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# EDITED TRANSCRIPT

OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

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## OVERVIEW:

Co. reported 2Q18 reported and core diluted EPS of \$1.10.



AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

## CORPORATE PARTICIPANTS

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**Jeff Alvarez** *Occidental Petroleum Corporation - VP of IR*

**Joseph C. Elliott** *Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas*

**Ken Dillon** *Occidental Petroleum Corporation - Senior VP & President International Oil & Gas*

**Vicki A. Hollub** *Occidental Petroleum Corporation - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Brian Singer** *Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst*

**Douglas Leggate** *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

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## PRESENTATION

### Operator

Good morning, and welcome to the Occidental Petroleum Corporation Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Jeff Alvarez, Vice President of Investor Relations. Please go ahead.

### Jeff Alvarez - Occidental Petroleum Corporation - VP of IR

Thank you, Gary. Good morning, everyone, and thank you for participating in Occidental Petroleum's Second Quarter 2018 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Cedric Burgher, Senior Vice President and Chief Financial Officer; Jody Elliott, President of Domestic Oil and Gas; Ken Dillon, President of International Oil and Gas Operations; and BJ Hebert, President of OxyChem. In just a moment, I will turn the call over to Vicki Hollub.

As a reminder, today's conference call contains certain projections and other forward-looking statements within the meaning of the Federal Securities Laws. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied in these statements, as more fully described in our cautionary statement regarding forward-looking statements on Slide 2.

Our earnings press release, the Investor Relations supplemental guides and our non-GAAP to GAAP reconciliations and the conference call presentation slides can be downloaded off our website at [www.oxy.com](http://www.oxy.com).

I'll now turn the call over to Vicki. Vicki, please go ahead.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Thank you, Jeff, and good morning, everyone.

During the call, we'll cover 3 key topics. First, completion of the break-even plan that's ahead of schedule due to business outperformance across all segments. Second, the recently announced midstream transaction. Third, the use of excess cash to enhance shareholder returns.

I'm excited to announce the completion of our cash flow neutral and break-even goals. On Slides 6 and 7, we have summarized the achievement of this break-even plan that we initiated in early 2017. During the quarter, we exceeded the 80,000 BOE per day growth target we set for the Permian Resources team in early 2017. All of our business segments contributed to the success of our break-even plan and continue to perform better than expected. This outperformance helped us to achieve the milestones listed on Slide 5 well ahead of schedule and helped to generate approximately \$2.5 billion more cash flow than our original 2018 plan, which was based on a WTI oil price of \$50 per barrel. This achievement strengthens our ability to provide a meaningful dividend with growth while maintaining a strong balance sheet at low prices. We're extremely proud of the execution of this plan. When others chose to cut or eliminate their dividends or pay a script, we executed this plan to continue to grow and strengthen our dividend. We can now sustain our dividend and base production with oil prices as low as \$40 per barrel, and at \$50, we can add meaningful production growth for years to come. We're very happy with what we've achieved but not satisfied with where we are. We're continually striving to increase shareholder value, and to that end, our intent is to regain a leading position with respect to return on capital employed. I'll provide more details on this later in my remarks.

In addition to the incremental \$2.5 billion of cash flow from operations this year, we'll receive proceeds of \$2.6 billion from the sale of non-core domestic midstream assets in the third quarter. Slide 8 highlights the assets that will be sold in the gray box in the upper right-hand corner of the slide. The sale of these non-core domestic midstream assets fits with our midstream and marketing strategy for 3 reasons: First, our marketing business remains unchanged, which ensures our primary objective of long-term flow assurance and maximum realized prices. This includes retaining our oil and gas takeaway capacity along with the export capacity for our barrels through the Ingleside export terminal to world markets. Second, we preserved our organizational capabilities to build and invest in strategic midstream projects as needed to achieve our marketing objectives. Finally, we retained midstream assets that are strategically integrated into our oil and gas and chemicals businesses. An example of this is our Permian EOR infrastructure, which is highly integral to the daily operations and success of our enhanced oil recovery projects. This transaction preserves all of these objectives while bringing in significant proceeds at a premium valuation. The combination of the incremental \$2.5 billion in cash flow from operations and the \$2.6 billion in proceeds from the midstream sales will be deployed to drive the highest shareholder returns. Approximately 80% of this incremental cash will be allocated to share repurchases and strengthening our balance sheet. Additionally, we will capitalize on our unique market-leading position in the Permian Resources by investing an additional \$900 million in 2018 into projects that generate full cycle returns in excess of 75%. This will require only a modest increase in activity from our original plan, which contemplated a ramp down in activity during the second half of the year based on an oil price assumption of \$50 WTI that we used for the plan.

Another \$200 million will be invested in our highest returning organic development projects in our international and Permian EOR businesses. Our competitive position is truly unique in the industry, and we recognize this is a differentiated approach, so we'll spend a large portion of the call sharing the strategic rationale for our decisions.

Slides 9 through 13 provide the criteria we used for the reinvestment of the incremental \$5 billion. We have, for a long time, believed that the measure of our success will be the shareholder value we create over the long term through return on capital employed leadership. Our market leadership will provide higher revenues at lower costs and faster capital cycle times, which will deliver stronger returns on capital, helping us to achieve our ultimate benchmark. As Slide 9 shows, our decision to reinvest incremental capital back into the business will improve our cash return on capital employed by 10% in 2019 compared to our previous plan. We believe this improvement will be best in class and will generate amongst the highest returns in our peer group. On the right hand of Slide 10, we list what we mean by market-leading in the Permian. There are significant bottlenecks and barriers to growing production economically in the Permian right now, and Oxy has unique assets and solutions that enable us to overcome the most significant ones. We know of no other E&P in the Permian that can check all of these boxes or is better positioned to deploy capital, and our cycle of improvement is happening faster now than ever before. We have a window of opportunity to further improve our operational execution, strengthen our cash flow and increase our returns. While others are playing defense, we'll be playing offense by investing a portion of the additional cash back into our business to accelerate returns.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

Turning to Slide 11. Spending within cash flow over time is imperative for our dividend growth model. As I remarked in my opening statements, Oxy is generating far greater cash flow than we anticipated this year. As the graph depicts, we more than cover our dividend and new capital guidance, leaving significant excess cash to repurchase shares and strengthen the balance sheet. We are targeting more than \$2 billion of share repurchases over the next 12 to 18 months.

