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COP.N - Q2 2022 Conocophillips Earnings Call

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OVERVIEW:

COP reported 2Q22 adjusted EPS of \$3.91.

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PRESENTATION

Operator

Welcome to the Q2 2022 ConocoPhillips Earnings Conference Call. My name is Richard, and I'll be your operator for today's call. (Operator Instructions) I will now turn the call over to Mark Keener, Vice President, Investor Relations. Mr. Keener, you may begin.

Mark Keener - ConocoPhillips - VP of IR

Thank you, Richard, and welcome to everyone joining us for our second-quarter earnings call. First, let me introduce the members of the ConocoPhillips leadership team taking part in today's call. We have Ryan Lance, Chairman and CEO; Bill Bullock, EVP and Chief Financial Officer; Dominic Macklon, EVP of Strategy, Sustainability and Technology; Nick Olds, EVP of Global Operations; Jack Harper, EVP of Lower 48; and Tim Leach, Adviser to the CEO.

On the call, Ryan and Bill will provide some opening comments, after which the team is available to take your questions.

Before I turn it over to them, just a few quick reminders. In conjunction with this morning's press release, we posted supplemental materials that include second-quarter earnings results and highlights, earnings and cash flow summaries, price realizations and sensitivities for estimating earnings and cash flow, and updated guidance for the third quarter and full year. During the call, we'll make forward-looking statements based on current expectations. Of course, actual results may differ due to the factors noted in today's release and in our periodic SEC filings.

And finally, we'll make reference to some non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measure can be found in this morning's release and on our website.

With that, I'll turn it over to Ryan.

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, thank you, Mark. And for those -- Mark has elected to retire. So I want to start off by really thanking him for more than 30 years of dedicated service to our company and wish him well in retirement.

And at the same time, I'd like to warmly welcome Phil Gresh, who will be joining our team next month as Vice President of Investor Relations.

Now before I get into the results for the quarter, I'd also like to touch on a few things that continue to be top of mind for us. The ongoing tragic invasion in Ukraine and the residual implications from COVID have significantly impacted supply chains around the world, with shock waves driving both product shortages and elevated levels of volatility, including large swings in commodity prices. The combination of these factors has brought into sharp focus the critical importance of U.S. and global energy security and reliability.

By fulfilling our Triple Mandate of responsibly and reliably meeting energy transition pathway demand, delivering competitive returns on and of capital and progressing toward achieving our net-zero operational emissions ambition, we're playing a key role in providing secure, dependable energy solutions that are clearly needed around the globe.

The guiding principles of our Triple Mandate were key to our recent actions and announcements regarding global LNG supply capacity, as the use of natural gas in place of coal and refined products represents an opportunity for significant reductions in greenhouse gas emissions around the world. We believe this reality is going to drive increasingly strong global LNG demand and related opportunities well into the future.

As recently announced, we entered into an HOA with Semptra for a possible investment in the Port Arthur LNG project that's currently underway. The potential investment is designed to leverage our company's considerable strength as one of the largest gas producers and marketers in North America, while expanding our global LNG business. This potential investment is expected to be project financed and, if executed, would afford us the opportunity to participate in additional strategically located LNG projects as well as to jointly pursue related emissions reduction opportunities.

That announcement followed our recently completed 10% ownership increase in APLNG, as well as our selection to participate in Qatar's North Field East project, adding to our long, positive relationship with QatarEnergy. Our recent decision to join the OGMP 2.0 initiative is also in service to achieving our Triple Mandate, as reducing greenhouse gas emissions, including methane is an imperative for our company and our sector. Applying the rigorous OGMP 2.0 reporting standard, which incorporates third-party verification, will be a vital step on our path to net-zero operational emissions.

Now before I turn the call over to Bill to cover the second-quarter performance, let's discuss for a moment on the equally important returns element of our Triple Mandate. Looking at, first, at returns on capital, we generated a trailing 12-month ROCE of 24% in the quarter, five points higher than the 19% we delivered last quarter.

Turning next to our returns of capital. Once again, we've increased our targeted 2022 distributions to shareholders, taking the total full-year expected returns to \$15 billion. This represents a 50% increase from the target announced last quarter with the \$15 billion to be distributed across our three tiers of ordinary dividends, share repurchases and VROC. At current strip prices, this represents a return to shareholders of slightly more than 50% of our projected CFO for the year.

Our commitment to achieving our Triple Mandate is unwavering, and delivering competitive returns on and of capital to our shareholders through the cycles is a key component of that commitment.

Now let me turn it over to Bill to cover our overall performance for the quarter.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Well, thanks, Ryan. And as you noted, we generated a return on capital employed of 24% on a trailing 12-month basis. On a cash-adjusted basis, that improves to 27%.

Turning to earnings per share, we generated \$3.91 per share in adjusted earnings in the quarter. This was driven by strong realized prices and production of almost 1.7 million barrels of oil equivalent per day. As we previously mentioned, production volumes in the second quarter were reduced by scheduled turnarounds as well as some unplanned weather and other minor impacts.

