OVERVIEW:
Co. reported 1Q21 adjusted EPS of $0.69.
Welcome to the First-Quarter 2021 ConocoPhillips Earnings Conference Call. My name is Hilda, and I will be your operator for today. (Operator Instructions) Please note that this conference is being recorded.

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

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Thank you, Hilda. Hello, and welcome this morning to our listeners. I'll first introduce the members of our 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; Tim Leach, our Executive Vice President of the Lower 48; Dominic Macklon, our SVP of Strategy and Technology; and Nick Olds, our SVP of Global Operations.
Today, several of our executives will make prepared remarks, and then the team will take your questions. Before I turn the call over to Ryan, a few quick reminders. In conjunction with this morning’s press release, we posted a short deck of supplemental material that includes first-quarter highlights, earnings and cash flow summaries, operational highlights and updated sensitivities. We also announced this morning that ConocoPhillips will host a virtual market update on June 30. So save that date, we will be providing details on that meeting shortly.

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

And with that, I’ll turn the call over to Ryan.

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

Thank you, Ellen, and welcome to all our call participants. It’s a very busy but exciting time at ConocoPhillips. With the Concho transaction now closed, our entire workforce is on a mission to emerge from last year’s extreme sector volatility and the transaction integration activities as the strongest competitor in our business.

We’re viewing 2021 as a catalyst moment, like we did in 2016, to improve every aspect of our business and again, step out from the pack by taking our disciplined, shareholder-friendly value proposition to the next level. We’re taking actions across every aspect of the company to improve our underlying drivers, and our first-quarter results represent an early indication of our progress.

Some of the actions we’re taking are transformational, such as capturing synergies, others are chipping away at core drivers to improve efficiency and returns, such as the debt-reduction plans we announced this morning. Here’s what everyone in our organization is focused on. First, we believe a safe company is a successful one. With the Concho transaction, we’ve combined two industry-recognized safety leaders, which has aided our overall integration.

And again, I want to recognize our workforce for their exceptional handling of the many challenges presented by the Winter Storm Uri last quarter. We're continuously driving to lower the cost of supply of our diverse resource base. We have a deep inventory of the very best rocks, which is a clear source of sustained competitive advantage. And we're always working to further high-grade the portfolio through asset sales.

But our low-cost inventory alone isn't enough. We're focused on applying our rigorous capital allocation process to optimize investments based on the metrics investors demand -- free cash flow and returns. We're driving improvements in free cash flow and returns by driving down our sustaining capital through well cost and supply chain efficiencies as well as margin improvement, driving down our cost structure through synergies and balance sheet improvements, driving down our sustaining price through the combination of lower sustaining capital and lower cost structure. And finally, we don't cap the benefit from higher prices, which means upside in free cash flow above our sustaining price.

We're only a short time into the Concho integration, but we're already seeing the previously announced synergies materialize, and we expect to yield additional benefits as our integration progresses. We remain committed to returning a significant portion of capital to our shareholders, with a five-year track record of exceeding our target of greater than 30% of CFO. In fact, our return to shareholders since implementing our returns-focused strategy in 2016 has been 43% of cumulative CFO.

So our capital-return approach represents a floor on the level of capital returns, not a ceiling. We don’t tie our returns to free cash flow like others are doing. So in other words, investors directly benefit from CFO expansion, including from higher prices when they occur.

And as you saw in today’s release, we’re taking actions to further increase our returns of capital in 2021. In addition to our ordinary dividend and our previously announced $1.5 billion of buybacks, we intend to begin reducing our Cenovus ownership stake, using proceeds to purchase incremental ConocoPhillips stock.
We're taking action to further strengthen our balance sheet. This morning, we also announced that we're planning to reduce gross debt by $5 billion over the next five years. This will reduce our annual interest expense cost and help lower our sustaining price. And finally, we're focused on leading in ESG, especially in emissions reductions. All of this is underpinned by our talented, motivated workforce. They are the driving force in our progress.

You can tell from my comments that we're encouraged by the improvements we're seeing across the company. That's why we announced in today's press release our intention to accelerate our 2021 market update from November to a virtual event on June 30.

Now here's what you can expect at that update. We'll reiterate our disciplined philosophy for the business and how we expect to enhance our through-cycle performance for a volatile price world, but also for a more stable price world should that transpire. We'll reaffirm the allocation priorities that have been foundational to our company for years. Compared to our plan two years ago, we believe every part of the business has improved. And our goal is to put ConocoPhillips in an even better position to deliver multiple years of free cash flow and returns to shareholders post-Concho.

We'll provide an update on our outlook for 2021 and beyond, including our synergy capture progress and our business driver improvements. We'll also provide updates on our asset base and our ESG efforts and plans. As I said earlier, it's a busy time for the company, but we're going to take advantage of our momentum to reengage the market sooner rather than later on our compelling future.

Now let me turn the call over to Bill, who will address high-level quarterly results as well as our announced debt-reduction and Cenovus-COP share plans.

**Bill Bullock - ConocoPhillips - Executive VP & CFO**

Thanks, Ryan. Well, we're certainly off to a good start in 2021. In today's posted materials, there's a summary of highlights from the first quarter, and I'll cover just a few of those items. As we foreshadowed on our March 31 market update, the financial results reflected some one-time Concho-related items. Adjusted for these known items, underlying financial performance was very strong. Adjusted earnings were $0.69 per share versus $0.45 per share in the first quarter last year. Production came in at the high end of the range, and all producing segments generated positive earnings in the quarter.

