Q2 2022
OIL AND GAS
PROFITEERING
FINDINGS
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## OIL & GAS

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OIL & GAS

EXXON

*Exxon told analysts it expected $30 billion in buybacks in 2022 and 2023*

*Exxon funneled $7.6 billion to shareholders in buybacks and dividends in the past quarter.*

“Darren Woods -- Chairman of the Board and Chief Executive Officer: Cash flow from operations was $20 billion, further strengthening our balance sheet. Our net debt-to-capital ratio declined to about 13%, while the growth ratio is now at 20%, at the low end of our target range. We returned $7.6 billion to shareholders during the quarter in the form of dividends and share repurchases. The increase in distribution reflects the confidence we have in our strategy, performance we are seeing across our businesses and renewed strength of our balance sheet.”

(ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

*Exxon told analysts it expected $30 billion in stock buybacks in 2022 and 2023.*

“Kathy Mikells -- Senior Vice President, Chief Financial Officer: Sure. I'm happy to take that. So look, as you know, our first priority is to continue to invest in the business. And we talked last quarter about the fact that we expect it to build our cash balance to between $20 billion to $30 billion, which gives us both a strong balance sheet and a strong cash balance, which we view as a competitive advantage that provides us flexibility through the cycle. We're trying to strike the right balance in terms of share repurchases and dividends. As you know, we raised our quarterly dividend by $0.01 in the fourth quarter of 2021. And last quarter, we tripled the size of our share repurchase plan, which is now up to $30 billion of share repurchases this year and next. So we're definitely focused on being efficient as we look to return capital to shareholders. And obviously, the share repurchase program has a secondary benefit of reducing the nominal size of our dividend. So I'd say we're trying to strike the right balance. Our board reviews this pretty regularly, and we feel good about where we're at right now.”

(ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

*Exxon blamed refinery margins on low investment by the oil industry and predicted higher prices for years*

*Exxon’s CEO blamed low refinery capacity and high margins on the fact “prior to the pandemic, industry investments were below historical levels”*

“Darren Woods -- Chairman of
the Board and Chief Executive Officer: Margins in North America tightened during the quarter as product prices continue to lag the steep increases in ethane feedstock cost, consistent with higher gas prices. Before recapping our financial results, let me touch on the market environment that underpins them. As I mentioned in my prerecorded remarks, large annual investments in oil and gas production are required to offset normal depletion, even more is required to grow net production. Prior to the pandemic, industry investments were below historical levels. The economywide shutdowns during the pandemic exacerbated the problem. We are now experiencing tight markets across most of our businesses as supply lags demand recovery. We clearly see the tightness in supply in refining, where the closure rate during the pandemic was 3x the rate of the 2008 financial crisis. Given the long investment cycle times, growing supply will not happen overnight.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

Exxon’s CEO: “we've got this gap, demand recovers, and we don't have the capacity to meet that, which has led to a record, record-high refining margins.”  
“Darren Woods -- Chairman of the Board and Chief Executive Officer: Sure. Happy to do that, Stephen. Thanks for calling in. Yes, you say it's a volatile area. I think the thing that's really changed in the refining landscape, which has impacted -- we're seeing that impact across a lot of industries and parts of our business is the pandemic. If you go back since 2020 and as we've mentioned in our prepared presentation, 3 million barrels a day of refining capacity has come out of the circuit since the pandemic. And what has typically happened, which is three times the rate of historical levels. And typically, historical levels have been offset by new builds coming in. And of course, a lot of those new builds got pushed out because of the pandemic and the lack of revenue in the extremely negative and poor refining margins. And so, we've created this hole with a lot more capacity coming off-line without a whole lot of new capacity, typically out and developing in parts of the world in Asia and the Middle East. That capacity is not coming on. So we've got this gap, demand recovers, and we don't have the capacity to meet that, which has led to a record, record-high refining margins.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

Exxon’s CEO said that while new refinery capacity was coming on line, it’s “still fairly short of the capacity that came off. And so, our view is we're going to see what I say, the tighter supply and demand balance.” “Darren Woods -- Chairman of the Board and Chief Executive Officer: And it's one that takes advantage of the utilities and the units that we already have and the
connection that we have with the Permian. So a very advantaged project coming onto the market at a really good time. Outside of that, I don't see a whole lot of additional expansions here in the U.S. And then, as we mentioned in the presentation, over the next two years, probably 1 million barrels a day of capacity, including the 2 50 at our site coming on in the marketplace, which is still fairly short of the capacity that came off. And so, our view is we’re going to see what I say, the tighter supply and demand balance. One of the real question marks out there is what happens with demand. I would tell you, even at 2019 levels, the market is relatively tight. And so, I expect a tighter market and maybe elevated margins versus what the historical norm is.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

**Exxon’s CEO predicted “this will be a few year price environment.”** “Darren Woods -- Chairman of the Board and Chief Executive Officer:But I would expect much lower than what we’ve experienced here in the second quarter. And then, with time, we'll see that capacity come back on out in Asia and the Middle East. And the world market is very efficient, and those barrels will flow to the demand centers and balance things off. And so, I think this will be a few year price environment, and we'll get back to what I think is a more typical refining industry structure.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

*Exxon’s CEO told analysts that countries were recognizing renewables were not sufficient and that fossil fuels were part of the energy equation*

