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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the second-quarter 2025 ConocoPhillips earnings conference call. My name is Liz and I will be your operator for today's call. (Operator Instructions)

I will now turn the call over to Guy Baber, Vice President, Investor Relations. Sir, you may begin.

Guy Baber - *ConocoPhillips - Investor Relations*

Thank you, Liz, and welcome, everyone, to our second-quarter 2025 earnings conference call. On the call today are several members of the ConocoPhillips leadership team, including Ryan Lance, Chairman and CEO; Andy O'Brien, Chief Financial Officer and Executive Vice President of Strategy and Commercial; Nick Olds, Executive Vice President of Lower 48 and Global HSC; and Kirk Johnson, Executive Vice President of Global Operations and Technical Functions. Ryan and Andy will kick off the call with opening remarks, after which the team will be available for your questions. For Q&A, we will be taking one question per caller.

A few quick reminders today. First, along with the release, we published supplemental financial materials and a slide presentation which you can now find on the Investor Relations website. Also during this call, we will make 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. 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'll turn the call over to Ryan.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Thanks, Guy, and thank you to everyone for joining our second-quarter 2025 earnings conference call. Starting with results and outlook, we delivered another strong execution quarter, once again exceeding the top end of our production guidance range.

We reiterated the midpoint of our full-year production guidance, even with the announced agreement to sell our Anadarko Basin asset for $1.3 billion. And our capital spending and operating cost guidance ranges, both of which we lowered last quarter, remain unchanged.

On return of capital, we remain on track to distribute about 45% of our full-year CFO to shareholders this year. That's consistent with our prior guidance and our long-term track record. The bottom line, we're operating well, we're delivering on our plan, and we're well positioned for a strong second half of the year with clear free cash flow tailwinds including lower capital spending.

Turning to the Marathon Oil acquisition, I'm pleased to announce that the asset integration is now complete, and that we've significantly outperformed our acquisition case. We added more high-quality, low cost of supply resource; we're achieving more synergies; we're delivering a more efficient Lower 48 development program; and we've already announced more asset sales than we guided at the time of the transaction announcement.

While these are all significant achievements, we're not stopping there. Given our integration success, which builds upon other successful transactions, as well as our recent implementation of a new company-wide enterprise resource system, we continue to drive for improvement across every level of the organization. As part of this effort, we've identified more than $1 billion of additional cost reduction and margin enhancement opportunities. Now to be clear, that's on top of the more than $1 billion of Marathon synergies we've already expected to realize.- Additionally, now that we've exceeded our $2 billion asset sales objective ahead of schedule, we're raising our total disposition target to $5 billion. Collectively, these initiatives will strengthen our ability to generate strong returns on and of capital through the cycles and enhance our long-term value proposition. And that's a value proposition that's already differentiated, not only relative to our sector, but relative to the broader S&P 500 as well.

We believe we have the highest-quality asset base in our peer space. Our global portfolio is deep, durable, and diverse, and we're recognized as having the most advantaged U.S. inventory position in the sector. We believe this advantage will become increasingly apparent as the U.S. shale industry continues to mature, and investors are forced to more clearly sort through what we call the inventory “haves” and “have-nots.” We are a clear leader in the U.S. inventory “haves.”

In addition, we're uniquely investing in our high-quality portfolio, specifically in our longer-cycle projects in LNG and Alaska to deliver strong returns and a compelling multi-year free cash flow growth profile. Assuming a $70 per barrel WTI price environment, we expect the major projects we're currently progressing in combination with the additional cost and margin enhancements we just announced to drive a $7 billion free cash flow inflection by 2029. That would almost double the consensus free cash flow expectation for the entire company this year.

Now with that, let me turn the call over to Andy to cover our second-quarter performance, 2025 guidance and strategic objectives in more detail.

Andy O'Brien - *ConocoPhillips - Chief Financial Officer and Executive Vice President, Strategy and Commercial*

Thanks, Ryan. Starting with our second-quarter performance, as Ryan mentioned, we had another quarter of strong execution across the portfolio. We produced 2,391,000 barrels of oil equivalent per day, once again exceeding the high end of our production guidance.

In the Lower 48, production averaged 1,508,000 barrels of oil equivalent per day. Alaska and international production averaged 883,000 barrels of oil equivalent per day as we successfully completed turnarounds in Norway and Qatar.

Regarding our second-quarter financials, we generated $1.42 per share in adjusted earnings and $4.7 billion of CFO. We had a $1.5 billion working capital headwind, effectively offsetting the equivalent-sized tailwind we realized last quarter.

