OVERVIEW:
Co. reported 4Q20 result.
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PRESENTATION

Operator

Good morning, and welcome to the Q4 2020 ConocoPhillips Earnings Conference Call. My name is Zenara, and I'll be the operator for today's call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the call over to Ms. Ellen DeSanctis. Ellen, you may begin.

Ellen DeSanctis  ConocoPhillips - SVP of Corporate Relations

Thank you, Zenara. Hello, and welcome to our listeners today. First, I'll introduce the members of the ConocoPhillips executive team who are on today's call. We have Ryan Lance, our Chairman and CEO; Bill Bullock, our Executive Vice President and Chief Financial Officer; Matt Fox, our Executive Vice President and Chief Operating Officer; Tim Leach, our Executive Vice President of Lower 48; Dominic Macklon, our Senior Vice President of Strategy and Technology; and Nick Olds, our Senior Vice President of Global Operations. Ryan will open this call with some prepared remarks, and then the team will be available for your questions.
Before I turn the call over to Ryan, a few reminders. The results we released this morning reflect 2020 results for ConocoPhillips only. We will not be discussing any Concho-specific results today, but beginning in the first quarter of 2021, results will reflect the combined ConocoPhillips-Concho company.

We will make some forward-looking statements this morning based on current expectations. Actual results could differ due to the factors described in today’s press release and in our periodic SEC filings. We’ll also refer to some non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measures can be found in this morning’s press release and on our website.

Thanks. And now I’ll turn the call over to Ryan.

_Ryan Lance - ConocoPhillips - Chairman & CEO_

Thank you, Ellen, and thanks to all our listeners for joining today’s call. Lately, I’ve been reflecting on this time a year ago. We had just rolled out a groundbreaking multi-year plan for the company. The plan was anchored to a comprehensive philosophy and approach we had been espousing since 2016 that was aimed at reversing the failings of the E&P sector to create a sustained value for shareholders through cycles. What was that business model? Was reinvest about 70% of our cash flows into the lowest cost of supply resource to grow financial returns and free cash flow, return at least 30% of the cash flow to our owners, maintain a very strong balance sheet and lead in ESG stewardship.

Our multi-year plan gave the market a credible example of how this business model would work. Well almost as soon as the ink had dried on our multi-year plan along came 2020. And for the entire year, nothing went as expected for any of us. But here’s the thing. Despite the most challenging year in the history of our sector, our business model worked. The value proposition prevailed. We exercised available flexibility without forfeiting productive capacity, we high-graded our portfolio, we executed our programs and returned over 50% of our cash to our owners. Our balance sheet stayed strong and we continued to up our game on ESG. In other words, our value proposition passed the test of 2020.

And this strengthened our conviction that we have the right model for this volatile sector. This conviction is what led us to acquire Concho in a transaction that will enhance our ability to deliver our proven value proposition. So we turned the difficult experience of 2020 into an opportunity to emerge as an even stronger, more investable company for our sector.

Earlier today, we announced fourth-quarter and full-year 2020 results for ConocoPhillips. Because the Concho transaction closed after year-end, the results we reported today represent stand-alone ConocoPhillips performance for 2020. However, beginning Jan. 1, our 2021 results will reflect the combined company performance.

Now I don’t plan to review the results we announced this morning. I just described some of the important highlights from last year. But this morning’s results should give you all confidence that the underlying stand-alone ConocoPhillips business is running very well, thanks to the many efforts of our workforce. And I can assure you the Concho Permian business is running well too. And again, thanks to our workforce in Midland.

Our mindset as we start 2021 is all about doing the work and delivering the results that make us the best E&P company in the business. And to align all of us, here are our key focus areas for 2021. Our top priority is to create the strongest competitor in the business from the combination of ConocoPhillips and Concho. The closing of the Concho transaction cleared the way for us to begin comprehensive integration and optimization efforts across every part of our business. We’re just getting started post-closing, but we’re already taking actions that will drive greater efficiency and capture best practices to ensure we perform at the highest level organizationally, technically, operationally, financially and culturally.

We have already identified the sources of capital and cost reductions to meet the $500 million target we set when the deal was announced. And, I can report that we will significantly outperform those initial expectations as we review our processes, share best practices and organize for the new realities of the business.

But let me put our revised saving expectations into perspective for you. Compared to pro forma 2019 adjusted operating cost of approximately $7 billion, we anticipate being at an annual run rate of approximately $6 billion in 2022, assuming a similar production level of roughly 1.5 million barrels a day equivalent. Now this $1 billion reduction, about $400 million of that was driven by actions taken by both companies prior to the deal
announcement, with the remaining savings to be realized through cost reductions implemented in conjunction with the transaction. It represents a major value upgrade for the company because it greatly enhances the competitiveness of our free cash flow generating capability, which is how we’ll win. We’ll be implementing our cost reduction actions throughout 2021, and we’ll provide updates on our progress along the way.

The next priority is to execute the announced operating capital plan of $5.5 billion. This budget is comprised of sustaining capital of about $5.1 billion, with about $400 million that would be directed toward major capital projects, primarily in Alaska and ongoing appraisal activity. Now for this level of capital, we expect to produce about 1.5 million barrels of oil per day equivalent, which is roughly flat to 2020 pro forma production adjusted for curtailments and asset sales.

In this morning’s supplemental material, we provided operating capital plan by segment. We expect to spend about 55% of our capital in the Lower 48, with the remainder allocated across our diverse, global programs.