On the next slide, I'd like to discuss the flexibility of our capital program, which is now dominated by short-cycle investments. Within 6 months, we can ramp down spending to our sustaining capital levels if the environment requires. Similarly, our payback times for projects have improved considerably. At \$50 WTI, the majority of our capital pays back within 2 years. This means that we are less exposed to changes in commodity prices and not exposed to long-term spending commitments.

On my last slide, I would like to address what our plans mean for the dividend. Over the last 16 years, we've raised the dividend every year at an average annual rate of 12%, which is at a rate of 60% greater than the S&P 500 over the same time period. We are constantly optimizing the balance between growth and capital management to ensure the highest returns for our shareholders. As the graph shows, we are above historical levels of payouts for our dividend. The break-even plan improved our payout ratio substantially and our relentless focus on returns will continue to drive this lower, allowing for meaningful dividend growth in the future.

I'll now hand the call over to Cedric to review our financial results and guidance details.

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**Cedric W. Burgher** - Occidental Petroleum Corporation - Senior VP & CFO

Thank you, Vicki. I'll begin with commentary on the midstream transaction and follow with our financial results and update to our 2018 guidance.

Referring back to Slide 8, we are divesting a package of domestic midstream assets for \$2.6 billion that were not integral to our operations, which include the Centurion oil gathering system and long-haul pipeline, our Southeast New Mexico oil gathering system and the Ingleside export terminal. Oxy is retaining its long-term flow assurance, its pipeline takeaway and most of its export capacity through its retained marketing business. After the Ingleside export terminal expansion, we have secured the rights to market 450,000 barrels of oil per day through 2030, with options to extend for an additional 7 years. The divested assets generated \$180 million in EBITDA and required capital of \$140 million during 2017. Our guidance for 2018 has been updated to reflect the transaction close at the end of the third quarter.

As Vicki highlighted, we now expect to have an additional \$5 billion of cash this year to allocate to increasing shareholder returns. We will deploy approximately 20% of the \$5 billion in 2018 into our highest returning organic opportunities, which will contribute an additional 17,000 barrels equivalent per day to Permian Resources in 2019. Approximately 80% of the \$5 billion will go to opportunistic share repurchases and to strengthen the balance sheet. The share repurchase target has been set at more than \$2 billion over the next 12 to 18 months.

On Slide 15, I'd like to start with our production results. Total reported production for the second quarter was 639,000 BOEs per day, coming in above the midpoint of our guidance. Adjusted for PSC's impact, we would have come in at the top end of the production range we guided last quarter. This was driven by strong execution and well productivity in Permian Resources, which exceeded the top end of the guidance range by 3,000 BOEs per day, representing a year-over-year increase of 46%. Total international production came in at 281,000 BOEs per day, with Al Hosn, Dolphin and Qatar all within our guidance. The increase in international production from the first quarter reflected the completed turnarounds at Al Hosn and Dolphin, partially offset by a decrease in production in Qatar due to its planned turnaround that was successfully completed.

Earnings improved across all segments, with our second quarter reported and core EPS at \$1.10 per diluted share. Results were adversely impacted by approximately \$90 million or \$0.12 per diluted share due to the timing of crude oil liftings in Oman and the noncash mark to market impact on crude oil volumes. A Typhoon in Oman delayed the lifting ships from June into July, and our growing crude oil export business is increasing our barrels in transit, and therefore, our mark-to-market exposure has increased. Improvements in the oil and gas segment were mainly attributable to higher Permian Resources production and higher oil prices in our international operations, partially offset by lower international sales volumes due to the timing of the crude oil liftings in Oman.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

Second quarter realized oil prices increased by 3% from the prior quarter and our DD&A rate for the second quarter was 9% lower than the average rate for 2017. Operating cash flow before working capital improved sequentially to nearly \$2 billion. We spent \$1.3 billion in capital during the quarter. Working capital changes for the second quarter mainly reflect the increase in crude oil inventories due to the timing of the international liftings and domestic export cargoes in transit.

Chemicals core earnings of \$317 million came in above our guidance of \$300 million primarily due to favorable product pricing across most product lines. Plant margins were also favorable as ethylene costs were significantly lower than anticipated. Midstream core earnings of \$250 million came in within guidance and reflected improved marketing margins due to an increase in the Midland-to-MEH differential from \$3.12 to \$7.86 quarter-over-quarter. Results also included the aforementioned noncash mark-to-market pretax loss of \$67 million, which is due to rising oil prices and an increase in domestic export cargoes in transit. We declared an increase to the dividend in July and paid close to \$600 million in dividends during the quarter. Total shareholder distributions approximated \$700 million when considering the \$73 million worth of share repurchases we made during the quarter.

Slides 16 and 17 detail our updated guidance. We raised our total year production guidance from 650,000 to 664,000 BOEs per day. Excluding the impacts of higher Brent price assumptions on PSCs, total year production guidance would be 655,000 to 669,000 BOEs per day.