**Exxon’s CEO said of renewables “there's a recognition that there are deficiencies in those technologies. And while they offer an important solution and are necessary, they're not sufficient.”**“Darren Woods -- Chairman of the Board and Chief Executive Officer: You bet, Jason. I think the short answer is yes. It's incentivizing, I think, both of those. And I think that's appropriate to look where there's an opportunity to take advantage of what I'll call the natural endowments in terms of sun and wind to deploy those technologies and renewable technologies to generate power. But at the same time, I think there's a recognition that there are deficiencies in those technologies. And while they offer an important solution and are necessary, they're not sufficient. And so, I think at the same time, a recognition that we need to do more, particularly with gas given its cleaner footprint.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)
Exxon's CEO: “the challenge here is emissions. Not oil and gas itself, it's the combustion of oil and gas and the emissions associated with that.” “Darren Woods -- Chairman of the Board and Chief Executive Officer: And I think a recognition as it was just speaking with Sam about, that the challenge here is emissions. Not oil and gas itself, it's the combustion of oil and gas and the emissions associated with that. And so, dealing with emissions through carbon capture and storage is another opportunity to address the problem at a much lower cost and in a much quicker time frame. And so, my sense and the conversations I'm having with governments around the world is a recognition of this broader approach, a basket of technologies are going to be needed and emphasis should be put on all the ones for the right reasons at the right time and consciously and explicitly recognizing the deficiencies and making sure that we're mitigating those deficiencies. It was just in Europe and having a conversation with some of the government leaders there and clearly recognize the challenge associated with renewables, wind and solar and the intermittency issue and a recognition that gas and gas fired power gen will be an important backstop to address that. So I think there's a much more holistic approach being taken and a more thoughtful one, and I think that's encouraging.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)

Exxon's CEO called emissions the “real challenge with energy transition,” as that “opens up the door for additional oil and gas and the receptiveness of oil and gas coming on the marketplace.” “Darren Woods -- Chairman of the Board and Chief Executive Officer: Yes. Well, I think, Roger, it's a complicated space you're asking about, but a good one. I do think if over time, policymakers focus on what I think the real challenge with the energy transition is, which is dealing with emissions and the broader door opens for, say, carbon capture and storage or hydrogen and specifically blue hydrogen that that opens up the door for additional oil and gas and the receptiveness of oil and gas coming on the marketplace, which I think frankly, is important just given the costs associated with the transition. If you can find ways to use existing infrastructure and don't have to rewire your entire industrial processes and power generation systems, that's going to be a win for society as we bring down emission.” (ExxonMobile Q2 2022 Earnings Call, 7/29/2022)
Chevron reported one of its most profitable quarters ever even though their overall oil production had decreased

Chevron’s CFO celebrated that the company had one of its best quarters since 2008, over $5 billion more than the previous quarter, “primarily on higher refining margins.” “Pierre Breber -- Chief Financial Officer: Thank you, Roderick, and thanks, everyone, for joining us today. We delivered another strong quarter, another quarter of strong financial results with ROCE over 25%, the highest since 2008. Special items this quarter include asset sale gains of $200 million and a $600 million charge to terminate early a long-term LNG regas contract at Sabine Pass. C&E for the quarter was nearly $4 billion, including inorganic spend to form our JV with Bunge. With the acquisition of REG, our total investment was $6.8 billion, more than double last year's quarter. Strong cash flow enabled us to fund this higher level of investment, pay down debt for the fifth consecutive quarter, and returned more than $5 billion to our shareholders through dividends and buybacks. Adjusted second quarter earnings were up more than $8 billion versus last year. Adjusted upstream earnings increased mainly on higher realizations partially offset by lower liftings from the end of concessions and Indonesia and Thailand. Adjusted downstream earnings increased primarily on higher refining margins. Compared with last quarter, adjusted earnings were up nearly $5 billion. Adjusted upstream earnings increased primarily on higher realizations, partially offset by tax and other items, including higher withholding taxes on TCO dividends and cash repatriations. Adjusted downstream earnings increased primarily on higher refining margins and a favorable swing in timing effects.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Despite the massive increase in profits, Chevron said their oil production actually decreased by about 7%. “Jay Johnson -- Executive Vice President, Upstream: Thanks, Pierre. Second quarter oil equivalent production decreased about 7% year on year due to expiration of our contracts in both Indonesia and Thailand, the sale of our Eagle Ford asset, and CPC curtailments impacting TCO during April. This was partially offset by shale and tight growth, primarily in the Permian. In the Permian, we're delivering on our objectives of higher returns and lower carbon.” (Chevron Q2 2022 Earnings Call, 7/29/2022)
Chevron described their engagement with the White House as “constructive and productive,” saying US based production was up 7%. “Pierre Breber -- Chief Financial Officer: Manav, we won't comment on the specifics of our engagements. I think you're right that we're -- it's constructive and productive. I'll point out our U.S. oil and gas production in the first half of the year was up 7% versus last year. Our U.S. refined product sales up 10% versus last year. The administration wants energy supplies to increase, we're doing that. Our investment globally, up 80% first half of the year. If you look at the U.S., more than double when you include REG. So Chevron is growing energy supply, increasing investment, and we're engaging constructively with Congress and this administration. Thanks, Manav.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

*Chevron told analysts it was now planning to increase stock buybacks to $15 billion per year*

Chevron announced it was increasing their stock buybacks guidance to $15 billion for the year. “Pierre Breber -- Chief Financial Officer: In downstream, planned turnarounds are primarily at our California refineries. We do not expect significant dividends from TCO or Angola LNG until the fourth quarter. Our full year guidance for affiliate dividends is unchanged, with upside potential beyond the top of the range depending on commodity prices. Also, we increased the top end of our share buyback guidance range to $15 billion per year and expect to be at that rate during the third quarter.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

*Chevron's CFO emphasized their share buyback guidance was $15 billion per year and “we intend to maintain buybacks at this annual rate for a number of years across the commodity cycle”*