We’ve set the capital budget at about $5.5 billion for two principal reasons: First, while the macro environment has firmed up recently, we are cautious about the trajectory and the timing of a recovery. Demand recovery is taking longer, spare supply remains and inventories remain elevated. It makes no sense to grow into this market environment, so we’re choosing to stay at a sustaining level for the year.

Second, we’re committed to growing free cash flow and we are setting up the company to be a significant free cash flow generator. That means maintaining capital discipline, but also driving program improvements that enhance uplift efficiency. In other words, we’re driving for free cash flow growth, not production growth.

At $5.5 billion of capital in 2021, and if current prices hold, we expect to generate significant additional free cash flow. In that situation, our dividend alone will not be sufficient to meet our target of returning greater than 30% of our CFO to our shareholders. You should not be surprised to see us reactivate buybacks as a channel, and we always like the idea of improving net debt.

A third key 2021 priority is engagement with our various stakeholders. This includes investors, regulators, government officials, partners, communities, and our workforce. We’re undergoing a significant level of change, both on the inside as we integrate our companies, but also in the external environment. While we consider engagement part of ordinary business, there’s no question this priority has taken on a new level of importance in today’s environment, especially given the recent industry-related announcements coming from the new Biden administration.

Now let me take a moment to address our thoughts about the administration’s recent pronouncements of a temporary moratorium on leasing and permitting on federal lands. I have to say we were not entirely surprised by the announcement. In fact, President Biden said during the campaign that he would issue a temporary moratorium on new leasing. As for the permitting moratorium, the administration has publicly indicated this is a temporary pause and that they will continue to issue permits. Obviously, we hope these temporary actions are resolved in a timely fashion, and we are certainly watching the situation closely.

Now from our perspective, some of the recent executive actions targeting U.S. oil and gas production will have a negative economic and environmental consequences to the American people. If the moratoriums become permanent, they will eliminate well-paying jobs, many in rural America, slow our economic recovery, negatively impact energy and national security and increase our reliance on higher-GHG foreign barrels. We certainly want to avoid these outcomes. So we stand ready to work with the Biden team, as we did successfully with the Obama-Biden administration to find balanced solutions to address the issues.

As for the questions of what a permitting moratorium could mean for ConocoPhillips specifically, let me take that head on. While we certainly are going to engage to protect our interests, ConocoPhillips has the flexibility, the diversity and the depth of low cost of supply and low-GHG resource to manage through this issue without materially impacting our plans.

And a final 2021 priority will be continuing to up our game on another issue that is very important to our stakeholders, namely ESG. This is an area where we have a long-term demonstrated track record of commitment and performance, but clearly, there is heightened interest across all of industry on this topic. We continue to accept our responsibility for continuing ESG improvement, and in fact embrace the opportunity to be an industry leader.
Last year, we became the first U.S.-based upstream company to adopt a Paris-aligned climate risk strategy. We set internal emission reduction targets that are consistent with the goals of that agreement and are taking significant measures to monitor and reduce methane emissions across our operations. In addition, we’re actively advocating for a well-designed price on carbon in the U.S., because we believe that’s the most economically efficient and effective step that can be taken by the U.S. to set the world on a sustainable path to long-term GHG emission reductions.

While we work diligently to reduce emissions on a parallel path, we have established a low-carbon team within the company. That team is conducting in-depth studies of energy transition alternatives, monitoring trends and evaluating the economics and the viability of these alternatives for ConocoPhillips over time.

Our board is engaged with the team and its work, and we’re committed to continuing our analysis on this important topic. But at least for now, we believe the highest value we can create for all our stakeholders is by being the best E&P company in the business. The world needs clean, low-cost barrels that are safely delivered by disciplined, free cash flow and returns-focused companies like ConocoPhillips.

2020 was indeed a challenging year, but the lessons and accomplishments we took from it put us in great stead not only for 2021, but as a $75 billion enterprise-value industry leader. We’re in a unique position to help transform the perception and the performance of our sector with a clear vision of what we need to do – deliver value from the Concho transaction, execute our 2021 operating plan, engage with our stakeholders and keep pressing on ESG leadership. We look forward to keeping you informed of that progress as we go throughout the year.

Now let me turn that back over to the operator, and we’ll take your questions.

**QUESTIONS AND ANSWERS**

Operator

(Operator Instructions) Our first question comes from Doug Terreson from Evercore.

Doug Terreson - Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Energy Research

Ryan, ConocoPhillips has emphasized cost-effective energy supply, ESG leadership, which you just referred to and competitive returns to shareholders, which has really been a prescient approach, and one that most of your peers have ended up emulating over the past couple of years. And while having a good head start is usually a good thing, a paradigm shift seems to be underway in energy with investor expectations for management teams changing too.

So my question is, what are some of the things that the management team is going to need to do to sustain its leadership position in this new environment to continue to be the best E&P company with these new realities, I think is the way you phrased it a few minutes ago? So that’s my question.

Ryan Lance - ConocoPhillips - Chairman & CEO

All right. Thanks, Doug. And first, a big call out and a congratulations on your retirement. We know we’re going to probably see your name around. You’ve been an incredible partner and thought leader in the industry and have gotten it right more times than you’ve gotten it wrong, so kudos to you as well. So thank you.

Yes, Doug, it’s really good. A lot of external pressures right now, certainly on the industry and on what’s happening with the new administration. I guess I go back to kind of our three areas that we think are really critical for success of an E&P company. And I think it starts with returns on and returns of capital. You’ve got to generate a competitive return for our shareholders in this business. You got to do that sustainably and through the cycles. And we think that’s critically important, and we’re well-bought into that, as you know, for a number of years.
And to do that, we've got to also deliver this low-greenhouse-gas affordable energy all around the world, and that's going to be a part as we go through this transition that's really important. I think it's maybe lost in some of the rhetoric today, just how important oil and gas is to this transition that we're going to be going through over the next number of years and decades.