Capital expenditures were $3.3 billion, slightly down quarter on quarter. We returned $2.2 billion to our shareholders, including $1.2 billion in buybacks and $1 billion in ordinary dividends. Through the first half of this year, we've returned $4.7 billion to our shareholders, about 45% of our CFO, consistent with our full-year guidance and long-term track record. We ended the quarter with cash and short-term investments of $5.7 billion, plus $1.1 billion in long-term liquid investments.

Turning to our outlook, for full-year production guidance, we have narrowed the range and reiterated the guidance midpoint, even after adjusting for the Anadarko sale of approximately 40,000 barrels of oil equivalent per day, which is expected to close at the beginning of the fourth quarter. Our capital spend and cost guidance ranges, both of which we reduced last quarter, are unchanged.

We now expect our full-year effective corporate tax rate to be in the mid to high 30% range, excluding one-time items, lower than we previously guided due to geographical mix. And we now expect a total full-year deferred tax benefit of about $0.5 billion dollars, primarily reflecting the positive impacts from the One Big Beautiful Bill.

In the second half of the year, we expect free cash flow tailwinds in the form of higher APLNG distributions, cash tax benefits, and lower capital spending. Further guidance details can be found on our earnings slide deck.

Turning now to our strategic updates, as Ryan noted, we have completed the Marathon asset integration and are realizing comprehensive outperformance against our acquisition case. We're delivering everything we said and much more.

First, we've upgraded our low-cost supply resource estimate by 25%. While we were most attracted to Marathon’s significant Eagle Ford and Bakken positions, both of which are every bit as good as we expected and delivering excellent well results, the majority of the increase has been driven by the Permian, where our resource estimate has approximately doubled versus the initial estimate.

The second point I would highlight, we have significantly outperformed our initial synergy guidance. At the time of the transaction announcement, we guided $500 million of annual synergies. With our steady-state capital development program achieved and critical system cutovers now in the rearview mirror, we are on a glide path to realize more than $1 billion of run-rate synergies by the end of the year.

In addition, we've identified over $1 billion of one-time benefits, largely cash tax related. While we don't count this as a synergy, it's real value and a material benefit to our company. The third point I'd highlight, we brought the power of our more efficient and steady-state development program to the combined portfolio.

At the time of the transaction announcement, we highlighted our ability to more efficiently develop Marathon's acreage, given our size and scale advantage, and ability to level-load our program versus Marathon's practice of ramping activity up and down. We've now achieved optimized level of steady-state activity, and we're delivering more combined production with 30% fewer rigs and frac crews in comparison to the pre-transaction pro forma activity levels. And finally, with the announced Anadarko sale, we've now signed over $2.5 billion of dispositions within nine months of the transaction close, beating our $2 billion target well ahead of schedule.

Given our growth in recent years and implementation of our new company-wide ERP system, we are taking the opportunity for further cost and margin improvements across the entire company. We've identified more than $1 billion of opportunities that we expect to realize on a run-rate basis by the end of 2026. All of this is in addition to the $1 billion of Marathon synergies we previously discussed that we expect to realize on a run-rate basis by the end of this year.

These additional improvements will be wide-ranging, encompassing cost reductions across our SG&A, operating costs, and transportation costs, as well as margin enhancement through commercial opportunities. All in, including the Marathon synergies, we expect to drive over $2 billion of run-rate improvements by the end of next year.

In addition to furthering our cost reduction initiatives, we are more than doubling our asset sales target to $5 billion, which we also expect to achieve by the end of next year. We see a clear opportunity to further high-grade our portfolio and accelerate value realization for assets that are not currently competing for capital.

So to wrap up, we continue to execute well, operationally, financially, and across our strategic initiatives. We are well positioned for the second half of the year with clear free cash flow tailwinds, and we continue to find ways to enhance our differentiated long-term investment thesis. That concludes our prepared remarks. I'll now turn it over to the operator to start the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Good morning. Good afternoon, Ryan, Andy, team. Really appreciate the incremental disclosure and love the slide 7. So Ryan, maybe we could start there, which is if you look at street numbers, at around $60 to $70 per barrel WTI, you're generating close to $8 billion of free cash flow this year.

So if you add $6 billion to $7 billion, you're kind of closer to $14 billion, which implies by 2029, a 12% free cash flow yield. So I first wanted to just check the math on and make sure that we're not missing any pieces around it.

And then to the extent that is the right framework, which is a great prize in a couple of years, the pushback might be, you got to wait for it. And so Ryan maybe your perspective on -- with every year, you derisk towards that free cash flow number as capital intensity improves. So you don't necessarily have to wait to 2029 would be in theory, but it would be just your perspective on all that.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. Thanks, Neil. Got ahead of the class. Your math is pretty good. Look, yeah, we're working pretty hard. As you mentioned, the numbers fit exactly what we're thinking about in that $60 to $70 range. We'll add about $7 billion of free cash flow between now and 2029.