As shown in the cash waterfall in the supplemental materials posted on our website, first-quarter cash from operations was $2.1 billion and free cash flow was $0.9 billion. These figures include the cash flow impacts related to previously announced Concho-related items, which reduced both CFO and free cash flow by about $1 billion. But even with the roughly $1 billion in one-time transaction-related impacts, our CFO of $2.1 billion very nearly covered capital, dividends and buybacks. We returned 46% of CFO to shareholders in the quarter in the form of our ordinary dividend and share repurchases. And we ended the quarter with $7.3 billion of cash and short-term investments.

As a reminder, we issued updated first-quarter and full-year 2021 guidance for key business drivers on March 31. And today, we provided updated cash and earnings sensitivities. I call your attention to these because our cash flow torque to the upside has improved significantly as a result of the Concho transaction. And in a more constructive price world, we're going to differentially capture the benefit of higher prices, because we're unhedged, we're liquids-weighted, and we have exposure to diverse markets globally.

Turning to today's announcements, we view our balance sheet as a strategic asset, just like we do our portfolio of low cost of supply resource, and our balance sheet is very strong with top-tier leverage due to our low net debt. Now of course, our cash balances are a component of our net debt and given that our borrowing costs exceed the returns on our cash, we plan to put some of that incremental cash to work along with future free cash flow to reduce gross debt by $5 billion over the next five years.

This will reduce our ongoing interest expense, lower our ongoing free cash flow breakeven price, improve returns and create greater flexibility on our overall debt structure, all while maintaining our strong leverage position. As part of our program, we may refinance some of our high-coupon debt to take advantage of historically low interest rates and facilitate the total quantum of our debt reduction over time.
Next, I'll address the Cenovus share monetization plan we announced. As a reminder, we own approximately 10% of Cenovus, which is valued at about $1.6 billion today. The shares were received as part of the consideration for our sale of Canadian assets to Cenovus in 2017, and we've always stated that we did not intend to be a long-term strategic owner of Cenovus shares.

Over the years, we've looked at several strategies for reducing our position. We believe the market has responded to the positive steps Cenovus has taken, including its recent commitments to balance sheet strength and operational efficiencies. We intend to begin selling our Cenovus shares in the open market in the second quarter, while simultaneously tendering the proceeds into ConocoPhillips shares.

We will be thoughtful and measured with our sales program, as you would expect, with an intention to fully dispose of our Cenovus position by the end of 2022. We believe this plan to swap Cenovus shares for ConocoPhillips shares aligns well with both our commitment to returning capital to shareholders and to monetize our Cenovus position.

Taken together, our planned debt reduction and our planned swap of Cenovus shares for ConocoPhillips shares further strengthens both our balance sheet and our ongoing ability to consistently deliver differential returns of capital to our shareholders, all while lowering our sustaining price.

Now I'll turn the call over to Tim for an update on the Lower 48 business.

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

Thanks, Bill. We're just a few months into the ConocoPhillips-Concho integration process. And like Ryan and our other leaders, I'm more excited now than ever to tell you about our vision for the company and the great progress we've already made.

I'll do a quick recap of the Lower 48 for the first quarter, which was nothing short of historic, not only because of a fast-paced integration activity, but because of Winter Storm Uri. Overall, the storm impacted Lower 48 production by about 50,000 barrels a day for the quarter. However, facility damage from the storm was negligible, and we quickly resumed production in March. It was a heck of a test for our expanded Lower 48 region. They passed with flying colors.

Total Lower 48 production for the quarter was 715,000 BOEs per day, which includes 405,000 in the Permian, 187,000 in the Eagle Ford and 86,000 in the Bakken. We exited the first quarter with 15 drilling rigs, 11 in the Permian and four in the Eagle Ford. And we had seven frac spreads, five in the Permian and two in the Eagle Ford.

It doesn't get a lot of attention, but I also wanted to mention that during the quarter, we executed several innovative pilots across the Lower 48, including more than 40 twin frac wells. Electrification of our frac spreads and additional V5 completions. The point is, while we're executing the base business, we're also combining the experience of both companies by conducting numerous tests that should yield future efficiency gains.

My entire Lower 48 organization is excited about the role we can play in making ConocoPhillips, a company that can supply the cheapest, cleanest barrels to the market, successfully navigate the price cycles, achieve the highest level of execution efficiency and continue to lead the industry on the innovation front. From a size and scale perspective, our Lower 48 is clearly differentiated in the industry.

With the acquisition of Concho, the Lower 48 grew to be about half of ConocoPhillips’ production and among the largest domestic producers. We have a high-quality set of assets with a low cost of supply resource base made up of core positions in the three premier tight oil basins in the world. Our Lower 48 team is focused on capturing the strategic advantages of both Concho and ConocoPhillips, to make our operations more efficient and drive down sustaining capital with the primary goal of maximizing our cash-generating capacity.

We're creating a massive free cash flow machine from our combined business that will contribute toward the company's ability to deliver on its priorities through cycles. All of us recognize that the largest opportunity for value creation is going to come from bringing the best out of both companies and elevating the combined ConocoPhillips to a level unachievable by either company on their own. I'm happy to say that the new organization has embraced this challenge and we are seeing even more opportunity than we had initially expected.
I couldn’t be more pleased with the quality of people we have working on this, starting with the Lower 48 leadership team, which consists of both heritage ConocoPhillips and Concho leaders. We made it a priority to work closely together and leverage the knowledge base of both very experienced operations. In fact, we continue to see substantial improvements in our well costs. We have our eyes on additional ways to get more for less.

