

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q3 2022 Conocophillips Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2022 / 4:00PM GMT

## CORPORATE PARTICIPANTS

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

**Jack Harper** ConocoPhillips - EVP of Lower 48

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

**Phil Gresh** ConocoPhillips - VP of Investor Relations

**Ryan Lance** ConocoPhillips - Chairman & CEO

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

## CONFERENCE CALL PARTICIPANTS

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

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

**Jeff Lambujon** Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Exploration and Production Research

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

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

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

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

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

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

**Ryan Todd** Piper Sandler & Co., Research Division - MD & Senior Research Analyst

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

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

## PRESENTATION

### Operator

Welcome to the Q3 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 Phil Gresh, Vice President, Investor Relations. Sir, you may begin.

---

### Phil Gresh ConocoPhillips - VP of Investor Relations

Yes. Thank you, Richard, and welcome to everyone joining us for our third-quarter earnings conference call. On the call today are several members of the ConocoPhillips Leadership Team, including Ryan Lance, Chairman and CEO; Bill Bullock, Executive Vice President and Chief Financial Officer; Dominic Macklon, Executive Vice President of Strategy, Sustainability and Technology; Nick Olds, Executive Vice President of Global Operations; Jack Harper, Executive Vice President of Lower 48; and Tim Leach, adviser to the CEO. Ryan and Bill will kick off the call with opening remarks, after which the team will be available for your questions.

Just a few quick reminders. First, along with today's release, we published supplemental financial materials and a presentation which you can find on our Investor Relations website. Second, during this call, we'll be making forward-looking statements based on current expectations. Actual results may differ due to factors noted in today's release and in our periodic SEC filings. Finally, we will make reference to some non-GAAP financial measures. Reconciliations to the nearest corresponding GAAP measure can be found in today's release and on our website. With that, I will turn the call over to Ryan.

---

### Ryan Lance ConocoPhillips - Chairman & CEO

Thank you, Phil. Before I get into our strong results for the quarter, including record production, I'd like to touch on a few big-picture thoughts that are top of mind for us. First, inflation and supply chain constraints continue across the entire economy and our industry. This is particularly true in the U.S. shale, where rapidly escalating costs combined with extremely tight supply are limiting the pace of industrywide production growth.

Second, we believe that the world is going to need investments in medium- and long-cycle production in addition to U.S. shale plays. The depth and quality of our U.S. unconventional inventory, combined with our diverse global portfolio, has us well positioned to meet these long-term supply challenges. And finally, a successful energy transition must meet society's fundamental need for secure, reliable and affordable energy while progressing to a lower-carbon future.

This requires an all-of-the-above solution. Obstacles that prevent the global market from functioning properly are not going to help the American consumer and would be disastrous for our allies. Governments can help by enacting policies that encourage investments in developing lower-emission oil and gas resources that will be needed to get the world through the transition. This includes fiscal stability, streamlining permitting and supporting critical infrastructure for an all-of-the-above solution.

Now against this backdrop, we believe that ConocoPhillips is well positioned to win in any environment. We remain committed to delivering on 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.

As further evidence of this commitment, our third-quarter results demonstrated record total company production. Lower 48 production hit a milestone at over one million barrels of oil equivalent per day, and we anticipate further growth in the fourth quarter. On returns, we generated a trailing 12-month ROCE of 27%. We increased our ordinary dividend by 11% to \$0.51 per share, and we announced a \$0.70 per-share VROC for the first quarter of 2023, and we increased our share buyback authorization by \$20 billion.

Additionally, we'll return \$15 billion of capital for 2022, which represents over 50% of our projected CFO, well in excess of our greater than 30% annual commitment. Now we believe that our CFO-based returns framework differentiates us relative to peers. And finally, our net-zero operational emissions ambition, we recently announced a new medium-term methane intensity commitment consistent with our recent objective of joining OGMP 2.0.

From a strategic perspective, I want to provide an update on our global LNG initiative. First, we were recently selected to participate in Qatar's North Field South project, following our selection earlier this year to participate in the North Field East, which adds to our long, positive relationship with Qatar Energy.

Second, we agreed to terminal services for a 15-year period at the prospective Brunsbuttel LNG import terminal in Germany. And third, we continue to progress our Port Arthur LNG project with Semptra, which we expect to reach FID by early next year.

Now overall, we continue to believe the substitution of natural gas in place of coal represents an opportunity for significant reductions in global greenhouse gas emissions. This should drive global LNG demand and related opportunities well into the future.

Putting this all together, we remain constructive on the outlook for the industry, and we have a deep portfolio of short-, medium- and longer-cycle low-cost-of-supply assets that generate strong cash flow as we continue to deliver on our Triple Mandate. Now let me turn the call over to Bill to cover our overall performance for the quarter.

---

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

Well, thanks, Ryan. From a financial standpoint, we had a solid third quarter. We generated \$3.60 per share in adjusted earnings. Production was over 1,750,000 barrels of oil equivalent per day, which included our previously guided approximately 15,000 barrels of oil equivalent per day impact from scheduled turnarounds as well as some impacts from the temporary force majeure in Libya in July. For the fourth quarter, we do not expect any material turnaround impacts.

