REFINITIV STREETEVENTS

EDITED TRANSCRIPT

OXY.N - Q3 2023 Occidental Petroleum Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2023 / 6:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Vicki A. Hollub *Occidental Petroleum Corporation - President and Chief Executive Officer*

Richard A. Jackson *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Robert Peterson *Occidental Petroleum Corporation - Executive Vice President, Essential Chemistry*

Kenneth Dillon *Occidental Petroleum Corporation - Senior Vice President and President, International Oil and Gas Operations*

Michael Avery *Occidental Petroleum Corporation - President and General Manager, 1PointFive*

Neil S. Backhouse *Occidental Petroleum Corporation - Vice President, Investor Relations*

CONFERENCE CALL PARTICIPANTS

Douglas George Blyth Leggate *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Matthew Merrel Portillo *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Partner and Head of Research*

Neal David Dingmann *Truist Securities, Inc., Research Division - MD*

Neil Singhvi Mehta *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Nitin Kumar *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

Paul Cheng *Scotiabank Global Banking and Markets, Research Division - Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Occidental's Third Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Neil Backhouse, Vice President of Investor Relations. Please go ahead.

Neil S. Backhouse - *Occidental Petroleum Corporation - Vice President, Investor Relations*

Thank you, Anthony. Good afternoon, everyone, and thank you for participating in Occidental's Third Quarter 2023 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Richard Jackson, President, Operations, U.S. Onshore Resources and Carbon Management; Rob Peterson, Executive Vice President, Essential Chemistry; Ken Dillon, Senior Vice President and President, International Oil and Gas Operations; and Mike Avery, President and General Manager of 1PointFive.

This afternoon, we will refer to slides available on the Investors section of our website. The presentation includes a cautionary statement on Slide 2 regarding forward-looking statements that will be made on the call this afternoon. We'll also reference a few non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measure can be found in the schedules to our earnings release and on our website. I'll now turn the call over to Vicki. Vicki, please go ahead.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Thank you, Neil, and good afternoon, everyone. The team and I would like to discuss two key topics today. First, how our portfolio of assets managed by excellent teams once again drove record performance this quarter, which flowed to the bottom line.

And second, as we promised an update on 1PointFive and Direct Air Capture, which we expect to play an increasingly important role in our portfolio over time.

One important note before we begin, Rob Peterson, Executive VP of Essential Chemistry will cover our financial results and guidance today. Senior VP and Chief Financial Officer, Sunil Matthew, is unfortunately tending to a family emergency. We send our thoughts and prayers to Sunil and his family.

I'll begin by reviewing our third quarter performance. Our teams again performed exceptionally well with our assets this quarter and delivered strongest earnings and cash flow from operations that we've had to date this year.

This positioned us to further advance our shareholder return framework and established a strong trajectory for the fourth quarter. Let's follow the molecules from producing oil and gas, to moving and marketing it to where it is most valued, to our OxyChem team making the products that the world needs to improve lives. And finally, returning the molecules back underground as we capture emissions and sequester them forever.

First, let's review the exceptional results in oil and gas. Strong third quarter operational performance in oil and gas production exceeded the midpoint of our guidance by 34,000 BOE per day, enabling us to increase full year production guidance by 11,000 BOE per day.

Our third production guidance increased this year. Production outperformance was driven by strong new well performance in the DJ and Delaware basins as well as higher uptime due to favorable operating conditions in the Gulf of Mexico.

In the Permian and Rockies, our high-quality inventory, combined with our team's subsurface expertise, continued to drive record cumulative well performance improvements. This exceptional well performance and our activity plans for the remainder of the year drove our full year production guidance increase.

In the third quarter, our Delaware operations team set a record with a continuous pumping time of over 88 hours, doubling the previous and at that time, audacious record in the second quarter. Our teams are hyper-focused and diligent. Their advancements are continuing to drive high performance.

Additionally, during the third quarter in the DJ Basin, we began deploying a new and innovative natural gas hybrid frac pump with Liberty Energy. We believe that deploying this forward-looking technology, which is an e-frac alternative, will reduce completion costs over time as well as emissions.

Our Midstream business performed better than expected due to the timing of cargo sales amidst rising commodity prices. And finally, to OxyChem, which exceeded earnings guidance for the quarter, largely due to improved PVC and caustic soda export demand. I can't say it enough, OxyChem provides so much synergy and cash flow generation to our portfolio. And as you'll hear, plays a large role in our Direct Air Capture story.

During the third quarter, we repurchased $600 million of common shares and have now completed 60% of our $3 billion share repurchase program. Share repurchases and our dividend enabled additional redemptions of the preferred equity. We have now redeemed over 15% of the preferred equity outstanding.

Now I'd like to turn to the second big topic for our call, an update on the progress that our subsidiary, 1PointFive is experiencing with Director Air Capture or DAC. The DAC technology we are using leverages the skills and expertise of our chemicals business and our enhanced oil recovery business. Our team's achievements in DAC will drive benefits to Oxy in three ways.

First, we will advance DAC for commercial use. Second, it will increase Oxy's cash flow resilience and generate solid returns to our shareholders over the long-term. And third, it will broaden our pathway to carbon neutrality and help others to achieve the same. Some of the team's recent achievements include the agreement we announced last night with BlackRock as a partner in our first DAC plant, STRATOS.

