Noble Energy
Second Quarter 2018 Earnings Call
Prepared Remarks

***<u>Brad Whitmarsh, VP Investor Relations</u>*:**

Thank you all for joining us today.

I hope you've had a chance to review the earnings release and supplement that we published this morning. The press release and slides are available on the Investors page of our website and later today, we plan to file our 10Q with the SEC.

I want to remind everyone that today's discussion contains projections and forward-looking statements, as well as certain non-GAAP financial measures. You should read our full disclosures in our latest news releases and SEC filings for a discussion of those items.

Following our prepared remarks, we will hold a question and answer session. I would ask that analysts limit themselves to one primary question and one follow-up. Dave Stover, Chairman and CEO and Gary Willingham, EVP of Operations will start us off with some prepared remarks.

With that, let me turn the call over to Dave.

***<u>Dave Stover, Chairman and CEO</u>*:**

Thanks Brad and good morning everyone. As we have transformed our company, we have focused on putting the company in the best position today, to generate consistent and growing cash flows over time. A cash flow profile that is competitive across all investment sectors, not just E&P. To that end, this past quarter, we delivered a number of key achievements that will drive increasing shareholder value.

We redeployed proceeds from our Gulf of Mexico divestment and CNX Midstream units as we continued our share buyback program, increased our dividend, and completed our debt reduction plan. We will continue to prioritize the share repurchase program as we move forward.

Operationally, we set production records, enhanced our exploration portfolio and advanced our onshore and offshore development programs, including key infrastructure additions and takeaway agreements.

We are taking advantage of our flexibility to adapt to changing conditions and are adjusting our Delaware and DJ programs to put them in an even stronger position to deliver our long-term objectives.

In both of these key basins, we installed critical gathering infrastructure to achieve the long-term capital efficiency of these high-quality, contiguous acreage positions. We have also increased our exposure to higher priced export and global markets, executing on our strategy to diversify end markets for our U.S. onshore crude oil sales.

Offshore, the development of our world class Leviathan asset is rapidly moving forward. We have agreements for over 900 million cubic feet per day, including the natural gas contracts announced earlier this year. And we continue to negotiate additional volumes that could quickly fill-up the first phase.

I am also pleased that we are making excellent progress on commercial agreements to deliver our gas from Tamar and Leviathan into Egypt to help supply the growing regional demand.

Another substantial second quarter accomplishment is the heads of agreement supporting development of natural gas from the Alen field, offshore Equatorial Guinea. This represents the first step towards regional gas monetization, utilizing the existing infrastructure in place at both the Alen field and the onshore LNG facilities. With linkage to global LNG markets, and gross resources of 3 Tcf from our multiple discoveries in the immediate area, this represents a huge value opportunity for our shareholders.

As I mentioned earlier this year, a priority has been to continue to enhance our exploration portfolio. We have taken significant steps in that direction. Onshore U. S., we've been successful in capturing substantial new resource potential. Offshore, we've signed an agreement to operate over 2 million gross acres in a new country. We will provide more information in the coming months as we build out our onshore position and receive necessary government approvals for our new offshore opportunity.

In looking at the global influences on commodities, it is clearly a dynamic environment. With our portfolio, we are in an advantaged position to capitalize as long as we stay disciplined. And we do that by continually reviewing and adjusting specific activities to maximize value. Our plan is not to increase projected activity but to continue to focus on cash flow growth and shareholder return objectives.

Near-term, we are making some changes to capital allocation to optimize returns and cash flow growth. Given the industry pressures in the Permian, due to widening basin differentials and service cost inflation, we plan to moderate our activity in the Delaware Basin. We will be reducing planned completions later this year quarter and into 2019, to better align our activity with expected timing of pipeline additions. We will reallocate activity into our other onshore areas, primarily the DJ Basin.

The diversity of our U.S. onshore portfolio provides a competitive advantage, enabling us to modify activity near-term while remaining committed to the objectives we outlined in our multi-year plan earlier this year.

Our long-term focus can be summarized in the following five objectives:

- *Driving peer-leading debt-adjusted cash flow growth*, which we are on track to deliver through our unique combination of Eastern Med cash flows and onshore U.S. growth.
- *A relentless focus on capital efficiency and corporate returns*. And we are on pace to deliver double digit corporate returns within two years.
- *Ensuring our incentive plans are aligned with shareholders*. As we have demonstrated with the focus on cash flow, costs and returns in our plans.
- *Maintaining robust financial strength.* Shown through the completion of our debt reduction plans already.
- *And commitment to our stakeholders and the environment*.