Lower 48 production averaged 977,000 barrels of oil equivalent per day for the quarter, including 634,000 from the Permian, 233,000 from Eagle Ford and 91,000 from the Bakken. Operations across the rest of our global portfolio also ran well, leading us to generate \$7.8 billion in cash from operations in the quarter, excluding working capital. This includes roughly \$750 million in distributions from APLNG, and we continue to project full-year distributions of \$2.3 billion, with roughly \$300 million expected in the third quarter.

We also invested \$2 billion back into the business in the second quarter, resulting in free cash flow of \$5.9 billion. That more than covered the total \$3.3 billion we returned to shareholders in the quarter, as well as the \$1.9 billion used to reduce total debt. These actions, taken in combination with the \$600 million in disposition proceeds and the purchase of approximately \$300 million in long-term investments, resulted in ending cash of \$8.5 billion as of June 30.

Turning to the second half, we provided a third-quarter production guidance range of 1.7-to-1.76 million barrels of oil equivalent per day and reduced our full-year production from 1.76 million to 1.74 million per day. That's primarily related to risking of projected production from Libya in the second half of the year, as well as some modest updates across the portfolio.

Now in conjunction with these changes, we reduced DD&A guidance from \$7.7 billion to \$7.6 billion for the year. We also increased full-year 2022 adjusted operating cost guidance to \$7.5 billion from the prior \$7.3 billion. Now this is reflecting commodity-related price impacts.

We reduced guidance for the corporate-segment loss from \$1 billion to \$900 million, primarily due to lower interest expense resulting from our recent debt reduction and higher interest earned on cash balances, along with some restructuring efforts. Operating capital guidance for the year remains unchanged at \$7.8 billion.

So to sum it up, we have delivered another strong quarter across all aspects of our Triple Mandate. Our diverse global asset portfolio continues to run well. We returned \$3.3 billion to our shareholders in the second quarter, ended the quarter with \$8.5 billion of cash and short-term investments and increased our full-year return-of-capital target to \$15 billion. We continued to strengthen our fortress balance sheet, and we have reduced total debt by \$3 billion year-to-date. And we further enhanced our low-cost energy transition-oriented portfolio by expanding our current and future presence in the growing global LNG market and by joining the OGMP 2.0 initiative.

Now with that, let's go to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question on the line comes from Mr. Neil Mehta from Goldman Sachs.

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

Mark, you will be definitely missed, and congratulations to Phil, who -- if you're listening on the line, looking forward to working with you in the new capacity.

The first question is for you, Ryan. Big announcement in terms of incremental return of capital. And the questions we got from investors this morning, given there's a variable element to it, is should we think of this as being oil price dependent in any way? Or should we view this as a financial commitment from Conoco that no matter -- assuming reasonable market volatility, that's a number you can count on.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, Neil, I think if you're thinking -- if your question is specific to 2022, I think you can count on this return coming back to the shareholders in 2022. We took a broad look at the market from the volatility perspective that you described and felt comfortable that we could increase the distributions to \$15 billion using the three channels that we've been using in the past. So you can count on that in 2022.

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

And Ryan, I'd love your perspective on some of the long-term growth projects that the company is leaning into here. The announcement in Qatar, potential investment in U.S. Gulf Coast, and then making progress on Alaska, how does that fit into the long-term Conoco strategy? And do you think that the company is taking a little bit more of a growth orientation here relative to just a free cash flow orientation?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. I wouldn't describe it as a growth orientation. I think we -- long term, we want to grow and develop our company. We're trying to do things, first and foremost, that fit within our construct of cost of supply in our portfolio. So we recognize the volatility in the markets. We don't want to be investing anything that has a cost of supply over \$40. We recognize we need to do that to generate the free cash flow and generate the returns on and of capital. So everything that we're doing is in service to that.

Now we do recognize that, certainly post-Ukrainian invasion, and we've long held this view, that gas is going to be more of a transition fuel as we transition to lower-carbon alternatives going forward, and we wanted to play. We have a lot of capacity in the gas space, both LNG and natural gas. We've got a very large position in North America, both between Alaska, Canada and the U.S. Lower 48, and we wanted to augment that with additional LNG liquefaction capacity. So we've been looking at this for quite some time, and the opportunity presented itself with Semptra.

So, yes, there's some added scope. And clearly, we've signaled for quite some time that we wanted to participate in the expansion project in Qatar. We think that's some of the lowest-priced gas in the world, and it's going to fit well globally. It could be directed to both Asia and to Europe going forward. So I think everything we're doing is in service to our cost of supply mantra in terms of how we think about the investments that we want to make, and that we're interested in growing the development of the company over the long term, and we believe we're at the front end of a pretty constructive cycle in the commodity business going forward just given our view of the macro supply-demand dynamics in the business today.

