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COP.N - Q3 2025 ConocoPhillips Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2025 / 5:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the third-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 - Vice President - Investor Relations

Thank you, Liz. And welcome, everyone, to our third-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 HSE; and Kirk Johnson, Executive Vice President of Global Operations and Technical Functions.

Ryan and Andy will kick off the call with opening remarks today, 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. First, along with today's release, we published supplemental financial materials and a slide presentation, which you can find on the Investor Relations website.

Second, 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'll make reference to some non-GAAP financial measures today. 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 third-quarter 2025 earnings conference call. We have a lot to cover today, including our third-quarter results, improved 2025 outlook, strategic updates, and our preliminary 2026 guidance. Now starting with our third-quarter results, this was another very strong execution quarter. We again exceeded the top end of our production guidance, demonstrating the power of our diversified portfolio, with both capital spending and operating costs declining quarter on quarter.

On the back of this strong performance, we raised our full-year production guidance and we have reduced our adjusted operating cost guidance for the second time this year. In fact, we have improved all our major guidance drivers since the beginning of 2025 -- CapEx, operating cost, and production -- further demonstrating the strength of our team's execution.

On return of capital, we raised our base dividend by 8%, consistent with our goal to deliver top-quartile dividend growth relative to the S&P 500. This type of dividend growth is sustainable, given the strength of our outlook and expectation for our free cash flow breakeven to decline into the low \$30s WTI by the end of the decade. Year-to-date, we've returned about 45% of our CFO to shareholders, in line with our full-year guidance and our longer-term track record.

Turning to our strategic updates, at the Willow Project in Alaska. After completing our largest winter construction season and conducting a comprehensive project review, we have increased our project capital estimate to \$8.5 to \$9 billion. This change is primarily attributable to higher-than-expected general inflation and localized North Slope cost escalation. Despite cost pressures, we have maintained the project schedule and made excellent progress on scope execution, narrowing first oil to early 2029.

We also continue to advance our global LNG projects, another key driver of our expected free cash flow inflection. We have reduced total LNG project capital by \$600 million. Our three equity projects, NFE and NFS in Qatar, and Phase 1 at Port Arthur LNG, are on track and have been substantially de-risked. Capital spending is now about 80% complete with our first startup expected next year at NFE.

Looking ahead to 2026, recognizing it's early, the macro remains volatile, and that our portfolio is highly flexible, our preliminary guidance for both CapEx and OpEx is to be improved significantly, down about \$1 billion on a combined basis from this year. And in fact, relative to our pro forma 2024, they are down about \$3 billion. Underlying production should be flat-to-up next year, a reasonable starting point given the current macro environment.

Looking beyond just the near term, ConocoPhillips continues to offer a compelling value proposition to the market, one that is differentiated relative to our sector and to the broader S&P 500. We believe we have the highest quality asset base in our peer space. Our global portfolio is deep, durable, and diverse, with the most advantaged US inventory position in the sector. We are uniquely investing in our portfolio and driving significant efficiencies throughout the organization to deliver improving returns on and of capital and a leading multi-year free cash flow growth profile.

Consistent with our guidance last quarter, we continue to expect the four major projects we are progressing, along with our recently announced cost reduction and margin enhancement efforts, to drive a \$7 billion free cash flow inflection by 2029, potentially doubling the consensus expectation for free cash flow this year.

That free cash flow inflection is now underway. We expect to realize about \$1 billion annually through 2026 through 2028, before an additional \$4 billion in 2029 once Willow comes online. That's the growth trajectory that's unmatched in our sector. So bottom line, we're performing well, we're delivering on our plan, and we're well-positioned for 2026 and beyond.

Now with that, let me turn the call over to Andy to cover our third-quarter performance, major project updates, and 2026 guidance in more detail.

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

Thanks, Ryan. Starting with our third-quarter performance, as Ryan mentioned, we had another quarter of strong execution across the portfolio. We produced 2.399 million barrels of oil equivalent per day, once again exceeding the high end of our production guidance. Regarding third-quarter financials, we generated \$1.61 per share in adjusted earnings and \$5.4 billion of CFO. Capital expenditures were \$2.9 billion, down quarter on quarter, as we passed the peak of our major project capital investment cycle.