Lower 48 production averaged a record 1,013,000 barrels of oil equivalent per day, including 668,000 from the Permian, 224,000 from the Eagle Ford and 96,000 from the Bakken.

Cash provided from operating activities was \$8.7 billion. Now this included a [\$1.5 billion] (corrected by company after the call) benefit from working capital, primarily related to the timing of Norway tax payments and lower receivables. Excluding working capital, cash from operations was \$7.2 billion. APLNG distributions were \$257 million in the quarter, and we expect fourth-quarter distributions to be about \$600 million.

On capital, we invested \$2.5 billion back into the business in the third quarter, including around \$300 million for acquisitions. This resulted in free cash flow of \$4.7 billion, which more than covered the \$4.3 billion we returned to shareholders in the quarter. Factoring in \$400 million of disposition proceeds, ending cash and short-term investments were \$10.7 billion at September 30, up from \$8.5 billion

at June 30.

Turning to guidance, we still expect full year production of 1.74 million barrels of oil equivalent per day with a fourth-quarter guidance range of 1.74 million to 1.8 million barrels of oil equivalent per day. On costs, we've increased full-year adjusted operating cost guidance to \$7.7 billion from \$7.5 billion, and this is driven by inflationary impacts. We have also increased full-year organic CapEx to \$8.1 billion from \$7.8 billion, also driven by inflationary impacts and partner-operated working interests. Partially offsetting these increases, we have reduced full-year DD&A guidance from \$7.6 billion to \$7.5 billion.

In terms of 2023 guidance, we anticipate providing full details with our fourth-quarter earnings call in early February. We will also be hosting an Analyst and Investor Meeting next spring at the New York Stock Exchange, so please stay tuned for more details. And with that, I'll turn the call back to Ryan.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Thank you, Bill. Now before we go to Q&A, I wanted to spend a minute discussing a few important organizational announcements. First, Jack Harper, our EVP of the Lower 48, informed me that he will be leaving the company due to a family medical situation. And I know I speak on behalf of the entire organization when I say that Jack will be greatly missed.

Now in conjunction with this announcement, Nick Olds, currently our Executive Vice President of Global Operations, will become the Executive Vice President, Lower 48; and Andy O'Brien, currently our Vice President and Treasurer, will become Senior Vice President, Global Operations, and join the Executive Leadership Team. Now with that, I'd be -- I wanted to turn the call over to Jack and give him the opportunity to say a few thoughts.

---

**Jack Harper ConocoPhillips - EVP of Lower 48**

Thanks, Ryan. As Ryan mentioned, I will be leaving ConocoPhillips due to a family medical situation. It has truly been a privilege to work for both Concho and ConocoPhillips over the past 16.5 years. When Concho agreed to the merger with ConocoPhillips, we did so because we believed that the transaction would create a uniquely strong and differentiated company, and I cannot feel better about how this has played out.

This may be one of the most dynamic times that we've ever seen in the industry. And my competitive side certainly makes me wish that I could stay on board for what is ahead. However, I'm confident that we have set up the team for success with our organizational structure and planned transition over the next few months. With that, let me turn the call back over to Ryan.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Thank you, Jack. And I know I speak for everybody at ConocoPhillips. We have you and your family in all our prayers. So with that, let me turn it back over to Phil, and we'll get going with the Q&A.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Great. Thanks, Ryan. (Operator Instructions) And with that, Richard, we'll turn it back to you.

---

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) And our first question on line comes from Neil Mehta from Goldman Sachs.

---

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

Good morning, team. Ryan, I wanted to kick off with you on the LNG strategy. And we've seen a lot of interesting individual announcements. But maybe you could pull it all together and talk about how you see these coming together for how Conoco thinks about LNG as part of its portfolio. And as it relates to that, maybe you could talk about risks around long-term LNG as we have a lot of new supply coming in from Qatar and in the U.S. by the middle of the decade. And do you worry about spending on these projects into what could be a sloppier market towards the end of the decade?

**Ryan Lance ConocoPhillips - Chairman & CEO**

No. Thank you, Neil. Appreciate the question. Yes, I think for some context around the company, we've been involved in LNG for a long, long time. You think about our liquefaction technology that we have that's being used by many, many operators around the world today. We effectively started this business back in the '60s with our project up in Kenai and delivering 40 years of gas to our Japan marketing friends.

So we've been in this business for a long time. And then when you look at the transactions that we've done over the last couple years, we have a growing resource position in the U.S. so creating more demand and -- just makes a lot of sense coming out of the U.S. So, as we step back and we started thinking about it, combined with our views of the energy transition and the view that LNG is going to be a necessary fuel that can replace coal, similar to the way the gas has done that in the United States and reduced the emissions profile in the U.S. So we think this is something the globe is going to be needing as we go through this energy transition.

So you put all that together, and we said back over a year ago and said this was a piece that we wanted to grow in our portfolio, so it started with the opportunity at APLNG. We picked up some more interest there. Then we got named in the North Field expansion project and then more recently here in the North Field South, and then combined with wanting to do something in the U.S. to take advantage of a position that we have here and develop more demand for the product in the U.S. We looked at who we thought was the best positioned with permits and opportunity, and that's when we decided to join up with Semptra.