We increased Permian Resources production range by more than 3% to 207,000 to 215,000 BOEs per day, mainly attributable to the improved well productivity and an increase in well count. The midpoint of this range equates to an exit to exit Permian Resources production growth rate of 54%. Our international production range of 285,000 to 290,000 BOEs per day was adjusted lower for the PSC impacts of higher Brent prices assumed at \$75 per barrel for the remainder of the year, partially offset by improved production. We have increased our total year capital to \$5 billion, with the majority of the increase allocated to Permian Resources. This is for high-return, short-cycle projects that Jody will go into more detail in a minute. In midstream, we expect the third quarter to generate pretax income between \$600 million and \$700 million, assuming a Midland-to-MEH spread of \$15 to \$17. On a full year, we expect pretax input income to range between \$1,650,000,000 and \$1,850,000,000 based on a Midland-to-MEH spread range of \$10.25 to \$11.25. In chemicals, we anticipate third quarter pretax earnings of \$315 million, and total year guidance remains at \$1.1 billion. Domestic operating expense per BOE of \$12.80 was 4% lower than the prior quarter. Cash operating costs for the domestic oil and gas business are expected to continue to decline and average approximately \$12.50 for 2018. We continue to forecast lower operating costs in Permian Resources for the second half of 2018, which are expected to average under \$7 per BOE. We have updated our guidance for total company tax rate to 29% in 2018, which reflects higher earnings from our domestic businesses.

On my last slide, we have provided you with key cash flow sensitivities. Our cash flow sensitivity to the Midland-to-MEH spread has not changed in the marketing new business as we are retaining all of the previously secured Permian takeaway capacity.

To close, we are very pleased with our performance so far this year, including the completion of our break-even plan ahead of schedule. We have a tremendous opportunity in front of us and we are working hard with a relentless focus on returns.

I will now turn the call over to Jody.

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**Joseph C. Elliott** - Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas

Thank you, Cedric, and good morning, everyone. Today, I'll provide an update on the industry-leading returns our Permian Resources assets are generating and details on how we will continue to invest in these projects to provide our shareholders with value-based growth.

I'll start on Slide 20 to highlight some of our achievements year-to-date. First, we achieved 213,000 BOE per day production in June, which was above the 209,000 BOE per day break-even target we set at the beginning of the year. We achieved the 80,000 BOE per day growth target 6 months earlier than planned through our step change in well productivity and steadfast execution. We continue to deliver record wells in our Greater Sand Dunes area and achieved an Oxy record for the Texas Delaware with the Lyda 13H delivering a peak 24-hour rate of almost 5,700 BOE per day and a 30-day rate of over 3,700 BOE per day. Our high-quality Permian Resources assets combined with our subsurface expertise are generating high double-digit full cycle returns in many of the best wells in the Permian Basin. Our appraisal program is also delivering great results and continues to provide low break-even inventory replenishment for sustainable high-return growth. Year-to-date, we've added 218 gross locations to our less



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

than \$50 WTI break-even inventory and created additional value by increasing working interest and average lateral length through acreage trades. Our Permian Resources business is generating high full cycle returns as we develop our assets in the most prolific areas of the Permian Basin. Our margins are protected through Aventine, our maintenance and logistics hub, and our midstream business is ensuring we get maximum product realizations. We believe our resources business is positioned to provide some of the highest return growth in the industry. We're also generating excellent returns in our Permian EOR assets. We continued our progress at the Seminole-San Andres unit by lowering OpEx an additional \$2 per BOE for a total reduction of \$7 per BOE since the acquisition. This \$7 improvement is expected to generate over \$400 million in NPV, which is 2/3 of the acquisition cost. In June, we announced a feasibility study for a carbon capture utilization and storage project with White Energy. The project will capture carbon dioxide at White Energy's ethanol facilities in Hereford and Plainview, Texas, and transport it to the Permian Basin for use in sequestration in our Permian EOR business. Our Permian EOR business provides us with a unique carbon emissions reduction opportunity that will also generate returns for our business. We look forward to advancing these important projects, and we'll update you as we move forward.

On Slide 21, we show the well performance results of our extended lateral program in our 2 core development areas and how both areas are outperforming other operators. In the second quarter, we continued our basin-leading results in the Greater Sand Dunes, with 32 2nd Bone Spring wells online averaging 2,500 BOE per day over 30 days. Our wells in this area are generating industry-leading and are outperforming the average operator by 24% on a 6-month cumulative production basis. Our Greater Sand Dunes area continues to generate great well results with multiple stack benches and will be a cornerstone of our development for many years to come. In our Barilla Draw area, we're seeing similar improvements in 2018 and recently implemented a new well design that is delivering record results and lowering costs. Our 2017 Barilla Draw wells are outperforming the average operator by 26%, and our more recent wells are trending even better. We expect this gap to grow as we progress our subsurface characterization to optimize landing and continue to customize our well designs to ensure we are maximizing the net present value of each section developed.

On Slide 22, I'll provide details on how we're deploying additional capital into our high-return development areas. We began 2018 with an 11 operated rig plan that would achieve 3 primary goals: provide the additional high-margin growth required to complete the break-even plan; maintain flexibility to ramp down to a \$50 activity level after the break-even plan was achieved; and continue to improve results and appraise new areas for future development. We have now achieved the break-even plan milestone but as we evaluated the plan to ramp down in activity, we realized high-return projects in the second half of the year and into 2019 would be eliminated. We continue to improve in all of our major areas as we progress our subsurface knowledge and apply innovative technologies to our development programs. We've also protected our full cycle margins through our advantaged midstream position that is providing high product realizations at 98% of WTI and our logistics hub that is protecting our program from market inflation. Our development program is delivering many of the best wells in the Permian Basin, and we expect full cycle returns in excess of 75% at current strip prices. Our appraisal program delivered great results in Turkey Track and Red Tank in New Mexico and in the Hoban bench in Greater Barilla Draw. We expect these appraisal areas to deliver returns similar to our current development area. Given higher commodity prices than in our original plan, the basin-leading results from our development and appraisal programs and our advantaged midstream and logistics position, we have decided to accelerate NPV by deploying additional capital into these high-return projects. A portion of the increased capital is allocated to cover acceleration of time-to-market on the original plan and additional working interest we gain through acreage trades in our core development areas. These are both high-value opportunities that enhance our development program. We've also allocated additional capital to maintain an activity level similar to our current development pace. Instead of ramping down to a \$50 rig activity level in the second half of the year, we now expect to operate an average of just over 12 rigs in 2018 and exit the year at 13 operated rigs. We'll also deploy additional value-added appraisal capital to progress emerging plays and technology and additional facilities capital to support production in 2019 and beyond. Our outside-operated program is also delivering great results and strategic insights into the areas across the basin. As we reviewed and evaluated [ballots] this year, we had more high-value opportunities than we expected as WTI prices remained strong and supported higher activity levels from many operators. The additional \$200 million in outside-operated will support another 1 to 2 net operated rigs for the year, where we will receive high returns and science appraisal data on the emerging plays across the basin.