This is a huge signal to the marketplace that we are attracting capital as well as customers to this exciting technology. We are very happy to have BlackRock as our partner. Our team also reached a memorandum of understanding with our long-standing partner ADNOC to explore opportunities with DAC and carbon dioxide sequestration hubs in the U.S. and the UAE.

And in just eight weeks, we announced our first initiative together, a preliminary engineering study with ADNOC for a megatonne-scale, DAC facility in the UAE. And shortly after the second quarter earnings call, the U.S. Department of Energy announced that it has selected 1PointFive to receive a grant for development of our South Texas DAC Hub.

And just this morning, Oxy Oman announced an agreement with OQ Gas Networks, the sole transporter of natural gas in Oman to jointly study potential carbon capture utilization and sequestration projects in the Sultanate. I'll now turn the call over to Richard who will delve deeper into the momentum and progression of the carbon dioxide removal market and our DAC development plans.

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Thank you, Vicki. Today, I'm glad to provide a business update focused on Direct Air Capture and the carbon dioxide removal credit market. I also want to reiterate Vicki's comments on how thankful we are to welcome BlackRock as our initial investment partner for STRATOS, our first DAC facility. This is the most recent milestone in our DAC development strategy and is aligned with our execution approach, which we will discuss today.

Across Oxy, we are determined to solve challenges to both improve our business and provide essential resources for the world. Our low carbon business is an expansion of that strategy, and it's positioned to be a key value differentiator for Oxy in emerging markets.

I will begin by highlighting several of our key DAC related accomplishments. As we advanced our low carbon business strategy, Direct Air Capture was recognized as both a necessary and valuable technology. Removing CO2 from the atmosphere provides a required solution for businesses across hard-to-abate emission sectors.

Near term, we believe our DAC technology can provide carbon dioxide removal credits or CDRs at a lower cost and at larger scale than other product solutions, especially for businesses in the heavy-duty transportation sector that are working to hit decarbonization targets this decade.

Longer term, cost-effective access to atmospheric CO2 to create innovative new fuels or other products can provide a pathway to lower carbon materials and commodities for many industries. From strategy to development, our team has been forward-thinking and deliberate with a road map to advance technology, partnerships, and markets.

We continue to view technology to commercial product with the lens of capability, scale, and systems thinking. In the case of DAC, we believe carbon engineering created a unique and innovative large-scale carbon removal process that has a strong fit to our OxyChem capabilities. This process uses equipment and materials that are ready to deploy at scale.

Additionally, capturing large volumes of cost-effective CO2 improves Oxy's larger integrated oil and gas, CCUS, and low-carbon businesses for today and tomorrow. Early teamwork with Carbon Engineering led to a more advanced innovation center at CE and U.S. development partnership with an exclusive license for Oxy.

The formation of 1PointFive followed to allow more partnerships focused on market development for CDRs. Carbon removals reached critical momentum, both through early voluntary market leaders like Airbus purchasing CDRs and through new policy support measures like the U.S. Infrastructure Investment and Jobs Act, set to catalyze early commercial development for technologies, including DAC.

This progress was recognized worldwide and enabled new global development and CDR demand scenarios for 1PointFive to begin to take shape. Meanwhile, measurable project progress was being made with CE process innovations, the groundbreaking for STRATOS, our DAC 1 plant, and with key zero-emission power and emissions measurement actions to support a durable and a well-defined CDR product.

Our DAC development took another step forward through the partnership with the King Ranch that enables a 30 megatonne hub in South Texas, both to improve future DAC costs and to provide a more certain supply of CDRs for an increasing demand.

In 2022, the U.S. Department of Energy announced a $3.5 billion regional Direct Air Capture hubs program. In August of this year, we were notified that 1PointFive was selected by the DOE for a program grant to develop our second DAC in this South Texas Hub. This follows strong policy momentum over the last several years for CCUS through U.S. 45Q tax credit enhancements, including specific recognition for the role of carbon removals in the recent Inflation Reduction Act.

Recently, we've seen major project momentum with ADNOC support for the UAE DAC development and especially BlackRock's key investment in STRATOS, which bolsters our ability both to build and capitalize our plans. Further support comes from recent CDR purchase agreements with ANA, a key aviation partner, with Amazon, which purchased 250,000 metric tons of carbon removals, and with TD Bank Group with one of the largest purchases of CDRs by financial institution.

These further showcase the growing appreciation for the necessity of CDRs from leaders in core industry sectors and the need to scale them in the near term. Finally, the acquisition of Carbon Engineering comes at a time where the need to accelerate DAC innovation is critical. We were excited to fully support CE as they advance DAC technology while also rapidly integrating next generation of innovations into our DAC plant builds.

This helps make sure we maximize value across our partnerships and supports our ability to meet this growing CDR demand. Our DAC strategy has been visionary and deliberate, aligning investment with advancements with technology, partnerships, policy, and CDR markets. This approach has enabled Oxy to deploy capital responsibly, while establishing leadership in this critical technology and growing CDR market.