"Pierre Breber -- Chief Financial Officer: And as you said, we just increased the guidance to -- we just increased the top of the range of our guidance to $15 billion a year. That represents about 1% of our shares each quarter. The $15 billion annual rate is based on our current outlook. It was tested against a number of scenarios. The rate is consistent with our Investor Day upside leverage case, which was a $75 (Inaudible) flat nominal price over five years. As we've said with previous buyback rates, we intend to maintain buybacks at this annual rate for a number of years across the commodity cycle. As a reminder, our net debt is well below our mid-cycle guidance..."
range. So we'll continue buybacks even when the commodity cycle turns down and we'll lever back up our balance sheet closer to that 20% to 25% guidance range.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron’s CFO: “The first financial priority is to grow the dividend. We’ve done that for 35 consecutive years, increased it 6% earlier this year. It's up 20% since right before COVID, and it's doubled since 2010.” Pierre Breber -- Chief Financial Officer: Thanks, Neil. It's Pierre. I'll take that. I'll go through our financial priorities. They've been consistent for decades, literally. The first financial priority is to grow the dividend. We've done that for 35 consecutive years, increased it 6% earlier this year. It's up 20% since right before COVID, and it's doubled since 2010. The second is to invest and grow both traditional and new energy, and you saw that our total investments first half of the year were up 80% versus a year ago. The third is to maintain a strong balance sheet. For the fifth consecutive quarter, we paid down debt. Our net debt ratio is at 8%.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

**Chevron emphasized it was not seeking to increase production significantly, but was “focused on generating returns”**

Chevron told analysts the company “has been to be very disciplined, very focused on generating the returns and the efficiency that allow us to be profitable regardless of the prices. And so we're not responding to short-term price.” Jay Johnson -- Executive Vice President, Upstream: Yep. I'll start out with that and then Pierre can finish if he's got any other thoughts. The Permian -- our approach to the Permian, as you know, for many years, has been to be very disciplined, very focused on generating the returns and the efficiency that allow us to be profitable regardless of the prices. And so we're not responding to short-term price, but we are increasing our activity levels since the turn down during COVID. And so we have seen our investment go up. This year, it's $1 billion higher than it was last year. (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron said it was expecting a 15% increase in Permian oil production and “then I would expect to see it relatively flat after that as we just maintain an efficient operation across the
Jay Johnson -- Executive Vice President, Upstream: And we also see the number of wells that we’re putting on production going up, we expect to do over 200 (Inaudible) this year. And so we’re looking for about a 15% increase in our Permian production. And then I would expect to see it relatively flat after that as we just maintain an efficient operation across the Permian. We also have non-operated activity, and we currently have about 9 net rigs running on the non-op side. And so that also contributes significantly to our production profile. Our guidance remains unchanged. We’d expect to see about 1.2 million to 1.5 million barrels a day of production ultimately as our plateau. But as we continue to gain insights and knowledge and as we look at our efficiencies, as we look at our portfolio and world demand, that can change as we go forward. That’s our guidance as we see it today, and we’ll continue to update you as we move forward in time.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron’s EVP: “I think we’ve accomplished a mindset shift in Chevron, and this is throughout our workforce, being very focused on returns, not chasing a production target, but continuing to run this as a business and thinking about the returns we can get.” “Jay Johnson -- Executive Vice President, Upstream: Thanks for the question, and it’s pretty exciting. I mean the one bad thing about retirement is you don’t get to be part of the next steps, and I’m excited about them. I would start by just saying, I think we’ve accomplished a mindset shift in Chevron, and this is throughout our workforce, being very focused on returns, not chasing a production target, but continuing to run this as a business and thinking about the returns we can get. Scale is important, but it’s an outcome of the opportunity set that we have and the investments and capital that we choose to invest. (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron downplayed inflation and recession costs, saying the company was focused on “more free cash flow for shareholders”

Chevron’s EVP said the company was less affected by inflation thanks to multi year contracts and years of infrastructure investment. “Jay Johnson -- Executive Vice President, Upstream: It’s difficult for me to really do that definitively. What I can say, though, is I think we have a competitive advantage in the Permian. We have a couple of things working in our favor. We
maintain a global supply chain and we're able to tap suppliers of both equipment and materials, goods, and services over a much broader range than maybe some of our competitors. We also do multiyear contracts and other mechanisms commercially that allow us to mitigate some of the inflationary pressures that we see today. And then, of course, our focus on driving for improved productivity, improved efficiency has really helped us continue to counter the inflationary pressures. I think the other area that we have a distinct advantage is we've been building out our infrastructure in the Permian. And so just as a proof point, the last 800 wells over the last five years, to produce those 800 wells, we had to build 40 central tank batteries. As we look forward, the next 800 wells, we only need to build an additional four central tank batteries. So while others are having to invest in this high inflationary period, we're largely using infrastructure that was built over the past five years with very small incremental surface facilities required. And I think that's going to be hard for others to match.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron's CFO said the company had “seen cost inflation this year in the single digits,” with lower inflation outside of the US. “Pierre Breber -- Chief Financial Officer: Thanks, Paul. I'll take the first, and then I'll hand it to Jay on the second. On the onshore U.S., we've seen cost inflation this year in the single digits. We've been able to mitigate a part of that through good planning, smart procurement, and good relationships with suppliers. And as Jay pointed out, we've been able to also get more efficient with our drilling and completion operations, which also partially offsets it. Outside of the U.S., we're seeing much more modest inflation, and we talked about our Gulf of Mexico offshore rigs, which are contracted at a time when the rig rates were lower. As we're looking toward 2023, we're doing that work right now. We're confident that we'll be able to secure all the goods and services that were needed for our program.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron downplayed recession predictions, saying that demand was “more recession resilient going forward.” “Pierre Breber -- Chief Financial Officer: I mean what's interesting is there's obviously concerns around the recession. In terms of tailwinds, we still have very low unemployment, and we have a consumer that wants to spend money to go out and do things they haven't been able to do for a couple of years. When prices were higher in the second quarter, they made some choices. And if you look at that demand response on gasoline, that's in line or even higher than some past recession. So it's not clear. I guess what I'd say is demand, I
think, will be much more recession resilient going forward just because we've seen a little bit of that response in the second quarter. And again, diesel will be tied to underlying commercial activity.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