On Slide 23, we've updated our Permian Resources production guidance and increased the midpoint for total year by 7,000 BOE per day. Starting with the second quarter, we beat the high range of the guidance by 8,000 BOE per day due to continued improvement from our wedge wells and strong results from our base optimization projects. We're increasing our guidance for third quarter and fourth quarter to account for the better results in the first half of the year, operating efficiencies reducing time-to-market and additional activity we've added to our capital program. The 2018 production increase from the additional activity provides a modest increase to this year's production, but we expect it will add over 17,000 BOE per day in 2019.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

As I close, I'd like to recognize our employees for their dedication in making Oxy the best operator in the Permian Basin. For decades, we've demonstrated our ability to maximize recovery of mature fields at low cost in our EOR business. And now, we're a leading operator of Permian unconventional assets. The capability and the energy of our employees has never been better, and I want to thank them for their hard work.

I'll now turn the call back over to Vicki.

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**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Thank you, Jody.

As you can see, our business performance has put us in a remarkable position. We provide an industry leading shareholder distribution yield through our dividend and buyback programs while delivering valuable long-term growth from incremental investment in high-return organic projects. We're committed to delivering this value proposition to our shareholders within cash flow. We built a leading position in the Permian with the best wells, technology, excess takeaway capacity, export capabilities and supply and services security. This, combined with the outperformance of our other businesses, is why we're so confident that our actions will enable us to extend our industry leadership into shareholder returns.

We'll now open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Doug Leggate with Bank of America Merrill Lynch.

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**Douglas Leggate** - BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research

Vicki, the market seems to be taking a fairly dim view of the increase in spending this morning. So I wanted to ask you, what's behind your decision to step up the pace? And I really want to think about it in the context of your peer group of similar size in terms of the resource business, because it would seem to us, at least, that the pace of spending has been substantially lagging peers. It looks like you're catching up, but I'm just curious how you feel about the right investment pace and whether you would agree with that assessment.

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**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Thank you, Doug, for the question. The reality is, and the way that we do our business is, we try to pace our developments so that we maximize net present value and return on capital employed. So as you guys have seen, we've had developments going on in certain areas, and for each development area, we build to ensure that we can maximize the value over the long term, which means that we don't build infrastructure for peak production; we build it for the life of the development area. We wanted to get to our break-even plan, to get to that milestone as quickly as we could. That was a key milestone for us. So we accelerated our pace to a level that we felt was the maximum before we started to destroy value. So the pace that we've been on up to this point was a pace that was driven by our commitment to return on capital employed. That's why we haven't gone faster getting to this break-even plan. Now, however, we have some additional development areas which is driving the pace that we're going to increase to in the second half of this year. So rather than ramp down, we'll increase to ensure that we can cover these new development areas that Jody's going to talk about probably in a little more detail later. So the pace for us is always driven by ensuring we never get out in front of our technology, that we never go at too fast a pace, we never overbuild infrastructure, and that has always dictated our pace. And so we feel like that, with lower capital than some of our peers, we've actually delivered more. And we've not only delivered more in terms of production in some cases, but also in terms of value. And we're going to stay -- continue to stay focused on value. Going forward, our additional development areas, as they come into play, that could increase our capital as we go forward, but it's always going to be at a pace that maximizes returns. And you're right not only about our Permian peers but if you look at the companies that are operating, not -- that maybe don't even have Permian production, that



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

have development in other areas, our total capital now, not only is our capital in the Permian Resources now more similar to our peers but our capital overall is similar to our proxy peers that are of close size to us. So we think that we started the year a little bit under capital but at the pace that we felt would maximize our returns.

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**Douglas Leggate** - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

That's kind of what I was getting at. I guess my follow-up then is really the impact, then, on the philosophy of the business going forward because the growth in the Permian has, obviously, been key to getting you back to breakeven, so it's by definition, been generating free cash flow. Do you expect the business at the new pace, the Permian Resource business specifically, to also continue to generate free cash flow under your updated commodity deck, I guess? And if so, can you give us some idea how you see the exit-to-exit as you go into '19, so exit '18 going into exit '19, what would you expect that growth pace to look like? And I'll leave it there.

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

We expect growth that would be similar to the activity level that you'll see in Permian Resources in the second half of this year. So the growth level should be, for our Permian Resources business, probably in the high 30s.

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**Douglas Leggate** - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Is that year-over-year or exit-to-exit?

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

That's year-over-year.

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**Douglas Leggate** - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

And still free cash flow positive or no?

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

We should be free cash flow positive. I think it would be around 54% exit-to-exit.

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**Operator**

The next question comes from Paul Sankey with Mizuho Securities.

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**Paul Sankey** - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

On the CapEx increase, again, the magnitude is what surprised us. It really is a large number. Can you talk a little bit about how come we were sort of not forewarned that you could make a move as big as this?