Our accomplishments to date have positioned us as a DAC technology and market leader. The next phase of our DAC strategy is focused on growth through accelerating cost reduction and expanding partnerships. With full ownership of Carbon Engineering technology now in-house, we expect to supplement and support the highly talented Carbon Engineering team to accelerate the innovations that ultimately reduce the cost to capture years earlier than initially anticipated.

By pairing the strengths of Carbon Engineering, Oxy Major Projects, and OxyChem we will continue to reduce cost for the life of the plant. Early innovations that could reduce the cost of DAC include improvements to air contactor geometry, where we believe we can materially reduce the number of air contactors per facility. We are also designing air contactor fan motors that consume less power.

Additionally, our teams are leveraging OxyChem's electrochemical and chlor-alkali expertise to evaluate advanced sorbents and improvements to chemical reaction rates that could increase DAC efficiency. Oxy has a proven track record of innovation, improving operational efficiencies, and large-scale project development. The application of these core competencies will be key in the successful deployment of large-scale DAC.

Both the CDR demand and global development opportunities continue to increase. By accelerating the cost reduction of DAC, we aim to provide a low-cost, large-scale supply of CDRs that we believe we can provide a cost-effective solution to help businesses achieve their climate targets and improve the value proposition for DAC developers.

We believe that DAC generated CDRs will play a significant role in corporate emissions reduction strategies and specifically for several hard-to-abate sectors like aviation and marine, and markets like low carbon fuels. Future regulatory and compliance frameworks that cap emissions growth are driving companies in certain sectors to purchase measurable and durable CDR credits like DAC CDRs.

As we reduce the cost of DAC, we expect companies will increase the share of DAC CDRs in their portfolio of solutions. We have included three market demand scenarios in our earnings presentation to illustrate how the DAC CDR market may grow rapidly through the end of this decade as the cost of capture is reduced. Reducing costs will enable us to offer CDRs to an expanding market at lower price points.

In a scenario where the cost of capture remains at $450 per tonne, we still expect the market for DAC generated CDRs to be significantly undersupplied. Demand for CDR credits from the aviation industry is expected to reach an inflection point in 2027 when the International Civil Aviation Organization begins requiring airlines to reduce or offset their annual emissions through the Carbon Offsetting and Reduction Scheme for International Aviation, also known as CORSIA.

Operational improvements by airlines present limited opportunities for emissions reductions. We expect that emissions reductions from sustainable aviation fuel, or SAF, will also be constrained as SAF demand is anticipated to exceed supply once CORSIA and other SAF mandates come into effect.

While we recognize the importance of SAF and aviation's pathway to decarbonization, SAF remains a partial solution that is currently unable to reduce emissions to true net-zero. Already DAC CDRs can be priced lower than SAF while also having the ability to scale, meet demand, and deliver a true net-zero solution.

We expect DAC CDRs will be an essential cost-effective solution for several hard-to-abate industries to achieve their targets within these compliance markets. The pace at which we will develop DAC facilities will be driven by market demand and our ability to reduce cost.

If the CDR market developed slower than expected, we will have the flexibility to refocus our efforts on R&D with the goal of bringing costs down faster. If the CDR market develops in line with the medium or high cases we've laid out, then we intend to continue executing on our cost down plan and to be positioned to secure development partners for capital.

This capital flexibility becomes the most valuable if the CDR market grows in line with our high demand forecast. A high demand for DAC CDRs would likely shift our focus towards licensing DAC technology with other developers to increase CDR supply more rapidly.

The CE acquisition helps unlock this development optionality as we can integrate our learnings into a DAC technology license. Regional development partners can then support the build-out with local knowledge, technical and operational resources, and capital, while Oxy can support through a technical-heavy, but capital-light development approach.

Based on our current plan, we anticipate that the LCV program capital, excluding third-party funding, will be up to $600 million per year through 2026. Moving on to the DAC 1 and 2 developments. We are again excited to announce BlackRock will invest $550 million in STRATOS, our first DAC facility through a fund managed by its diversified infrastructure business.

BlackRock's investment demonstrates that DAC is becoming an investable asset class for world-class financial institutions. STRATOS construction is progressing well, and it's approximately 30% complete. Additionally, the ongoing work at the Carbon Engineering Innovation Centre has already identified several promising opportunities to lower costs on future DACs.

We expect several of these ideas can be implemented into STRATOS to help demonstrate the improvements at scale and to be ready for future DAC builds. To accommodate these process improvements, we are optimizing the construction schedule for the two process trains. This ensures STRATOS remains on schedule to be commercially operational in mid-2025 while also ensuring we are implementing the latest technical advancements earlier than previously planned.

This may phase some capacity into 2026, but optimize our development plan and future costs. Our South Texas DAC Hub has commenced front-end engineering design and stratigraphic well testing is in progress. We are very appreciative of our recent selection for a grant from the U.S. Department of Energy and the meaningful work we are doing through that process.

Though the timing and the amount of the DOE grant are not yet known, we look forward to the final agreement and announcement of additional details. We have continued to work within a framework of DAC investment principles that will enable us to advance development while delivering returns for our shareholders and value to our customers and partners.

We are focused on accelerating reductions in the cost of capture, which is expected to increase market demand for CDRs and in turn, attract additional development partners. These factors will drive future development pace of DAC, including a final investment decision of DAC 2. We will also continue to advance collaboration with companies like BlackRock, ADNOC, and Oman's OQ Gas Networks who share our long-term vision for Direct Air Capture and our broader low-carbon product ecosystem.