So when these fit with our construct around how we think about the projects we want to invest in, they make sense for the company, they're consistent with our capabilities and the stuff that we're really good at in the company. So they make sense. Sometimes you can't dictate the pace of these things. And when they come and make themselves available, we're very interested in participating, like the deal with -- the opportunity with Semptra on the Gulf Coast liquefaction.

Operator

Our next question online comes from Mr. 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*

Great. I'd like to also thank Mark for all the help and wish him the best. He will definitely be missed.

The first question, I guess, is just following up on those comments, Ryan, on Sempra. I was wondering if you could just maybe talk a little bit about, do you think about the returns here relative to the backward integration into your existing U.S. gas production? Do you think about it much more on a merchant basis? And also just curious if you could talk about like why this project relative to the other opportunities and variables you looked at in terms of more Gulf Coast gas?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, thanks, Stephen. I think let me take the last one first a little bit. This was a permitted, kind of shovel-ready project. We like the location, we know that area pretty well and we like the expansion opportunities that come with it and the optionality that it creates on the space, scale and scope, which is why we chose Sempra over some of the other opportunities that kind of presented themselves on the Gulf Coast. And also the option link that it has to the West Coast LNG that they have with their Mexican opportunities that are going on there.

So it was a really good fit. We know Sempra pretty well. We've worked with them in the past. A good fit culturally to the company and consistent sort of culture in terms of how we think about the business, the markets and where natural gas is going globally.

More to your first part, yes, we think about this in a very integrated fashion. So it's not only liquefaction, but it's moving it into the market, and that it's a recognition that with the transactions we've done over the last year and the core assets inside the portfolio in the Lower 48, both Canada and the Lower 48, we recognize we've got a large potential natural gas position. And we want to create value for that position in a very integrated fashion. So it's the integrated nature of the project. Not any one element, but they all tie together. The ability to supply gas to the liquefaction facility, the taking of the five million tons of commitment, moving it into the markets that we know really well and getting into that fully integrated chain is what interested us the most.

Stephen Richardson - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Oil and Gas & Exploration and Production Research*

That's really helpful. If I could just have a quick follow-up on -- there's some movement, it seems in Washington or at least discussions about cleaning up some of the permitting challenges that the industry faces, particularly around NEPA. And I'm wondering if maybe you could talk a little bit about what would need to happen to kind of push Willow a little bit higher up. That's the one project, obviously, we think about when you hear about NEPA, but maybe you could address that, please.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, NEPA needs reform, Stephen. It can take 10 years or more cycle time. And it's not just our industry, it's all industries, even the guys that I talked to that are wind developers and solar farm developers complain to the same thing. It takes a long time, the coordination through all the various government agencies that have responsibility within the NEPA process, and it just takes a lot of time. So having some better coordination, giving some deadlines to response times, giving good public comment review periods, but don't let them sort of extend indefinitely like this administration tends to do a little bit and past administrations have tended to do for that matter. So you have a NEPA process that is in desperate need of reform to try to make it run smoother, quicker and have coordinating groups shepherd this through the various agencies that have some responsibility through the course of the process.

And I understand they're looking at that, maybe it's a companion bill to the Schumer-Manchin Bill. So it gives us a little bit of question as to whether or not it will get done, but it is in desperate need of some NEPA reform.

Now Willow specifically, we've been in this process a long time, so we're in the final throes of that. We've got the supplemental EIS statement through the Department of Interior, it's out for public comment today. Again, we'd like to -- the public has had plenty of time to comment on this project. I think we know where everybody stands. So it's time to make a decision to move forward. And we look forward to that record of decision coming here later this year so we can get moving forward on the project. We think we've satisfied all the concerns that the federal judge has had, and we're ready to move forward.

Operator

Our next question online comes from Jeanine Wai from Barclays.

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

We'd also like to throw our congratulations to Mark on your retirement, and thanks so much for your time, and you'll be very missed.

Our first question maybe dovetails on Neil's question on cash returns. Just maybe digging in a little bit more. Does the increase primarily reflect a stronger-than-expected commodity price environment? Or are there other factors that are kind of driving the increase? I mean, I guess we had anticipated some kind of increase given we saw a really strong free cash flow outlook, but we thought it would be kind of walked up over time. So the \$5 billion increase, it exceeded our expectations. I think it exceeded the market's expectations. So any color on how you're thinking about future potential there would be great.

Ryan Lance - ConocoPhillips - Chairman & CEO

Jeanine, we look at a lot of things. We have an informed view of the supply-demand dynamics and the macro where it's going. There's a lot of volatility as you know in the market. So we wanted something that we could make sure that -- we could guarantee that we could deliver in 2022, even with the backward-dated nature of the forward curve a little bit. But we have a pretty constructive view on the commodity price.