Beyond working together to generate the best plan of development and drive efficiencies in our operations, our team is working hard to identify commercial opportunities to improve margins as well as supply chain opportunities to leverage our global scale and drive down costs.

I want to leave you with a strong sense of optimism about what the Lower 48 can deliver. We are fully dedicated to extracting the full value of this deal, and I’m looking forward to providing more detail at our midyear market update.

And now I’ll turn the call over to Nick to provide the status of our operations in the rest of the world.

Nick Olds - ConocoPhillips - SVP of Global Operations

Thanks, Tim. While there’s clearly a lot going on in our Lower 48 business, we believe ConocoPhillips has a significant advantage over our independent peers because we also have diverse global businesses that generate significant free cash flow. Today, our Alaska and International businesses comprise about 50% of our company’s operated 1.5 million barrels per day production. I’ll take this opportunity to recap some of the achievements from the first quarter and bring you up to speed on activities we have underway around the globe.

So starting in Alaska, I’m pleased to report that Greater Mooses Tooth 2 project has made significant progress over the past several months, and facility and construction costs are about 10% below budget as we finish our third and final construction season. The project is expected to be online by the end of this year at approximately 10,000 barrels a day, with peak production of 35,000 barrels a day that will leverage our existing Alpine infrastructure.

We’re also back to development drilling on the slope. After suspending virtually all activity in 2020, we are restarting four rigs across our operated assets in Alaska. In the Western North Slope, we restarted drilling at CD5 and commissioning activities on the new extended-reach drilling rig. The ERD rig will play a significant role in augmenting Alaska’s base business, allowing us to drill wells in excess of 35,000 feet, accessing low cost of supply resources while minimizing surface disturbance. So our base Alaska business is performing very well and we’ve built a strong momentum coming out of 2020.

And of course, it’s been an eventful quarter for Willow. Let me give you a quick update on where that project stands. We continue to progress the front-end engineering and design work, while at the same time, taking actions to address the legal challenges that have been recently raised. The 600-million-barrel oil discovery remains very competitive in our portfolio, but we won’t take final investment decisions or make significant long-lead investments until the litigation risks have been resolved.

Now moving to Canada. At Montney, we continue to optimize our development plans to incorporate the liquids-rich acreage we acquired from Kelt, mid last year. We’re leveraging our Lower 48 unconventional resource expertise and have reduced drilling costs by 25% over the first four pads. This part of our business doesn’t get a lot of external attention yet, but it’s worth noting that’s currently produced approximately 30,000 barrels a day, of which 50% is liquids. We continue to be excited about our future in this premier 300,000-acre unconventional position.

At Surmont, we continue to take actions to reduce costs, improve netbacks and reduce emissions, and we’re seeing encouraging improvements on all three of these fronts. So in summary, Canada remains an important part of our business, with quite a lot of upside and learning curve opportunities.

Now moving to our Europe, Middle East and North Africa segment, in Norway, we’ve made good progress on several projects, which benefit from the fiscal incentives implemented by the Norwegian government last year. We’re nearing completion of Tor II and are on track to make final investment decisions on both Tommeliten Alpha and Kobra East Gekko later this year, and work continues to assess our recent discoveries at Warka and Slagugle.
In Qatar, our QG3 asset continues to deliver very strong performance and generate free cash flow, and we continue to advance our evaluation of the North Field Expansion opportunity. We're still very interested in participating in this project if it fits our financial framework. So we'll keep you posted as this plays out.

Moving on into our Asia Pacific region, APLNG is running extremely well. Production continues to be strong, which when combined with ongoing focus on reducing capital, operating and financing costs, has brought the cash breakeven down to $25 per barrel Brent. APLNG distributed almost $100 million to the company in the first quarter of 2021 and is expected to distribute about $200 million in the second quarter.

Finally, in Malaysia, we have several low cost of supply, high-margin bolt-on projects at various stages of development. The Malikai Phase 2 project achieved first oil in this year and SNP Phase 2 and Gumusut Phase 3 are on track for first oil in late 2021 and '22, respectively.

So that's a brief update of our global operations. In summary, We have a lot of exciting work underway that will continue to enhance free cash flow generation. Now I'll turn it back to Ryan for some short closing comments.

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

All right. Thanks, team. To wrap up, let me go back to how I started today's call. We're viewing 2021 as a catalyst moment, an opportunity to further hone every part of the business and continue leading this sector by taking our disciplined, shareholder-friendly value proposition to the next level.

As you've seen today, we're taking actions across every aspect of the company to improve our underlying drivers, and we're looking forward to sharing more on that and what that means for our shareholders when we get together with you again on June 30.

So now with that, let's open it up to Q&A.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) We have a question from Neil Mehta from Goldman Sachs.

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

And I think Matt's (Fox's) last day, if I'm not mistaken, was May 1, so if he's listening from the mountain somewhere, I wish him well in his retirement and congratulations to everyone on their promotions.

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

Yes. Thanks, Neil. Rest assured, he's probably listening and grading us.