Across it all, we appreciate these partnerships that are enabling this business for Oxy, and we are focused on delivery of this solution that can supply essential lower carbon products for the world. I will now turn the call over to Rob for our financial discussion.

Robert Peterson - *Occidental Petroleum Corporation - Executive Vice President, Essential Chemistry*

Thank you, Richard. We posted an adjusted profit of $1.18 per diluted share and a reported profit of $1.20 per diluted share. The difference between adjusted and reported earnings was primarily driven by gains on sales of non-core upstream assets, partially offset by derivative losses and the premium paid on preferred equity redemptions. During the third quarter, strong operational execution enabled us to generate over $1.7 billion of free cash flow before working capital, and we concluded the third quarter with over $600 million of unrestricted cash.

We experienced a modest negative working capital change during the period, partially driven by an increase in commodity prices. In October, we received $341 million in cash from the environmental remediation settlement we mentioned on the last earnings call.

As Vicki highlighted, each of our domestic assets exceeded the midpoint of third quarter production guidance, including in the Gulf of Mexico, where favorable weather contributed to production exceeding the high end of guidance and a higher-than-expected company-wide oil cut.

Production outperformance, coupled with a portion of Gulf of Mexico planned maintenance moving into the fourth quarter, resulting in better-than-expected domestic operating expenses of $10.20 per BOE for the third quarter. Capital spending in the third quarter was approximately $1.6 billion, representing a slight decrease from the second quarter.

We further advanced our shareholder return framework during the third quarter through the repurchase of $600 million of common shares, including $175 million, which settled at the start of the fourth quarter. Additionally, we have now redeemed over 15% of the preferred equity with $342 million of preferred equity redemptions triggered and redeemed during the third quarter.

As of November 7, rolling 12-month common shareholder distributions totaled $3.12, falling below the $4 preferred equity redemption trigger. It is unlikely that cumulative distributions to common shareholders will be above the $4 per share trigger again this year, primarily due to the concentration of share repurchases in the second half of 2022. However, we remain committed to the per share earnings and cash flow accretion benefits derived from our share repurchase program, and we intend to continue repurchasing shares at a pace that is largely driven by commodity prices.

As Vicki mentioned, we are raising our full year production guidance due to the outperformance in the third quarter. We are guiding to 1.226 million BOE per day in the fourth quarter, our highest quarterly production for the year despite hailstorms in the Delaware Basin that caused power interruptions early in October. Property damage from these Permian storms and Gulf of Mexico maintenance are expected to result in fourth quarter domestic operating costs of approximately $10.50 per BOE.

Fourth quarter OxyChem guidance reflects typical seasonality as well as the impact of a planned turnaround at our Ingleside chlor-alkali and VCM plant. This turnaround was the first ever of the ethylene cracker and the first total plant outage in the Ingleside complex in over a decade. We are beginning to see early indications that PVC and caustic soda prices may have bottomed. However, we may not have full clarity on the fundamentals of the upcoming business cycle until early next year as challenges remain, including global macroeconomic uncertainty and demand impacts from rising interest rates.

Outperformance across our domestic businesses resulted in lower-than-anticipated corporate adjusted effective tax rate during the third quarter, which we expect a rebound of approximately 30% in the fourth quarter as a proportion of international to domestic income increases during the period.

Moving on to capital. Third quarter Permian capital spending was elevated as a result of program mix and activity optimization. In certain areas, we developed higher working interest projects than originally planned as we sought to balance OBO or operated by other production. Company-wide capital spending to date and planned spending in the fourth quarter are likely to result in full year spending at the higher end of our guidance range.

Our teams are finalizing our 2024 capital plan, which we look forward to announcing on our next call following Board approval. Today, I would like to revisit several points from previous calls regarding our expected 2024 capital plan.

In the Upstream business, we expect similar domestic onshore activity levels on average to 2023. We all anticipate no material change in spending for our international assets. Additionally, we expect to run two drill ships in the Gulf of Mexico next year as part of our mid-cycle investment program.

OxyChem commenced work on the modernization expansion of the Battleground plant this year. As construction advances, we anticipate an incremental $100 million of capital spending starting in 2024 compared to 2023 guidance. Incremental spending for Battleground is expected to continue through 2025.

To summarize, the third quarter of 2023 represented a strong operational and financial quarter for Oxy. As we are near the conclusion of this year, we are preparing for 2024 with a continued focus on operational excellence and delivering on our shareholder return framework. We are pleased with the progress of the framework to date and in addition to retiring the debt that matures in 2024, we intend to continue prioritizing share repurchases in our use of excess cash flow.

The timing of when we may exceed the $4 preferred equity redemption trigger again, will be determined by the pace of our share repurchase program, which were largely driven by the macro environment. I look forward to next quarter's call where we expect to report on completing another strong year for Oxy.

I will now turn the call back over to Vicki.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Thank you, Rob. As Richard explained earlier, we expect DAC to play a more important role in our premier and diverse portfolio of assets. We believe tremendous additional potential exists there.