The other thing that kind of enters into our conversation is where we are on the balance sheet. We know we have a very, very strong balance sheet. We're interested in rebuilding a little bit of cash after the last transaction earlier this year that we spent some cash on, which has been a very good transaction for the company. We're really pleased with how that's going. And Jack can chime in on some of that if there's a later question.

But I think it's -- where our cash position is on the balance sheet. We still want to build some cash on the balance sheet for the volatility we see in the market and the terms that we see going forward, but we're pretty constructive over the next few years on the commodity price. So we feel like the progress that we've made was pretty good that allowed us then to maybe increase the distribution back to the shareholders above and beyond maybe what the market might have been expecting over the last few months.

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

Great. Our second question, maybe moving to CapEx and inflation. It continues to be a pretty tough operating environment out there between inflation and a tight supply chain. Can you maybe discuss how your costs are trending versus your expectations? And we kind of thought Conoco would true up the CapEx budget for the recently announced participation in the North Field LNG project, but you reiterated the CapEx budget this morning. So if you're able to clarify for us if there's anything in the '22 budget for that participation, that would be very helpful.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Maybe I'll say a few high words. Obviously, inflation is still with us. It's staying with us. It's different around the whole different pieces of the world. Maybe I can ask Bill to chime in on some of that. And then Nick, maybe you can address Jeanine's question specifically on the timing of NFE.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, sure, Ryan. So Jeanine, we continue to expect our overall company inflation to be in the 7% to 8% range, and that's what's reflected in our capital guidance of \$7.8 billion, just like we talked about in the first-quarter call. Like everyone else, with our higher activity levels in Permian, that's where we're experiencing the most inflation, what we're watching, and we're continuing to keep an eye on that.

Nick Olds - ConocoPhillips - Executive VP of Global Operations

Jeanine, this is Nick. Yes, this is on the North Field Expansion. So obviously, we got the 25% equity in half a train. So to put that in perspective, QatarEnergy communicated that the total project, that's four trains of eight million tons per annum, so a total of 32 million, is 29 billion for that. Our effective working interest is 3.125%. So if you take that, that gives us an estimated incremental CapEx of approximately \$900 million for the NFE project.

Now related to timing, as Ryan mentioned, this project has been going on for a couple of years with drilling and putting in platforms. So we'll have an initial catch-up payment for our share of the project costs, either late this year or early next, and that's not determined at this point in time.

And with respect to start-up of first LNG as QatarEnergy has communicated, that is in 2026. Again, this would be incremental to any guidance.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. So Jeanine, that's incremental. If it did -- if a catch-up payment did occur this year, that would be incremental to the \$7.8 billion that we guided to.

Operator

Our next question online comes from Mr. Roger Read from Wells Fargo.

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

Mark, congratulations. You seem far too young a man to retire, but you got to do what you got to do, right?

Anyway, question I'd like to get on. It kind of comes back to the overall LNG and tying it together, your existing operations, and obviously, the two new seems, I guess, one for sure and one likely investment. You're a big gas trader in the U.S., to some extent globally. I was just curious, does that create a new integrated sort of business we should think about down the road. And what would be the opportunities there? Probably gets a little bit back to Stephen's question about the return structure of the transaction overall with Sempra.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Let me -- I'll start that. Maybe I can have Bill chime in a little bit on the commercial aspects of what we're doing in this space. But you're right, Roger. I think we look at it, again, very integrated nature. So we're marketing 7 to 8 Bcf a day of gas every day in North America. So we're -- the opportunity to supply gas into a multiple-train project at Port Arthur, Texas is intriguing to us, then our commitment to take the 5 million tons, we've got a lot of experience moving it into the market. Bill can describe. There's a commercial team in London. We've got a commercial team in Singapore. We're used to both the European and the Asian markets. We'll figure out how best to move that five million tons, and there may be a spot compliment to that. We don't know. We'll work that out as we go through. But that very integrated nature all the way from the supply side through taking the gas and selling it to customers is what was of interest to us in looking at it on an integrated fashion.

I don't know, Bill, if there's any more color you might provide on the commercial side.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes. Sure, Ryan. Roger, as Ryan highlighted, it's this integrated nature that's most exciting about it. We are one of the largest marketers in North America, certainly a top-five marketer. I think lately, we're pushing number two. So we're very comfortable with supply, and we move orders of magnitude above our physical production. So the optionality that being able to supply LNG regas facilities is pretty interesting to us. It's also interesting to us in terms of ensuring strong flow assurance for our own production.

And then we've got a history of well over 40 years of marketing LNG through Asia. We started the trade into Japan with our Kenai facility. We've been in the LNG business for quite a long time. As Ryan mentioned, we've got offices in London, Singapore and Japan. We've been moving spot volumes in the market here off of APLNG. And so it's a part of the market we know quite well and pretty excited about this integrated nature of being able to create value across that chain.