And then finally, you have to do that sustainably. We have to do that with the environment in mind. We can't put the planet through a great experiment. We've been an advocate of this and a supporter for a long period of time. And as I described in my opening remarks, it's about taking care of our Scope 1 and Scope 2 emissions, and we're on a pathway to reduce that intensity by 2030 that puts us on a pathway to 2050 and the goal that's consistent with the Paris Agreement. So we think everybody needs to be focused on your Scope 1 and Scope 2 emissions.

And then for Scope 3, we advocate for a price on carbon. We think that's the best way, that's the most economical way. It's the most -- the best way that the market can deal with this issue and drive consumer behavior that takes -- that puts us on the pathway that's consistent with the Paris agreement as well.

So that's how we've come up with our climate strategy, and that's how we're dealing with this kind of contra around how do you get energy and make it affordable? How do you make it sustainable? And how do you make it resilient and something that shareholders can invest in?

And also, to be fair, it's been really easy to have ConocoPhillips as my top idea in E&P since you guys -- or since you became the CEO in 2012, and that you guys originated the model for success in this sector. It's obviously worked and you stuck to it. So kudos to you and the team. Thank you for your leadership in the space, and the pleasure has been all mine.

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**Operator**

Our next question comes from Neil Mehta from Goldman Sachs.

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

So I guess the kickoff question is about capital returns. And Ryan, you alluded to this, but as you look at 2021, at the $5.5 billion capital budget, where do you see the breakeven to cover your dividend? And I'm guessing the number is a lot lower than where spot is right now, which is close to $58 Brent.

And so how do you think about using a share buyback to take advantage of that excess cash flow, but also the dislocation you've historically talked about the correlation between your stock and the price of oil and that correlation has recently broken down. So how do you think about leveraging excess cash flow via buybacks to take advantage of a dislocation to the extent you see one?

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**Ryan Lance - ConocoPhillips - Chairman & CEO**

Yes. So maybe I can take the latter part of yours, Neil, maybe Matt can chime in on breakevens and the first part of your question. But yes, you're right. Certainly, I know you guys can do the math and are doing the math pretty quickly these days. And certainly, at current prices, if they hang, we're going to be -- you shouldn't be surprised at all for us to be back in the market and buying our shares back at kind of the level we were at pre-transaction.

So we recognize that our commitment is to deliver 30% back to the shareholder, and we're committed to doing that. We recognize that the ordinary dividend today and the kind of market we're experiencing today, if you look at the forward curves that would be insufficient, so we recognize we'd have to take some of that free cash flow and return that to the shareholder. And that's certainly our commitment. And as I said in my opening
remarks, always -- with what we experienced in 2020, having a really, really strong balance sheet is really important. So reducing our net debt is something of interest to us as well.

So let me -- maybe Matt can chime in a little bit on the breakeven numbers.

Matt Fox - ConocoPhillips - Executive VP & COO
Yes, Neil. 2021 is going to be a little bit noisy in establishing that because of some of the one-off costs. But when we get to 2022 in the steady state mode the breakeven to cover the capital and for sustaining capital, the dividend is going to be somewhere around $40 a barrel, consistent with what we showed at the time that we announced the transaction.

And of course, certainly that's before we've considered some additional cost savings that might come from capital reductions and margin improvements from commercial and supply chain and so on. So we're feeling very comfortable that we'll be consistent with that, roughly $40 or a bit less once we're into 2022.

Ryan Lance - ConocoPhillips - Chairman & CEO
And I'd add, Neil, that -- sorry, Neil, I would just add that we're taking the time to drive the efficiencies and the free cash flow generating power through the transaction with Concho. And we're just getting started with that. We've been two weeks now since we got it closed. And I think we've got about a month of prices above $50 WTI as well. So -- but we're just getting started, and our focus is on trying to drive that as low as we possibly can. And the teams are up for it.

Neil Mehta - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst
Well, that's the follow-up for you, Ryan. It's just -- it's been a couple of weeks since you've gotten your hands on the Concho steering wheel. Just thoughts on what you're seeing so far. What is surprising to the upside? Anything surprising to the downside? And any quantification around the value creation that you've seen so far with the Concho asset?

Ryan Lance - ConocoPhillips - Chairman & CEO
No, thanks. I think, I'd say we haven't seen a downside yet. We're just -- we're happy to have Tim and Will and Jack on the team and helping us get jump-started in terms of what we're doing in the Permian Basin and building on the best practices, as Matt talked about.

So we're quite excited about the upside and the opportunity and just continuing to drive that efficiencies, free cash flow generation, get our assets on the Concho learning curve and continue to drive the value. And that's what this year of kind of sustaining level of capital, we're coming into the same level that we came in out of 2020, and that gives us the chance to get the team really focused on driving those efficiencies and getting more out for every precious capital dollar that we're spending.

Operator
our next question comes from Jeanine Wai from Barclays.
Jeanine Wai - Barclays Bank PLC, Research Division - Research Analyst

So I guess my question is maybe on the medium, longer term. You'll be holding production flat this year, pro forma to 2020. And over the medium term, has your view on the mid-cycle price of $50 real WTI, does that change relative to underpin the 10-year plan? And I know you indicated that kind of go past the value proposition test of 2020.