Joining us today for the Q&A session, as Neil had mentioned earlier, will be Ken Dillon, who is Senior VP and President of International Oil and Gas Operations but also manages our Major Projects part of the -- of our business -- the Major Projects group.

So he can answer questions with respect to the construction of the DAC. And Mike Avery, President and General Manager of 1PointFive, as was mentioned earlier. He will answer questions about the business aspects of how we're running and will run the DAC and some of the other projects surrounding 1PointFive.

So with that, I'll now turn the call over to the moderator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Nitin Kumar with Mizuho.

Nitin Kumar - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

I want to start, Vicki, with topic de jure in the industry M&A. I know Oxy has a deep bench of inventory that you highlighted. But obviously, with some deals out there recently, there's been a focus on consolidation. So just wanted to get your thoughts on how you see Oxy fitting into that trend going forward.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Well, Nitin, I do want to reiterate that we were early consolidators in our industry with the Anadarko acquisition. And we did that because we saw significant synergies there. And those were obvious to us, and the acreage was in an area that made it possible for us to understand the subsurface and to gain those synergies.

Now that we've done that, and we more than doubled our production with that acquisition. We've more than achieve the $2 billion of synergies that we had forecast. And now it's considerably strengthened where we are today. But the good thing is we don't have to do acquisitions. Therefore, while our BD group keeps up with and is aware of what's happening in our industry, we see -- we feel no need to have to do anything or be a part of it.

Nitin Kumar - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

That's very helpful. Vicki, I want to go back. I know the focus is on LCV today, but last quarter, you talked about the strong performance in your Permian well productivity. There's been some talk around improving technology and really focusing on improving recovery rates in the basin, you do as much technical work as anybody else. So just curious if you have any technology that you are deploying or seeing being deployed that could lead to a step change in recovery factors?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I think I really feel like we've already had a step change in our recovery factors. And if you go back and look as far back as 2014 and '15, the improvements that we've seen have been dramatic but most of those improvements have been around understanding the subsurface better and being able to better design frac jobs and also our wellbore configuration so that we can not only get the most out of the subsurface from a modeling perspective for the design, but also from an operating standpoint.

We have an operations team that is doing a lot on the surface and with artificial lift to take advantage of AI and other things to ensure that we get the most out of the wells from an operating perspective. And then we continue to access that by using artificial intelligence, lowering our bottom hole pressures and making sure that we're the best we can be on the subsurface with respect to efficiencies.

Now, Richard and others would chomp at the bit to be able to talk to you about all the technical work we're doing, but I consider that to be proprietary. And I really feel like we've disclosed a considerable amount in the past and that's enabled some others to follow some of what we're doing. So to be honest, I'd just rather keep the proprietary stuff to ourselves for now.

And from a technology perspective, we have mentioned some things that we're doing internationally to recover more out of our wells in Oman. But I'll just leave it at that.

Richard really wants to do just a couple of minutes. And probably what you're going to say is you also have to be careful with the definition of recovery, right?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes, that's right. I'll stay on point. The thing I wanted to highlight is just obviously, recovery factor is core to what we're doing. We're really proud of the slides that we keep in our appendix, which shows year-on-year the improving performance for our wells and not over a few days. We look at it on our 1-yearcumes. And it's not only in the Permian, it's in the Rockies. And as Vicki alluded to, we were talking earlier, Ken had some great advancements in the Middle East as well.

The other thing I wanted to say was our appraisal success. So highlight this quarter on the Wolfcamp B well that came through, the record well. The ability to go engineer and do those technical things for these new benches is core to what we believe is important as we go forward. And so really proud of that appraisal success. The appraisal wells that we drilled this year, we've already replenished the planned drill wells for this year. So and they're doing it at very low breakeven in terms of adding inventory.

So I just wanted to add those 2 things to give recognition to our team and the progress they're making.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I thought I was going to have to cut them off there for a second but he did good.

Nitin Kumar - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

And I was just hoping that you wouldn't, Vicki, but great job, guys.

Operator

Our next question will come from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Yes. It's really helpful update around LCV. I wanted to take you up Vicki, on that offer to talk about construction and how that DAC plant is building towards the mid-2025 start? What are the biggest gating items to get it to completion? And how do you feel about your ability to mitigate those risks?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Okay. We'll pass that to Ken then.

Kenneth Dillon - *Occidental Petroleum Corporation - Senior Vice President and President, International Oil and Gas Operations*

So far, I'd say construction is going very well. Worley is performing extremely well in engineering, procurement, and construction. The phase of the project is basically -- we're moving through the cyclical phase where we've got around 550 people at site into the different trades and we'll move up to about 1,200 people at site by the end of Q1. So far, we've had no issues obtaining labor in the field. In terms of procurement, we're meeting construction needs at the moment, and we've committed around 90% of the material value that we need. So prices are locked in at the moment. So things are going very well.

I think Worley's engineering capabilities are such that we saved quite a bit of money in construction and also, we designed the system so that we can replicate DACs based on the engineering that we're carrying out today. We're building a digital twin and we're using AI going forward.