We returned over \$2.2 billion to our shareholders, including \$1.3 billion in buybacks and \$1 billion in ordinary dividends. Through the third quarter, we've now returned \$7 billion to our shareholders, or about 45% of our CFO, consistent with our full-year guidance and our long-term track record. We ended the quarter with cash and short-term investments of \$6.6 billion plus \$1.1 billion in long-term liquid investments.

Turning to our outlook for 2025, we've raised our full-year production guidance to 2.375 million barrels of oil equivalent per day, up 15,000 from our prior guidance midpoint. This is even after considering Anadarko's sale of approximately 40,000 barrels a day of oil equivalent, which closed on October 1. We're reducing our operating cost guidance to \$10.6 billion, down from the prior guidance midpoint of \$10.8 billion, and our initial guidance at the beginning of the year of \$11 billion.

We're also making great progress on our asset sales program, with another \$0.5 billion on top of what we announced last quarter. That takes us up to over \$3 billion of asset sales out of our \$5 billion target. Of this amount, \$1.6 billion was closed and the cash was received through the third quarter, and we have another \$1.5 billion that will have closed in the fourth quarter. That includes the remainder of the Anadarko disposition proceeds as well as additional non-core Lower 48 assets.

Turning now to our strategic updates. At Willow, we've updated our total project capital estimate to \$8.5 to \$9 billion. After successfully completing peak winter season, we undertook a detailed bottom-up re-forecast of the project and as a result have increased our cost estimate. The increase is primarily due to higher general labor and equipment inflation and increased inflation on North Slope construction.

Scope execution has remained strong. We're nearing 50% project completion. This has allowed us to narrow our estimate of initial production to early 2029. Importantly, we can now level load the pace of our future work. More specifically, 2025 Willow project capital is forecast to be just north of \$2 billion. We plan to reduce capital to around \$1.7 billion a year from 2026 through 2028. After achieving first oil, ongoing development capital will decline to about \$0.5 billion a year for several years. We continue to expect Willow to deliver \$4 billion of free cash flow inflection in 2029, consistent with our prior commentary.

Turning to our three LNG projects, NFE and NFS in Qatar and Port Arthur LNG Phase 1, we are reducing our total project capital estimate from \$4 billion to \$3.4 billion. This reduction is due to a \$600 million credit from Port Arthur Phase 2. The credit is for shared infrastructure costs previously incurred by Phase 1 equity holders. As a reminder, we only have equity in Phase 1, not Phase 2.

With this credit, we're approximately 80% complete with our total project capital for these three LNG projects. Approximately \$800 million of project capital remains, averaging just north of \$250 million of spend annually, with a declining trend from 2026 to 2028. All projects remain on track. We continue to expect first LNG from NFE in '26, Port Arthur in '27, and NFS after that.

We're also making considerable progress in advancing our commercial LNG strategy, which will further strengthen our long-term free cash flow generation capacity. As a reminder, our strategy is to connect low cost of supply North American natural gas to higher-value international markets. We are leveraging our decades of LNG experience on a global scale to advance our strategy, which nicely complements our more than 2 BCFD, or 15 MTPA equivalent, of Henry Hub-linked US natural gas production.

We have fully placed the first 5 MTPA from Port Arthur Phase 1 with combined regas and sales agreements into Europe and Asia. In terms of offtake, we've recently agreed to take 4 MTPA from Port Arthur Phase 2 and 1 MTPA from Rio Grande LNG, bringing our total offtake portfolio to about 10 MTPA, the lower end of our stated 10 to 15 MTPA ambition.

Now turning to our outlook for 2026, we are providing a high-level framework assuming about a \$60/bbl WTI price environment. First, we continue to expect a significant reduction to our capital spend next year, about \$0.5 billion lower than the midpoint of our 2025 guidance. So, in round numbers, that's about \$12 billion for 2026. The year-on-year decline is driven by a reduction in our major project spend, including Willow, and the steady-state activity we achieved on the Lower 48 Marathon oil assets earlier this year.