And as you've seen, we expect to reach FID early next year at Port Arthur, and that gives us some optionality also on their, the West Coast of Mexico opportunity that they have as well. So when we looked at all this, trying to build this business for the long term and complemented now by our German re-gas opportunity that we've entered into.

So we want to get into that full value chain. We've got a great commercial organization that can optimize around this. And we just think this is going to be a business that's going to be long term and going to be substantial well into the future.

Now it's going to be -- there's going to be periods of time when supply exceeds demand and when the demand exceeds supply. And that's more to your point, there may be a period coming later this decade for a year or two where the pricing maybe get a little soft because of a lot of projects are coming in. But again, we're entering this into 20- and 30-year contracts. So we just have a long-term view that this is going to be a really good business and one that ConocoPhillips can excel at, given our history and the capability inside the company, and we expect to want to try to build more of this business over time.

---

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

Yes. That's really clear, Ryan. And the follow-up is just on capital spending for 2023, recognizing we're going to get more thoughts it sounds like here in February on it. But if we took the \$8.1 billion as the starting point, what are some of the moving pieces as you go into '23 that we can bridge off of?

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes, Neil, I would -- I guess I would start by saying I'd probably take the last half of this year, that kind of pace, annualize that for our base business as we think about that going into 2023. We're not looking at trying to add scope into our Lower 48 operation given the kind of environment on inflation that we see. So starting there, we'll assess what we think inflation looks like for next year.

And importantly, we'll assess what our partners are doing in terms of the scope that they're trying to execute that we have to fund our share of. So those are some unknowns that we go into, but I'd say take the base business which is kind of ratable off the second half of this year as you think about going into next year. And then the new businesses that we're trying to grow and expand and develop the company around NFE and NFS, the two Qatari projects, we'll be funding that next year.

Again, we hope to reach FID at Semptra, so there's some funding associated with that next year. And then finally, Willow, we hope to be getting into some construction and activities next year with Willow. Obviously, we won't do that until we have a permit in place that allows us to go start up the funding of that project. So that's the base business, and those are the kind of adders as we look into 2023.

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Neil.

**Operator**

Our next question online 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 maybe talk a little bit about how you're thinking about the cash return envelope for '23, just acknowledging there's a lot of variability in the environment. But obviously, you've had a really strong year this year. And I think you talked last quarter about how we're trending kind of closer to 50% of cash flow from hubs, certainly a lot higher than your baseline.

And so I think we get this question a little bit is just how do we think about '23 with the moving parts, acknowledging what you just talked about with capital, and the environment's uncertain. But if we have the environment that we have today into next year, I wonder if you can maybe talk about how you're thinking about that then?

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes, Stephen, I think if we have the macro-environment today that's similar to next year that's similar to the average over the course of 2022, I think you should expect a similar level of distributions. And I think we signaled that a little bit with setting the first-quarter VROC at \$0.70 a share. And with these 10 seconds, we look at the macro, and it's going to be similar next year, you ought to expect a similar level of distributions, which is in excess of our 30% commitment.

But we're going to watch the macro because we think it's going to be incredibly volatile. But we think we've just got the right value proposition in combination of VROC-based dividends and how we're thinking about buying our shares back, that it's well set up for the kind of volatility we may see. But that would be sort of my comment as you think about going into 2023, it's a function of the macro, which is reasonably strong right now.

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

That's great. Thank you. Maybe just a follow-up on the Lower 48. Obviously, you've had some really, really strong results and can't say the same of what we've seen in some of the productivity updates from elsewhere in Lower 48 across the industry this quarter. I was wondering if maybe you could talk a little bit about performance versus just the timing of wells and kind of how you're seeing the program evolve, particularly in the Permian where the Lower 48 numbers were really impressive this morning.

**Jack Harper ConocoPhillips - EVP of Lower 48**

Yes. Thanks, Stephen. This is Jack. Yes, the production is back-half loaded, like we've been talking about. I hope you saw that in the quarter with the progression. We've also seen our OBO plans, our partners targeting increasingly longer laterals than we first anticipated, which of course, yields a lower cost of supply and more economic return.

In the Lower 48, we do expect to see continued growth, as Ryan mentioned, in the fourth quarter and in the Permian should modestly exceed that kind of low single digits that we expect out of the Lower 48 in terms of well productivity, and our plans are progressing as we have planned. We monitor this very closely internally and with our peers externally and really like where we stack up.

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Stephen. Next question.

**Operator**

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

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

Jack, I wish you well and hope our paths cross again at some point. Good luck. I've got two quick questions, if I may. Bill, I wonder if I could deal first with the deferred tax in the quarter. I think we've heard you talk in the past about when you would hit full cash tax in the Lower 48. Has that been delayed somehow? Or maybe you could just walk through what happened in the quarter. It's quite a big deferred tax number, which we're happy to see obviously, but any updated guidance would be appreciated.