So is the plan to make your way back to that more than 3% production CAGR and the substantial through-the-cycle share buybacks? Or has the macro and the Concho acquisition kind of made you think a little bit differently?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, maybe I'll start and then let Matt chime in a little bit as well. I think long-term, Jeanine, our view of the mid-cycle, if you think about it that way over a long period of time, hasn't really changed. We see some potential for demand destruction coming out of this post-COVID that could be up to a couple of million barrels a day.

We also see some supply destruction as well. So on balance, we have a long-term view that the mid-cycle price hasn't really changed. I can maybe turn to Matt. He can maybe address kind of that medium-term question that you asked, which I guess is kind of directed to maybe over the next two, three, four years.

Matt Fox - ConocoPhillips - Executive VP & COO

Yes, Jeanine, the signs say -- I mean in the short term, we're expecting perhaps quite a volatile year this year as if we work off inventories and we're getting to a better demand and supply. But our view is that in the medium term, it's quite possible that we'll spend some time above mid-cycle prices. And we know there's been some demand reduction. We know there's been significant supply reduction, particularly in the U.S.

If you think -- if we give some numbers to that, I mean, U.S. tight oil production was 8.2 million barrels a day in December of 2019. And last year, it was 7 million barrels a day. So that's a significant drop. And our view is that at $50 a barrel or thereabouts, the current strip price is below 50s, so assuming the a 60-day moratorium on permits isn't extended for a long period, then U.S. tight oil will probably average around 7 million barrels a day for 2021, at least that's our sense of it.

And if you take that and look into 2022, that's at least 2 million or 3 million barrels a day below the pre-COVID trend. So assuming demand comes back in 2022, and assuming U.S. producers are disciplined, I think it's reasonable to expect a few years above mid-cycle. But on balance, our underlying view of the mid-cycle for the longer-term hasn't adjusted yet.

Ryan Lance - ConocoPhillips - Chairman & CEO

And then to the latter part of your -- into the latter part of your question, Jeanine, we're pretty committed to the 30% return of our cash back to the shareholder that where we believe that's the right model for this industry and we're committed to doing that.

Jeanine Wai - Barclays Bank PLC, Research Division - Research Analyst

Okay. And then my follow-up is just maybe digging in a little on Neil's question. And I apologize for pushing you on this a little bit, but I think that Conoco's cash return model is extremely differentiated. Not a lot of companies on our list at all are able to return capital the way you can.

But when you mentioned in terms of potential expectations for the buyback to resume, you said it could be maybe around the level at pre-transaction -- pre-contract transaction levels. So I know that you had announced like a $1 billion buyback in 4Q '20 alone, which got canceled. So are we supposed to be anchoring around that? Or is it more kind of the 2019 expectations?
Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I think you can do the math at these kinds of prices and calculate sort of the CFO that we generate and our commitments to return 30%. So it’s more similar to like what we were doing before the transaction.

Operator

Our next question comes from Phil Gresh from JPMorgan.

Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

So first one here, I guess, would just be on the outer-year look at capital spending, and I know you’re going to give us an update here in March and you just closed the transaction. But I guess this is more directional in nature. If you have any color about how you think about the moving pieces looking out? And I noticed that you do have some spending here in 2021 allocated for Willow as well. So should we be anticipating that, that will be ramping up in 2022 and beyond at this point?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I can maybe give a -- yes, we have an expectation to come back and talk about -- update you throughout the course of the year. And we kind of said we’d come back in March and certainly expect towards the latter part of the year, we need to come back to the market and describe our longer-term plans. We have thoughts and ideas around optimized plateau levels of spend for the assets. We do that at the company level and certainly do that at the asset level as well, in the Lower 48 and across our portfolio, including the Willow asset, and I can have Nick describe a little bit about what we’re doing today on the Willow asset.

But we’ll give that update to you, Phil, longer term, but expect that there will be some ramp up to an optimized kind of level, both at the company level and the asset level. And a lot of that is dictated by the recovery in this market. We got to see just what happens and how quickly supply and demand get rebalanced in this -- in the global markets. So we’re watching that really closely, but understand that there’s going to be a ramp up to some optimized level. And that’s where we’re busy trying to assess right now and understand after the Concho acquisition.

Maybe I can have Nick add a few comments on the Willow piece specifically.

Nick Olds - ConocoPhillips - SVP of Global Operations

Yes, Phil, this is Nick. Just to take you back a little bit to Q4 2020. As you’ve seen, we crossed through two major milestones around permitting for Willow. We had the Record of Decision by the BLM in October and then the Army Corps of Engineers 404 permit allows us to put gravel for roads and pads.

For this year, we’ve got -- part of that capital will be advancing engineering through our FEED, so we took FEED end of December. That’s a major decision gate within the company. So advancing the front-end engineering and design. And then we plan to move to detailed engineering sometime this year.

And then part of the scope for 2021 is also some small civil construction to put gravel and start the road system for Willow. And then we’re targeting FID (final investment decision), later this year. So we’ll advance the detailed engineering, which will impact that overall decision.
Ryan Lance - ConocoPhillips - Chairman & CEO

So we're watching it closely, Phil. And if things move to the right because of this current administration or somehow we get curveballs thrown at us, we have not taken FID yet. We've got a lot of flexibility around how fast we actually ramp up at Willow and what our options are around that.

Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

Got it. Okay. A follow-up question to Neil's question on the breakeven. Understood on the 2022 kind of still normalizing at a $40 to $41 WTI, which I presume includes the incremental synergies that you've discussed today. But with respect to the transient factors for 2021. I was hoping just a little bit more color there.

Is that just the severance that you're referring to as the one-offs? Or were there other things? Because I think there were some things like LNG distributions on a lag effect and other things. So anything else you could share would be helpful.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I can have Dominic. He's leading up the integration efforts around the two companies and describe some of those transaction costs in relation to the synergies.