In addition to lowering our capital spend in 2026, we also expect to lower our operating costs. This is largely due to the \$1 billion of cost reduction and margin enhancement efforts we disclosed last quarter. We expect our cost in 2026 to be approximately \$10.2 billion, down \$400 million from our current-year guidance, and down \$1 billion from our pro forma 2024 operating costs, including Marathon Oil.

Turning to our production, we expected to have a flat-to-2% underlying growth in 2026, a reasonable planning assumption considering the ongoing macro volatility. Additional guidance can be found in our earnings material, including our oil mix and our equity affiliate distributions.

Now addressing our multi-year outlook, there are a few important points I'd like to make. First, the free cash flow inflection guidance we previously provided remains unchanged. We expect our four in-progress major projects and our \$1 billion cost reduction and margin enhancement efforts to deliver \$7 billion of free cash flow inflection by 2029. In terms of the timing of that \$7 billion, we expect to realize about \$1 billion of improvement each year from 2026 through 2028, amounting to \$3 billion of free cash flow improvement by 2028. The remaining \$4 billion will come in 2029 once Willow starts up.

Bottom line, using 2025 consensus as a baseline, this translates to a double-digit free cash flow growth CAGR through 2028 before another material step-up in 2029, which will approximately double our 2025 free cash flow. So, to wrap up, we continue to execute well operationally, financially, and across our strategic initiatives. We are well positioned for a strong finish to the year and a good start to 2026. 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

Thank you. (Operator Instructions) Neil Mehta, Goldman Sachs.

Neil Mehta - Goldman Sachs Group Inc - Analyst

Yes, good morning, Ryan, Andy, team. I appreciate the time here and want to unpack Willow a bit because while there was a lot of good stuff in terms of execution in the quarter, the Willow update obviously was a little disappointing. So one, your perspective on the bridging from the \$7 to \$7.5 to \$8.5 to \$9 billion.

Do you feel, Ryan, that we've got a good handle around the project at this point? Because the history of major capital projects sometimes is they're multiple legs of announcements around overruns. And on the bright side, it seems like while there's cost overrun here, the timing's really intact. So just unpacking slide 4 would be great.

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

Yes, thank you, Neil. Appreciate the question and certainly appreciate the project for the company. And I know giving some clarity on where we've been, where we're at today and what that future looks like is important to provide that insight and the clarity. So I've asked Kirk to unpack this a little bit using your words, Neil, and spend a little bit of time to make sure you all understand sort of where we're at today and where we're going in the future. So let me ask Kirk to do that and provide a lot more clarity to that.

Kirk Johnson - ConocoPhillips - Senior Vice President, Global Operations and Technical Functions

Yes, good morning, Neil. Certainly, as you heard in our prepared remarks here this morning from Ryan and from Andy, we are increasing our guide on total project capital for the Willow project to a range of \$8.5 to \$9 billion. And I'll start by recognizing the strong execution that we've been achieving through our project team.

Certainly, as you've heard from me before, we're hitting the key milestones that we premised in our project plan that, of course, we laid out at FID back in 2023. This past quarter, we chose to perform a pretty rigorous bottoms-up comprehensive project review. And we were looking at scope, schedule, and of course, total project costs. And we were doing that in recognition that we knew we were coming in on about 50% completion, expect to see that as we move into this next winter season.

And it's common practice for us to take on a pretty rigorous, again, bottoms-up at this place and projects of this nature and of this size. And coming out of that exercise, we were able to provide two new guides on the project, not just capital but also on schedule. So starting with the first, the new guide on capital is a confirmation really largely of one driver, and that's that we've realized higher inflation post-FID in 2023.

So addressing that maybe a little bit more detail here, total inflation is roughly 80% of the increase on our new capital guide. And I'll start with general inflation, which has been modestly higher across a few key categories that we've seen on the projects: general labor materials and then engineering equipment as well. And all of that makes up over half; and in fact, about 60% of our total project spend. So seeing that higher inflation is really culminating largely in what you're seeing in this new capital guide.

As you can imagine, just a few percent higher, we originally expected just a couple percent of routine standard inflation across the period of the project, but just a couple percent higher in inflation rates across the five-year duration on a project is driving this 15% increase against what was our original expectations at FID, expecting lower inflation.