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

Well, good. Well, the first question is around Cenovus. You could have approached this, Ryan, in a couple of different ways, certainly a block sale. And you elected to do this through the end of 2022.
So talk about why you thought this was the optimal way to release the shares into the market? And just a housekeeping question here. So you got this annualized $1.5 billion buyback program. But as you're selling Cenovus shares, this will be incremental to the baseline $1.5 billion, right? So this is -- this would be a supplemental to the $1.5 billion that you've already announced. So two questions there.

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

Yes. Thanks, Neil. Yes, let me handle the last one first, maybe turn it over to Bill for a little bit of color on why, but you're exactly correct. So we have the dividend that we're paying. We announced earlier that we were buying $1.5 billion of our shares back. And this Cenovus swap for ConocoPhillips shares is incremental or on top of the $1.5 billion that we're currently doing in terms of buying our shares back. We've looked at these different ways over the course of the last number of years as we've been an owner of Cenovus shares. And let me ask Bill to kind of give you a little bit of color on why now and why under this sort of plan.

**Bill Bullock - ConocoPhillips - Executive VP & CFO**

Sure. So as I mentioned, we've always said that we didn't intend to be a long-term holder of the Cenovus shares. And as Ryan mentioned, we've looked at several methods. We did look at block sales, and we considered them. We think the exchange of Cenovus shares for COP shares over time in the open market makes the most sense to us. Avoids discounts associated with open -- with block-type transactions, and we think that the market has responded positively due to the recent Cenovus announcement, so that the exchange ratio for Cenovus and COP has really come back to a more historic level.

So we see this as an opportunity to, one, trade into the COP shares, which we like the upside on; two, monetize an asset on the balance sheet, which we don't think gets a lot of value; and three, give that value back to shareholders.

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

Yes. That's very clear. And the second is, if you can provide some big-picture thoughts on the macro recovery. It certainly seems like the supply side is responding well and prices are firmer, but demand is still uncertain. So Ryan, how are you thinking about the Brent price outlook from here and the sustainability of the recovery? Any thoughts on the natural gas side -- global natural gas side as well as that's firmed up nicely as well?

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

Yes. Thanks, Neil. No, we continue to kind of execute the plan that we laid out at the beginning of the year, and it's largely due to our view of the macro, as you kind of described, demand still is off pre-pandemic levels at, pick a number, 96 million, 97 million barrels a day of demand. Spare capacity still exists on the supply side, largely with the ROPEC Group, or OPEC Plus. So we still view kind of 5 million, 6 million barrels a day of spare supply out in the world.

So we still have a balancing that we need to do before we kind of see where the price falls out at that point in time and what the call is on, say, U.S. tight oil going forward. So we think it's prudent to kind of stay the course right now and not change. We also don't want to whipsaw our programs. So we want to be stably executing our programs and driving the efficiencies that Tim and Nick talked about across the global portfolio with a lot of emphasis on what we're doing here in the U.S., in the Lower 48. So until the market gets rebalanced, we're doing all that, watching it before we make any differences as well.

So we're positioning ConocoPhillips for any kind of market that we think enters the fray. So if it is going to be volatile or if it's going to be sort of a sustained, more stable kind of price, we're positioned to react to either one of those kinds of markets. It's a bit uncertain with the pandemic and the demand, how quickly that's going to recover.
Now if you ask us, we believe it's going to recover. We think we probably hit a [hundred] (added by company after the call) million or so barrels a day of demand later this year. And on an annual average, we expect 2022 to be at that kind of a demand level. So at that point in time, we would hope the market is balanced on a supply and demand perspective, but it's going to take really the remainder of this year to see that.

But our value proposition is pretty firm and delivering money back to the shareholder like we described. And hopefully, you see from today's announcements that we're enhancing that. And again, the 30% is our floor. And you look over the last five years, we've delivered 43% of our cash back to our shareholders. So discipline matters and returns matter. And that's what we're all about.

Operator
The next question comes from Jeanine Wai from Barclays.

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

The first question is really on CapEx. And Q1 CapEx was $1.2 billion versus the full-year guide of about $5.5 billion. So that implies a little over $1.4 billion a quarter on average for the rest of the year. And so we know that it's hard to do ratable CapEx outside of Excel and we can appreciate that. Plus there's noise in the Q1 number based on Concho and weather and a bunch of other stuff.

But how do you see activity progressing or ramping throughout the rest of the year, if at all? And we understand that production is an outcome for Conoco, but we're just trying to get a better sense of the new steady state now that Concho is in the mix.

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, yes, Jeanine, yes, the first quarter was a little bit artificially low, given exactly what you described as the weather impacts in the Lower 48 that kind of shut things down for a period of time. And then people forget too that we had kind of a -- we had to react to a winter drilling season in Alaska that reduced the cap a little bit.

So it's not a ratable, you can't just take the first quarter times four. But we are driving the teams to greater efficiency and trying to get as much done with the precious capital dollar that we can. We'll provide more of an update in the June update that we've talked about.

And then I would say thirdly is we designed this to run stable. We designed our programs at the beginning of the year and asked our teams to go execute that scope and really not interested in trying to drive that on a quarterly basis and whipsaw the teams around doing those programs. We just want them to efficiently and effectively execute the programs that we set out at the beginning of the year, but we'll provide more of an update as we see the year progressing in June.

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

Okay. Great. We'll wait for that update. And our second question is just on the debt-reduction target. We've got balance sheet enhancement, dividend, buyback, CapEx all moving pieces on capital allocation. So maybe can you talk a little bit more about how you picked the $5 billion target over five years? And I noticed that just exceeds the amount that's coming due in that time. So maybe something on cadence as well?