Dominic Macklon - ConocoPhillips - SVP of Strategy & Technology

Yes, Phil. The -- obviously, there's obviously severance costs here in terms of where we have duplicate labor and other savings. There are obviously fees associated with that. But once we get through this year and get through those costs, I think we're focused really on what our cost structure will look like.

So maybe just to give a bit of an update on that. I want to be clear about that. The integration is going well. That's on the system side, the organization side. And we are -- we do have line of sight to exceed our targeted $500 million cost and capital savings we announced at the time of the transaction.

So, if you remember, that $500 million was made up of $350 million of operating cost savings and $150 million of capital reductions. And those really came across three areas: the direct savings from the transaction, restructuring our corporate staff groups to better align with our new portfolio on the ConocoPhillips side, and then stopping our new ventures exploration program. That reduced our targeted exploration spend from $300 million to $150 million a year. And in fact, our 2021 capital program of $5.5 billion reflects a reduced exploration capital spend along those lines.

Now our expected operating cost savings have now increased from $350 million to $600 million. So our teams have really done an excellent job turning over every stone, both in relation to the transaction and restructuring our center. So in total, the operating cost and capital reductions will now amount to $750 million. So we're up from $500 million to $750 million, and we're still counting.

I think, as Matt mentioned, we still have the opportunity for cost and capital efficiencies across our D&C spend, supply chain economies of scale and also improved price realizations on the commercial and marketing side. So we do expect that $750 million to increase through the year. And we'll be providing another update on that in March.

Now finally, just to tie back to Ryan's prepared remarks, with the operating cost savings having increased to $600 million, together with the $400 million of sustainable cost reductions, each company made -- both companies made together in 2020, we anticipate our 2022 operating costs to be around $6 billion, and that's $1 billion less than our pro forma costs in 2019. Now that was really the last normal year pre-pandemic. So it represents the best baseline. And that's all assuming production flat at about 1.5 million barrels a day. So at the end of the day, as we think about, we get through these transition costs this year. We then get into a run rate of about $6 billion.
It’s those bottom-line costs that matter at the end of the day, and that’s what we’re very focused on, to make really the company the strongest competitor in the business from two already very strong companies.

Operator
Our next question comes from Alastair Syme from Citi.

Alastair Syme - Citigroup Inc. Exchange Research - Research Analyst
Look, earlier today, one of your U.S. peers slashed their Permian growth forecast by almost 40%. And I thought what was intriguing about that is on their conference call, there was not a single question asking about that revision.

So it’s almost like the market has swung at a pendulum and now doesn’t think the Permian works. So I wonder if you can really reflect from the trends you are seeing in efficiency, cost of supply. And I think, ultimately, the question that the market doesn’t seem to believe about whether this business could be turned into one that generates free cash flow.

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes. I'll start, Alastair, and maybe let Tim chime in. He's our resident Permian expert that we're enjoying having on the team. But I think as we look at it and what drove our decision around the transaction early on is looking for the lowest cost of supply resources we could find in the world today and the companies that owned it and that's what drew us to Concho and the transaction that we announced back at the end of last year.

So when we look at it and we look at the performance inside our own company, and now that we've gotten a look under the hood deeper on the Concho side, we're pretty pleased with what we're seeing and continue to see, efficiencies in free cash flow growth above and beyond that.

And maybe ask Tim, he can supply a little bit of color to that as well.

Tim Leach - ConocoPhillips - Executive VP of Lower 48 & Director
Yes. I'll just follow-on by saying how pleased I am to be here and how well I think that Concho fits within this portfolio. But specifically to the Permian Basin, we were operating a really efficient program coming into this deal. Conoco was also operating very efficiently. And as I was reminded recently, the program we're executing right now is generating the best economics that we had seen during most of my career. So it's pretty exciting to have the inventory that we have. And have the opportunity then to go in and make that better and making it better, makes it more capital efficient, which will greatly expand the free cash flow and drive down the cost of an already low cost of supply area.

So we really see opportunity to really enhance the economics of what we're doing together. So that's the exciting part of going forward.

Alastair Syme - Citigroup Inc. Exchange Research - Research Analyst
Can I ask if you think the industry in 2020 has managed to bring the cost of supply down further in the Permian? Or is it difficult to tell?

Ryan Lance - ConocoPhillips - Chairman & CEO
I'm not sure we caught that, Alastair. Say it again.
Alastair Syme - Citigroup Inc. Exchange Research - Research Analyst
The question is whether you think efficiency gains in 2020 have brought the cost of supply down in the Permian at all?

Tim Leach - ConocoPhillips - Executive VP of Lower 48 & Director
Oh, yes. Certainly. I think we saw declining capital costs, but then also enhanced efficiencies from better-designed wells, better-designed spacing across the board. So yes, I do think the cost of supply came down dramatically in 2020.

Operator
Our next question comes from Roger Read from Wells Fargo.

Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst
I just wanted to jump in. I know a question was asked a little bit earlier, just got your hands on the wheel with Concho. But maybe as a step back and looking at the overall company, thinking of your cost of supply portfolio review, the step away from the exploration as part of the savings from the transaction. Are you thinking of an overall portfolio kind of shake-up in coming years? Or is everything that’s in there, it really does make sense?

And then as an addendum to that, just how you’re thinking about some of the international LNG opportunities at this point?

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes, Roger. We’ve made a lot of portfolio changes since we spun the company in 2012. And I think now, as we look across the entire portfolio, we’re pretty pleased with the resource base that we have, the cost of supply of all the major assets that we have in the portfolio.