And then a bit more unique to this project, we've also incurred some localized escalation, particularly in our Alaska North Slope-specific markets. And that's really been driven by the fact that we've incurred more overlap of the peak construction seasons between our project and other projects ongoing in Alaska than we had originally expected. And that's resulting in roughly a 2x increase in the regional activity there in the state. That stressed the local markets, think labor, logistics such as trucking, marine, and then even the availability of camps for our construction work there on the slope.

We're often asked about tariffs. We have seen some impacts on tariffs, but albeit it's really been low single-digit percentages as a total of the increase we're seeing on that project. And then the last component on the upward cost pressure is related to a few decisions that we've made to ensure that we're mitigating total project risk and especially schedule risk, just to ensure that we're hitting the milestones that we need, especially on the front end of this project. And you've heard from me that we're hitting those.

And so those have really paid well for us. We've pre-staged equipment on winter seasons to ensure that we can knock out all the scope that we had originally premised. And again, that's giving us the ability and the confidence to be able to guide you a bit more even on schedule. So to summarize, we've moved from about 50% of our contracts being locked up at FID back a couple years ago to now being well over 90% of our facility contracts being secured.

And a bulk of those are tied to market indices. That gives us transparency as the market moves and creates a lot of accountability with us and our business partners as we move through a project of this size. And so this summer, again, was the time for us to reconcile the actual inflation that we've been seeing over the last couple of years against the forward-looking expectation. And you're hearing from me, we're in essence taking forward the type of inflation that we've been realizing forward into the next couple of years just to ensure that we're being conservative through this process.

So looking ahead, again, back to execution, we've wrapped up detailed engineering that compels us to keep moving forward on the process module fabrication. That's a longer-duration activity. It moves from this year into early 2027, in which we'll sealift those modules to the slope, spend 2028 getting those into the Willow development area, and hooking up and commissioning those for first oil in 2029.

So again, I'll wrap this up with an acknowledgment that we're just seeing really strong execution across the project, and that's foundational. It's paramount for us in a project of this kind. And we're on track with all of our major scopes of work. And again, all of this is culminating in not just a guide on capital, but then our ability to provide an accelerated guide on first oil to the early part of '29.

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

I would just wrap it up, Neil, by saying that we're certainly disappointed that the costs are higher. But certainly, we've taken measures across our portfolio to help mitigate the increase, and I think you see that in our first -- that's why we thought it was important to give some guide to 2026.

But the teams are executing well, and the project's really hitting all the milestones, as Kirk described. We think it continues to be a world-class project. It will be a huge driver of our free cash flow inflection that's coming over the next three to four years -- and really complete towards the end of the decade.

And then the last thing I would say is we're going out probably with a bigger exploration program than we've had in Alaska in a number of years, and it's that opportunity again to take advantage of this infrastructure that we're building for the long-term growth and development of the company. And if we're right about our macro call and where we think the macro is going, we're going to need this conventional oil to satisfy some of that growing demand around the world that we see. It ticks all of our strategic buckets as well.

I know, a long explanation to the initial question out of the bat, but we thought it was important to provide some of that clarity and context around it to give you a cover. We know where we've been, we know where we're at, and we know where we're going.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - JPMorgan Chase & Co - Analyst

Yes, good morning. Ryan, I was wondering if you could just maybe a quick follow up on Willow. The F&D on the project goes up by \$2 to \$2.50 per BOE based on your updated outlook. I was just wondering if you could comment on how this impacts your project returns and just overall break-evens, assuming, call it, a mid-\$60 Brent type of price.

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

Well, yes, thanks, Arun. Certainly, the estimated increase does impact the cost of supply of this individual project going forward. It still fits well within our portfolio. It's still very competitive within the portfolio. And again, we think longer term. We think about the future opportunities that are going to come from this infrastructure, which is our history sitting on the North Slope. We've always -- the satellite discoveries that we get benefit from the infrastructure that we built. We fully expect that to be the case going forward with Willow.

And then I'd remind you, on the back end of this, the margins are still quite attractive, because Alaska's 100% oil, sells at a premium to Brent, typically on the West Coast of the United States. So that's why even with maybe a little slightly higher F&D, as you point out, we still feel very comfortable with the margin. And it's competitive in the portfolio, and it's going to deliver a project for the company that will add to its future growth and development.