And I guess, we're just really trying to back into how much cash return is available now that we have a defined gross debt target out there that we need to allocate from?
Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Thanks. I can let Bill talk specifically about the debt. I would just say, back to my opening remarks a bit, Jeanine, is that we're looking at every piece of the business. We're looking at the portfolio, we're looking at the balance sheet. We're looking at the cash sitting on the balance sheet and all those pieces of it.

And we haven't forgotten about the shareholder. And you saw that today with our announcement on the trade with the Cenovus shares and the ConocoPhillips shares. And again, that's incremental to the $1.5 billion that we're doing already. Let me ask Bill. He can give you a little bit more color on why $5 billion, why five years?

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, sure. Thanks, Ryan. Jeanine, so first, I just would start with both heritage Conoco and heritage Concho had really strong balance sheets, so does this combined company. And in fact, as we look at this, our net debt to CFO consensus is under 1x, materially less than our peer group. But with the Concho transaction, our gross debt's increased from $15 billion to $20 billion. And we have some legacy high-coupon debt that's out there on our balance sheet.

So we think this is a unique opportunity to reduce our ongoing interest and lower our ongoing free cash flow breakeven. We think that it improves returns. I think it creates greater flexibility in our debt structure and all this supports our ability to maintain greater than 30% of returns to our shareholders.

When you think about why $5 billion? Well, that's certainly over what the natural maturities of our bond ladders would be right now. We've got about $3 billion of bonds retiring over the next five years. So some of that will be early retirements. And you can see us do that with public tenders, open-market repurchases or perhaps a combination with refinancing.

All that's going to be taking an approach that favors flexibility and optionality. And in the case of our $5 billion over five years, that is our base case. We think that gives us the ability to moderate the reduction and take advantage of supportive marketing conditions, but you may see us accelerate that a bit if efficiencies in the market allow us to do that earlier.

So that's a bit of a context on why we're looking at reducing our debt structure, how we got to $5 billion and a bit on the pacing.

Operator

Our next question comes from Phil Gresh from JPMorgan.

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

Yes. I suppose it's a bit of a follow-up to Jeanine's question. There's a lot of excess cash that would be available if you're paying down the $5 billion of gross debt between free cash flow and the cash and the balance sheet and Cenovus shares. Perhaps some of this, you want to save for the Analyst Day, but any additional high-level commentary you could share around capital allocation?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, yes, we'll see what the market gives us, Phil, over time. I would say, too, that we described to you back in November 2019, how we think about the cash on the balance sheet. There's the operating cash, there's some reserve cash to deal with the volatility of the market, and then we like to hold some strategic cash as well. And we still think the market is going to be quite volatile. So we'll see what the market gives us, but we want to be prepared for any kind of market that we find ourselves in.
And then, thirdly, you should think about some of that cash, we’ll make sure the shareholders are fully satisfied based on our past experience and what we’ve done as a company. And then, thirdly, I would say it’s -- we are thinking about some of the future calls, whether that’s the -- if we’re successful, the North Field expansion, what we might do at Willow, we had some exploration discoveries in Norway. We hope to be successful in Malaysia.

So some of that cash that you might see on the balance sheet will go to some of those projects as well, such that we can continue to reap all the benefits from the annual free cash flow that we’re getting and distribute that back out to the company and to our shareholders.

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

Got it. Okay. My follow-up would just be, Ryan, you made a comment about certain minimum cash levels. How do you think about what that should be today? And then if I could glue in one question around Alaska. Do you still target trying to sell down Alaska as -- a portion of Alaska, as you discussed at the 2019 Analyst Day? Would that be another source of potential cash still?

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

Well, I think more broadly, direct answer your question, Phil, is yes, we’re still looking at potentially marketing some of the Alaska position. But more broadly, I think, with the Concho acquisition, we’re combing through the portfolio to make sure that we’re continually high-grading and take the opportunity of the kind of commodity price environment we find ourselves in. So we’ll have more to say on that in June as well.

From the diverse cash positions, I think it kind of came in the first, we think about $1 billion of operating cash and a couple of billion dollars of -- $2 billion to $3 billion of reserve cash, which is our -- what happens in the market, we can respond. We can keep our programs running consistently and not whipsaw our programs. So we want to have the cash there to do that. And then we have strategic cash on top of that, which are for other uses that I described in your first question.

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**Operator**

Our next question comes from Roger Read from Wells Fargo.

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

I guess, it’s getting beaten pretty hard here, but I’m going to try one other thing on the debt structure here. I mean looking back to where you were in ’16, the changes you made pre the Concho acquisition, it would appear you’re aiming for a lower level of debt. You mentioned lowering breakeven as a component of that. It would seem you could get there by refinancing the debt and bringing the overall interest expense down.

So I was just curious, as you think about it as a part of your capital allocation, right, return to shareholders, granted reducing debt can be seen that way. But I was just curious how it all kind of fits together as the goal of reducing by $5 billion.