With that said, when -- if they don’t compete for capital, we’ve demonstrated our ability to move them out of the portfolio, and we’ll do that if their cost of supply gets higher, and they don’t compete for capital. But that’s how we’re really focused and feel like the portfolio today is in a really good shape.

What we’re investing in is a less than $40 cost of supply and it averages below $30, so we feel very comfortable we can deliver the returns of capital, returns on capital, even through the cycles in this business with the portfolio that we have. And part of that includes those LNG projects that you described.

Now we did divest of one at the end of last year in Australia, and we did that because we were concerned about the cost of supply and the GHG footprint amongst a few other things. But we are -- we do like the LNG projects. We think we’re -- we like the market in Asia. We like the growing need for gas around the whole world. We are interested in competing in Qatar for another train. We think it’s -- that should be coming soon. It’s been certainly delayed with COVID like everything else.

But if it fits our investment profiles and our investment thoughts around cost of supply, we’d like to participate in that because it ultimately lowers capital intensity and really helps, we think, the overall portfolio. So we’re still quite interested in that particular project. And then, obviously, we still have one of the trains in Qatar, we have our APLNG project that’s performing very well right now on top of it as well.

Operator
Our next question comes from Scott Hanold from RBC Capital Markets.
Scott Hanold - RBC Capital Markets, Research Division - MD of Energy Research & Analyst

Ryan, appreciate the color that you provided on what you view in terms of the changes in administration and regulations there. But do you all anticipate that you're going to have some visibility to make your longer-term directions at some point?

So when do you expect to have a firm direction by the administration? Or is there a risk that there isn't anything that's as clear as you need?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, Scott, I mean, we're watching the next 60 days really closely. And we've got to get back to permitting rights of ways and easements across public lands. And if that gets hung up or takes a lot of time, we'll have to -- that's what we're watching very closely.

We're already starting to see, frankly, a bit of loosening up of that, some permits getting approved that they said even during this moratorium wouldn't get approved. So that's what we're following pretty closely. And certainly, we'll adjust our plans if it turns out to be something other than temporary, which is what we're hearing from the Biden administration is that it is to get their feet on the ground, understand the lay of the land, understand what was transferred to them from the prior administration and understand how they're going to deal with those issues going forward.

But we expect them to come back. We worked very successfully with the Obama-Biden administration on all these issues and would expect to do it and take them at their word that this is temporary, and that we'll get back to business as usual or at least something close to it after these 60 days.

Scott Hanold - RBC Capital Markets, Research Division - MD of Energy Research & Analyst

I appreciate that color. And as my follow-up, when you look out at the synergies that you're looking to capture, can you discuss how much of that is included with what your commercial teams can do with the Concho assets? And remind me if that's included in that. And if you could give a sense of like what should we expect from that? Because I know, certainly, obviously, Concho was a two-stream reporter. You guys are three-stream. But what's going to be that transition period? And is there some synergy upside in addition to what you've already spoken to?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. So Scott, I think, as Dominic described, the $750 million of synergy that we are talking about today does not include any commercial uplift or realized price benefits or supply chain enhancements or best practices that drive more capital efficiency. Those are yet to come, and we fully expect we're going to get significant uplift from those particular items as well.

It's going to take us probably the better part of this year commercially to understand all the different contracts. You brought up two-stream and three-stream reporting. Ultimately, we'll go to a three-stream reporting for the combined assets, but it's going to take us some time to understand the restrictions and how quickly we can get there for the Concho assets.

In fact, I think Tim was trying to get there as a company anyway. So there's -- they plowed a lot of ground in that regard. So it will just be a matter of getting to understand those contracts. But importantly, that's why it's helpful to take a sustaining approach and just a stable approach to our execution this year. Gives us the opportunity to really focus the teams on trying to drive those efficiencies and trying to drive those additional cost reductions, finding those opportunities on the supply chain and the commercial side of the business that are not included in the current estimate that we've provided to you.

But we'll fully update you again in March and provide you another look at where we stand and provide additional details as we go through the course of the year.
Bob Brackett - Sanford C. Bernstein & Co., LLC, Research Division - Senior Research Analyst

My interest was piqued by your mention of the studies of energy transition alternatives. And my thought would be that there's a financial lens in thinking about that, does this compete for capital against other options in the portfolio? And I guess there's a strategic lens, which is, is this in our core capabilities? Is this something we could do better than most or better than the rest?

How -- without giving away how far along you are, what -- how do you frame those in terms of a financial and strategic objectives?

Dominic Macklon - ConocoPhillips - SVP of Strategy & Technology

Yes, Bob, it's Dominic here. If I can just talk a little bit about -- a little about our carbon team that Ryan mentioned. That sits in our technology organization. And their work is really in support of our Paris-aligned climate risk strategy as well as monitoring opportunities more generally with the energy transition for the company.

But you mentioned the competencies, and that's something we have to stay very focused on as to the contribution that ConocoPhillips can make overall to the energy transition. And so their primary focus, that low-carbon team we have now, is focusing on those opportunities most relevant to our core business and to our core competencies.

So those are things like carbon capture, use and storage, carbon offsets, alternative power sources to further reduce the emissions intensity of our operations. And so -- and now they're also working with the BUs, our business units, very closely to implement the lowest-cost opportunities we have to reduce operational emissions more broadly.

So that is where our primary focus is. We are looking more broadly as well in monitoring. But as you say, at the end of the day, we've got to achieve the three things that Ryan laid out. We have to provide affordable energy to the world. We have to generate returns on and of capital for shareholders, so we have to be very -- continue to be very disciplined and thoughtful about our capital allocation. But we have to do these all sustainably through ESG excellence.