---

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

Yes, sure. Happy to, Doug. So first of all, the increase in third-quarter tax rates on earnings reflects a shift in our geographic mix of earnings, primarily due to increase in Norway's pretax earnings. And you'd expect that given the high gas price environment we're seeing in Continental Europe. So as you know, Norway is a fairly high tax environment, so you've seen our effective tax rate increase from 39% in the third quarter from 32% in the second quarter.

Now moving forward, I'd expect our effective tax rate to be in the mid- to upper 30s range, assuming a similar production level and the pricing holds with the forward curve. As you noted, the deferred tax for the quarter was a source of cash of just over \$700 million. And I'd expect deferred taxes to be a source throughout the year. We did enter a tax cash-paying position in the U.S. in the second quarter. And we're now in a cash taxpaying position in most of our jurisdictions around the world.

So assuming that prices and our capital program stays around current levels, I think you could see deferred tax to remain a modest source of cash, though cash taxes should be more close to our book taxes over time. And I do think it's important to note that trying to forecast deferred taxes and estimating cash tax ETR on a quarterly basis is pretty tough. It can be impacted by a number of items in any given quarter. So I'd really encourage you to think about that as our effective cash tax rate across an annual time period. And I expect that to be getting closer to what we're seeing our effective tax rate on an income basis.

---

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

I understand the point about mix, and that's actually really helpful. So thank you. I guess my follow-up, my question is on the Permian takeaway. We're obviously seeing a lot of volatility around Waha, but you guys have obviously had a lot of changes in your portfolio. Could you just give a quick refresh as to what your takeaway looks like? I guess, the differential widened a little bit this quarter in your realization. So just trying to get a handle on that, and I'll leave it there.

---

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

Yes, sure. So as you know, we're a large globally diverse E&P, so the overall cash flow impact from the Waha pricing differentials that we've seen this last quarter was relatively immaterial for us. But that said, in our presentation materials, our realizations in Lower 48 relative to Henry Hub decreased by 6% from 96% in Q2 to 90% in Q3. And that's primarily driven by lower Permian in-basin month average prices in September relative to Henry Hub.

And when we look at it based on forward markets, we'd expect to be in the upper 70s to low 80s as a percentage of Henry Hub for the fourth quarter. So that's -- there's a lot of volatility around that, Doug, with what we're seeing in the market right now. And I'd expect that volatility is going to continue until we see the additional Permian takeaway capacity come online later in 2023.

And I guess the only thing that, just as a reminder, we're the second-largest gas marketer in North America. We've got a really strong marketing position that's multiples of our portfolio, and we think that's really beneficial in this situation. We've worked hard to build our gas marketing capability in the Permian, following our acquisitions, and we leverage that to ensure we've got flow assurance through these pricing events. We're really very confident with our in-basin flow assurance and that we've got sufficient takeaway to manage through the short- and medium-term capacity constraints. So for ConocoPhillips, this is essentially a price issue, not a flow issue.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Doug. Next question.

---

**Operator**

Our next question comes from Jeanine Wai from Barclays.

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

Hi, good morning everyone. Good afternoon. Thanks for taking our questions. Jack, thanks for the partnership, and we wish you well. So for our first question, maybe just following up on Willow. Can you provide maybe an update on what the latest is on that project? Any high-level commentary on what the moving pieces are relative to the original project, given that there's been a bunch of back and forth on it on the approvals? And I think the last detailed update we got on it was in June of '21, and there was roughly a 6-year lead time from FID to first production, and there was about an \$8 billion capital estimate.

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

Yes, Jeanine, this is Nick. Definitely, I'll go through that. Maybe as a reminder, I'll just walk back in time a little bit here. You know, there was a key milestone that was accomplished in early July, and that was that draft SEIS. The comment period has been completed as well. And as I mentioned in the 2Q call, the draft SEIS put forth a new three-pad alternative, reducing the footprint in that Teshekpuk special area. And that is supported by ConocoPhillips. Now that addresses and is responsive to the Alaska District Court findings.

Now with respect to schedule, we're still targeting the final SEIS and a supportive record of decision by the BLM end of this year. Now Jeanine, as I mentioned previously, we would only take FID following a final SEIS and supportive record of decision by the BLM, and we are targeting FID early next year.

Now pending that successful record of decision, we expect to have 2023 capital spend for this upcoming winter season, and that's mainly focused on civil construction, so that'd be opening up a mine site and laying some gravel roads. Now again, we won't take FID or make significant investments until we have a clear path to development.

We also continue to do detailed engineering and update our final cost estimates. I know that you referenced that. We recently went to market to update our project costs and have seen some inflationary pressures as expected. We're seeing that globally as well as some of the impacts related to the updated scope due to the BLM's Alternative E in their draft SEIS.

But I want to leave you with this. Despite all the cost pressures, the project remains very competitive in our \$40 cost of supply framework. And finally, we'll provide more details on Willow at the market update that Bill referenced for next year.

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

Okay, great. Thank you for all that detail. The follow-up, maybe just sticking with projects here. There's been a lot of investor conversations around Conoco's capital commitments for major capital projects, such as the Qatar project, Sempra, Willow, et cetera, and how that really impacts free cash flow and cash returns. So we know that Conoco's cash returns, of course, is on a CFO metric, not a free cash flow metric, but it's all kind of circular in a way.