On supply chain, I'd like to highlight the visionary vendors. We talked about that early on. We're basically working with companies who have aligned CEOs who are truly supportive and that's made a huge difference for us. As you know, over the last couple of years, there's been huge pressure on electrical and instrumentation equipment. I'd like to highlight Siemens Industries in the U.S. have really helped us out. They've really been committed to this project and what it means. Technip Energies are also very supportive all the way to the CEO. And we've received many suggestions from the visionary vendors on how to reduce the cost of their packages going forward right down to very detailed specifications.

I don't know if I can give one example, but one vendor that we visited has two assembly lines, one for bespoke equipment and one for standard equipment and they drew our attention to, if we change one thing in our specification, we could save an awful lot of money. The experience is you don't gain any extra reliability for doing that.

Safety performance has been exceptional, so. We're now through 1.2 million man-hours.

So overall, things are going as well as expected and in terms of materials that are out with the required on-site dates, we don't really have any. So generally working well together with vendors, Worley, fabricators, we have built materials off site. We built piping racks. We did this as a pilot to reduce fabrication, labor at site. That's worked very well. We'll definitely do that on future DACs and that takes you into the mode of, can you get the point where you build a DACtory or you can generate piping materials, air contactor frames without doing all the work at site.

So overall, project doing well and getting a lot of help from vendors.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I'd just like to build on what Ken was saying about the visionary vendors. What's been very helpful for us is that as we went through and interviewed the various vendors selected those that we felt like were more visionary. We also found that these more visionary companies also were very committed to making this work because what they realize and what's important to them is to do something that benefits the world. And if you look at the CO2 going into the atmosphere today, it's about 35 gigatons and of that 35 gigatons going into the atmosphere, 8 comes from and that's 23% comes from transportation and that's what Richard was getting at earlier.

It's really hard to do anything to decarbonize transportation unless it's a sustainable aviation fluids, SAF, like he mentioned, which is not completely emission-free or using our carbon reduction credits. And when you look at 8 gigatons, that means thousands of these Direct Air Capture facilities must be built and no matter what model you look at, that's credible around the globe with respect to climate transition and climate change.

There's no model that would show that you can cap global warming to 1.5 or 2 degrees without dealing with getting more CO2 out of the atmosphere, both for transport and just because there's too much in the atmosphere today. So that makes it a necessary technology and one that's important, as I said, for the world.

And it's important to distinguish between the CO2 that goes into the atmosphere from power generation. Power generation can be addressed by wind and solar to some degree and ultimately, fully if we can -- if a battery or some sort of industrial battery can be designed and built to aid it. But this Direct Air Capture is not a replacement for wind or solar. That's for a totally different type of CO2 emission.

So with that, just now Neil, move to your second question?

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

That was great, Vicki. And the follow-up is just around '24 capital considerations. We'll get it on the fourth quarter call, I recognize, but can you just talk about the bridge from '23 to '24 and last quarter, you annualize it looks like a $6.4 billion of CapEx. Is it crazy to say that's a good starting point? And any thoughts on that would be great.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

No, it wouldn't be crazy to say that. I'll go back to what Rob said in his script, and that is that our Upstream Oil & Gas, especially in the U.S. will have the same activity level next year that it's had this year. In addition to that, we'll have $100 million incremental for Battleground in 2024, and we'll run those two drill ships in the Gulf of Mexico. So I think that gets you to that or above as you go and total all of that. And we'll have more guidance on that, hopefully, the first part of next year.

Operator

Next question will come from Paul Cheng with Scotiabank.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Two questions on -- maybe this is for Richard. Have you seen any meaningful inflation rate in the construction side? And also, does the higher interest rate impact your growth plan and the business model? That's the first question.

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Sure. I'm going to start -- I'm assuming the inflation is oil and gas. But if I -- we need to go more broadly we can help with that.

We -- I'd say a few things, and maybe this goes back a little bit to the prior question as well. As we sort of hit the end of this year, a couple of things that we've been doing and seeing success is really optimizing our resources specifically rigs and frac if you'll kind of follow our trajectory over the last two quarters, we're down two rigs and two to 3Q and then down another two. And that's really allowed us to optimize with our contractors, the right rigs, the right crews and seeing some early returns for that with quite a bit better foot per day in both the Rockies and the Delaware.

I think as we hit the kind of the fourth quarter, we're not ready to project anything into next year. But we are seeing some areas of improvement, I'd say, across our rigs, also things like oil country tubular goods, sand, fuel these things are leading to a little bit of softening, which we hope can play forward. But our focus really has been on that optimization on efficiency.

So -- maybe I'll stop there and make sure you we answer that question.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Yes. And can we also expand not just on the oil and gas, but also to the low carbon business that we are seeing the inflation rate very different and is actually hitting up that does look like a lot of people is moving in that direction.

And also that the high inflation also want to look at is on the low carbon ventures and how that impact on that business model? And that I may as well ask my second question, which is you have signed some deals with financial institute that bind the CDR, can you share that what kind of term is it offtake and you say fixed price and even it is fixed price, what kind of pricing that we may be referring to right now?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Great. I'm going to -- I think the way we'll do this, maybe you can start a little bit on inflation as it relates to DAC and then certainly, I want to have Mike talk about the market and what we're seeing with offtake. I think that's an important part of our message.