Chevron's CFO: "our upstream business is much more capital efficient than it's ever been. And has a mindset of how do we deliver business results with less capital. And if we do that, there's more free cash flow for shareholders." Pierre Breber -- Chief Financial Officer: And of course, all the activities we're doing to grow new energies. We can do all of that within the guidance. And as we recognize, Jay, one of the things he deserves a lot of credit for is our upstream business is much more capital efficient than it's ever been. And has a mindset of how do we deliver business results with less capital. And if we do that, there's more free cash flow for shareholders.” (Chevron Q2 2022 Earnings Call, 7/29/2022)

**HESS CORPORATION**

The Hess Corporation said high oil prices were the result of oil companies choosing not to invest in production for the past five years

The Hess Corporation blamed oil prices on the fact that “oil supply has been struggling to keep up with demand, predominantly as a result of more than 5 years of industry under investment.” John Hess - CEO: In terms of global oil demand, there has been a V-shaped recovery due to various government financial stimulus programs and accommodative monetary policies. Global oil demand has returned to pre-COVID levels of approximately 100 million barrels per day. On the other hand, global oil supply has seen more of a U-shaped recovery. Global oil supply has been struggling to keep up with demand, predominantly as a result of more than 5 years of industry under investment. As a consequence, we have seen 7 consecutive quarters of draws on global oil inventories so much so that global oil inventories today are approximately 400 million barrels less than pre-COVID levels.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

Hess Corporation: There is very little spare capacity left in the world.” John Hess - CEO: As we look to the second half of the year, we expect global oil demand to increase by 1 million to 1.5 million barrels per day as a result of China's economy reopening after COVID lockdowns and increasing air travel. In terms of global oil supply, shale producers have enabled the U.S. to grow oil production by approximately 1 million barrels per day over the year -- in the last year. There is very little spare capacity left in the world. With demand growing, supply lagging and the potential for further sanctions on Russian oil exports, we expect a tight global oil market to get even tighter over the balance of the year.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)
*Hess Corporation executives said they planned to exploit high oil prices to funnel more to investors*

The Hess Corporation said the company planned to use their cash flow to “to increase the return of capital to our shareholders through further dividend increases and share repurchases.” “John Hess - CEO In summary, we continue to successfully execute our strategy to deliver industry-leading cash flow growth and financial returns to our shareholders, while safely and responsibly producing oil and gas to help meet the world's growing energy needs. We increased our regular quarterly dividend by 50% in March and during the second quarter, commenced a share repurchase program, reflecting the financial strength of our business and our commitments to shareholders. As our portfolio becomes increasingly free cash flow positive, we will continue both to invest to grow our company's intrinsic value and to increase the return of capital to our shareholders through further dividend increases and share repurchases.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

Hess Corporation said it funneled over $300 million to shareholders in the second quarter alone. “John Rielly - CFO: In the second quarter, we commenced common stock share repurchases with the purchase of approximately 1.8 million shares for $190 million under our existing $650 million board-authorized stock repurchase program. We intend to utilize the remaining amount under the stock repurchase program by the end of this year. Total cash returned to shareholders in the second quarter amounted to $306 million, including dividends. Net cash provided by operating activities before changes in working capital was $1.46 billion in the second quarter compared with $952 million in the first quarter primarily due to higher realized selling prices and sales volumes.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

Hess Corporation’s CFO said the company was committed to funneling 75% of cash flow to shareholders and going even farther than that in 2022 and 2023 thanks to “this favorable commodity prices environment.” “John Rielly - CFO: Yes. Thanks, Arun. So just to remind you what our -- the capital return framework is our framework is set up on an annual basis. So we look at our annual free cash flow and we are planning to return -- and we are committed to return up to 75% of that free cash flow. And that free cash flow is reduced for debt reductions, which we did have that $500 million in the first quarter. So as we said, with our $650 million authorized in the $190 million done in the second quarter, you can expect the remainder to be done throughout the rest of this year, and it's actually going to be above the 75% framework because of where commodity prices are, our discussions with the Board our favorable balance sheet position and look with Guyana ramping up and Bakken ramping up our free cash flow is improving, as you see from our second quarter results, so that we can give more than 75% this year with this favorable commodity price environment. And so then coming to 2023, you really should think about, look, we just are starting capital return program. This is just the beginning, and we plan to continue it. So as we move into 2023, we are committed to that 75% framework. Again, if commodity prices are favorable, we can do more than that next year. But you should begin to think this is going to be a continued program.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

Hess Corporation’s CFO said the company's goal was to use they're growing cash flow to increase dividends to attract “income-oriented investors.” “John Rielly - CFO: Sure. So I mean
John did give a good explanation on that, but that's clearly what we're looking to do continual increases here. And John did mention it that we'd like to get our dividend to a level that is attractive to the income-oriented investors. So I think yield is an output, but you can think about the yield that the income-oriented investors are looking at. So with our ability here, again, as I mentioned, Bakken growing to 200,000 barrels a day and then Guyana, Payara coming in late 2023 and then almost an FPSO a year here as we move out the next couple of years, we're going to have a significant free cash flow that we're able to continue to increase the dividend and we can kind of move that dividend as our cash flow grows. But actually, the bigger part of our return will be share repurchases because that growing free cash flow when you put that 75% against that as we -- we will grow that dividend. We want to make it sustainable in a low oil price environment, but the bigger portion ultimately will be share repurchases.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

**Hess Corporation executives were explicit they weren’t planning to increase production when they could just benefit from high oil prices now**

When asked by an analyst if Hess Corporation planned to increase production in the Gulf of Mexico, the COO said the goal was to “hold it flat.”