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

One thing we were doing is watching commodity prices, watching the volatility around the world and staying and getting pretty comfortable with the incremental development areas that we're going to expand into. So a lot of it is around ensuring that as we go into the second half, that we'll still be able to see returns that are at least where we were and maybe in excess now, because we've done a lot of really, really good work. We feel comfortable with what we're doing. We've always talked about and tried to share with people that the plan we put together was based on a \$50 plan. We actually start our planning process usually midyear, and then by December, we're ready to present it to the Board. And as we were doing that last year, we were seeing \$50. And it wasn't really until toward December or January that prices started to go up a bit. And so starting at that pace, we were, as I mentioned earlier, a bit under capital versus our peers, and then accelerating and getting to the break-even plan early was driven by the efficiency improvements that we saw. So it was a combination of seeing the efficacy improvements, getting comfortable that we were going to be in a better than \$60 environment for the full year and that -- and gaining some confidence that 2019 is also going to be in a similar environment, because the reason for the ramp down, as we said, was to ensure that -- we always spend within cash flow. And so thinking that, when we prepared the plan at \$50, that we didn't know what 2019 would look like, so we didn't want to go into 2019 at a higher pace and risk outspending cash flow, because that is our commitment beyond the achievement of the break-even plan.

**Paul Sankey** - Mizuho Securities USA LLC, Research Division - MD of Americas Research

And then I guess the other thing that was different about '19, -- excuse me, '18 versus initial expectations was the basin differentials. And I assume a large part of what you're doing here is to fill your own capacity, presumably to the detriment of your competitors. Is that the correct way of thinking about what you're planning to do?

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

That was not a driver for us. The driver really is to develop the -- to do the upstream development that delivers better than 75%. So it's first, we plan based on what the development itself will deliver. Secondly, we look at what's happening with the takeaway capacity. So we have, as you know, so much that we weren't really trying to fill it to move others out.

**Paul Sankey** - Mizuho Securities USA LLC, Research Division - MD of Americas Research

Okay. And just then the final one from me would be, in terms of, you said you want to keep your CapEx and dividend covered by your cash flow. Can you just remind us what your aspiration is for cash returned to shareholders? Because I think the other side here is that you could have done an awful lot more buyback. Could you just talk about that balance? And I'll leave it there.

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Yes. The reason that we want to buy back shares is we want to reduce our share count. We want to have the capability and capacity, over time, to grow our dividend in a more meaningful way. While at the same time, we have to be conscious of the fact that investment in our Permian Resources business, our organic growth, delivers better returns than the buybacks. So the buybacks really are specifically to help us with our dividend growth over time.

**Operator**

The next question comes from Brian Singer with Goldman Sachs.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

**Brian Singer** - Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst

As you've highlighted, the Delaware Basin well performance has been very strong over the last year. With the accelerated CapEx, you're now on the hook to deliver more growth. As you move into development mode, do you expect that the level of well productivity we've seen the last couple of quarters to be sustained or improved? Or do you see the impact of tighter spacing moderating those productivity gains? What do you see as the rest of the upside or the downside?

**Joseph C. Elliott** - Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas

Hey, Brian, this is Jody. We see continued improvement in well performance. We continue to do more and more integration of some seismic activity into our targeting and our well designs. We've got a new well design in the Texas Delaware area that's allowing us to both drill faster and complete in a more optimum way. So the well -- we expect the wells to continue to get better. With regard to spacing, we're probably more conservative than most in our spacing assumptions because we're so focused on returns and the net present value of each of these sections that we develop. And so we do a lot of modeling; we've done a lot of testing on spacing. So this isn't about downsizing and having parent-child interference issues. We take that into account and design for that as we go in. So hopefully, that answers your question, Brian.

**Brian Singer** - Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst

It does. And then just kind of going back a little bit to the capital allocation and then thinking even more strategically, kind of two follow-ups. The first is, you talked about your flexibility to pull back on CapEx in the event of unfavorable commodity prices. What, if anything, would you need to see to pull back to allocate more towards share repurchase? And then, from a use of excess capital perspective, given that you're increasing activity in the Permian, does the potential increase to your decline rate increase your interest in low decline rate M&A or new projects on the EOR side?

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Over time, we do want to pick up more conventional activity and projects. We actually have -- some of the incremental in our capital allocation is going to the Central Basin Platform and EOR to drill horizontal wells in conventional reservoirs. So we'll do some things to work on mitigating the decline of the Permian Resources business. Some of our work in international, which I'll let Ken describe here in a minute, is also going to address that same thing. So we'll let Ken address that, and then we'll come back to the share buyback issue.

**Ken Dillon** - Occidental Petroleum Corporation - Senior VP & President International Oil & Gas

As I mentioned in a previous call, one of the projects we're working on is the TECA steamflood in Colombia. So far, the pilot appraisal's performing above expectations, and it's a classical Oxy International project implementing EOR techniques to an existing field discovered in 1963. We expect the green light before year-end and expect to reach about 30,000 barrels a day gross in phase 1. Initial response shows wells going from 6 barrels a day to 58 barrels a day with the impact of the steamflood.

**Cedric W. Burgher** - Occidental Petroleum Corporation - Senior VP & CFO

Yes, Brian, this is Cedric. I'm going to chime in for a second on the buyback. We're excited to be re-engaging in a more meaningful way with respect to the buyback. As you know, we have a long history of doing that. Kind of took a hiatus during the downturn, but we're excited to be in a position to do that. We've kind of put out there the \$2 billion plus as a target over the next 12 to 18 months. As we've said before, we like an opportunistic approach, so we're looking at value. And we're looking at returns. We've got good models so that we think, certainly not perfect stock pickers, but we like the idea of choosing the timing of when we invest in our stock. We think we have a good track record there, and we look forward to deploying some capital there. And as you know, the numbers we've given you don't add up to the \$5 billion. We've got a lot that we were able to put on the balance sheet. We do want to keep a strong balance sheet. However, that also gives us more flexibility to go beyond the two over time should we



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

choose. But we're going to pace ourselves, and maybe days like today are going to give us a good opportunity to be in the market buying shares, and we look forward to doing that.

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**Operator**

The next question comes from Phil Gresh with JPMorgan.

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**Philip Gresh** - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So first question is just a bit of a follow-up. Vicki, you talked about the Permian Resources growth rate for 2019. As we think about this step function change and this spending to the \$5 billion level, not just this year but also next year, maybe you could just refresh us on how you think that will drive the overall company growth, not just in 2019 but also beyond.