So we just wanted to check in again on just the level of strategic cash that you want to hold. And is that the same as it was previously because, I guess, post the Concho and Shell Permian deals, you could argue that you don't need to hold as much. And then -- but on the other hand, you've got some major capital projects on the horizon that you need to reserve for. And so you ended the quarter with \$10.7 billion of cash, so you have a lot of options there. Thank you.

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

Yes. Sure, Jeanine. This is Bill. So first, based on our forward prices, we'd expect to end the year with roughly \$10 billion of cash, also the same, roughly the same amount that you noted for the end of third quarter. And that's, I'd note, is predicated on us achieving our \$15 billion of distribution to shareholders this year.

Now the framework of how we think about allocation and cash balance really hasn't changed. It's continuing to be guided by our priorities of having a competitive shareholder distribution, strong balance sheet strength and efficient organic and inorganic capital allocations. And the framework that we've laid out of intending to carry \$1 billion for operating cash, \$3 billion of reserve cash and anything above that as strategic cash continues to be the way that we think about that.



So when you think about strategic cash, we think about that for the opportunity to capture value-enhancing opportunities like you saw us do with the Shell Permian acquisition, is to fund our programs through cycles and to fund mid- and long-cycle projects. So the basic way that we think about our cash balances is unchanged.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Great, thanks Jeanine. We're ready for the next question.

---

**Operator**

Our next question comes from Scott Hanold from RBC Capital Markets.

---

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

Yes. Thank you. I was wondering if we could go back to shareholder returns and just give us a sense of how you think about the mix of the shareholder returns. I mean, obviously, there's some companies that are highly formulaic with it. But as you look into sending that VROC for the first quarter, like what goes into play when you think of like what level you want that set at?

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Well, I think we try to look at a couple things, Scott. Where obviously, where the macro's at and project our cash flows forward into next year. And obviously, we're going to meet our 30% commitment. And in these kinds of commodity price, we're well in excess of that. I think our 5-year average is in the mid-40s, and this year, we're 50-or-more percent of the cash. So I think you ought to be thinking about if a similar environment persists into next year, the same level of absolute distributions, as I said earlier.

In regards to the channel, again, we want a growing and reliable base dividend that you can count on. You can count on through the cycles. It's going to be global. It's going to be competitive with the best in the S&P 500, and that's what we're trying to do on our base dividend. We want to buy some of our shares back. We want to buy through the cycles. We think about how much shares do we top up to hit our 30% commitment at a mid-cycle price that we think about.

And then at these elevated prices, we know we're getting more cash, and that's why we introduced the third channel through the VROC. The VROC is a combination of cash and shares. And it's got some flexibility because we're monitoring the market. We're monitoring the macro, and we, as we think about going forward into 2023. But we know it's going to be volatile. We could wake up, it could be \$80. It could be \$120 a barrel.

So that's why the VROC is there to be that variable channel, and we like to top up some of our cash as well as buy some shares as we think about it. As we set it for the first quarter, that's kind of the ratable amount that we had through the course of last year, which should signal that we're pretty bullish on how we think about 2023.

---

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

That's great color. I appreciate that. And actually, before I get to my second question, I should have started out with this. But Jack, all the best to you and your family. I mean, we've worked together over the past decade-plus, so it was a pleasure to work with you all these years and good luck.

But my follow-up question then is looking at the opportunities that you all have in Norway, you look like you're progressing on Tommeliten and Eldfisk. Now can you give us a sense, is that more just a process of just maintaining production out there? Or is there an opportunity really to grow that and really part of sort of this global gas opportunity? Because I do believe it's a little bit more gassy in a lot of these new developments.

---

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

Yes -- no, this is Nick. I'll give you a quick update on those developments. We've got actually four developments that are in progress, two operated and two non-operated. You referenced Tommeliten, so we've got Tommeliten Alpha and Eldfisk North. Both of those are subsea developments that are all tied back to existing infrastructure. Even the two non-operated are tied back to existing infrastructure. That means they're very low cost of supply. We're talking in the low 20s, very competitive in the global portfolio.

A couple key milestones here recently as well. We just set our subsea templates on both Tommeliten Alpha and Eldfisk North, and we'll start drilling later this year. All four of those will come online throughout 2024. But the way I view that is probably more offsetting base decline within the greater Ekofisk area as well as our partner-operated assets. But again, all four of those are very competitive.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Great. Thank you. Next question.

---

**Operator**

Our next question comes from John Royall from JPMorgan.

---

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

So just on the CapEx increase, if you could maybe give a little bit of color on the split between the NOJV portion of it and the inflation piece. I mean, I know it's relatively small overall, but that might be helpful. And then on the non-operated JV piece, is there any way to think about your exposure there in the Lower 48, maybe a percentage of production or a percentage of CapEx or anything that could help us there?

---

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

Yes. John, it's Dominic here. Just in this, the split of capital in terms of the increase of \$300 million, \$200 million is really related to inflation, and then about \$100 million related to a change in working interest we're seeing in our OBO well mix. And I think probably we're seeing some of our partners may be doing a little bit of capital management and shifting their own working interest down, and that's causing us to go up with it. But they're still good wells. In fact, I'll maybe just ask Jack to comment a little bit on what we're seeing in our OBO program there.