So -- and I think the key thing here is that we are very committed to our Paris-aligned climate risk strategy and the work we're doing is in support of that over the longer term.

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

Two quick ones. Ryan, my first one is, I don't know to the extent you can answer this, but I'm just wondering if the consolidation opportunity, in your mind, is over. Obviously, there was a bit more going on in the S-4, so I think it's the first time there's really a chance to talk about it, the elusive company A that was mentioned.

I'm just wondering, where do you stand now in terms of -- are you still looking for additional opportunities as we move through, let's say, the recovery phase?
Ryan Lance - ConocoPhillips - Chairman & CEO

Well, thanks, Doug. I think our focus is just integrating these two great companies, and that's really the whole focus of the company right now. So I'd say we're not trying to be distracted on anything else other than driving the efficiencies, the cost reductions, the free cash flow growth and then applying all these best practice and learnings that we have across two great companies to the current company that we have.

With that said, no, I don't think M&A is done in this business. I think if -- you've got to continue to drive down cost of supply, you want the best resource in the business, and you got to be the most sustainable company from an ESG perspective. And I think continuing to drive out costs in the business is going to be a good thing.

So no, I don't think M&A is over. And I think we've laid out our framework for how we think about that, but that's not on the radar screen right now relative to our company. We're focused on just driving the best results we can out of the transaction that we did with Concho.

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

Okay. My follow-up, I'm afraid there's another capital allocation question. And it's great to see Tim in the room. So I don't know which one of you guys wants to answer this. But obviously, the federal land exposure of the combined portfolio might change, let's say, the -- where you decide to allocate capital.

So as you think about the go-forward portfolio, how do you think about prioritizing capital allocation? And maybe just to a part B to that, what is the right longer-term growth for the combined portfolio? Maybe that's a market question.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. I mean, what's the right -- I'll take your last one first and maybe let Tim talk a little bit about the federal land exposure that you talked about. What's the right level for the company? I think that's something that we work on every day trying to understand.

We know there's a ramp up to an optimized plateau for the whole company and for each one of the individual assets, and that's informed by the market environment that we find ourselves in, the long-term mid-cycle price. And in what production comes out of that's an output. We're not trying to drive a certain amount of growth, I think, to an earlier question that we had. We're trying to grow free cash flow. We're trying to make sure that we get as efficient as we can, drive as much free cash flow growth as we can.

And we'll take what the macro gives us and that will set a capital allocation, and then we'll make sure that we're developing the lowest cost of supply resources for that capital, and doing that across our global portfolio. I think we've demonstrated that capability and have been really committed to it since we started down the journey as a big E&P company.

So maybe let me have Tim talk a little bit about your first part, Doug, on the federal land exposure.

Tim Leach - ConocoPhillips - Executive VP of Lower 48 & Director

Yes. Thanks, Doug. To reinforce something that Ryan said, it's really great to have such strong assets in the Lower 48 with Eagle Ford and Bakken and Permian and even the Montney in Canada. So we've got some of the best assets, unconventional assets, in the business, and they're all in different places on this optimized plateau model. And from very early time to ones that are more fully mature.

So as we go through time, that's part of the evaluation is allocating more capital to bring those assets up the plateau model. And that's really what we're working on now. On the -- just as a reminder to something you already know, on the federal lease side, we said, short term, that the -- what's going on with the federal leases really doesn't affect greatly any of our plans in the short term, we can still deliver on everything that we said we're
going to do. And as a reminder, we've got several decades of non-federal, high-quality drilling locations throughout the portfolio. So it's really a great opportunity to be disciplined capital allocators.

Operator
Our next question comes from Paul Cheng from Scotiabank.

Paul Cheng - Scotiabank Global Banking and Markets, Research Division - Analyst
Ryan, just curious that, I mean, we understand that it's probably too early to jump to any conclusion about what Biden administration may or may not do. But I think it sort of highlights the sort of operating risk of having a concentrated portfolio just in the U.S.

So from that standpoint, does it shape your view in terms of the investment that you're going to make over the next five years in U.S. and in overseas to try and to get some domestication? Or you don't think that it really changed your view on that?

And that if you do need to, within your portfolio, is that going to make any changes, for example, you previously said Argentina will be on the selling block that will be a candidate to be divested. And so does that make those decisions being somewhat different?

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes. Paul, I'd say there's a bit of recency effect with the Biden administration coming into [power] (corrected by company after the call) and putting all these executive orders. So I would caution everybody not to swing the pendulum too far one side to the other. We know we've got a large position in North America when you consider the Lower 48, Canada and Alaska, we recognize that. But uncertainty around administrations and fiscal terms and permitting and all that, that really exists all around the whole world. We're kind of going through a little bit of that during the recency of this new administration. So I wouldn't get hung up.

And it really -- we take it into consideration, but we're focused on just making sure we got the lowest [cost of] (added by company after the call) supply resources. We're developing those. We do value diversification, as you've described, but we want to make sure it's diverse across our cost of supply mantra. So we're all about diversification, but it's got to be low cost of supply.

So we think about that globally. We think about it when it comes time to allocate capital. And certainly, the company does have a -- we've got a large North American footprint, but we like it, and we've worked with prior administrations to get all our work done, and we've permitted the activity and we do it responsibly and sustainably. So we think we've got a good track record as a company. So I think that's where our focus and attention is at.

Now on some of the exploration stuff, as Dominic said, we've reduced our allocation to kind of those new venture exploration opportunities from $300 million to $150 million. And that's where places that South America and other places around the world may not compete in the portfolio. So we'll be looking at trying to monetize those and potentially get out of them.