Ryan Todd - Piper Sandler & Co., Research Division: Maybe just a couple of quick follow-ups on other questions. On the Gulf of Mexico, as you were talking about medium-term strategy, if you were to -- I know this varies on a lot of things, but if you were to do that plan a couple of wells a year. Is the general outlook that you'd probably hold production flat there over the medium term in the Gulf of Mexico that you could drive modest growth? Or how do you think about as you look out over the next few years, the trajectory of production there in the Gulf of Mexico?

John Hess - CEO: Greg?

Gregory Hill - COO: Sure. I think for the next couple of years, you could assume our objective is really to hold it flat and we'll do that through these infills and ILX, infrastructure-led exploration wells that are quick tiebacks. Beyond that, we're also going to be doing some hub class exploration prospects obviously, those wouldn't feature those wouldn't come in as growth until later in that period. So short term, hold it flat as a minimum longer-term grow it, assuming success from some of these sub-class exploration prospects.

(Hess Corporation Earnings Call Q2 2022, 7/27/2022)

**Hess Corporation's CFO said it wasn't planning to increase shale production because “obviously, at current prices, the those returns are fantastic…it becomes this massive cash annuity for the portfolio at that 200,000 barrels a day.”**

Gregory Hill - COO: No. Look, I think if you look at our portfolio, we've got 20 or more drilling locations that generate great returns at a $60 WTI. So obviously, at current prices, those returns are fantastic, right? And so certainly, the movement in the oil price from a return standpoint is outstripping any inflationary effects. And the
200,000 barrel a day kind of plateau rate, if you will, for the Bakken is absolutely the optimum place to be because it really fills up all the infrastructure that we have in place in the Bakken. So you need to think about future wells is almost like a tieback in the Gulf of Mexico. The infrastructure is already there. So the incremental returns are very high for those Bakken wells. So we'll hold that with the portfolio we have, we'll hold that for rigs and be able to hold that plateau at about 200,000 barrels a day for almost a decade, all the while, the Bakken generating significant amount of free cash flow during that period. So at $60, it generates over $1 billion of free cash flow. Obviously, at current price is much higher. So it becomes this massive cash annuity for the portfolio at that 200,000 barrels a day.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

Hess Corporation’s CFO said that higher oil prices were more than outstripping any increase in costs from inflation

Hess Corporations CFO said that despite inflation and supply problems increasing costs, “with the higher oil prices, obviously, we're getting much higher returns in cash flow.” “John Rielly - CFO: Sure. So I mean we are seeing, Roger, that just like our competitors, we're seeing upward pressure onshore and offshore with steel prices, labor costs and rig rates. So there's no question we are seeing that. So we -- as you mentioned, we talked about Guyana. So onshore, you heard Greg mentioned that the D&C cost did go from 6.2% to 6.3% this year. We are seeing inflation coming from 2023, these things continuing. So I can't give the number. That's why we'll wait till the end of the year, but you should expect that 6.3% to be higher in 2023 when we get the full numbers in. Again, we're working hard to mitigate the effects through efficiency gains, working with our suppliers, contracts and all our relationships there. And with the strength of the oil prices, like you mentioned, I still think with that tightness going into 2023, we will continue to see that. But of course, with the higher oil prices, obviously, we're getting much higher returns in cash flow.” (Hess Corporation Earnings Call Q2 2022, 7/27/2022)

PHILLIPS 66

Phillips 66 reported massive profits thanks to tight refining capacity, allowing the company to increase its dividends

Phillips 66 told analysts that even as new refinery capacity was increasing, a large portion was still being taking offline, supporting higher margins. “Jeff Dietert -- Vice President, Investor Relations: Yeah. Doug, we have between 1.3 million and 1.5 million barrels a day of capacity growth per year in the ‘22, ‘23, ‘24 time frame. Now that will be offset by about half as much capacity that’s announced rationalizations that will be coming out of the market, including our
Rodeo Renewed that we're converting to a renewable diesel facility. So there will be some capacity growth, but the market's tight, as you know, from the cracks in the marketplace and the inventories today currently.

**Phillips 66 said that supply constraints were “supporting elevated refining margins,” leading to earnings over $3 billion.”** Mark Lashier -- President and Chief Operating Officer: We're focused on reliably providing critical energy products, including transportation fuels to meet demand. We've maintained strong operations in successfully completing our spring turnaround activities early in the second quarter. Even with global refineries running near max capacities, gasoline and distillate inventories remain low, supporting elevated refining margins. In the second quarter, we had adjusted earnings of $3.3 billion or $6.77 per share.

A **Phillips 66 executive said their refining income was $3.1 billion, “up from $140 million in the first quarter” and “Realized margins increased by 168% to $28.31 per barrel.”** Kevin Mitchell -- Executive Vice President and Chief Financial Officer: The $11 million improvement in Other mainly reflects lower employee-related expenses and higher capitalized interest related to growth projects. During the second quarter, we received $216 million in cash distributions from CPChem. Turning to refining on Slide 8. refining's second quarter adjusted pre-tax income was $3.1 billion, up from $140 million in the first quarter. The improvement was primarily due to higher realized margins across all regions. Realized margins increased by 168% to $28.31 per barrel. Pretax turnaround costs were $223 million, up from $102 million in the prior quarter. Crude utilization was 90% in the second quarter and clean product yield was 83%. (Phillips 66 (PSX) Q2 2022 Earnings Call, 7/29/2022)