---

**Jack Harper ConocoPhillips - EVP of Lower 48**

Yes. We're very pleased with the results we're seeing. As I mentioned before, we have some longer lateral development going on in that OBO program. Some of those wells will cross over into next year and hopefully provide a little bit of momentum.

---

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

That's helpful. Thank you. And then maybe just switching over to LNG. A little bit of color will be helpful on the Western Mexico opportunity with Sempra and how that could take shape and how we should think about potential timing there of you're getting involved relative to the 1Q target that I think Sempra has put out there for the Port Arthur FID.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes. I think the West Coast, John, is longer-dated, and that's an option we have to participate in expansion of that facility that is currently operating today. And it would be -- I think they're converting the re-gas portion of that into a small liquefaction plant and looking at some expansion opportunities. So our Heads of Agreement, our HOA that we have with Sempra, gives us the opportunity to participate in that down the road if and when they decide to build another train at that facility.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, John. Next question.

---

**Operator**

Our next question online comes from Ryan Todd from Piper Sandler.

---

**Ryan Todd Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

Maybe a follow-up on one of your earlier comments. In the Permian, it sounds like you're saying that, at least for now, the plan for 2023 would be largely to keep activity levels flat with the second half of 2022. If that's the case, any early thoughts on what the trajectory would be for Permian volumes during 2023? And maybe are you seeing any -- is it just a pricing issue? Or are you seeing tightness in the basin that's challenging your ability to execute anything that you'd like to?

**Jack Harper ConocoPhillips - EVP of Lower 48**

Yes, Ryan, we're very happy with our execution out there and feel that it's prudent right now to keep a steady amount of activity going into next year. And I would say our internal plans this year and going into next are very consistent with our long-term outlook on production out of the Permian and the Lower 48.

**Ryan Todd Piper Sandler & Co., Research Division - MD & Senior Research Analyst**

Great. Thanks. And then maybe just a follow-up on the cash returns. I mean, your position on the dividend has always seemed a little more reflective of your view on sustainability of the longer-term outlook. Given the sizable dividend increase, can you talk a little bit about maybe the read-through of your outlook on commodity sustainability longer term? Is this -- has your longer-term view improved, and is that reflected in a nice uptick in the dividend?

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes, Ryan, I think we'll get a chance to talk more about that in our analyst meeting that we have that we talked about early in the spring of next year. But yes, basically, it's a longer-term view, given the dynamics that are going on in the market today. We've had a certain mid-cycle price that we've talked about over the last four to five or six years. And I think it is reflective that we think that mid-cycle price has moved up a bit. And so as a result, we can afford more base dividend and reflective of the raise that we announced here in the fourth quarter.

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Ryan. Next question.

**Operator**

Thank you. Our next question online comes from Paul Cheng from Scotiabank.

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

Good morning. Two questions, please. The first one, maybe go back into the split between dividend and buyback. In the third quarter, your split is about 65% in buyback, 35% in dividend. If we're looking into the future, is that a reasonable proxy that how should we look at it or that we can't really withstand it and saying that, okay, that's maybe what you guys have to do. So that's the first question.

Second question is on the Qatar LNG that -- congratulations, you get into the North Field South. Is there any capital number that you can share? I think, in the North Field expansion, your share of the commitment is about 900, and given that it's the same volume, say, 1 million tons a year, so should we assume it's similar? And also whether that the terms between the North Field South and North Field expansion are basically the same, is there anything that maybe you can share? And also that when that spending on North Field South will kick in because that, I don't think will come on stream until 2028?

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes. Paul, let me try to take those. Let me call a friend with Nick through part of that. So yes, I think the first part split I think you had on the way we think about, I think that was VROC, so between share buybacks and dividends. I think the split that we've historically have, you mentioned 35/65. I think those are reasonable up to like a 50/50 split between cash and share buybacks is how we nominally think about the VROC. But that's subject to change based on how we see the macro and kind of how we see it. But nominally, that's probably not a bad place to start.

With respect to Qatar LNG, I think the North Field South trains are going to be replicated from the North Field expansion trains. So relative to the same amount of capital, maybe adjusted for your view of inflation because they will be a little bit later starting. But yes, they're going to be the same scope, same size and exact same kind of train. So that's how we think about it, very similar to the North Field expansion project.

And then what was the last one on Qatar -- the timing. Yes, you're right on the timing. I don't think there's much capital in the next couple years associated with NFS. Anything you'd add, Nick?

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

Yes. Just to add, Paul, just on -- as we talked about in the Q2 call, remember North Field expansion, that total nets \$900 million for us. We will have catch-up payments. And so once the condition precedents are set, we'll reverse QatarEnergy for COP share in those NFE project costs. That could happen early next year or even late this year, again, \$900 million net total for the project. Startup again for NFE is 2026, and then NFS will probably follow a year later.

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Paul. Next question.

**Operator**

Thank you. Our next question comes from Raphal DuBois from Societe Generale.

