environment. It's just going to take us a little while to get there. But we have a clear path to do it and I have no concerns that we won't be able to do it. And I think we'll do it sooner that what we've said.

Bob Brackett: I have a question. Can you think about the net CO2 and the net oil balances in an EOR type project versus a conventional type project?

Vicki Hollub: Oh, in the EOR to the shale?

Bob Brackett: Mm-hmm.

Vicki Hollub: In the shale, the utilization will be a little different, because we have -- there are two -- we haven't really tried a long enough, continuous process to define exactly what our utilization rate will be. It will be higher in the shale. But the good thing about it is our Low Carbon Venture strategy will make the CO2 cost lower. And if we do it with a huff and puff, then the utilization probably will be a little bit less than what it would be with a process. But again, the CO2 cost, as we implement this carbon emissions strategy going forward and capture, the CO2 will be lower cost for both our conventional reservoirs and our shale plays. So that's what's going to make it economic.

Bob Brackett: You would think intuitively that the best candidate for an EOR project would be something with a lot of oil in place and a great deal of permeability, which would tend to push you toward conventional reservoirs. Why would it work as well in an unconventional reservoir?

Vicki Hollub: Well, it's because we're leaving so much of the hydrocarbons in place. We're leaving 90% of the hydrocarbons in place. We think the best way to ensure that you don't do that is with a huff and puff at least, and maybe a continuous process of CO2. There has to be -- we have to get to the point where we're recovering more from these reservoirs, and ultimately we will.

I don't think CO2 is going to be the only answer to that. I think there are other things that will be done eventually. Some of it may involve nanotechnology. But I think that over time this industry will do what it's always done. It will innovative and increase our recoveries from the shale play, which is all the more reason to have a strong position in three shale basins.

Bob Brackett: And huff and puff in the Eagle Ford typically using methane improves that mobility. But in the Permian you're using CO2 and it's improving the mobility of that oil. That's the case?

Vicki Hollub: Right, right. And we're doing some hydrocarbon injection as well.

Bob Brackett: And how far along for to prove and process it?

Vicki Hollub: Well, I think it's --

Bob Brackett: An economic process.

Vicki Hollub: Yeah. I think it will be economical, because it does two things. It not only maintains your pressure, but this one does move the oil. So I think that it will be economical and especially in the environment where gas prices are today.

Bob Brackett: And in the final minute, talking about the E&P sector in general, we've seen commodity prices here today Brent might be up 30% or so. The XOP is flat. Why do you think investors have sort of walked away from the E&P sector? What can you do and what can we do as believers in the sectors to get investors back?

Vicki Hollub: I think that the investment community now is really demanding discipline and demanding returns and demanding a value proposition that will work for them over time, and I think rightfully so. I think that that's driving now some changes in the way some of the E&Ps look at how they do their business. And then there are a lot of really good E&P companies that have been put into a bucket with some of those that were early in their startups or didn't have the scale or just couldn't manage to make it work. So I think that over time that's why this consolidation will occur and that some of the really, really great E&Ps will kind of swallow up some of the others.

Bob Brackett: So the way to impose discipline is a handful of larger E&Ps that could demonstrate this as opposed to a large sector?

Vicki Hollub: Yeah, and certainly I believe there are some that are and they're the examples. I think the investment communities will reward them. The others will see that and everybody had to fall in line.

Bob Brackett: And what role will OXY play in that going forward? Obviously you helped with the first step. Do you see further consolidation or is that something that's well down the path?

Vicki Hollub: No, I think there's going to be further consolidation. I think there has to be.

Bob Brackett: But not -- but that's not your priority at OXY for a while?

Vicki Hollub: No, when we're done with this acquisition, we're done. We're good.

Bob Brackett: Yep.

Vicki Hollub: We've got what we need.

Bob Brackett: Thank you very much, and thank you all. For those interested, EOG Resources will be starting up in about 10 minutes.