**Phillips 66 increased their dividend by 5%, over 11 times from its inception in 2012.”** Mark Lashier -- President and Chief Operating Officer: In May, we raised our dividend 5% to $0.97 per share. We've increased the dividend 11x since our inception in 2012, resulting in an 18% compound annual growth rate. Our strategy remains consistent, supported by a strong foundation of operating excellence and a high-performing organization. We're focused on strategic return-enhancing growth investments in midstream, chemicals and emerging energy while selectively investing to increase returns in refining and marketing and specialties.” (Phillips 66 (PSX) Q2 2022 Earnings Call, 7/29/2022)

**SHELL**

Shell executives repeatedly bragged that the company funneled more profits to their investors than ever before

**Shell's CEO said the company's earnings were up 65% from the last time the average price of oil was $108 and “this quarter our cash distributions were the highest ever.”** Ben van Beurden -- Chief Executive Officer: Now, the key similarity between today and how our operating
environment looked in 2013 is the oil price. The average price of $108 a barrel for the first half of 2022 is almost what it was in the first half of 2013. But Shell has transformed since then, both financially and operationally. Over the first six months of this year, our adjusted earnings are up 65% compared for the first half of 2013. In the same period, comparatively, our organic free cash flow tripled and we have doubled our shareholder distributions. In fact, this quarter our cash distributions were the highest ever. And we have done all that safely and responsibly. Our teams achieved 83% fewer process safety incidents and 32% lower Scope 1 and 2 carbon emissions.”

(Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell announced a $6 billion share buyback just for the third quarter and predicted shareholder distributions would remain high. “Sinead Gorman -- Chief Financial Officer: Our trading and optimization results across our businesses was strong overall, especially in gas and power in our RES business. That brings me to our financial framework. The $6 billion share buyback program we announced today is expected to be completed by the time of our Q3 results announcement, and we expect our shareholder distributions to remain in excess of 30% of CFFO with the current energy sector outlook. Our net debt further decreased to $46.4 billion this quarter, and we will continue to strengthen our balance sheet, given where we are in the cycle.”

(Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell’s CFO: “in Q2 we effectively distributed $7.4 billion between the buybacks that we did in the quarter in terms of cash and in terms of the dividends, and I believe that's the highest we've actually ever done.” Sinead Gorman -- Chief Financial Officer: Thanks very much and, Lydia, good to hear from you. So indeed, we’ve chosen to go with $6 billion of share buyback this quarter. And the debate, of course, that happened in turning the same as what is on your mind at the moment is whether it should be a dividend or should it be buyback. And the way we looked at it was from an excess cash point of view, we want to allocate it according to value, and that's very important to us. And frankly speaking, where the share price is at the moment, it made sense to therefore go for the share buybacks. And that $6 billion, just because you added the question there, is specifically for Q3 and we expect that $6 billion of buyback to be executed by the Q3 results. So by the time we come out with it then. And I guess just one other point to remind you, of course, of is that in Q2 we effectively distributed $7.4 billion between the buybacks that we did in the quarter in terms of cash and in terms of the dividends, and I believe that's the highest we've actually ever done. (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell’s CFO talked up how much the company was funneling to shareholders: “You saw it last quarter with $7.4 billion of distributions and you’re seeing it with what we're suggesting now, which is, of course, $6 billion of share buybacks and of course, the usual dividend of $1.8 billion to $1.9 billion as well. So these are significant sums of money. All in all, a quarter to be proud of.” “Sinead Gorman -- Chief Financial Officer: I think just a small add to that, Ben, which is Christyan, we've talked about 20% to 30% of distribution of CFFO through the cycle and that's very much what this is about. But what is effectively happening here, what we're saying is, in effect, we have a hard floor and we have a soft ceiling. And that's what you're seeing. When the appropriate moment is there, we distribute an awful lot more than that. You saw it last quarter with $7.4 billion of distributions and you’re seeing it with what we're suggesting now, which is, of course, $6 billion of share buybacks and of course, the usual dividend of $1.8 billion to $1.9 billion
as well. So these are significant sums of money. All in all, a quarter to be proud of. “(Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell executives proudly noted that they were making far more profits despite producing less oil than the last time prices were as high

Shell's CEO that the company had 21% less production than in 2013 but had almost doubled what it made per barrel. “Ben van Beurden -- Chief Executive Officer: That's emissions from our operations and the energy that we use to run them. So what changed? Well, we have high graded our portfolio, divested around $80 billion worth of assets, and doubled down on integrated value delivery. And as a result, in our integrated gas business, we now sell over two times more LNG, while our CFFO per barrel increased more than five-fold over the same period, and our upstream portfolio is much more concentrated, leading to 21% lower production while our upstream CFFO per barrel increased by 74%. So yes, energy prices are very high today, but they have been so before. And the real difference is that today we are performing much better in a similar price environment, and we are confident about the future because we have a strong capital framework and an energy transition plan that our shareholders firmly supported at our annual general meeting in May. So we are increasing our shareholder distributions at a $6 billion share buyback program for the next quarter. Now Sinead can tell you more about our results and these distributions.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell's CEO: “we actually reduced production compared to 2013 by 21%” while increasing cash flow from barrels by 74%. “Ben van Beurden -- Chief Executive Officer: So I would say, yes, there is more running room when it comes to the performance going forward. On the field decline, I'm not entirely sure, but I got your question to right spirit. So therefore, I would also add to ask you to add. If you if you look back on the upstream side, we actually reduced production compared to 2013 by 21%. That's not field decline, of course. There's also portfolio, but it's also taking into account a very significant acquisition with BG. So in other words, again, you see that we have significantly upgraded the portfolio in terms of production because at 21%, we have -- coincides with 74% CFFO per barrel increase. I think in general, field declines, I don't have the number off the top of my head, but it -- but I don't think we see surprises there.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell's CFO: “So what we are seeing is significantly lower production, but we're really the value over volume coming through and it's really working.” “Sinead Gorman -- Chief Financial Officer: No, indeed. And post-Permian, what we expect to see between now and 2025 is run by 1% to 2% decline coming through. I mean, but what I would say is, I mean, you look at our upstream business at the moment and you look at 4.9 billion of adjusted earnings in this quarter, which just shows you that -- and that, by the way, is significantly -- actually, the last time I think we got near that was 2011. So it's even beyond the dates that we're looking at, and now it's similar prices. So what we are seeing is significantly lower production, but we're really the value over volume coming through and it's really working. So quite relaxed from that perspective, all that as
well. And you asked a little bit about the sort of the capex as well coming through. So we’re spending $7 billion to $9 billion.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