Pertaining to this objective, we recently published our seventh annual Sustainability Report on our website. This report highlights continued progress in safety, environmental, and corporate social responsibility; and to strengthen our commitment to these values, the Board EH&S Committee Charter was expanded and the Committee was renamed. It is now known as the Safety, Sustainability and Corporate Responsibility Committee.

These five long-term objectives remain fundamental to informing our decision-making process. Coupled with our high-quality asset base, proven execution capabilities and agility, I am confident that we will continue to deliver superior value to our shareholders. Now, I'll turn the call over to Gary to review our operational execution and plans.

***Gary Willingham, EVP of Operations*:**

Thanks, Dave.

In the second quarter, our teams executed in-line with our plans, with several significant operational achievements both onshore and offshore.

Within our U.S. onshore business, we delivered record oil volumes of 105 thousand barrels per day, an increase of 22 percent from the second quarter of last year, adjusted for transactions. In the Delaware Basin, we doubled sales volumes over the last year to 47 MBoe/d, quite an accomplishment. We also progressed the midstream build-out in both the Mustang area of the DJ Basin and the Delaware Basin to support the multi-year growth from both of these areas.

Offshore Israel, we produced an all-time record gross sales volume, averaging over 1 Bcf/d for the quarter for the first time. We also progressed the Leviathan development and remain on-track to deliver the substantial cash flow generation from this asset beginning late next year.

This was certainly a strong way to finish the first half of 2018, and I want to thank all our dedicated employees who have helped us deliver our objectives safely and efficiently.

In the DJ Basin, strong well performance in the second quarter drove sales volumes of 121 MBoe/d, coming in above our expectations. A significant contributor to this were the Kona pads in Wells Ranch, which continue to outperform. On slide 5, we provided an update on these 7 wells. After 150 days online, the wells are flowing over 10 MBoe/d, of which 6 MBbl/d is oil, and the wells have already produced 1.3 MMBoe cumulatively.

We are also progressing Mustang, our newest integrated development plan area. Recently, we brought online our first 2018 wells in Mustang, which are located in the southern part of the IDP. These wells tie into our new modular facility design, which delivers spec-oil to the pipeline without a centralized gathering facility. While still early, I am encouraged by the strong tubing pressures which are exceeding recent wells with a similar GOR in Wells Ranch.

On the takeaway side, we have secured multiple outlets for Mustang across 3 gas processing providers, maximizing our flexibility and reducing potential impacts from bottlenecks, as shown on slide 6. And the significant in-basin gas processing expansions that we have been looking forward to are now underway.

Mewbourne 3, also known as DCP Plant 10, recently started up and will provide 200 MMcf/d of capacity. Additionally, DCP's Plant 11 is expected to be placed in service in 2Q19, providing an additional 300 MMcf/d between plant and bypass capacity. Discovery Midstream is expected to bring online a 200 MMcf/d plant in the fourth quarter of this year, which will process some of our Mustang gas. In addition, we continue working other compression and offload options.

Overall, we are well positioned to benefit from gas processing expansions over the next few years, which provides support for our growth profile.

We had a busy quarter in the Delaware Basin with the completion of our fourth and fifth central gathering facilities along with bringing online 23 wells. I continue to be encouraged by the results we are seeing across our position.

On slide 8, we highlight strong second quarter well results in the Southern portion of our acreage. These wells are outperforming our initial completions in this area. In addition, the wells are flowing through our central gathering facilities, which has been a significant step in optimizing development.

Another area I've been particularly excited about is the progress our marketing teams have made securing near-term flow assurance and long-term out-of-basin takeaway to the Gulf Coast, with access to exports. This includes the EPIC firm transport agreement that will provide 100 MBbl/d of gross oil takeaway to the Gulf Coast beginning in late 2019. Our decision to moderate some of our completion activity in the near-term aligns with the timing of additional takeaway capacity later next year.

This deferral of activity also provides the opportunity to transition our development utilizing the row concept, slightly earlier than we originally planned. Our row-style development mitigates the potential for interference that has been faced by multiple operators across multiple basins. We are well-positioned to execute this row-style development design in the Delaware, just as we have in both the DJ Basin and the Eagle Ford. We remain advantaged by our contiguous acreage position and key midstream infrastructure in the Basin. Transitioning to row-style development now will contribute to efficiencies in the long-term.