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

Thank you for taking my questions. Seen from this side of the pond, it looks like there is a bit of a tradeoff between the industry increasing production of phase, windfall tax and/or extra tax on distribution. Can you maybe explain what projects you call sanctioned if you were better incentivized to increase production? Are there any resources that you could monetize faster if you received some sort of guarantee from the U.S. government in terms of permitting, as you mentioned in your remarks, or in terms of tax stability? That would be my initial questions.

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes, thanks. I think we're already growing our company. I think we're faced with some other issues in the short term around labor shortages, supply chain and inflation. They're probably dictating the pace of the industry. I think generally, your question more relates to a medium- and a longer-term outlook. Eventually more infrastructure is going to need to continue the growth and the development of the U.S. shale and then more -- and more infrastructure needed for growth up in Canada and maybe even for exporting some of the product down into Mexico and Central America.

So I think that's the issue we have with the policy choices that this administration is making. And the things they could do to help is give more certainty on the long-term permitting and just the fiscal stability to make sure that we don't have large changes in the tax structure coming because these project take -- these projects have cycle times in and years associated with them. And the more risk you put in the front end, the less certainty you're going to have on executing some of that. So that's why my remarks were around -- certainly around the fiscal stability.

The whole conversation around windfall profits taxes is not a helpful conversation right now. And then more certainty around permitting. And I would add on the permitting, if you want an energy transition, you need this permitting as well, certainly in the U.S. You need the permitting for onshore, offshore wind, for solar installations, for high-voltage transmission lines. So permitting relief is required if you want any chance of going through an energy transition and in having the support of trying to execute in all-of-the-above energy strategy. So I think these are really important topics as we think about the next three, four, five years and the next decade or two for our business.

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

Great. My second question is TotalEnergies has recently announced that they will spin off their holdings in Surmont and Fort Hills. And I was wondering if you could tell us what it might change for the way Surmont is run and whether it's something you could also consider to lower your GHG emissions intensity.

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

Yes, Raphal, maybe I'll start with the way we look at Surmont is, obviously, we value Surmont greatly. It's a low cost- of-supply, low capital-intensity asset that's in our diverse portfolio. Again, it offers up stable level-loaded production with a significant resource position out there. We've continued to transform that asset through technology applications, piloting emission reduction opportunities, including -- I don't know if you follow this, joining the Pathways Alliance, which is six like-minded companies coming together to lower emissions from the overall oil sands industry, net zero by 2050.

The asset continues to perform extremely well. Actually, back in September, we hit a record production day of 158,000 barrels a day gross. So we see this as staying in the portfolio. With respect to Total's SpinCo or NewCo plans, we're continuing to understand what that looks like, and I can't comment further beyond that.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

I would say, Raphael, it does nothing for global emissions, what Total is trying to do.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Raphael. Next question.

---

**Operator**

Our next question online comes from Jeffrey Lambujon from Tudor, Pickering, and Holt.

---

**Jeoff Lambujon Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Exploration and Production Research**

Good morning everyone and thank you for taking my questions. My first one's just on portfolio management on the acquisition strategy. I know you've talked about bolt-ons as more of the focus, and we're obviously seeing that quarter-to-quarter but wanted to get any updated views you might have on the environment as you see it for larger deals, particularly for upstream assets in the Permian. I know that the cost of supply framework continues to be kind of the focal point in assessing those in terms of what opportunities we'd need to hurdle. But anything you'd say just around what you see today and where your appetite might be, particularly in the Permian would be great, just given the position you've assembled there over the years.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes. Maybe I can start, and then I'll ask Jack to comment on it as well because I know his team has been very active in this space over the last year, year and a half. We continue to look for opportunities to bolt-on acquisitions. We mentioned one. It was a small opportunity in the Eagle Ford to core up what we were doing there, so we went ahead and did that. But a lot of focus is going on what we're doing in the Permian, and let me let Jack kind of describe a little bit about what we're doing there.

---

**Jack Harper ConocoPhillips - EVP of Lower 48**

Sure. Thanks, Ryan. Yes, we're always opportunistically looking to add to our core areas. And as we've talked about in previous calls, we find the highest value right now in swaps and trades. The team's completed about 20 of these, and that approaches 30,000 acres or so in cored-up land that allows for longer lateral development and lower cost-of-supply development. So in addition to those 20-ish deals, we have about that many or more in the pipeline.

---

**Jeoff Lambujon Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Executive Director of Exploration and Production Research**

Perfect. Appreciate that. And then lastly just on the disposition side. I think the last time you all tallied up what's been done since setting the target for the end of next year was, with last quarter's earnings, about \$2.4 billion. Would the noncore sales in today's press release be incremental to that, or is that included? And then, I guess bigger picture, it seems like Lower 48 noncore positions represent kind of the main opportunities there, it looks like or at least half over the recent past. Is that the right way to think about some of those priorities going forward?

---

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

Jeff, it's Dominic. Yes. So the -- we've sold -- well, since we closed the Concho and the Shell transactions, we obviously wanted to do a little bit of portfolio cleanup. So we've sold \$2.4 billion, as you said, of assets, and that's inclusive of the \$0.3 billion this quarter. And we're pretty pleased about that because they represent really the priority assets we had for sale, typically very mature low-margin or high-cost supplies. So that's assets like Indonesia, the high H2S field in Madden, some legacy assets in Central Basin platform and so on. So we've been pleased with that. We've monetized those in a strong market.