*Shell executives emphasized that they were benefiting from high prices causes by low supply and the war in Ukraine*

*Shell's CEO said the company was “quite bullish...the market is very tight and there's not a lot of spare capacity around.”*“Ben van Beurden -- Chief Executive Officer: Thanks, Christyan. Let me have a stab at both and then I'm sure that you may want to add a little bit on the first one. What I will cover on the first one, Christyan, is the sort of link between the macro that you referenced. So we -- particularly if you look at the energy outlook, we're actually quite bullish. If you look at where we are today with supply demand balances, the market is very tight and there's not a lot of spare capacity around. OPEC hardly has any spare capacity. You could think of a little bit more coming out of shales. Strangely enough, the SBR release has actually helped, but that's hardly a price management tool, of course. So we are running out of steam a little bit in coming with supply side solutions. And on the demand side, we haven't even seen a full recovery to 2019 type of demand. So my concern is that we will have a very tight situation and a lot of volatility now. Sometimes we can benefit a lot from volatility, but I think that will continue to persist. And the other thing to bear in mind, which may not be a very popular thing to say, but it is a fact is that the impact on Russia in terms of self sanctioning and all sorts of other actions that have been taken has actually been quite minimal. The volume of crude coming out of Russia has been diminished, but only with a few hundreds of thousands of barrels a day, not a sort of 2 million or 3 million that was originally foreseen. That might actually change in the new year when the real sanctions are starting to bite. So I think we're going to see a tight situation for some time to come.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

*Shell's CEO: “We do have a bullish outlook on oil and gas prices generally and then, of course, particularly, of course, in areas of greater stress like like in Europe. And that is why we are also quite confident to say that, hey, if the conditions that we are witnessing today are persisting, then we -- yeah, we expect to be paying out more than 30% of our cash flow.”* “Ben van Beurden -- Chief Executive Officer: OK. Very good. Thank you, Giacomo. And let me take the first question and Sinead will talk about LNG utilization and the normalization of the outages that you were referring to. And I think I already partly answered it in response to the previous question. So yes, indeed, we do have a bullish outlook on oil and gas prices generally and then, of course, particularly, of course, in areas of greater stress like like in Europe. And that is why we are also quite confident to say that, hey, if the conditions that we are witnessing today are persisting, then we -- yeah, we expect to be paying out more than 30% of our cash flow. And of course, this is the cash flow that is also already significantly higher. So it is a higher percentage of a higher cash flow. And you will see indeed the effect that it has on numbers like the $7.4 billion record payout in Q2, which we're going to beat in this quarter. So indeed confidence in the macro should translate for you in confidence in payouts that we are going to be able to pay. And therefore, I do think that if you want to sort of come back to the dividend, the dividend is very
sustainable. At a level, where it is, it's $7.5 billion a year roughly and a 4% growth. With the buybacks that we're doing, the absolute dividend content is actually declining. And therefore, I would like to add to the point that Sinead made just now. So we are building -- every time we do a significant buyback, we are building a significant capacity for a dividend per share increase. So the buybacks eventually will crystallize in terms of value in a DPS increase.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell's CEO: “we are very short refining and we are short products and that is largely because of Russia, of course, because a lot of Russian refining capacity is basically locked out.” “Ben van Beurden -- Chief Executive Officer: If you are referring to, well, but I can't work out and how much a rule of thumb you have come to the results that you booked, it is basically because extrapolations with the rule of thumb in a single quarter of a such a wide range simply don't work anymore. There is just too many variables in there for that to mathematically work out. It works a small range, but not in a large range. But what is really working or what is really happening in the refining business, Lucas, is of course that we are very short refining and we are short products and that is largely because of Russia, of course, because a lot of Russian refining capacity is basically locked out. It's constipated because they cannot get every stream of the refining system out of the country. That's part of the sanctioning -- self-sanctioning is working very well. But it's also because the products like diesel, for instance, are difficult to place, particularly because they tended to go to Europe. The same with chemical feedstocks and therefore everything in that field is going to be very tight.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell's CEO: “I think this tightness is going to persist for some time, not forever...at this point in time, yes, we are seeing a dislocation that we are indeed benefiting from.” “It is going to be very tight for a while to come. I think the refining segment is going to be driven for a long time by the availability of middle distance, so diesel, jet fuel, for which there is actually very limited price elasticity. But on top of it, we also see China not exporting for all sorts of reasons. So I think this tightness is going to persist for some time, not forever. So we're not in the golden age of refining. Or if it is a golden age, it will be a relatively short lived one. So ultimately everything will revert back to the mean again. But at this point in time, yes, we are seeing a dislocation that we are indeed benefiting from, not only in our refining system, but also because we have the most capable trading team to really take advantage of the opportunities that it brings.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell's CEO stressed “while indeed the war is a driver of a lot of the pricing that we are seeing,” their profits were not merely a “windfall because there happens to be a war on the continent here.” “Ben van Beurden -- Chief Executive Officer: So there's a lot of questions in there, Elaine, and it's -- let me have a go at some of them. I take your first question was really about comparing 2022 with 2013. Interesting, but what really can you do going forward from 2022? And I would say, well, first of all, it is very important to look back on how much we have strengthened this company. And the reason for doing it really is because there's also a narrative out there that the results we are seeing today are accidental or actually just a windfall because there happens to be a war on the continent here. And while indeed the war is a driver of a lot of the pricing that we are seeing, if you reference it back to the last time we saw this prize, of course, you cannot just explain it away by just a price effect. And indeed, we have significantly
improved the portfolio. We have significantly improved the strength of the organization. We just picked out a number of indicators.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell’s CEO played down an IEA report predicting an eventual decline in LNG as unrealistic: “Maybe this has to do something with demand not being decarbonized rather than supply not disappearing fast enough.” “Ben van Beurden -- Chief Executive Officer: Thanks, Martijn. I think you did a dividend question one more time, but this particular version of it. But let me first of all, talk a little bit about the IEA and the role of LNG in it. Yes, you're right. Of course, we have to bear in mind that the IEA is a normative scenario, Martijn. So it's, in other words, working back from a pre-ordained outcome. And I’m basically drawing a sort of linear line to how would you get to. So if you now look at that scenario, which is a bit over a year old and you sort of track the progress against how we are doing in that -- with that but at one year into it, then we are more than two and a half years behind already. So in other words, we are traveling in the opposite direction. So that shows a little bit how challenging it is to sort of turn the big ship around. And we may, of course, have wishes and hopes and expectations that it will get better, but for now it's not. So therefore, I don't want to put too much cold water on the IEA report, but I think it is important to have a reality check and just say, well, is this really happening? And if it's not happening, why would that be? Maybe this has to do something with demand not being decarbonized rather than supply not disappearing fast enough. (Shell plc Q2 2022 Earnings Call, 7/28/2022)