Operator

Betty Jiang, Barclays.

Betty Jiang - Barclays Services Corp - Analyst

Hi. Good morning, team. Thank you for taking my question. Maybe shift focus to the Lower 48. We talk a lot about the free cash flow from the major capital projects, but noticing that the Lower 48 CapEx is also trending lower in the second half of '25 versus first half. And if you're staying here, CapEx will be lower year on year in '26 while still perhaps growing in that asset. So can you speak to the CapEx trajectory there and how do you see the free cash flow progressing from the Lower 48?

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

Yes, good morning, Betty. You're exactly right. Maybe I'll take you back a little bit on the capital projection and a little bit of the efficiencies that we're seeing within the Lower 48 portfolio. If you recall back in 2Q, we achieved our level-loaded steady-state program within the development strategy with integrating the Marathon assets.

And so if you recall, we went from 34 rigs down to 24 rigs, so a pretty significant reduction. And we're still delivering kind of low single-digit growth in that. So obviously, we're taking in stock that lower capital from going first half to second half, and you're going to see that in the capital projections going forward.

Another key component of that, Betty, is a lot around the efficiency improvements that we've seen getting into that level-loaded steady-state program, which I can talk more about. But we're seeing significant improvement on drilling performance as well as our completions. That will continue into 2026.

So if you kind of look at where we're currently at, we're probably going to be on a run-rate basis for 2026, something similar to 3Q for capital in 2026. And we will continue to have that level-loaded steady-state program roughly at 24 rigs and 8 frac crews going forward. As far as free cash flow, I'd probably let Andy talk about the total company, but we continue to see expansion with, again, all the efficiency improvements that we're seeing with the productivity that you saw in 3Q, a really good strong quarter.

Yes, this is Andy. I'll just jump in and add on to what Nick was saying. We feel it's important on the free cash flow inflection to talk specifically to the three LNG projects and Willow. But of course, there's a lot more than that going on in our company, and Nick's just described what we've got with Lower 48 and the flexibility we have within the Lower 48 with that inventory if we wanted to ramp up that cash flow for growth.

But even beyond that, there's other things that we don't factor into that free cash flow inflection. Commercial, for example, what we talked about, the commercial sort of strategy, we've got Port Arthur Phase 2, we've got Rio Grande that we just mentioned today that will come on after Willow. That's going to be sort of the 2030 timeframe.

So there's a lot more going on in the company than just those four projects. We've got other things going on in Canada, in Alaska, and around some other international assets, but we just wanted to keep line of sight on this specific free cash flow inflection, and then we obviously have ability to add to that.

Operator

Stephen Richardson, Evercore ISI.

Stephen Richardson - Evercore Inc - Analyst

Hi, thanks. Andy, it's a good segue from what you just mentioned about some of the other assets. I was wondering if you could -- it sounds like you've got some good visibility on some of the organic and capital-efficient opportunities in the portfolio. In Alaska, I was wondering if you could

talk about some of the regulatory and permit changes and how you're thinking about incremental opportunities, either in legacy ops or extending the resource at Willow.

And then if I could -- if you could maybe talk a little bit about Surmont. You've talked about incremental steam potential, but I understand that there's some other things that you could be doing now that you've got your arms around that asset and to improve it with minimal capital. Thanks.

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

Yes, thanks, Steve. I'll take that one. I think it's -- yes, Andy's answer to the last one, it's -- this update's a lot about Willow and some of the major projects to give the markets some clarity as to what we have going on there and some clarity into our free cash flow growth. And it doesn't really address and assume some of the things we have that we're studying inside the portfolio as well. And you mentioned a few of those, because I think we do have a strategic question longer term.

If our call on the macro is right, where's the conventional oil going to come from to satisfy the growing demand? And we see that demand growing, clearly 1 million barrels a day or so per year for the foreseeable future. And we look inside the portfolio. It's not only what we're doing in Willow and what we believe are going to be the added sort of pads that we can develop there.