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

In 2019, we expect to exceed what we're -- the growth rate we're seeing this year, with a strong program going -- that's assuming that commodity prices stay where they are today. We have -- the slide that we have in the deck is not telling you that, that's exactly what we'll do in 2019 but if we see the same market situation and all other things are similar, then we could spend, in a \$60 environment, between \$5 billion and \$5.3 billion. We expect that would deliver a better growth rate than what we're seeing this year overall for the corporation. So I think we're going to see healthy growth beyond that as well because of what we see in the Permian Basin. Having the inventory that we do, we've recently signaled that we do expect to be able to grow better than the 8% on average on an annual basis. So you could start to model out what you'll see next year from that sort of program, and going forward would be better than 8%.

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**Philip Gresh** - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Second question, for Cedric, is just, with this asset sale, if you could just refresh us on the use of the NOLs and the impact it'll have on you being a U.S. cash taxpayer. I think you were not expecting to for a couple of years, and if you could just comment on whether you see additional assets that you would consider monetizing at this point. Or should we think that this is the majority of what you were looking to monetize?

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**Cedric W. Burgher** - *Occidental Petroleum Corporation - Senior VP & CFO*

Okay. Sure. On the tax, we do expect a gain, and we'll have more on that. Of course, it's expected to close in the third quarter, and we've got some things to finalize there to get a precise amount, but if you look at our Q, you can see assets held for sale, it's predominantly the midstream assets, it's not exact but it's close, if you're just trying to get ballpark. But we're going to have -- we have continued NOLs, or our tax attributes we can use to offset the gain, and we won't be in a cash tax position for some time, as you correctly stated. Our effective rate, also, we kind of outlined that in my earlier remarks but expect it to be in the back half of the year, kind of in the high 20's. And over time, we would expect to use up those tax attributes, and then go to a cash tax position, but it still looks like it's going to be several years out. It obviously depends on commodity prices and a lot of other variables. In terms of other assets for sale, I mean, we're always looking to refine our portfolio. But we don't have any new, news for you. We've given you the news of the day, and I'd say, at this point, we have a really good core business on all the verticals that you can look at, and we're reinvesting in that and think we can grow within the business that we have.

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**Philip Gresh** - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. And I guess my last question would just be on the buyback commitment. If we move to a lower price environment, and I know you've talked about the flexibility on capital spending to pull back, but if we move to a lower price environment, is there a strong commitment that either way,



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

we should expect the \$2 billion of buybacks over the next 12 to 18 months? Or is that still a bit of -- I know it's opportunistic but it's also the flywheel -- I'm just looking at Slide 27, and it feels like it's the flywheel, so just, any color on that. Thanks.

**Cedric W. Burgher** - Occidental Petroleum Corporation - Senior VP & CFO

Yes. So, obviously, lower price environment is -- especially, if that means lower share price environment, certainly like the idea of investing our capital then. That's really what we're thinking about. If it's lower commodity price environment, obviously, those two tend to track together somewhat, but on a lower commodity price, we have, as Vicki mentioned, the ability to ramp down, and our plan works at \$40. We think that is the answer for the industry, that you need to be a low-cost producer. And I think very few can make those statements, but at \$40 plus, we can ramp down within a 6-month, plus or minus, time period, and be within cash flow. So really, our -- now that we've achieved that break-even plan, we're in a position to balance our spending within cash flow pretty much at any commodity price. And then -- so the excess cash we're seeing for this year is really what we're targeting for reinvestment in shares, that \$2 billion or so. That's cash that's not in the bank today, but it's darn close. Beyond that, if we're talking about a lower price environment, we've got that flexibility to make those share repurchases in a lower price environment.

**Operator**

The next question comes from Pavel Molchanov with Raymond James.

**Pavel S. Molchanov** - Raymond James & Associates, Inc., Research Division - Energy Analyst

We've talked a lot about the buyback on this call. Let me ask about the dividend. One of the charts in the slides highlights the long-term 12% dividend growth. But obviously, of late, it's been nowhere near that, only kind of low single digits in recent years. Is that because implicitly, you're saying the yield is high enough on the stock as it is? Or what's the -- kind of what's the reason for the very slow upticks?

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

What we're trying to do is drive toward increasing our cash flow so we can increase our dividend. Currently, the payout ratio is still at a higher level than what we've seen historically. So part of the reason for ensuring that we increase our cash flow, increase our return on capital employed, is to continue to build on our value proposition and make sure that we strengthen all aspects of that, getting -- as I said earlier, getting to the breakeven and milestone -- breakeven and neutral milestones really were to get us to a point where we can do exactly what we're doing now, further strengthen not only balance sheet but our cash flow, our returns. And through doing that, we think that we could then start to grow the dividend again. We don't want it to get to a payout ratio that gets us away from being able to be cash flow neutral at \$40 and breakeven at \$50. So that's really the parameters that are driving what we do with it. So buying back shares, increasing cash flow, gives us the ability to start growing it more than we've done over the last few years.

**Pavel S. Molchanov** - Raymond James & Associates, Inc., Research Division - Energy Analyst

One more about the Permian. You've talked about having, or maintaining the liquids midstream access that you will need. What about natural gas? I mean, we're hearing more and more about kind of the risk of flaring, having to run up against the regulatory limits in the Permian. Is that an issue on any portion of your acreage today, gas bottlenecks?

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

No. We don't feel like it's an issue. We currently are getting all of our gas out. We occasionally have short-term bottlenecks as the industry is phased in the Permian. The way we've addressed that in the past, though, is with the enterprise 50-50 joint venture plant construction that we had a few years ago, when we see that there are going to be issues, long-term issues for us, what we'll do is we have the capability, we retained the capability



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

to build infrastructure or to partner with others to ensure that the infrastructure is installed to be able to manage all of our products, so not just oil but gas and NGLs as well.

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**Operator**

The next question comes from Jason Gammel with Jefferies.