Shell played down the impact on their costs from inflation

Shell's CFO claimed that although materials like steel were facing 18% inflation, they had locked in prices and “we don't see that full amount coming through.”“Sinead Gorman -- Chief Financial Officer: Thanks, Biraj. And particularly sort of two parts in a way to that first question. So first of all, as we go into 2023, we are looking to, of course, start going through our planning cycle. We will start setting our capex for next year. As we've said, for 2022, very much within the $23 billion to $27 billion range. We are, of course, seeing inflationary pressures coming through. That is happening already. But of course, a company of our size has the benefits of being able to have the size and the volume that comes through. We're seeing things like steel being very much pressurized at the moment in terms of sort of 18% or so of inflation. But we run on framework agreements, which allow us to be able to lock in prices over a period of time and with certain volumes. So we don't see that full amount coming through as well. It means we have a very resilient supply chain, which allows us to mitigate some of those inflationary pressures.” (Shell plc Q2 2022 Earnings Call, 7/28/2022)

VALERO

Valero’s CEO said their margins were boosted by “refinery capacity rationalization” and the Russia-Ukraine conflict limiting supply. “Joseph Gorder - CEO: Refining margins in the second quarter were supported by continued strength in product demand, coupled with low product
inventories and continued energy cost advantage for U.S. refineries compared to global competitors. Product supply is constrained as a result of significant refinery capacity rationalization that was triggered by the COVID-19 pandemic, driving the shutdown of marginal refineries and conversion of several refineries to produce low carbon fuels. In addition, the Russia, Ukraine conflict intensified the supply tightness with less Russian products in the global market. However, product demand has been strong due to the summer driving season and pent-up demand for travel.” (Valero Q2 2022 Earnings Call, 7/28/2022)

Valero told analysts “there’s really no indication of any demand destruction.” “Gary Simmons - Senior Key Executive: Manav, this is Gary. I can tell you through our wholesale channel, there’s really no indication of any demand destruction. In June, we actually set barrels a day in the month of June, which surpassed our previous record in August of ‘18 where we did 904,000 barrels a day. We read a lot about demand destruction mobility data showing in that range of 3% to 5% demand destruction. Again, we’re not seeing it in our system. We did see a bit of a lull in the first couple of weeks of July, but our 7-day averages now are back to kind of that June level, with gasoline at pre-pandemic levels and diesel continuing to trend above prepandemic levels.” (Valero Q2 2022 Earnings Call, 7/28/2022)

Valero’s CEO predicted “the margin environment is going to be higher for some time... well above what we would consider to be a traditional mid-cycle,” suggesting it would lead to more dividends and buybacks. “Joseph Gorder - CEO: Yes. And, Roger, I agree completely with what Jason said. I mean we want to go ahead and get things cleaned up and get this balance sheet absolutely bulletproofed and carrying a bit more cash is something that makes a lot of sense to do. You'd like to have your maintenance and turnaround CapEx covered with cash on hand, the dividend covered with cash on hand. And then we'll see where we go. But anyway, I think for now, we're on the right course. And as Gary has stated, it looks like the margin environment is going to be higher for some time. It certainly is today, not what we experienced in the second quarter, but certainly, well above what we would consider to be a traditional mid-cycle. And if we continue to build cash, we'll continue to honor the payout, and it will probably move from the lower end to the higher end.” (Valero Q2 2022 Earnings Call, 7/28/2022)

Valero’s Chief Legal Officer said of the Inflation Reduction Act “there are some things in there that are helpful to our business,” particularly the SAF tax credit. “Richard Walsh - Chief Legal Officer: Yes. This is Rich Walsh. I mean we just saw the bill came out late last night, 700 pages, we're looking through it. I mean there are some things in there that are helpful to our business. The tax credit, obviously, we're just talking about. There's also a SAF tax credit in there as well that we'll be looking at. And there's other things, too, we're trying to sort through. So I think it was a surprise to everybody that came out that quick. I don't think we really ever thought that the blenders tax credit was going to be -- (inaudible) credit would be a problem we thought it would end up on one of these bills before the end of the year. But it's always good to see it looking stronger and on the forefront.” (Valero Q2 2022 Earnings Call, 7/28/2022)