I mean you don't have to wait until 2029. Some of that is coming through the -- about one third or so is coming through the LNG channel. And there's going to be consistent start-ups starting next year with Qatar -- one of the trains in Qatar, 2027; with Port Arthur in 2028; with another train in Qatar; and then in 2029 with Willow.

So all of that's coming. Everything is on track. And you're right, it nearly doubles our current consensus free cash flow that I said in my opening remarks. And I think this is a trajectory and things that are coming that are unique in the business. There's no other E&P that I think can match what's coming for us, including the integrated majors.

So I think we're unique in this space. We've been leaning in and making these investments that are very competitive in the portfolio, low cost of supply opportunities for the company that are going to contribute to our growth and development for decades to come. And I would say, too, that it does not include the inventory advantage we currently have in the Lower 48, a very deep and Tier 1 inventory that we have, and where we're constructive in the macro going long term. And if the call for shale production starts to come up, because where is the supply coming to meet the growing demand that we believe is going to be there, this doesn't even include what we could do to lean into our Lower 48 a little bit more. We haven't, because the call hasn't been there to date. So we're growing at a bit more modest rate, but we're taking advantage of the integration, we're taking advantage of the synergies.

I remind people, we haven't added a rig in three, four years. So we're just continuing to grow our Lower 48 just through the efficiency in the channels. So none of that even includes what we could do, depending what the call is for unconventional production going forward. So no, your math is good. We're excited about the opportunities for the company.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Yeah, good morning, good afternoon team. Ryan, I was wondering if you could unpack the $1 billion cost reduction and margin optimization plan, which looks to be a new wrinkle in the update. You mentioned the ERP system integration.

I was wondering if you could talk about what are some of the drivers of the $1 billion? And are you doing anything at the organizational level to reengineer kind of your operating structure?

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. No, Arun. It's going to touch all pieces of the company. There are some workforce centralization, some things that we've learned over the last three to four years with all the transactions that we've done, that we're going to be implementing kind of globally throughout the company. So there's a piece of G&A built into this.

There's utilizing the scale and scope of the company to drive some lease operating expense improvements as well, things that we're doing contractually, things that we've captured in the Lower 48 and understand from an efficiency perspective that we can drive throughout the whole company. As we've grown our scale, we also see opportunities in transportation and processing. And that's going to show up as expense reduction and margin expansion through realized price improvement commercially.

I'd say about 80% of it sits within the G&A, LOE, T&P, just expense reductions. 20% of it sits in that kind of margin expansion bucket. And I'd tell you, none of this includes capital sort of things. We don't count that in our synergy estimates. We're just talking about stuff that will flow through the bottom line and changes that we need to make as a result of some of the technologies we're deploying and the size, scale, and scope of the company through the inorganic expansions that we've had over the three to four years. And it's, with that behind us, now time for us to get the whole company running, taking advantage of stuff that we've invested in over the last few years.

Operator

Steve Richardson, Evercore ISI.

Stephen Richardson - *Evercore Inc - Analyst*

I appreciate you're probably not going to tell us what's for sale. Ryan, in terms of this meaningfully increased divestiture target. But perhaps you can give us some perspectives on the acquisition market from the sell side. And maybe just talk about the types of assets, and I'm sure you're intently focused on cost of supply in terms of high grading. But maybe you could talk just sort of asset types and that process and the confidence on that higher target.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. No. Thanks, Steve. I think we've described to you and others that are on the call, and we go through a pretty rigorous exercise every year. We've kind of come out of the back end of our planning exercise that ramps up during the summer months.

And through that process, we look at every asset in the portfolio. And we look for the ones that are competing for capital and those that aren't competing for capital. And we tell our teams for the assets that are on the outside looking in a little bit, maybe there's different technologies we can deploy, different ways to think about it, different learnings from across the company. And we give them some time to see if they can compete for capital long term. But if they don't, then they migrate to a different list.

And look, we're resource-rich in a resource-scarce world today. So that's what, I think we were pleasantly surprised with the Anadarko Basin. We -- there's an example that wasn't going to compete for capital in the portfolio. We're getting plenty of North American natural gas production from our assets in North America. It just wasn't going to compete for capital as we integrated that asset into the company, and we were pretty pleased with the price that we got.

So as we scrub the portfolio and think about it, going forward with the remainder of this year and through 2026, we just felt like we see the assets that are out there and that aren't competing for capital. And we think it's going to be a reasonable market to be selling into, which is what gave us confidence to increase the target to $5 billion. And we've already surpassed our $2 billion target as Andy described in his remarks to date with about $2.5 billion sold through this point in time.