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**Bill Bullock** - ConocoPhillips - Executive VP & CFO

Sure, Roger. This is Bill. I’ll take that. Yes, certainly. So as part of our $5 billion debt reduction over five years, I mentioned we’ve got about $3 billion that’s just naturally maturing towers. We are absolutely looking at refinancing a portion of our debt, or purchasing debt in. We like our path to $5 billion, but with a high-coupon out there, it’s possible to refinance, and I think that will just depend on a couple of factors including the cost of debt retired and reissued and how we decided to approach our debt reduction targets.
But certainly, refinancing is a component of the overall debt restructuring and portfolio and it works in combination with considering public tenders or open market repurchases. But you’re absolutely right, we could make some steady progress on that just by refinancing some of our high-coupon debt.

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

Great. Maybe at a higher level, what are you seeing on capital efficiency and onshore portfolio as we kind of emerge from the pandemic a little bit? And with the addition of Concho to the portfolio, do you have an estimate for what you think maintenance CapEx is and the right way to think about long-term capital spend? You used to talk about kind of $6 billion to $7 billion a year as the rough range. Is that -- has there been any adjustment to kind of what you see as kind of a normalized level of longer-term capital spend?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. We’ll be talking about that, Ryan, in June and kind of provide an update relative to what you saw back in 2019. It’d be premature for me to talk about that. I would just tell you, we’re constantly trying to drive down our sustaining capital and lower the breakevens in the company. And I think Tim and what we’re doing in the Lower 48, Nick’s doing around the rest of the globe, we’re seeing a lot of progress. And that goes with the synergy capture that we can talk about, if you like. But all those things are manifesting themselves in lower CapEx, lower sustaining and lower breakeven.

Operator

Our next question comes from Josh Silverstein from Wolfe Research.

Josh Silverstein - Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production

Just on Alaska. I know last year was a COVID-shortened drilling program. Can you talk about all the exploration activity that’s taking place this year? And then just again with the timing around Willow, with the litigation and what needs to happen there to progress that forward.

Nick Olds - ConocoPhillips - SVP of Global Operations

Yes, Josh, this is Nick. Why don’t I start with Willow -- yes, I apologize, Josh. Let me start with Willow. First, the big focus this year is related to the front-end and engineering design, as I mentioned, as well as detailed engineering. That’s all related to reducing -- understanding our capital, the schedule and ultimate development considerations prior to taking FID later this year. That’s the target.

As a reminder for the group, they’ve got two lawsuits that are currently in federal court filed by two environmental groups, challenging the BLM and the Army Corps record of decision for the Willow project. As you recall as well, we also had all the permits for the 2021 Willow construction received in early January.

However, due to the granting of the injunction by the Ninth Circuit Court of Appeals, that 2021 activity, which was a very small, modest scope of gravel work has been deferred into 2022. And as all projects, we have schedule float or schedule contingency, Josh. So that won’t impact the overall timeline.
In addition to the FEED that I just mentioned, the primary focus now relates to the merits of those active lawsuits, and we anticipate a decision by the District Court in the third quarter. I also want to just mention we have significant stakeholder support. As an example, we got State of Alaska and The North Slope Borough have both intervened in the court case supporting the BLM Record of Decision. We also have several North Slope Village councils and tribal organizations who have sent strong letters of support to Congress and the Secretary of Interior.

The last thing I’ll just reiterate as part of my opening remarks, we will not take FID or make any significant long lead investments until such time as key litigation risks have been addressed. And finally, Willow is a great investment opportunity, and we have the flexibility to adjust the pace of the project if needed.

Operator
Our next question comes from Stephen Richardson from Evercore ISI.

Stephen Richardson - Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Oil and Gas & Exploration and Production Research
Ryan, I was wondering if you could expand a little bit on this idea of 2021 as a catalyst moment as you contemplate June 30 and that update. I’m not asking you to kind of preview it, but I think the -- it would seem to us that one of the big differences today at ConocoPhillips relative to the last time you did one of these updates was just the predictability of your portfolio is probably better than it’s ever been.

So I was wondering if maybe you could reflect a little bit on that predictability, acknowledging oil price is still the big externality, but the predictability of the business you see internally and how that’s informing kind of your longer-term targeting and kind of willingness to think out more than a couple of quarters or even a couple of years?

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes, Stephen, you’re right. As we said in the opening remarks, the Lower 48 is half the company in terms of production today and the shorter-cycle nature of that business is a lot -- is pretty predictable. But I wouldn’t -- I’d say we’ve gotten to a place where we understand in running the base business across the whole world is good too. And so we understand the portfolio really well, obviously, and know what the prospects look like over the long haul.

You talked about the catalyst moment, it’s really focused in what we wanted to convey today. It’s every aspect of the business. So we talked about the balance sheet, we talked about returns back to the shareholder, we talked about the efficiencies that we’re gaining in the system, post- the Concho acquisition.

So we’re working really on every part, trying to lower the breakeven of the company and still be the best company in this business that can operate in a very volatile environment, and you can still count on the returns back to the shareholder, and you can count on us hyper-focused and disciplined on returns, not only on capital, but of capital, both.

So I think that’s what you’ll hear in June. A lot more on that, work on the portfolio, work on what we’re doing across the whole company on every lever. We know what investors want. It’s free cash flow and returns, and that’s what we’re hyper-focused on.

Operator
Our next question comes from Doug Leggate from Bank of America Merrill Lynch.
Doug Leggate - BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research

Yes. So it seems I've got a dodgy headset. I apologize for that. So Ryan, I'd like to -- I'm afraid, going to be up a little bit on the free cash story here, but also I'd like to kind of frame it a little bit because Matt's not here to defend himself.