And to your point, we're working with the administration to identify some ways to streamline the permitting. I think you saw an early read of that with the new rules that are coming out for development in NPR-A. That's just sort of the start. There's more things coming that will give us what we think is going to be a lot more clarity to faster permitting approvals coming in Alaska going forward. So watch that space as we move on and hopefully not only make it more preventable and easier and faster, but also more durable with changing administrations.

And then to your other point, yes, when we look, that's just Alaska. And I commend the team also managing the base. There's a lot of activity going on the base side in Alaska as well. We have flexibility at the Montney asset to ramp up should the call on crude be required to go do that. You mentioned Surmont. We're right now de-bottlenecking that plant as we speak. Now that we own 100% of that plant, we were able to make some investments in there that our previous partner were not approving. So we're taking the gross productive capacity of the plant up today. And then looking at the future, can we add a few steam-generation capacity to accelerate some of the development that we have with the huge resource that we have around Surmont that's very competitive in a, all in sub-\$40 cost of supply.

So when we look at the whole portfolio, and you look at the deep inventory we have in the Lower 48, combined with the other conventional opportunities we have around the world, we're really set up for decades of growth in this business. I like where we're at and I like the portfolio and what we're doing today and the optionality that it creates for the company over the short, medium, and long term.

Operator

Lloyd Byrne, Jefferies.

Lloyd Byrne - Jefferies LLC - Equity Analyst

Hi. Thanks. Good afternoon, everyone. Ryan or Andy, I was just hoping you could spend a little bit more time on the OpEx. I mean, \$400 million improvement. And in light of it kind of being the second cut this year, what's changing? Maybe remind us of the big factors that have improved and whether you can improve it further. Thanks.

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

Yes, thanks, Lloyd. I can take that one. I think, at the highest level, the first thing I would say is that we're executing really well with our costs and capturing the savings. And as you said, that's why we've been able to reduce the guidance for the second time this year. But going into a few

specifics, I would remind people that we've already achieved now 75% of the math and synergies that we were talking about over the prior quarters. That's in our costs.

And we'll have that basically completely into our costs by the time we get to the end of this year on a run-rate basis. So we're exceptionally pleased with how smoothly that's gone in delivering on those cost reductions that we've previously talked about. And then as we look to 2026, stepping the cost down again, as you said, that's basically getting the full-year benefit of some Marathon synergies that I just described.

But then we expect to capture a meaningful amount of the cost improvements that we announced on the last quarter call. That's basically going to drive some pretty meaningful reductions in our costs as we go through next year. They're kind of the key things. And when we think about sort of how we reduce costs, we have sort of a mindset that this is continuous improvement. So we absolutely sort of challenge ourselves to sort of look at how we can basically continue to reduce those costs over time. But I think we're very pleased with sort of how we're doing that and sort of how that's showing up in our bottom line.

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

And I would add, Lloyd, you know us well. These reductions aren't conflated with capital kinds of things. They're not due to dispositions in the portfolio. We don't have 30 lines of reconciliation because the net doesn't ever show up. And they're not cumulative. These are costs that will show up on our bottom line. And as I've said before, just watch us every quarter. And you'll see them materialize. They'll be real and they'll head straight to the bottom line and to our free cash flow inflection that we've been talking about for the next number of years.

Operator

Scott Hanold, RBC Capital Markets.

Scott Hanold - RBC Capital Markets Inc - Analyst

Hey, good morning. Thanks. I know it's always challenging to provide forward guidance with some uncertainty on commodity prices, so I appreciate the details on '26. Looking at total production and capital, it does appear similar to consensus numbers. But there does appear to be a variance to your oil guide relative to consensus. I was hoping you could help us walk through where we might have missed that. We do understand there's a lot of complexity given the diversity of assets and other things like Surmont post-payout, but I was wondering if you could walk us through some of that.

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

Hey, Scott. This is Andy. I'll get us started with a couple of points here, and then maybe Nick can provide a bit more detail on the Lower 48 for us. So just a couple of things I'd say is that if you look at our third quarter, at the total company, we're at a mix of about 53% oil. And this is the first quarter now where we have the full impact of Surmont that you just referenced. So we now have a higher royalty into Surmont.