Kenneth Dillon - *Occidental Petroleum Corporation - Senior Vice President and President, International Oil and Gas Operations*

It's Ken. Yes, we did see increases in the STRATOS cost estimate, mainly related to general industry inflation, so not specifically because of the DAC but we also increased cost as a result of incorporating learnings from the CEIC. And I would say it was probably 50-50 in terms of impact of moderate inflation on DAC and it's just general industry inflation, steel prices, materials, et cetera.

We're now at the point of the project where we basically locked in pricing. So we feel pretty good and the optimizations were designed to give us improved efficiency for the DAC long-term, included heat recovery systems, solids handling upgrades, filtration systems upgrades and electrical upgrades also.

So a number of things of not only inflation, I would say, and not -- definitely not specific to DAC.

Michael Avery - *Occidental Petroleum Corporation - President and General Manager, 1PointFive*

Paul, this is Mike Avery here. So I'll give an update on the sales process and progress that we've made for STRATOS. And so what we're getting here is a lot of momentum building in the market with a strong sort of pipeline of buyers that are growing now.

We attribute this to the market beginning to realize the importance of how Direct Air Capture is going to fit within their portfolios. I think there's also a growing recognition that Direct Air Capture is not sitting out in the future. It's a technology that's ready to go now at commercial scale. And that is actually more affordable than people think when placed next to some of the other alternatives out there.

I think the market has also been moving towards these higher integrity solutions as the carbon markets have been maturing. And so to date, we've announced deals with Airbus, Amazon, ANA, TD Bank, NextGen, the Houston Astros and the Texans. There's a range of terms on the CDR sales. They range from 1 year to 10 years. They are fixed price agreements.

And so if we look at the deals that we've announced to date, and we couple that together with the mature negotiations where we have got price, volume, and term agreed, STRATOS net capacity is sold out to about 65% to 70% to 2030. And then there's a strong pipeline behind that of earlier stage negotiations that's also growing that takes us up to about 85% net capacity sold out to 2030.

Operator

Our next question will come from Doug Leggate with Bank of America.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Vicki, I wonder if I could ask you about the business plan or the strategy for DAC going forward. Clearly, you've given up some working interest now, which I think you'd signaled before. But I think -- I don't want to misquote Richard here, but I think he said our first partner in STRATOS, where do you see your working interest? How do you see it in DAC 2? And where does license revenue fit into the capital efficiency of the DAC strategy? And I've got a follow-up, please.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Well, we have a lot of confidence in this technology and a lot of confidence that it fits very well with our strategy on a go-forward basis. Not only are we going to benefit from the sale of carbon reduction credits as a part of this technology and our strategy. Ultimately, we also -- while we're continuing to provide sequestration in saline reservoirs for our customers, we also want to provide CO2 as a product to customers to convert to sustainable aviation fluids, so that's another part of the revenue -- potential revenue stream.

And the other thing that we want to do with the CO2 that we extract out of the air is used it in our enhanced oil recovery reservoirs because that's the truest form of emission-free on a net basis oil that can then deliver the fuels that maritime and aviation need. Sustainable aviation fluids, as Richard said, is a necessary thing that we have to develop, the world needs it, and we're going to support developing it by providing products and then potentially doing it through one of our investments that we've made.

So that's important, but it's really the thing that's going to change the whole cost curve or the climate transition is for people to ultimately understand that you can use CO2 to generate net-zero oil. The way that happens is you inject more CO2 into the reservoir than the incremental oil created or produced by that CO2 will emit when used. That's critically important because that generates a net-zero oil that then can be converted to jet fuel and maritime fuels.

The thing that's so important about that is not only is it emission- negative or on a net basis or emission-equal. What it does is that of itself is a lower impact also on the supply chain perspective because you're getting more oil out of reservoirs that exist today, so you're using existing infrastructure, which also reduces the emissions that are associated with the upstream part of the supply chain.

Then the other part of that is that -- in using existing infrastructure, that's a lower cost. So that's -- it's what the world needs to use the highest intensity fuel at the lowest cost and the lowest emission level is the way that the world ultimately will need to solve this climate transition. Otherwise, the world cannot afford to cap global warming at 1.5 or 2 degrees. So this is very much needed.

So when you look at all of those options, the revenue streams that we will be bringing into our business will come from all of those options. So having partners in the beginning is critically important for us to move further down the road faster to get this technology to a point where we are comfortable that not only we could build it, but we could license the building to others as well. And once we get to that point, then we're these -- instead of expecting to build 100 of these, then we can start to get into the hundreds of them and potentially the thousands that are going to be needed to be built.

But we would benefit from all of that. And it's -- sometimes we get criticized for the fact that we're building a business. But without making this commercial, it's not sustainable. And if it's not sustainable, then the world has no other better solution. And again, the world cannot afford the plans as they've been laid out by the UN and others right now. And so we think we have the best solution to move forward, the best kind of business model to make it happen and it will create significant value for our shareholders. We're just going to build the partnerships to make this happen at a pace that's much faster than what we could do just ourselves.