Operator
Our next question comes from Ryan Todd from Simmons Energy.

Ryan Todd - Simmons & Company International, Research Division - MD, Head of Exploration & Production Research and Senior Research Analyst
Maybe a couple of quick questions on capital allocation. First off, I guess, can you give us any color on relative capital allocation within the $3.1 billion that you plan for the Lower 48 in terms of Permian versus Eagle Ford versus Bakken or other?
And then maybe as a follow-up, you had some pretty material exploration success in Norway during 2020. How does that resource compete for capital in your portfolio? How might it be developed? And how do you think about further exploration potential there in the region?

**Ryan Lance** - *ConocoPhillips - Chairman & CEO*

Yes. Let me take you first one. No, we haven’t split anything out, Ryan, in the Lower 48. So the $3.1 billion is being allocated to the whole Lower 48. There’ll be -- we’ll provide more updates down the road as we go through the course of the year.

Maybe ask Dominic to -- he’s in charge of exploration, talk a little bit about what’s exciting about Norway. So yes, we did have some two pretty interesting and exciting discoveries there over the course of the last few months.

**Dominic Macklon** - *ConocoPhillips - SVP of Strategy & Technology*

Yes, Ryan. We actually had four successful exploration wells in Norway there over the last year and a half. But most notably, the recent two significant discoveries, Warka and Slagugle, and I’m sure you know Slagugle is a Norwegian word for a type of owl.

But anyway, the Warka discovery, both of these are near Heidrun. And so we would -- we’re really pleased and excited about these. I think both of us -- well, the Warka is a gas condensate discovery and northwest of Heidrun. Our prelim estimates are 50 million to 190 million barrels equivalent. We’re the operator there.

And then the Slagugle discovery is even nearer Heidrun. It's oil, and it’s between 75 million and 200 million barrels. So we’re really excited about that as well, and we’re the operator there.

So we would expect those being in the vicinity of existing infrastructure, we would expect those to be very low cost of supply, subsea tiebacks is probably what we have in mind. But we have more appraisal work to do. This is a study here. Now I might add as well, we have just picked up a couple of new prospects just near Warka and Slagugle in that area.

So we’re really pleased with our Norwegian exploration team. And -- but at the end of the day, they’ll have to compete in our portfolio. And -- but we expect those will be quite competitive.

**Operator**

Our next question comes from Dan Boyd from Mizuho.

**Dan Boyd** - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

Ryan, if I look back to your last Analyst Day, and you talked about growth in the -- so I think you’re exceeding 3%. I know you’ve had a lot of questions on the call today about growth. You don’t want to necessarily put a target out there. But if you look at where commodity prices are today, you look at your cash flow generation profile, you would have the ability to grow, I would say, mid-to-high single digits as we get out 2022, 2023.

I don’t think the market is actually looking for that type of growth really from any oil and gas company. So can we think about, while you have returning at least 30% cash flow as one number, is there an upper end to growth that we should think about as well?
Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I don't think -- as you said, the macro is growing, at best, 1%. So I don't think you'd see our company trying to target a growth rate that's high-single-digit, as you talked about. Again, that's going to be an output from our plans, and it only occurs as we deliver at least 30% of our cash back to the shareholder. I'll remind people that we've well exceeded that over the last number of years, and we want to make sure we've got a stronger balance sheet as we can have as well.

So I don't put really growth numbers on it. It's an output to our plans, and that's a function of the macro environment we find ourselves in and how much cash flow we think we're going to have and making sure that we're getting an appropriate amount of return to the shareholder and that the balance sheet stands in a strong position.

So it's triangulating around all those issues. And so I think it's foolhardy to put out growth kind of estimates because I don't think they stand the test of time, nor a volatile market environment that we find ourselves in.

Dan Boyd - Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst

So in other words, if we are above your mid-cycle price, we would expect you to return more cash to shareholders. So if you were -- and as you said, you have returned more than 30%, so we wouldn't be surprised if that number was in the 45% or even 50% range? Is that fair if prices were above that at all?

Ryan Lance - ConocoPhillips - Chairman & CEO

I think you just -- yes, look at our history, and we value strengthening the balance sheet in the process as well. So I'd think about those two things.

Operator

Our last question comes from John Freeman from Raymond James.


Just one question for me. When I think about the synergies and cost savings you have already provided that's now at about $750 million, and you all mentioned how it doesn't include anything yet for the upside on savings from the marketing and leveraging kind of conscious expertise as well as the supply chain benefit.

So I guess when we think about the additional details on kind of capital allocation, et cetera, going forward, that we could get in March, is the thought that by, at that point, you all would have some -- be able to sort of quantify the benefits of all that? Or is it going to be a little bit too early for that?

Ryan Lance - ConocoPhillips - Chairman & CEO

No. I think we'll have more information in March when we provide some more guidance items to the market. We know you need them, we know you need them to calibrate your models. So you should expect us to be updating the synergies. But those synergies are going to persist throughout the course of the year as we go into 2022.

So we're going to be constantly kind of driving them in as much -- capturing as much of that as we possibly can. And we'll continue to update the market in March in our quarterly calls and then certainly have a more thorough market update probably toward the end of the year.
Operator

And we have no further questions at this time. I would like to turn the call back over to Ellen.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Thanks, Zenara, and thank you to everyone for your time today. And of course, for your interest in ConocoPhillips. Please stay safe. And Zenara, I’ll pass it back to you for the wrap-up comments.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes today’s conference. Thank you for participating. You may now disconnect.