Ryan Lance - ConocoPhillips - Chairman & CEO

And the other part, Roger, I would say -- Jack could chime in too here, but just the gas resource that we have as a result of the transactions over the last couple of years, we've got a very large, high-quality gas resource that we could -- we hope to be pivoting to over time to even supply a lot of this gas.

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

Yes, for sure. The other question, just coming back, you talked earlier about potential positives like a NEPA reorg and all that sort of thing. I was just wondering, in the IRA bill with some of the issues on a methane tax, Conoco has certainly been ahead of the game on overall emissions reductions and everything. But is there anything in that or any of the other aspects of the bill, 15% minimum tax, things like that, we should think of as headwinds?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I think, generally speaking, the Schumer-Manchin Bill is -- I'm not sure if it's a good time ever to be increasing taxes and increasing government spending, just as a general economic policy, and that's a large part of what this bill does do. Now specific to our industry, at least the agreement recognizes that natural gas and oil are an important part of the energy transition and they're going to be here for decades. So that's a positive. I think the methane fee to your point, it's got some hooks in it. We'll have to see how it develops over time and comes out with the extra regulation coming out of EPA.

Our general view is if you're going to regulate it, why do you have to put a fee on top of that. We'll have to see how that's structured. It generally won't, as we understand it today, maybe impact companies like ConocoPhillips that have been very proactive in the emissions space. And you saw our OGMP 2.0 agreement to join that, specifically targeting methane itself. So at least the agreement incentivizes some carbon capture by addressing the 45Q.

So it's uncertain right now. The earlier comment, I think, from Stephen on NEPA reform, too, there's supposed to be a companion bill that comes with this that addresses a lot of that, and that leaves a lot of uncertainty in the process. So kind of mixed views at this point in time, Roger.

Operator

Our next question on the line comes from Mr. Doug Leggate from Bank of America.

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

Mark, let me offer my congratulations to you as well. I'm not sure Mr. Gresh will be as much fun to travel with, but good luck in your retirement.

I guess, Bill, maybe I could start with you. Last quarter, you talked about the U.S. business moving into full cash tax. I wonder if you could just give us an update as to whether we're there yet. And what -- when you wrap it all together with the rest of the portfolio, including the recent Norwegian changes, how should we think about the cash tax outlook for Conoco going forward?

Bill Bullock - *ConocoPhillips - Executive VP & CFO*

Yes, sure. Happy to, Doug. We moved into a U.S. taxpaying position in the second quarter. And of course, the amounts and timing through 2022 can vary depending on price and other market conditions. But the majority of our U.S. taxes in the second quarter were paid in cash with very minimal offsets from NOLs. And looking at the limitations on NOLs, we'd expect to be, our tax payments through 2023 to be reduced only slightly, but not eliminated. So at a high level, we're in a cash taxpaying position.

Our effective tax rate for the second quarter was about 32%. Moving forward, I expect our effective tax rate to stay in the mid-30s, assuming production aligns with our guidance and forward curves.

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

So basically, if there is an EMT, there's no impact from you guys, it sounds like?

Bill Bullock - *ConocoPhillips - Executive VP & CFO*

Yes. If you're talking about the 15% corporate minimum tax pursuit proposed an IRA, we don't expect that to have any material impact on the company because we exceed a 15% minimum tax across our jurisdictions.

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

Great stuff. My follow-up is I wonder if I could try and tackle the CapEx question from a slightly different angle. When you wrap all of the moving parts together, cash tax is changing, obviously, a little bit of inflation on the operating costs. And then, of course, the overall capital budget, an issue that going back to when Matt was around, we used to get a lot was the idea of what the sustaining capital breakeven was for the portfolio. So I wonder if I could ask you to, as you look to 2023, what does that look like? And obviously, gas prices have moved around as well. But if you could give us an update as to how you see that covering your sustaining capital as opposed to the total capital. And I'll leave it there.

Dominic Macklon - *ConocoPhillips - Executive VP of Strategy, Sustainability & Technology*

Yes. Thanks, Doug. It's Dominic here. Yes, there are some moving parts, and we'll be refreshing that as we pull our plans together. We're just going through our annual planning cycle right now. I mean, I think looking at this year, our actual breakeven this year is still calculating out around \$30 a barrel capital breakeven. So sustaining capital around \$6 billion. Now there's obviously some inflation pressure on that. But the way we think about sustaining capital is, you're probably going to be focused on that in a lower macro world, if you like, and inflation not quite so high. So we still think that structurally, this year, we're in about -- sustaining capital would be about \$6 billion. Clearly, that, with some long-cycle projects coming, longer-cycle, low cost of supply projects coming, that will add to that for a temporary period, and we'll provide more information on that I expect by the end of the year.

Operator

Our next question on line comes from Mr. John Royall from JPMorgan.

John Royall - JPMorgan Chase & Co, Research Division - Analyst

So just a question on your cadence of production in the Permian. I know you talked about it being back-half weighted in the prior quarter and looks like a modest tick down in 2Q. So can you just speak to the cadence for the back half and expectations for 3Q versus 4Q? And then maybe just a broad update on your drilling program there.