Going forward, I would say we're really just back into normal sort of high-grade opportunity as usual. We're not focused on any target at this point. We're happy with where we are. We'll always look for opportunities. But -- so we're pretty happy that we've basically completed the main cleanup that we wanted to do after those two big transactions.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Jeffrey. Next question.

---

**Operator**

Our next question comes from Neal Dingmann from Truist Securities.

---

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

Thanks for the time. And again, Jack, prayers with you and your family. Hope all goes well. Ryan, my first question, maybe I guess, I would call it for the topic du jour on shareholder return on capital allocation. Specifically, any change to how you all are thinking about the shareholder returns versus -- or specifically the buybacks versus just particular maybe accelerate your growth opportunities? I say that, obviously, given the stock's hit an all-time high and knowing just the incredible high well opportunities, high well return opportunities you all have.

---

**Ryan Lance ConocoPhillips - Chairman & CEO**

Yes. Thanks, Neal. No, I think we've tried to describe that in the release. We feel like, obviously, we could ramp more in the Lower 48, but in this environment, it just doesn't make sense to us to be doing that right now. We just want to run efficient stable programs right there. We do have opportunities to invest in more medium- and longer-cycle projects. We described those around Willow and Sempra and then the Qatari projects as well.

So we are leaning into -- we're going to need to supply long term as an industry, and we think these are important. And we believe our company with our global diverse portfolio has the kind of opportunities that are low cost of supply, fit our GHG emissions intensity profile and our reductions that we're trying to make in that particular area. And these are going to be needed assets that we want to invest in to ensure that the supply is there long term.

---

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

Great to hear. And then my second question, probably for Jack, on the Permian and specifically the former Shell assets now purchased, I guess, it was about a year ago. I'm just curious to now when you look at those well returns that you've been seeing there, how those are stacking up versus those initial expectations maybe a year or more ago and how you guys are -- if you all are utilizing, I think there was about, what is it, 600 or more miles of pipe there. I was wondering if that's being fully utilized.

---

**Jack Harper ConocoPhillips - EVP of Lower 48**

Yes. Thanks, Neal. Well, in general, we're very happy with that deal. It's fully integrated. I think we mentioned last quarter, we started to bring on some of the initial projects with our style of drilling and completion, and that continues. And the results are at least as strong as we had anticipated.

And then on the other piece of that, the OBO, as I mentioned before, so far, an upside to the deal has been that we have seen lateral lengths extended by our partners, and that's better for everyone. So we'll continue to do that. But right now, it's completely folded in and business as usual.

---

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, Neal. Operator, I think we have time for one more question.

---

**Operator**

Our next question comes from Leo Mariani from MKM Partners.

---

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

Wanted to quickly follow up around some of your prepared comments. You certainly discussed the LNG deals that you've entered into. And you kind of alluded to the fact that there's some nice benefit with your kind of U.S. production base, I guess, particularly for the Port Arthur project. Just as you're thinking about that, I mean, do you think there's obviously an ability to kind of fold some of those volumes into that in the next couple years? And would you anticipate maybe trying to kind of increase some of your gas production as you look out into the middle of this decade to kind of take advantage of that as feedstock?

**Ryan Lance ConocoPhillips - Chairman & CEO**

Well, yes, as we said, Leo, in our opening comments that we're -- we think the gas resource is pretty plentiful in the U.S. I don't think there's -- I wouldn't think about it as physical integration between our assets. The market in the U.S. is a big liquid market. We want to create -- creating some of this more demand to exploit the resource in the U.S. is a good thing, is -- and that's what we're trying to play. We see the resource in the U.S. being quite substantial. We want to be involved in the liquefaction of that resource and the shipping and then the regasification as we move it to higher-value markets around the world.

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

Okay, that makes sense. And I guess, you also talked in your prepared comments about having to kind of start some of this medium-term major project capital in 2023 that we should kind of layer on top of this kind of second half '22 annualized spend, if you will. Is it possible to offer any order of magnitude on this? In this major project spend, are we talking kind of in the hundreds of millions or potentially could this be north of \$1 billion?

**Ryan Lance ConocoPhillips - Chairman & CEO**

Well, I think it's certainly, as Nick described in terms of some of the nuances on Willow, will we get started? Will we won't? Do we have to do an upfront payment? How big is that for Qatar? So it's a little bit early for us to be kind of telegraphing what an absolute -- we're just saying these are projects that make sense for us. We're going to fund them. We're going to lean in on some of these medium- and longer-cycle projects. We think the world needs them. And again, the returns back to the shareholders aren't going to suffer because our value proposition is based on CFO. So it's not based on free cash flow.

**Operator**

As we have no further questions, I will now turn it over to Phil for closing comments.

**Phil Gresh ConocoPhillips - VP of Investor Relations**

Thanks, operator. So this will wrap up the call today. If you have any questions, Investor Relations is around, and we appreciate your time today.

**Operator**

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

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022 Refinitiv. All Rights Reserved.