Operator

Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Thank you. Good morning, everyone. Ryan, I missed all these incredibly positive updates. I hate to ask such an asinine question as cash tax, but going to make Andy earn his crust today. And you got $500 million incremental deferred for '25.

Obviously, there's a lot of moving parts with the M&A, the Marathon, and obviously asset sales and so on. What is the sustainable deferred tax visibility that you have for the Lower 48 at this point if you're able to offer any color beyond 2025?

Andy O'Brien - *ConocoPhillips - Chief Financial Officer and Executive Vice President, Strategy and Commercial*

Hey Doug, it's Andy. Yeah, you're going to make me earn my stripes with the first question. There's quite a few moving parts to taxes this quarter. So maybe I'll just try to cover them sort of step by step and sort of try to get everything covered in tax in one question here.

So just so we -- just to clear because I think some of this gets conflated in terms of what's the One Big Beautiful Bill impacting, what isn't it impacting. So just starting with the quarter, in terms of our 2Q effective tax rate, we were lower than we guided last quarter. And we've actually reduced the full-year effective tax rates to the mid-30s for the rest of the year.

So that was purely due to sort of a mix, where we had domestic commodity prices relative to international markets were a bit higher than we forecast. And that resulted in a higher mix of income from our lower-tax jurisdictions like the US. So that's probably the first thing that jumps out to people, is the effective tax rate.

The second thing, going on to the deferred tax is, we saw a larger-than-expected deferred tax benefit during the second quarter. That had nothing to do with the new tax bill. That was largely due to one-off discrete items that we really don't forecast.

And then getting to the meat of your question, in terms of the expected benefits, we covered this in our prepared remarks. That this year, we think the One Big Beautiful Bill will have a half a billion dollar impact to us, and that's primarily due simply to the bonus depreciation rate going from 40% to 100%.

Now, of course, that's going to carry on into 2026, and we'll continue to benefit from that bonus depreciation. But specifically to get into numbers at this point is a little bit too early. I think you helped to answer the question for me in terms of why. We've got to land exactly where the CapEx is, what's happening with -- which assets are being disposed of. But what we do know is that it's going to be a tailwind for us next year.

Operator

Lloyd Byrne, Jefferies.

Lloyd Byrne - *Jefferies LLC - Equity Analyst*

Ryan, Andy. I think that 30% fewer rigs and frac crews actually equates to almost 100% of what Marathon is running at the time of the deal, very impressive. But let me just -- I guess, I'll ask my question about LNG and kind of the downstream strategy. And just kind of what you're expecting from regasification sales deals going forward? And then how do we expect that to contribute over the next few years?

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah, I'll maybe start, let Andy jump in on the LNG side. But yeah, you snuck in two for one there. Good job, Doug -- or Lloyd, you're good there. Look, yeah, I think we're pretty impressed with what Nick and his team have done with the integration in Marathon. But you're right, we've effectively eliminated their 10-rig program. And not only delivered the pro forma production between the two companies, but growing the production as well.

So I think Nick's team's really hitting on all the cylinders, and we're really pleased with the success we've had in the aggressive way that they've tackled that program as well. I can let Andy talk a little bit about the LNG side.

Andy O'Brien - *ConocoPhillips - Chief Financial Officer and Executive Vice President, Strategy and Commercial*

Sure, I think on the LNG side, you're probably specifically referring to some of the stuff that we've announced this quarter where we've added another 1.5 MTPA regas capacity at Dunkerque in France, and we also executed an SPA with an Asian buyer.

And what I'm pretty pleased about is with those two announcements, we've now effectively placed the entire 5 MTPA from Port Arthur. So going forward, we're now at a point where we're continuing to have conversations, both on the offtake side of things and on the placement. But everything is tracking really well. We're placing -- we placed everything we have today. So now we're looking basically to the next steps, and what I can say in that space is that things certainly aren't slowing down, both in terms of opportunities for more offtake and conversations with customers in Europe and Asia.

So probably a bit of a watch-this-space. Hopefully, we'll have more to talk about in coming quarters and really pleased to have the commercial LNG are starting to come together to really complement what we've already got with our resource LNG in Australia and Qatar.

Operator

Betty Jiang, Barclays.

Betty Jiang - *Barclays Services Corp - Analyst*

Thank you for taking my question. Maybe Andy, a follow up to your comment earlier about trying to understand where the CapEx plans for next year. I was wondering if you guys can give an early read on how you're thinking about 2026 at the moment with the additional cost savings you're envisioning. Commodity prices probably a bit more supportive. How do you see development evolving next year? Where do you expect the major capital spend to trend? And maybe just frame, how much of that long-term free cash flow inflection could get captured next year?