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**Jason Gammel** - *Jefferies LLC, Research Division - Equity Analyst*

I just wanted to ask about your firm transportation, which obviously extends pretty far into the future. We're in a period now where differentials are blowing out a bit. So I guess the question is kind of twofold. Would you have any interest in potentially terming that out, that firm transportation out with another party at maybe a level that is lower than differentials today but that would extend for a multiyear period to sort of turn it into an annuity? And then I suppose, are you being approached by other parties for that type of arrangement?

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

Well, we've done a little bit of that. And what we try to do is balance a little bit of long-term to ensure that we can manage the downside risk, but we also feel that over the long term, we want to keep some of that flexible so that we can take advantage of periods like this where the differentials are high. We think we're going to continue to see cycles where both situations will exist, where we'll reap strong benefits, as we're doing now. But there will also be times when we see the other side of that. So we have put together some contracts during this period that will protect us on the downside but without value destruction.

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**Jason Gammel** - *Jefferies LLC, Research Division - Equity Analyst*

And then if I could ask a second one, please. You've highlighted two new areas within the Permian that you've been delineating. I was hoping you could just provide a little more detail on the Barilla Draw Hoban bench and also on New Mexico, Red Tank, just in terms of prospectivity, potential drilling locations, et cetera.

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**Joseph C. Elliott** - *Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas*

Jason, this is Jody. Both of those areas, we're seeing really positive results. The Hoban is associated with the Wolfcamp A. We've done a lot of delineation work, seismic work to understand is that one big thick area that we can prosecute with a single well and a large frac? Or do we need to put two wells in 2 different flow units and then optimize the frac to that? So what we're seeing are very good results, and I think it will add inventory in that area. In New Mexico, I think there's even a stronger story in the Red Tank/Lost Tank area. That's proximal to a few wells that here recently in the Permian are probably the largest that have been drilled. We see multiple benches, we've had some appraisal wells drilled there, very encouraged, both in the Sand Dunes proper area and in Red Tank/Lost Tank. We see continued improvement in Tier 1, both the quality of the existing wells that are in the inventory and adding more inventory. So we're very excited about that. In that capital spend increase that we talked about, about \$400 million this year of the \$900 million is going toward that kind of activity. That activity is going to -- is the portion that will generate most of the production increase starting in -- showing up in 2019 of approximately 17,000 barrels a day.

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**Operator**

The next question comes from Roger Read with Wells Fargo.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

**Roger Read** - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Maybe to follow up on Pavel's question about ultimate dividend growth. Do you have, Vicki, an idea, or Cedric, of maybe where production needs to be to support dividend growth? And let's just say, assuming kind of recent or current oil prices as the paradigm there.

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

I'll start out and let Cedric finish it. But it really goes back to basing it around being cash flow breakeven at \$50 and cash flow neutral at \$40. As we continue to grow our cash flow through increased production, we will be able to start to lower those break-even and neutral points. As we start to lower those and buy back shares, that gives us the capacity to continue to grow the dividend. We've looked at that, and that's the reason for the -- part of the reason for what we're doing today and where we're trying to head. But it's going to be dictated by that and can be modeled.

**Cedric W. Burgher** - Occidental Petroleum Corporation - Senior VP & CFO

The other thing I would mention on that, Roger, is on Slide 13, which we've talked about. We put on there the dividend payout ratio in those little boxes above the bars, and it just shows a couple of things. One is, we aren't where we were historically, well below 20%, and so -- however, it also shows how much progress we've made in just the last year or so. So it's doing everything that we've talked about. It's focusing on returns. That trumps everything. But by doing that, you're allowing yourself to grow and grow your coverage ratio, improve your payout ratio. And so we don't have an exact number. We're not going to put ourselves in a box that way. We love to grow the dividend. We do grow it; we grow it ever year. It's just at a modest rate in the last few years. We look forward to growing it more meaningfully, as we've done in the past. But the buybacks will help on that as will reinvesting at high returns. And the combination, over time, will get that payout ratio more like it has been in the past, and that will set us up for more meaningful dividend growth.

**Roger Read** - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

And then Jody, if I could change direction to you. You mentioned, as part of the CapEx increase, some of the efficiencies that you've recognized this year. Can you give us an idea of maybe some of the things, specifically, you've seen in the way of efficiencies and how those are carrying along? I'm thinking not just on the drilling side but well completions and maybe the impacts of Aventine at this point.

**Joseph C. Elliott** - Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas

Yes. Aventine is a big part of this. We went live with Aventine earlier in the year. We have probably about 50% penetration of the sand and the sand delivery systems in our business. So there's still more opportunity to improve the other frac cores that are operating. Schlumberger finishes their facility the end of September, early October. So we'll begin taking full advantage of that relationship on multiple product lines. On the drilling side, there's a Slide -- 36, in the back, that talks about our feet per day improvements from 2017 to '18. So just a couple of facts on Aventine. We've moved 230,000 tonnes of sand through there since we've started. But it's also helped us with ensuring we've got supply, so it's both cost and supply. The sand delivery system, SANDSTORM, that we talk about has really had a big impact on trucking. The sand system hauls more sand per truck. We've avoided 450,000 miles already of trucking. So you think about the tightness in labor, that really helps in that area. The amount of time it takes to unload sand when your location's been reduced by 50%. And again, we still have more cores that will take advantage of this system as we finish out the year. So we're really excited about how, not just Aventine but the work our drilling and completion engineers are doing to optimize wells and the process will continue to drive efficiency. And any inflation or tariff impacts, those kinds of things, get offset with this efficiency improvement.

**Roger Read** - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

And nothing quite like tariffs, huh? Maybe a very specific question on the productivity. There was another company, it doesn't operate in the Permian, but mentioned on their call earlier that the amount of stages they were getting done on a daily basis were running ahead of their budget.



## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

And I was just curious, in the Permian, relative to budget on stage completions per day or per well, if you were seeing an improvement in productivity there?