But if you think about value as essentially your unlevered free cash flow, the decision is ultimately between the balance sheet and equity, the transfer of value between those two. Then a buyback implicitly has some view on the value of your company.

So I'm kind of curious how low you would be prepared to take the debt before you step up the buybacks again, because clearly, you could do a lot more if you wanted to, of $1.5 billion and where the variable dividend potential fits into that story?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. If I -- sorry, you were breaking up there a little bit, Doug, if I understand your question right, how do we make all those balances? I think we're walking and chewing gum at the same time here a little bit. So we're working on all aspects of the portfolio. I think our focus is on trying to lower the breakeven and lower the sustaining capital to work on the operating side of the business, lower the breakeven, which is reducing our interest expense by taking some of this high-coupon debt and bringing it forward, giving us options to take that callable and reduce that in addition to what's coming out over time.

So I think we're trying to do all things. And I think the basic commitment that we've made to the shareholders is we're going to return 30% of our cash or greater back to you over time. So we will do that. Now the vehicle, and I think part of your question was what's the right vehicle to do that in, that's, I guess, in the eye of the beholder a little bit. There's not maybe around what the right way to do that is we like the shares given the reduction that it makes in the absolute dividend, the per-share metrics that it creates and the -- and the balance and the accepted way that it's done.

But with that said, we've studied variable dividends and CVDs or whatever you want to call them going forward. We spend a lot of time thinking about it. Mathematically, it really doesn't matter. At the end of the day, the commitment is to return more than 30%. Is there a hybrid in our future, there could be. We'll -- we keep looking at it. And we're not committed to one path to deliver returns back to the shareholders.

But today, we think our shares are a great value. So -- and we think this conversion from CVE to ConocoPhillips shares is an elegant solution to get more back to the shareholder. So we're pretty committed to that.

Operator

Our next question comes from Bob Brackett from Bernstein Research.

Robert Brackett - Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

Most of my intelligent questions have been asked, but I'd like to at least chime in and congratulate Matt as well on his retirement. And maybe ask a question around the June 30 virtual meeting. Should we expect something like the 2019 meeting, 100-plus slides, a 10-year plan? Or should we expect more of a modest update?

Ryan Lance - ConocoPhillips - Chairman & CEO

Modest update, Bob.
Robert Brackett - Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst

It felt there was a lot of questions and putting a bit of burden on you all, but glad for that clarification.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes. Appreciate the question, Bob. We get the clarity out there.

Operator

The next question comes from Paul Cheng from Scotiabank.

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

Ryan or team, just curious about when do you think that you will, at a stage you believe you will fully integrate the Concho asset and that ready to take on if other M&A opportunity arise that you would be in a position to say, okay, the organization is capable and ready to take on new assets.

And also that -- on that basis that when you're talking to your peers with the commodity prices much stronger and the share performance much better today comparing to a year ago, how is that conversation on the consolidation trend that in the industry has changed? Do you think that the consolidation trends are essentially over by now? Or that still has opportunity?

The second question is that when I looked at the full-year production guidance of 1.5 million barrels per day, your first half is roughly 1.5 million based on the midpoint of the second quarter. But when we think that second quarter probably have some maintenance downtime, perhaps a little bit higher than the second half, so is there any reason why the full-year or that second-half production will not be higher than the 1.5 million barrel per day implied estimate that you gave?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Thanks, Paul. I think if I understand your question, first one was around consolidation and M&A. I think you referred to the integration activities going on with Concho, and we're pretty hyper-focused on that right now and trying to deliver all those efficiencies and the synergy. And the story is pretty good there. We updated the synergies to 750 million kind of earlier this year. And we still see more opportunity. And most of that is focused in the best practices and capital avoidance in commercial and in supply chain. So we're really focused on that, and we'll give an update in June.

So we are really focused on making sure we get the Concho assets integrated in. Tim is doing a great job with his team in the Lower 48 and on the efficiency side. I think it manifests itself in the performance of the company in the first quarter and in the production performance despite having the impacts from Winter Storm Uri.

So maybe I'll have -- Nick can comment a little bit. We do -- for the rest of the year in profile, we do have some turnarounds coming. So I can let Nick refer to that, I think, which is the second part of your question around what does that profile look like in the last half, for last 3 quarters of the year?

Nick Olds - ConocoPhillips - SVP of Global Operations

Okay. Yes. Thanks, Ryan. Paul, yes, just quickly, the turnaround impacts are very consistent with the prior years. Our heavy turnaround season is in 2Q, but even more so in 3Q. So if you look at 2Q, you got about 15,000 barrels a day in 2Q. That's mainly Norway maintenance work. And if you look at 3Q, it's about 25,000 barrels a day, so we see higher downtime. And that's mainly in our Western North Slope Alpine assets as well as greater Prudhoe Bay. Again, this maintenance crosshair. So 15,000 and 25,000 2Q, 3Q, respectively. And that has been included in our guidance.
Ryan Lance - ConocoPhillips - Chairman & CEO

I probably didn’t fully answer your question, Paul, sorry, but I don’t think M&A is done in our business. I still think there is consolidation that will occur and needs to occur. There’s too many players and it’s more difficult at these kinds of prices, clearly, but don’t be surprised if you see more of it in our industry because I think it still needs to take place.

Operator

Our next question comes from John Freeman from Raymond James.