Andy O'Brien - *ConocoPhillips - Chief Financial Officer and Executive Vice President, Strategy and Commercial*

Thanks, Betty. I can try and take that one. And yeah, it is a little early to be talking about 2026, but I'm happy to share a few high-level thoughts. So starting on the capital spending side of things. We've been saying this for a number of quarters now. We expect our capital next year to be lower than this year as we -- beginning of the cash flow for inflection.

And then maybe also just to touch on production, I think we've always been saying that, for us, production really, it's just simply an output of our plan. And if you look at what we're doing this year, from our guidance, basically, that implies about 2% growth on an underlying basis this year.

And in the macro environment we see right now, I think this would be a pretty good place to start for modeling purposes for next year. I think Ryan mentioned it on the rig side in a previous question. No, we haven't added essentially a rig in the Lower 48 on the ConocoPhillips side over three years. And right now, probably don't really see a good reason to do that.

But the other thing I would add is that, in terms of maybe just going from one half this year to the second half next year, we're already starting to see the cash flow inflection coming. If you look at our CapEx guidance, we're guiding from first half this year to the second half that our CapEx is going to be down $1 billion.

You can see from our CFO from the first half to the second half that we're also going to have some tailwinds from higher APLNG distributions and the One Big Beautiful Bill. So when you look at that, and that continues on into 2026, I'd actually say that the cash flow inflection is effectively already starting.

Operator

Nitin Kumar, Mizuho.

Nitin Kumar - *Mizuho Securities USA LLC - Analyst*

Hi, good afternoon, good morning, everyone. Ryan, one of your peers talked about industry consolidation going forward. You mentioned in the last three to four years you've been at the forefront of that. So just want to get a take on where do you see the M&A landscape right now, particularly in the Lower 48.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah, look, I think there's still going to be consolidation in this business. I think a lot of the E&Ps in the unconventional space look out into their plans two to three years out and wonder what's going to happen. And I think -- and that hasn't changed as capital intensity. People that don't have the inventory like we do face higher capital intensities and just what do they do about that. Now specific to us, this is the strongest, I think, our portfolio has ever been. And so it's a pretty high bar, and we're focused pretty heavily right now on the organic side of the business, where the investments that we're making to grow and develop the company both short, medium, and long term.

So I think that's where all of our focus is going. But, look, we watch the market every day. We see what other people are doing. And I'm familiar with the comments that were made by one of our peers. But you know we're just in a different position because of the effort and what we've done over the last four years that you pointed out, and then the focus we're trying to drive internal to the company to chase another $1 billion of additional cash flow growth in the company.

We see the inflection that Andy just talked about in our free cash flow coming as these projects start starting up over the course of the next three to four years. So we've got a pretty high bar and a pretty full plate today just executing on our organic plans.

Operator

Ryan Todd, Piper Sandler.

Ryan Todd - *Piper Jaffray Inc - Analyst*

Great, thanks. Maybe a question on the on the Marathon transaction. You increased your expectation for the incremental resource adds from 2 billion to 2.5 billion barrels with a doubling of resource -- estimated resource in the Permian. Can you talk about what's driving that? What's been better than expected, particularly in the Permian?

Nick Olds - *ConocoPhillips - Executive Vice President, Lower 48 and Global HSE*

Yeah, Ryan. Good morning. As a reminder for the folks on the call, the Marathon transaction, we announced the 2 billion barrels of low cost of supply resource. Now we've got eight months under the Marathon hood to further assess the inventory and the development strategy across all the assets. As Andy mentioned, after completing the integration, we've got a 25% increase. So that's the 2.5 billion.

Now we were clear at the time of the acquisition that the quality positions in the Eagle Ford and Bakken were the primary strategic rationale for the transaction. And we're seeing on aggregate, the performance in those two basins have been in line to even better than we expected with very strong well productivity versus the acquisition case.

Now the upside identified, as Andy mentioned, is primarily in the Delaware Basin, where we've approximately doubled our low cost of supply resource estimate with some additional resource in the Bakken, as well.

Now in the Permian, this is largely driven by a greater contribution of both primary and secondary intervals across the play. For example, we got inventory across Wolfcamp A and C, Bone Springs and Woodford formations, which are very competitive cost of supply.

And Ryan, that's through really reassessing the inventory and applying our development strategy, including spacing and stacking. In fact, we're drilling some Wolfcamp A and C wells, as well as some Woodford wells, right now and seeing really promising results in line or even better than the type curves.

In addition to the inventory I just described, we're also seeing opportunities to trade acreage to core up positions, adding more longer laterals, which improves the cost of supply. If you go from a 1- to a 3-mile lateral, we see that 30% to 40% improvement.