**Joseph C. Elliott** - Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas

Yes. I think we highlighted one of the cores in New Mexico pumped 240 stages in a month. So we are seeing that improvement. Again, when you look back at the capital increase we're talking about, if you go through Slide 22, some of that additional spending is exactly what you're talking about. We've improved time-to-market. We're getting more done with the same resources. That just brings capital forward. So we are seeing that kind of impact, and if you spend some time on that slide, you'll see that there's positive things that are driving the increased capital, more working interest, better time-to-market. And so it's really a cash return on capital employed accretive activity by spending this additional capital in Permian Resources.

**Roger Read** - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

I appreciate that. I was just going to try to get you to draw it out between budget and actual, but, we've got to try what we've got to try.

**Operator**

The next question comes from Leo Mariani with Nat Alliance Securities.

**Leo Mariani** - National Alliance Securities, LLC, Research Division - Research Analyst

I was hoping you could add a little bit of color around the new well design you guys mentioned in the Texas Delaware. Just trying to get a sense of some of the moving pieces here. Does this add a little bit to the cost but maybe just give you a much better result in terms of productivity? What can you kind of tell us about that?

**Joseph C. Elliott** - Occidental Petroleum Corporation - Senior VP & President of Domestic Oil & Gas

Leo, the kind of simple answer is it's a tapered well design. Probably won't go into a whole lot of specifics there. But it allows us to drill faster, run pipe faster, complete the well faster, have larger flowback in artificial lift equipment, which improves drawdown over the life of the well. But it's kind of framed around a tapered production string design.

**Leo Mariani** - National Alliance Securities, LLC, Research Division - Research Analyst

Okay. That's helpful. And I guess, just back to the midstream divestiture here. Just trying to get a sense of what you guys saw out there on the market. Did you guys sort of view this as kind of an opportunistic time to go out and sell these assets here and you just feel like it was a right time or it was kind of a seller's market where folks were looking for export infrastructure in Permian infrastructure? I'm just trying to get a sense of the dynamics of the deal.

**Vicki A. Hollub** - Occidental Petroleum Corporation - President, CEO & Director

Well, this -- the Centurion Pipeline and the Ingleside export terminal, Southeast New Mexico gathering system, we've never considered those necessarily to be core to our business. We just need the capacity on those. It's similar to what we did with BridgeTex a few years ago, we partnered with Magellan to build the BridgeTex line. Prior to that, differentials were going up to \$10. We did that to ensure that we could manage the differentials back down. We didn't need to own the line to get the benefit of it, but we had to help build it to make sure it happened. We've done that in some of our international locations as well, to build pipelines to ensure we could get our products to market. We've really never felt that

## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

we had to own Centurion or the export terminal. It just -- we happened into an opportunity where it was a win-win for us and the buyers. The buyers get quality assets that deliver solid returns. We get cash flow that we can now use to get even better returns for our upstream business and to buy back some shares. So it was sort of opportunistic in that there was a buyer that had a need and got that and we had the opportunity to do something that can help us to achieve our goals on both ends, organic growth and buybacks.

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**Leo Mariani** - *National Alliance Securities, LLC, Research Division - Research Analyst*

So I mean, it sounds like just the bottom line is that getting the 75% full cycle returns on the wells is just a far better use of capital. Is that just the simple way to think about it?

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

It is. Those returns are -- they're certainly the best. And in our business, we do have some international projects that can compete with that as well, and that's why we're doing some of those. But the returns we're getting in the Permian, especially with the way the teams have increased efficiencies and increased well productivity, it's just -- this is just an opportunity that -- to get and to rebuild our return on capital employed back to the point where we're a leader in that.

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**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

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**Vicki A. Hollub** - *Occidental Petroleum Corporation - President, CEO & Director*

I just wanted to build on the last question because of the fact that it -- I think it's critically important for people to know where we've been, the path we've been on and why we're doing what we do, that this all ties together. I won't repeat our story again about our portfolio optimization. But back in 2013, we had a really good history of delivering return on capital employed. From 2008 to 2013, we averaged close to 15%. That was the third best in our proxy peer group, and the only 2 that beat us were major oil companies. There were no E&P companies that were beating the returns we were getting. We saw that we had some projects in our portfolio that can never meet our metrics. So we made the decision that since it was a part of our value proposition, very important to us, the key metric that we use, we started the process of optimizing that portfolio, exiting those and focusing on the Permian Resources business, which we had begun to realize was of a huge scale, high-quality, high-return projects. So we exited 40% of our production from 2013 to 2015 and -- to rebuild that cash flow that we lost from those lower-margin, low-return projects, we depended on the Permian Resources business to do that. It has done that. It's gotten us to what we consider to be just the first milestone, that is the cash flow neutrality at \$40 and breakeven at \$50. We went at a pace that we felt was appropriate to maximize return on capital employed as we were doing that, and replacing our cash flow. That worked out well for us. But to get it really where we need it to be, this is the next phase. The next phase is this -- this year's capital program is a key part of getting us to where we need to be. Going into 2019, if market conditions are similar, we'll have a similar program. That'll get us back to -- in a leadership role. We will then be able to, I believe, exceed what any of our peers are doing. And that's what this is all about. It has nothing to do with price. It's back to our value proposition. It's back to ensuring that, ultimately, with this -- by focusing on return on capital employed, we can grow our cash flow, value-adding cash flow, and that we can then begin to grow our dividend again in a more meaningful way. This all fits together. It's all about the value proposition, and this is an opportunity that we have worked hard for the last 5 years to get to. We're there now, and we're ready to execute on it, and it's an opportunity that we just can't miss. And I think for our shareholders, it's certainly the right thing to do. And I appreciate all your questions today to help us get our story out, and we'll be talking with all of you over the next month or so. And then we'll see you at Barclays.

So very much appreciate it. Thank you. Bye.





## AUGUST 09, 2018 / 3:00PM, OXY - Q2 2018 Occidental Petroleum Corp Earnings Call

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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