Douglas George Blyth Leggate - *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*

Yes. Vicki, just to clarify, so these obviously very ambitious growth plans going forward. It doesn't require that it's Oxy capital, I guess, was my point. Am I right in thinking that outsourcing the capital once the technology is proven has potential to be a revenue stream as a -- like a license revenue. That's what I was really getting at?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes. That's incredibly important to us. There's absolutely no way that we would have the capability to provide all of the capital. We can't do it. We're going to continue to be an oil and gas business because oil and gas is also important for the world. We'll continue our investments in oil and gas and grow our oil over time because our oil will be carbon neutral or carbon negative ultimately. And so that's to me the last barrel of oil produced in the world should come from an enhanced oil recovery reservoir using CO2 from the atmosphere. So we will be doing that.

But you're right, Doug, in that we will be licensing a lot of this out. And we've talked about regional concepts, having partners around the world that can manage and drive their own construction of these facilities as we go. And what would come back to us would be those licensing fees.

Operator

Our next question will come from Neal Dingmann with Truist Securities.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

My first question is on your Permian plan, specifically. Just wondering, will you all turn to more co-development in the Del or maybe just discuss your future broader completion plans there?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. I'd answer that a couple of ways, I think. I think one that's been really important to us, and we've tried to highlight is again back to some of the secondary benches in the way we think about those developments. We've been pretty precise in terms of how we put together our DSUs with those in mind. I would say this year, we have increased our -- I'll generalize it, completion intensity, but it's really frac intensity. And some of that was some of the capital that we put back into the Permian that delivered increasing cash flow for us this year. So, I'd say a good portion of that capital increase was due to our increased completion intensity.

So, as we think about playing it forward, I think over the next several years, we're going to continue to be methodical in the way we develop those secondary benches. They'll ultimately become a bigger part of our portfolio. But we've seen with these positive surprises, the ability to optimize really the next kind of 3- to 5-year type programs some of the success, I would say, even in the Midland Basin that we've seen in the secondary benches, as we looked into this year, I think we changed about half of our development plan due to improvements in our appraisal activity there last year.

So, I think we'll continue to do what we do, which is really focused on the subsurface. We want to make sure our recovery is outstanding, and we want our really DSU across multiple benches to be fit for purpose for the geology for that area.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

And then second also on the Permian. The second largest earthquake in the Perm was reported this morning. I'm just wonder is probably too early to know if you had any direct impact? I'm just wondering, could you all discuss the continued disposal process and if that has changed in recent years?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I'm sorry, Neal, I didn't get that -- the first part of that question.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

This morning, there was announced the second largest earthquake. Hit the -- it looks like it hit the...

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Earthquake.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

And I'm just wondering -- I'm not asking for the impact too early there, but just wondering maybe if you could discuss -- I know you had changed some disposal process and things in the past. If you could maybe just hit that quickly.

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. Our plans continue to leverage really the work we've done around water recycling, just in general, I'd say, independent of any of the hazards. We just believe that responsible use of water is a big part of what we should do. We actually had a trip here recently to the Permian, got to revisit the large recycling facility that we put together with our partner there in the Midland Basin.

And that continues to be helpful not only for Oxy but actually some of our offset peers. So we're expanding that into the Delaware. It's actually a very nice link as you think about other carbon capture projects that we have. Responsible use of industrial water is a technology that we really think is important for the future. So aware of some of what -- you're asking about in some of the hazards that's been identified. But again, we're trying to get out in front of that just in general and recycle more water in all areas of our operations.

Operator

Our next question will come from Matt Portillo with TPH.

Matthew Merrel Portillo - *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Partner and Head of Research*

I wanted to start out on the Gulf of Mexico. You mentioned you'll be running two drill ships there next year. Just curious if you could just give an idea of key projects you're progressing in 2024? And maybe expand a little bit on the depth of the tie-in opportunities and potential, I think, Vicki, you commented last quarter for possible growth out of the asset in the second half of the decade.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes. I would just reiterate, we're really excited about not just what we're doing from a capital perspective and the new development, but also what we're doing with the development that we have and Ken has some really good things to share with you about that.

Kenneth Dillon - *Occidental Petroleum Corporation - Senior Vice President and President, International Oil and Gas Operations*

If I start off with the first part of your question, as part of the development initiatives, we plan to drill and complete five wells in close proximity to our facilities tieback to existing subsea manifolds with available capacity. We also do test on two promising exploration opportunities in the Eastern GoM, probably have a working interest of around 40%, that aligns to our sort of approach of more shots on goal through partnering.

If I can maybe give some context to Vicki's comments on the last call, we basically see gone through three portfolio lenses. One is primary production with base optimization and drilling, including horizontals and stimulation; second aspect is secondary recovery, which is one of Oxy's strengths as a company worldwide with water flooding and artificial lift, including subsea pumping and ESPs.

On these assets, very little has been done on water flooding in the past for our reservoirs, and we see significant upside including reservoirs that already have direct analogs nearby. And that's been part of the success of some of the majors in Gulf of Mexico in terms of adding long-term low decline production and reserves to the base.

And in exploration, we've now built a new portfolio with a significant new partner base, as you saw in the recent announcement that came from Kosmos that looks like a successful approach going forward, and that could be easily tied back quickly to Lucius.

So we see this as a way of moving capital between these three legs of the stool going forward and we see tremendous upside on the secondary recovery option.

Operator

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

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Thank you all for your questions and for joining our call today. Very much appreciate it. Have a great day.

Operator

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