Jack Harper - ConocoPhillips - EVP of Lower 48

Yes. This is Jack. In general, the production in both the Lower 48 and in the Permian is back-half weighted, and we expect low single-digit growth year-over-year on a pro forma basis. But on an entry-exit basis, we expect Lower 48 to grow in the mid-to-high single digits with the Permian at the higher end of that range. As for expectations for activity, good news is we're -- we plan to run steady in the back half of the year, and we are currently running the number of rigs that we plan to run for the rest of the year.

John Royall - JPMorgan Chase & Co, Research Division - Analyst

Yes. And then if you could just give some color on crude realizations, looks really strong in the quarter when you look at your slide there. Very strong across the board, but North Sea was particularly strong. So just anything going on there broadly or regionally to point out?

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, sure. If you look at our realizations overall, and we provided a summary of that in the supplemental information, total realizations for the quarter were about 78% of Brent. That's really driven by four factors as we look at it, John. First is, that's the narrowing of the Brent, WTI spread. Brent increased about 12%. WTI was about 15%. Henry Hub was up significantly more compared relative to Brent, it was up 44%. So that's impacting the total realizations.

And then on the crude side, in particular, we had better realizations coming out of Alaska for the quarter. That's really Alaska returning to more of its normal-type realizations. In the first quarter, you may recall we had an impact for our HollyFrontier Refinery downtime in the first quarter that was impacting our prices. And then we saw better realizations out of Norway. That's really driven by cargo timing across the quarters. So that's really what's impacting our crude realizations across the company.

Operator

Our next question online comes from Mr. Paul Cheng from Scotiabank.

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

Let me add my congratulations to Mark. Thank you for all the help over the years.

Two quick questions, if I could. Ryan, a lot of your peers have been doing some bolt-on -- some pretty large bolt-on acquisitions in, say, whether just in Bakken or that in Eagle Ford or in Permian. When you're looking at your portfolio, do you see a lot of opportunity for you to further firm up or strengthen your portfolio in those three through the bolt-on acquisitions or that you think the value proposition is not really that attractive?

The second one is, in the first half the split between dividend and buyback is roughly 1/3 dividend and 2/3 buyback. Is that a good proxy for us to assume on a going-forward basis when added to your distribution?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, thanks, Paul. We're in the market quite a bit. I think a lot of our focus right now in the Lower 48, and Jack can comment on as well, is doing a lot of the core up. We noted that in some of our slides. So it's -- we've had a lot of focus right now on swapping and trading acreage with the large transaction that we did earlier this year to try to core-up the acreage so we can make sure we're not drilling 1-mile, but we're drilling the -- we have the opportunity to drill the 2- and the 3-mile laterals.

We've seen a lot of the -- we looked at the bolt-on that you described in the Bakken here more recently. We follow the Eagle Ford. I guess, the bar is still pretty high in our company, and we're pretty -- we rigidly follow our \$40 and \$50 cost of supply cutoffs. So all in, any acquisition comes in has to have a lower than \$50 and the future exploitation of the asset has to have something that's lower than \$40 to compete in our portfolio. So the bar gets pretty high. We watch all of them, and we're doing a few of them, but more of them are around the swaps in the Permian. I don't know, Jack, you might -- if you have anything to add there at all.

Jack Harper - ConocoPhillips - EVP of Lower 48

Yes. I would just add that since the Concho deal closed at the beginning of last year, the team has done 15 of these swaps and trades in the Permian this quarter, about 25,000 acres. And we have about that same number of deals in various stages currently. And the significance about that amount of acreage is that's at least a year's worth of Permian drilling activity, all of those extended lateral lengths.

Ryan Lance - ConocoPhillips - Chairman & CEO

Thanks, Jack. And on to your second part, Paul, I think the thing to remember this year is there's a little bit of the buyback pace was influenced by the swap that we had with Cenovus swapping out of the shares that we own there into the shares of ConocoPhillips. But we're going to watch the market. Obviously, we're going to watch where our share prices are trading and how much we put to the cash side of it versus the share buyback. I'd say somewhere in that 2/3, 1/3, so 60%, 40% is probably something that you should expect for the year, this year. And then we'll relook at that, revisit that next year as we go through our planning process. And that includes the typical fourth-quarter increase to the ordinary dividend.

We'll take that under advisement with the Board and be thinking about that. That cash return portion as we think about the market and think about where the company is positioned. But I think roughly what you see this year is probably something closer to a 60-40 split between buybacks and cash.

Operator

Our next question online comes from Mr. Bob Brackett from Bernstein Research.

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

Please add my voice to the chorus praising Mark as well.

I'll come back to the Willow question. It's my understanding that the 45-day comment period ends at the end of this month. Can you talk about what the path toward FID following that looks like? What are the various steps? And can you talk about the various alternatives proposed in the supplemental as you think about the cost benefit of those?