So I just got the, hats off to the team as we get under the hood, they're excited. There's more opportunities in there. So getting ready, enthused to execute upon it.

Operator

Scott Hanold, RBC Capital Markets.

Scott Hanold - *RBC Capital Markets Inc - Analyst*

Yeah, thanks. Ryan, it would be good to hear your view of what you're seeing on the old macro front. Obviously, if we wind the clock back last quarter, there's a lot of uncertainty. Oil price obviously has firmed up. I know you all do a lot of work, but I'd be interested in your thoughts on what you're seeing right now, and how that could shape your plans into '26?

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. Thanks, Scott. I think I described it as choppy this morning on CNBC, I think. And that's kind of our, let's say, short near-term view of the macro. Look, the OPEC Plus group has added about -- they've unwound all the 2.2 million barrels a day of cuts and then they added 300,000 more allocation to the UAE, bringing that to 2.5 million.

Our internal view is about 800,000 of that is already in the market. So of that 2.5 million, you take 800,000 off. So there's about 1.7 million barrels a day true incremental production. But it hasn't shown up in exports either because of the power burn and all the summer burn in the Middle East that's going on right now.

And the demand grew in the first half, a little bit more than what we would have predicted a little bit over 1 million barrels a day. I think for the full year, we're still at about 800,000 barrels a day of demand increases coming forward.

So you can see it's a bit imbalanced, more supply than the demand in the short term. But we got to remember that inventories that are five-year low. Certainly, here in the U.S., we're seeing some early indication that floating inventories might be coming up a little bit. Certainly, China is filling their SPR right now to feed their two bat refineries.

So there is a lot of moving pieces, as you say. So how do we think about that? We step back, we see the choppiness, although prices are hanging in about at our mid-cycle price, and they've been relatively stable in the 60s. So we see probably that continuing with probably a bit more pressure to the downside, which is why Andy talked about how we're executing our program, and kind of how you should think about modeling our production as we go into 2026.

And that's just -- we probably see a little bit of choppiness and some slight headwinds as we go, but we're very constructive when you start stepping back for a minute and thinking about the longer term. We see demand continuing to grow at 1 million barrel a day incremental clip or at all-time highs in the demand side, and we don't think that's stopping.

So we do wonder where the supply is going to come to fill that growing demand over the next two, three, four, five years and beyond, which was our view over the last few years, which is why we're leaning into some of the longer-cycle projects.

That's the oil side. And then obviously, on the gas side, we're pretty bullish there. We see the LNG market growing from a 400 million-tonne market to over 700 million-tonne market within the next 5 to 10 years, which is why we wanted to lean into the LNG side of the business. And we see a lot of resource in the U.S. to support that and to underpin that strategy. So maybe that's Reader's Digest abridged version of our view of the macro, both on the oil and the gas side.

Operator

Charles Meade, Johnson Rice.

Charles Meade - *Johnson Rice & Company LLC - Analyst*

Good morning, Ryan, to you and your team there. Ryan, I caught your CNBC appearance, I thought that was a fine job. I wanted to ask a question on Willow. If you could perhaps give us a bit of a preview for what -- when you do get back to work there on the ground in the winter season, what does this next winter season hold as far as key milestones and work streams and just an overview.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yes, I can let Kirk take that, Charles. I would say we haven't quit working. We're pretty busy right now. We got a -- I was just up there last week. We got a full team on the slope and working through the summer and a lot of work going on in the Corpus Christi Kiewit fab yard, two building modules. but Kirk can jump in and give you a bit more specifics.

Kirk Johnson - *ConocoPhillips - Senior Vice President - Global Operations*

Yeah, morning, Charles. Yes, certainly, as Ryan is mentioning, our execution here this year just continues to be really quite strong. We did wrap that winter season up. It was the largest that we had certainly in the last couple of years and really the largest we have here planned for the project.

We wrapped that up late April, early May. And so we've transitioned. Again, as Ryan witnessed, we're transitioning to year-round construction up there on the slope.

We actually have about 900 trades and craftsman up on the slope right now. And that's down from again, what we were seeing during this peak winter season, which was closer to 2,400, if not 2,500 people up there on the slope.

So it's been a pretty big transition for us here this spring. But of course, our teams are really focused now as you're alluding to, which is our, the activities we have here this summer and this fall. So with that transition, those 900 craftsman on the slope are continuing to build out that operation center that we sealifted up here last year with those modules on location.

And so there's a lot of work ongoing so that we can truly begin year-round construction there in Alaska at the Willow location. And then again, as Ryan mentioned outside of Alaska, we're focused on completing engineering in support of these process modules that we're building here on the Gulf Coast. And then naturally, that's going to continue through 2027.