The industry has seen cost pressures given the higher price environment, particularly for drilling rigs, completion crews, steel and other services. To help offset this, our teams continue to be focused on capital efficiency in our well designs. In the second quarter we brought online our first wells that utilized only 100 mesh sand, and our first completion with 100% recycled produced water. These wells are exhibiting strong early results.

In addition, we continue to drive efficiencies on the drilling side, cutting an average of 2 days per well in the first half of 2018 compared to 2017. Over this time period, our efficiency gains have increased our average drilling rate by 13 percent. In fact, in the second quarter, we achieved a record drilling time for a 7,500 ft lateral well of less than 16 days.

Moving over to the offshore, we continue to progress the Leviathan development with the project currently nearly 60% complete. We've finished our drilling program and are progressing the completions of the four wells that will deliver up to 1.2 Bcf/d. We have also installed all the large diameter flowlines, pipelines from the field to the platform location and then from the platform to the onshore tie-in points. By year end we expect to finish the planned well completions, finalize fabrication of subsea equipment, and complete and sail the jacket from the U.S. fabrication site. Overall, the project remains on track and on budget, with start-up expected late next year.

Our operations in West Africa continue to produce reliably with strong run times and equally strong safety performance. Cumulative production from Alen now totals 35 million barrels, and we've achieved over 4 years without a recordable safety incident. At Aseng, we've now produced more than 90 million barrels and the FPSO received SBM's Consistent Top Operational Performance award for the 3rd year in a row.

In May, we announced we had executed a Heads of Agreement outlining the high-level commercial terms to process Alen gas through the Alba plant and EG LNG facility. This is certainly a significant milestone for our West Africa business, establishing the framework to monetize our gas in the global LNG market. The Alen facility was initially designed to be a gas hub, making this project capital efficient, requiring only minor modifications at the Alen platform and construction of a 40-mile pipeline. Our teams have begun the pre-FEED and marketing activities, and I would anticipate a project sanction early next year, with first production approximately 2 years later.

Before turning the call over to Dave, I wanted to take a few minutes to discuss guidance for the remainder of 2018. We have increased our full year capital budget to $3 billion, slightly above our prior range. A portion of the higher capital is a result of scope changes on some onshore facility projects that enhance reliability and takeaway optionality. The remainder is due to cost inflation in the U.S. onshore as a result of the higher commodity price environment. Given the temporary deferral of completions in the Permian mentioned earlier, we are planning to reallocate some 2018 and 2019 capital to the DJ Basin. This will provide additional DJ volumes in 2019, partially offsetting more moderate Permian growth.

We now expect our full-year 2018 sales volumes to trend towards the low end of our previously guided range. Eastern Mediterranean demand and West Africa production are outperforming. This partially offsets U.S. onshore volumes which reflect higher declines in the Eagle Ford in the second half and the deferral of some Permian completion activity. Overall, we remain on track to deliver 12% total company volume growth, pro-forma, in 2018 compared to 2017.

Sales volumes in the third quarter are expected to be between 335 and 345 MBoe/d. Offshore, our West Africa volumes are anticipated to be lower in the 3Q compared to the 2Q, due to lifting schedules and gas declines. We anticipate strong U.S. onshore oil growth of nearly 10 MBbl/d from 2Q to 3Q, with a further increase of approximately 5 MBbl/d from 3Q to 4Q. This represents a 25% increase in full-year U.S. onshore oil compared to 2017. And we remain well-positioned for continued multi-year growth.

Now, I will turn the call back over to Dave.

***Dave Stover, Chairman and CEO*:**

Thanks, Gary.

In summary, we will stay flexible and adjust to changing conditions, remain committed to our strategic objectives, and continue to exercise discipline in our approach. 2018 is an exciting year of transition, and with our onshore U.S. growth and Leviathan startup, 2019 will establish Noble Energy as an engine of accelerating cash flow and shareholder returns.

With that let me open up the call for questions.

Closing

***Brad Whitmarsh, VP Investor Relations*:**

Thanks, everybody, for joining us. I know a couple of questions there at the end, we didn't get to. Sounded like we had a little bit of phone line issues. So, give Megan and I a call. We're around today and look forward to having conversations with you all, and hope you have a great Friday. Thanks for joining us.