Nick Olds - *ConocoPhillips - Executive VP of Global Operations*

Yes, Bob, this is Nick. You're right, the 45-day comment period has commenced. And again, just kind of backing up, that's a key milestone for the BLM to publish the draft SEIS on July 8. Now to your question on project schedule, we wouldn't take FID until we get the final SEIS and a supportive Record of Decision by the BLM. And so that would allow us to move forward with Willow construction. Now related to FID, we would probably see that at the earliest later this year and most likely early next.

Now we are planning as far as schedule to commence a 2022, 2023 winter construction season assuming we have a very favorable Record of Decision. Now that will allow us, Bob, to do civil construction and start putting roads in place for the project.

I'll come to the alternatives here in a second. We do continue to work on detailed engineering to refine cost and schedule as well as the final development modifications. And the reason I raised the developed modifications is in the current SEIS, there's a new alternative, Alternative E, that is responsive to the Alaska District Court order. And that is to minimize or reduce the surface impact on the Teshekpuk Lake Special Area.

So that alternative, we think, is a good path forward. It reduces the surface infrastructure and still maintains the estimated recoverable resources that we communicated in the market update of about 600 million barrels. Still looking, Bob, at 180,000 barrels a day gross before royalty for the project. Again, we're committed to Willow, and it remains competitive in the portfolio. We continue to see very strong stakeholder support, including the Alaska Congressional Delegation, the trades and unions. So the key thing is really looking forward to that final SEIS and a supportive Record of Decision.

Operator

Our next question in line comes from Mr. Neal Dingmann from Truist Securities.

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

My first question, just on value creation. Specifically, you've got a great formulating plan out there talking about 30% plus of the cash from ops going to shareholders. And I'm just wondering -- and then also what appears to be certainly higher than growth, pure-growth average production, which I'd like to see. So I'm wondering, how do you all anticipate sort of on a go-forward best trading value for shareholders? Do you look at per-share-growth metrics? Or what is the best way you like to define it.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, Neal, we look at all the different ways of thinking about shareholder value. And I think it starts, to your point earlier, that we have a commitment to return at least 30% of the cash from operations. Not free cash flow, cash from operations, back to the shareholder. If you look at our track record, it's been well over 40% as the commodity prices strengthened and the quality of the investment program and what we're doing to continue to lower cost of supply, has been sort of an active mantra inside the company.

So I'd say what we're trying to do is reduce our capital intensity. We're trying to manage the capital as low as we can for the scope that we'd like to commit. So we go into our planning cycle thinking what is our view of the macro and that sets an amount. We can afford the capital we can invest, having taken 30% of our cash right off the top. We think that's a better value proposition to the shareholders rather than just focusing on either growth or return of capital. So it is a combination of the two. We want to grow and develop the company over the long haul. We want to make sure that the shareholders are getting an adequate part of that cash back right off the top.

So we have to live with the capital or the cash that's left over. And then in the course of that, we recognize that the value of the balance sheet, which is like another asset, a huge asset inside the company, and we want to make sure that the balance sheet is as strong as it's possible to be, which means we'll carry some cash and we'll carry some cash on the balance sheet because of the volatility we see in the commodity markets, the

scope that we want to execute to grow and develop the company, and we're not shooting -- we don't have a growth target in mind. It's an output from our plans to make sure that we're maximizing our returns on and of capital.

So we'll adjust our plans to make sure that we're hitting those two really key components, returns on and of capital. And then out of that comes a production number and a sequencing of the projects to allow the further growth in the development of the company over the long haul.

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

Yes, I love that financial flexibility, Ryan. I mean, a lot of even the bigger ones don't have it right now. And then lastly, maybe just a question for Jack on domestic OFS inflation. Jack, is it prudent to lock in other than rigs? Are you thinking about locking in maybe some other long-term contracts? I guess, where I'm going with this is, I heard some folks out there are locking in pipe even though they can't technically lock in the price, whatever it is, six months, nine months from now. And so I'm just thinking, as you see the tightness out there right now, what are you guys doing to mitigate that?

Jack Harper - *ConocoPhillips - EVP of Lower 48*

Sure. We value flexibility in general in the program. We do have some modest amount of our rigs and frac spreads contracted. But what we're doing to mitigate that are several things. I mentioned those swaps and trades earlier. By the end of this year, we will have been able to drill 80 three-mile wells in the Permian over the last two years. We're drilling those wells faster. We're employing simulfac technology in various places. And we're also keeping our programs steady, which we really have always valued, keeping a steady program and also keeping competition amongst our vendors, and we have all those things in place right now. So we're doing all we can, but there is still inflation out there.

Operator

Our next question online comes from Mr. Leo Mariani from MKM Partners.