But certainly, I would say, as it relates to the activities here this year, there's a lot of work by the team focusing appropriately on contracting, procurement, general supply chain activities. Admittedly, tariffs have introduced some level of uncertainty and that's manifesting with internationally sourced equipment alongside a trend of inflation that's pretty similar to what we've seen in the international markets.

And that's stabilizing as activity stabilize here. So it's a good time for us to put a wrapper on some of these contracts here this year. We'll have close to 90% or 95% of these contracts pretty well secured by year-end, and so a lot of work in that space.

So again, Charles, I would say strong execution. We're hitting the really key milestones. We have some more work, of course, in this next winter season as it relates to gravel on the North Slope, continuing to build that out towards the next set of pads and kind of wrapping up the last pieces around pipelines and a bit of civil work.

So certainly more to come, but the milestones we're achieving, we're hitting those as we expect. And so it just continues to give us a lot of confidence in execution and strong expectations again around 2029 and first oil.

Operator

Paul Cheng, Scotiabank.

Paul Cheng - *Scotiabank GBM - Analyst*

Thank you. Good morning, guys. Ryan, I want to ask about Eagle Ford. But before that, can I just sneak in and just clarify all that confirmed will though the CapEx is still at $7 billion. And in terms of Eagle Ford, with the Marathon deal, they do have some really decent assets there. Can you give us an outlook where that you see Eagle Ford on a longer-term basis? I mean I think in the past that you have a view where that Eagle Ford you get to maybe for you guys, they call you 300,000 barrels a day. Now, with this better performance in the second quarter and also the much larger resource base, how should we look at Eagle from your portfolio? Thank you.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah, thanks Paul. I can let Nick chime in on the portfolio part. I think we're seeing everything and then some based on the acquisition case we had for Marathon and some of the well results that I've seen over the last few months coming out of Eagle Ford on the Marathon acreage in particular, let alone our acreage, has given us a lot of comfort in the case. And we're seeing upside out of that as well. And I can let Nick talk a little bit about the longer-term perspective we might see in the Eagle Ford.

Nick Olds - *ConocoPhillips - Executive Vice President, Lower 48 and Global HSE*

Yeah, thanks, Paul. Maybe just talk about short term here on the Eagle Ford. Obviously, as you pointed out, we had a really strong quarter related to Eagle Ford production, had really strong base production as well as new wells coming online. We actually had a little bit of lumpiness, about 10% more wells online in 2Q in Eagle Ford. So you saw that slight bump in production. I will say, we're really starting to get our understanding around the heritage Marathon component in Eagle Ford. And what we're seeing there, Paul, is the wells are performing at or above type curve. So that's really good.

I also say in Eagle Ford, it's -- we're sharing best practices across heritage Marathon, heritage COP. And you may have heard that we had our best year ever in drilling within that asset. We had a 13% improvement in feet per day by combining best practices and drilling. So just hats off to the team there.

A couple of other things on near term, one of the things related to the acquisition. We're also sharing our facilities and being able to combine those two, where we can reroute production, we can shelter maintenance, and that's leading to that increased production as well. So in summary, a really strong Q2.

Now, if I look longer term, as Ryan mentioned, when you take a look at the inventory combined for Eagle Ford, we have an industry-leading position. We're sitting on 15 years of inventory. That's at current rig activities levels and now hold a significant share of the remaining Tier 1 inventory in the play. No one else comes close to that.

Longer term, we're continuing to assess the optimum plateau of that asset. And we'll give you an update. One of the things we're looking at is the ongoing efficiencies that we continue to see outperform quarter-to-quarter. And so dialing into an exact plateau remains ongoing discussion.

But that said, we'll land somewhere modestly below 2Q production as we go forward here in the near term. So really strong performance across Eagle Ford, really strong, what we're seeing with the well results.

Operator

Leo Mariani, ROTH.

Leo Mariani - *Roth Capital Partners LLC - Analyst*

I just wanted to follow up a little bit on the asset sales here. Can you maybe give us what the rough production split is on the 40,000 barrel a day you're selling there in the Anadarko in terms of oil and gas?

And then can you just talk a little bit about the timing on asset sales. Was there a particular reason you decided to kind of increase it right now. Certainly, a lot of the conversation on the call is talking about kind of macro uncertainty out there. So maybe just kind of talk about the environment to sell stuff now.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. No. Thanks, Leo. I think we're -- yeah, we -- again, I tried to describe, we just go through a standard process inside our company to identify potential assets that we think would be worth more to other people than they are to us. And that's certainly proven out in the Anadarko Basin asset sale, too.