Just a follow-up on Stephen’s question earlier, where following the Concho merger, Lower 48 makes up half the company’s production and again, realizing that your primary focus is just on low-cost supply. But just sort of how you think of kind of the long-term balance you’re kind of striving for with the short-cycle versus long-cycle production?

Obviously, you’re benefiting tremendously with the uptick in the short-cycle production, just as the oil price has had a big move up. Just maybe longer term, how you think about the balance? And does it – does the answer change at all based on the commodity environment?

Ryan Lance - ConocoPhillips - Chairman & CEO

No, not really. I think we’re hyper-focused on cost of supply. We’re pretty agnostic to gas, oil, short, long, which is why we’re interested in the North Field Expansion in Qatar and continue to have interest in that and continue to add to and improve our Lower 48 operations.

So I’d say we are really – we don’t really have an ideal blended mind that we’re trying to drive to over time. We’re pretty agnostic and just focused on the best rocks. They deliver the best returns. That’s the competitive advantage in this business.

Operator

Our next question comes from Leo Mariani from KeyBanc.

Leo Mariani - KeyBanc Capital Markets Inc., Research Division - Analyst

Just a couple of quick questions here for you. Certainly, I just noticed that your first quarter of ’21, Permian production was very strong. If I did the math right, looks like it was up about 317,000 barrels a day versus the fourth quarter of ’20, which looked to be well in excess of the contribution from Concho, which I think closed kind of mid-January here. Just trying to get a sense of what kind of drove that strong performance? Was there maybe like a larger group of wells that maybe came on in such a fashion that you saw a bunch of upside in the production? Is it stronger well performance? Kind of what drove that here in the first quarter?

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

Yes, Leo, this is Tim. We were projecting entering the first quarter at a pretty hot rate coming out of last year. And then with the storm, slowed the capital down, but didn’t really slow too much of production that was coming in from of our carry-on activity. And so I think as Ryan said, you’ll see kind of a more steady approach throughout the rest of the year. But yes, it was an excellent quarter. Everybody is -- in all the regions are hitting on all cylinders. I’m really pleased with the performance.
Operator

Our next question comes from Raphaël DuBois from Societe Generale.

Raphaël DuBois - Societe Generale Cross Asset Research - Equity Analyst

The first one is on the North Field Expansion. With so many players earmarked with interest, can you tell us a bit more about how you can get involved in this project? It cannot just be about the price tag you’re willing to accept, I guess.

So what are you going to bring to Qatar that will make them accept to work with you? That would be my first question, please.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, Raphaël, I think it goes back to our long-standing commitment to Qatar, and we’re in Train 6 Qatargas 3 project, been there for a long time, and I think we’ve demonstrated the value. We have a Water Center in Qatar. So we’ve had strong relationships with the Qataris. And to your point, it’s not only about sort of the bid level, it’s about the long-term relationship and the past relationship, the historic relationship that you’ve had.

So they’ve been a great partner, a great owner to deal with. So I think just like anybody and our competitors, we rely on the history that we’ve got in the country and the opportunity that sits there, then we’ll have to be competitive in our bid. And -- but it has to work for us. So it has to be competitive in our financial framework. So it cuts both ways.

Raphaël DuBois - Societe Generale Cross Asset Research - Equity Analyst

Great. And I have to ask you an ESG question. I understand you have this net-zero emission target by 2050. You gave an intermediate target for 2030. Can you -- without preempting too much with what you will tell us in June, how to bridge the gap between 2030 and 2050? Do you already have an idea of what will be another layer of absolute reductions? And what will be the offset -- the use of offsets that you will be contemplating?

Dominic Macklon - ConocoPhillips - SVP of Strategy & Technology

Yes, Raphaël, it’s Dominic here. So I mean, I think the -- there’s really two main thrusts there. The first is that we have a tremendous amount of work going on around the business units around reducing emissions. This year, we have about 50 projects, reducing our Scope 1 and 2 emissions by $80 million. Some great examples across Lower 48 and around the world.

But in addition to that sort of incremental gains each year, we have launched our low-carbon technologies team, and that’s very much in support of our Paris-aligned climate risk strategy. Their primary focus is on those opportunities most relevant to our core business to support this and also to our core competencies. So areas of focus include renewable power sources to further reduce the emissions intensity of our operations, that’s our Scope 1 and 2; carbon capture use and storage; and also carbon offsets are areas of initial focus.

So I think that these are the areas that we’re looking at right now, and we expect to develop those very much through the coming years.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Hilda, this is Ellen. We’ll take one final question, if you don’t mind.
Operator

The question comes from Neal Dingmann from Truist Securities.

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

Maybe a question for you or Tim, just given you've talked about all the debt repayment you're doing, and I was looking, obviously, you've still got a massive Lower 48 portfolio, my question is -- and thirdly, to add even to that, we've seen some very outstanding sales, most recent was a smaller Bakken one just in the last day or so.

My thought is pertaining to your Bakken, I noticed Tim mentioned I don't think any rigs running in that area. Would you think about bringing forward either value from that or any other assets forward given the large size of your entire international portfolio?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I mean, we're looking over everything, Neal. So globally and here in the U.S., I think post-transaction with Concho, we want to make sure that every asset is competitive in the portfolio. And we're not lost on the fact that it's a reasonable market right now for sales. So you'll hear more about that in June.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Hilda, I think we'll go ahead and wrap up. If you don't mind, give our listeners any closing instructions. I appreciate everybody's time and attention. We'll see you in June.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. We thank you for participating. You may now disconnect.

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