Leo Mariani - *MKM Partners LLC, Research Division - MD*

I was hoping to get a little bit more color around kind of your longer-term LNG plans. Obviously, you guys have entered into a number of facilities, which will, I guess, come online in a handful of years. But some of the prepared comments, you guys referred to kind of reassessing some of your domestic maybe just North America and overall gas potential as potential feedstock for some of these. So any just color around that? I mean, as you look to start-up dates, is it possible you could be drilling more for gas here in the U.S. in a couple of years and ready that feedstock for delivery into some of these facilities? And it sounds like that might be an economically advantageous thing for you to do.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. I think, Leo, we're trying to think ahead as well, and it may spur some different sort of development plans inside our Lower 48 and Canadian portfolios. But just a recognition that we have quite a bit of gas resource and its associated gas primarily that comes with the oil production that we're doing. But we're thinking about that in terms of what the pipe add and the capacity adds coming both to the Gulf Coast and going west to California and down to Mexico.

So we're -- as Bill described earlier, we're a top-three gas marketer in North America. So we know where these markets are going. We have an informed view of where these markets are going and how we can supply gas into those markets. And to make sure, to the extent there's an arbitrage between domestic Henry Hub and Europe and Asian prices, that we have the opportunity to step into that and take advantage of that arbitrage. And we're not just stuck with what market in North America that we're selling our gas to.

So it is a very integrated look at it and a very informed look at it to make sure that when we see that these arbitrages open up between the various regions around the globe that we can take advantage of that and be in a position to take advantage of that when others can't do it.

Leo Mariani - MKM Partners LLC, Research Division - MD

Okay. That's helpful. And then just a quick question on the Eagle Ford for you folks. I certainly noticed there was a pretty healthy jump in production in the Eagle Ford this quarter. Had kind of been declining a little bit in the last handful of quarters. Is that kind of maybe now firmly back in growth mode? I know you guys have alluded to the past to kind of ramping that up in the next couple of years. And maybe this quarter, it was just better than expected, maybe you had a number of chunky pads come online all at once that kind of drove it. But just thoughts on Eagle Ford growth, is that going to continue to be a sharply growing asset through the end of the year into next year?

Jack Harper - ConocoPhillips - EVP of Lower 48

This is Jack again. Good question. Yes, first off, I'm very proud of the work the team is doing down in the Eagle Ford in all aspects of the business. But in the second quarter, specifically, there were some disproportionately weighted completions in the Eagle Ford. We're also having great success continuing that refrac program there. And in general, the Eagle Ford is growing toward its plateaued production, but it's not there yet. So it will be a continued source of Lower 48 production growth.

Operator

Our next question comes from Raphaël DuBois from Societe Generale.

Raphaël DuBois - Societe Generale Cross Asset Research - Equity Analyst

The first one is related to Qatar NFE. It will be very helpful if you could maybe give us a bit more color so that we can model what you will earn through this deal. For instance, can you maybe clarify whether the gas to be sold will be oil-linked or will it be linked to a gas price hub? Any premium maybe to expect from the fact it will be a low-carbon footprint? Or maybe can you compare the profitability of NFE with your two other LNG participations? That would be very helpful.

Ryan Lance - ConocoPhillips - Chairman & CEO

Let me start, and I'll kick it to Bill a little bit. I think a lot of that is still work to be done. I think Raphaël, in terms of the marketing of the gas will probably follow very similar approaches to what Qatar has done in the past. But Bill can supply a little bit of view. I think the focus of the project right now is the construction in EPC.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, I think that's right, Ryan. And I would just reflect on Qatargas and QatarEnergy has been very, very successful. They're one of the largest gas LNG marketers in the world. They've been very successful about placing those volumes, and the project will continue to have those places through that format. So I think watch the space, but just reflect that Qatargas, QatarEnergy have been very, very effective at placing gas over time into valued markets.

Raphaël DuBois - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. Great. And maybe another question. At full-year results, you gave us your thoughts on the increase in U.S. supply we should expect. And if memory is right, you mentioned 900,000 barrels per day. I was wondering if you could maybe refresh that thought eight months into the year? And maybe give us your initial thoughts for the next couple of years.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, Raphaël, I think we're still in that 900,000 barrel a day. And let me -- that's an exit -- entry-to-exit kind of number for 2022. And we see maybe a similar but maybe slightly lower number as we go into 2023 if these commodity prices stay at the kind of levels that we're seeing and we get the inflationary forces that we're seeing in the Lower 48 and the constraints there are on the supply chain and on labor and some of the other key pieces of the spend that this industry does in the Permian primarily. So yes, we're pretty -- those are the kind of entry-to-exit kind of rates that we see for this year and next year.

Operator

Thank you. We have no further questions at this time. I will now turn the call back over to Mark Keener for closing remarks.

Mark Keener - *ConocoPhillips - VP of IR*

Thanks, Richard, and thanks to all who joined today's call. And finally, thank you all for the kind sentiments. They are appreciated. And with that, I'll pass it back to you to wrap this up, Richard. Thank you.

Operator

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

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