I can have Guy come back to you with the -- I don't know the -- it was mostly gas, but I don't know what the liquids mix is on that 30,000 barrels a day, but Guy can come back and provide that to you. And look, we don't -- we'll sell assets when we think we're getting good value for them. Look, we know what our hold value is. We know what they're worth to us inside the portfolio. We're not fire selling anything in the company. And there's assets that we've marketed that we haven't sold. And we haven't sold because either the macro, current macro environment wasn't supportive of it. And again, we know what our hold value is, and we know what the market is, and we'll move them out.

As we look across that portfolio of opportunities for the company, we felt comfortable with the $5 billion target by the end of next year. So feel comfortable we've got those assets to kind of sell, and we're hard at work trying to deliver that.

Operator

Philip Jungwirth, BMO.

Philip Youngworth - *BMO Capital Markets - Analyst*

Thanks for taking the question. I wanted to ask about return on capital. Conoco has historically been a leader here among the independents and integrated. We have seen corporate returns come down across the sector, much of which is oil price, but also M&A.

So when you look at the organic $6 billion free cash inflection that you have for major project start-ups, I was hoping you can talk to how this improves ROCE by the end of the decade? Or there'll be more improvement really from accelerating the Lower 48 growth at the right commodity price?

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah, Phil, look, all these projects that we're executing meet our cost of supply hurdles. So almost kind of doesn't matter where you allocate, you're going to see the growth in the ROCE. And that's what we're trying to drive inside the company.

We're trying to be competitive with the S&P 500, not just competitive with our peers in this industry, we want to outperform even the S&P 500, give investors a resource or an E&P choice that they can invest in that can deliver year in, year out through the cycles, competitive ROC. And obviously, when the price whistles down as much as it did in the COVID year, it's tough. In 2022, it was pretty damn good as prices whiz back.

But we're trying to deliver through the cycle, ROCE improvements and invest to compete against the S&P 500. That's what we're about. That's what -- that's how our performance gets judged, and that's what we're trying to go do. And as you inflect your free cash flow, $6 billion, $7 billion over the course of the next three to four years, obviously, the CFO is growing.

And we have -- we do have a unique value proposition in this business, which is you get your CFO off the top from us. We have a commitment of a minimum of 30% at a mid-cycle price. And when prices have exceeded that, like they have for the last number of years, we've given a lot more of that CFO back, about 45%.

So that's what we're signaling again this year, and we don't see that changing. So as that free cash flow on inflect and our CFO grows, distributions are going to grow with that. The opportunity to invest in our organic programs come with that and strengthening the balance sheet comes with that as well. But absolutely, as our cash flow grows and free cash flow grows, distributions grow as well. And we're investing in the right things. We believe and what we're investing in, our ROCE will grow on a mid-cycle case basis as well.

Operator

Kalei Akamine, Bank of America.

Kalei Akamine - *BofA Securities - Analyst*

Hey, good morning, guys. Thank you very much for squeezing me in. Look, I appreciate the strong performance in Lower 48. Last time you guys had an outlook on a multiyear basis was in 2023. And you suggested that there will be a capital ramp through the early 2030s. But when you look at the business today and the efficiency is achieved, it appears that you're still in the same production track. So kind of wondering if you can hit those production targets without adding significant activity or without any change in CapEx.

Ryan Lance - *ConocoPhillips - Chairman of the Board, Chief Executive Officer*

Yeah. I mean that's the name of this game. You've got to be capital light, capital efficient. And that's how you grow your ROCE and that's how you grow your distributions and your free cash flow. So you're right to observe the last time we updated the market, since then we've done the Marathon transaction. As I think Andy alluded to in some of his questions and comments, we haven't added a rig line, any one of the last three to four years, we're still delivering the production growth out of Lower 48. We're just being a lot more efficient, a lot less capital spend, and that's the name of the game.

So we start every year thinking about, let's just keep the scope of what we're doing, constant. And as Andy said in his response to one of the questions, the production or the growth that comes out of that is purely an output. We will always start or trying to keep our stable programs in place. We don't want to whipsaw them up. We don't like to whipsaw them down.

And obviously, we can react to both sides of that environment, but we like the consistent, stable execution and programs. And we haven't added a rig line or significantly increased the frac spreads. And we're operating within a pretty efficient frontier range where one frac spread can handle three to four rig lines.

And that's improving with the technology, and we want to be improving with that as well. So I think we have a lot of flexibility. We have a lot of inventory and deep diverse inventory. So we've got a lot of choices and options. And as I said in one of my comments earlier, that it's really the best place and the strongest portfolio we've ever had as a company.

Operator

We have no further questions at this time. Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.