So the third quarter is a pretty good mark, basically, as we think about 2026. And we've provided guidance, and hopefully you found that helpful, where we've now provided guidance basically for an oil split and where we're basically forecasting '26 to be about that 53% for the total company. That does include sort of the bitumen impact of higher royalties at Surmont. And then specifically to Lower 48, we're guiding about 50% for the Lower 48.

And then just one final point I would make before Nick can maybe comment on the Lower 48 is when we provided our '26 guidance of 0% to 2% range for BOEs, that's also a good range for how we're thinking about oil as well. So I think we've tried to guide a bit more on it this time. As you say, we recognize, as you provided for us up front, that there's a lot of moving parts here across the portfolio. But that 53% for the total company, we think it's a good mark for next year. Maybe Nick has had a few comments on Lower 48.

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

Yes, thanks, Andy. And good morning, Scott. Yes, if you look at 3Q, Lower 48 oil mix, we were around about 50%. If you compare that to 2Q, it was about 50.5%. And that was in line with our expectations and our development plan going forward. As Andy mentioned, we're guiding to oil mix at 50% when you look at 2026 forward. And again, that's simply an output of our plan and output of our development plans where we're developing in the various basins.

Now as a reminder for the group, within the Delaware, that is our most significant growth driver within the Lower 48. So it shouldn't be a surprise to this group that oil mix will trend in that direction. It's low cost of supply, higher gas content, but very good strong oil content and good returns. Another key component to think through is we've got two decades-plus of drilling inventory at current rig activity levels in the Delaware. It's a peer-leading opportunity set out there.

Now one other component that you need to think through is that oil mix can fluctuate depending on the relative contributions from these basins as we drill in different areas. So you might have some higher oil mix and some lower oil mix and variations from quarter to quarter. But overall, as Andy mentioned, 50% on Lower 48 oil mix going forward.

Operator

Doug Leggate, Wolfe Research.

Douglas Leggate - Wolfe Research LLC - Equity Analyst

Thank you. Guys, I'm going to try very hard to make this one question, but I'm hoping you can maybe help us navigate the moving parts a little bit. My question is principally on Willow and the CapEx, what happens after Willow. But it's really about the evolution of your dividend breakeven because I think the Willow news has overshadowed the other big news, which of course was your dividend increase.

So I guess the way I would try and phrase the question is how damaging is the increase in Willow spending to the cash cadence of the cash flow coming back? And I guess my point specifically is you get qualified CapEx deductible on taxes in Alaska. It's pretty advantaged. So can you walk us through how big a deal this really is and what happens to the dividend breakeven as Willow comes online?

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

Hey, Doug. This is Andy. I can try and step through that. I think you sort of half answered the question for me in terms of sort of how this works on a tax basis. And Ryan touched on this also in the prepared remarks. And the way I would look at it, sort of at a total company level, is our breakeven is coming down. And it's coming down pretty substantially.

Just right now, if you think about where we are right now, our breakeven this year, so just on CapEx, is in the mid-\$40s. You'd add another \$10 to that for the dividend. Just from what we've described today from what we're doing from '25 to '26, that brings our breakeven down in and of itself \$2 to \$3. So we're on this trajectory of, yes, cash flow inflection is going in one direction, which is great, and then our breakeven is also coming down, which is great.

And as Ryan said in his prepared remarks, that's going to continue to happen, where we're going to go all the way down to being in the low \$30s on a capital breakeven by the time Willow comes online. So I don't think what we've described today with CapEx and Willow going up -- and let's not forget also the LNG CapEx coming down -- there's not really notable impact on our break-evens and our ability to generate cash flow over this timeframe, and our cash flow inflection remains unchanged. That's why you started the question with the dividend, and hopefully that isn't getting lost in all of the news that we're describing today. But we have now increased that dividend by 8%, and this is now the fifth year of us having top-quartile growth of the dividend versus the S&P 500. And we feel very confident with that breakeven that that continues.

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

Yes, and I would add as well, Doug, look -- and it's sustainable given the breakeven coming down, as Andy described. The dividend is representing a lower portion of our total cash flow in terms of our distribution back to the shareholders. So it ought to give the shareholders and stakeholders in the company a lot of comfort and conviction that we can continue to deliver top-quartile S&P 500 dividend growth in the company well into the future, given the projects that we're executing, the cost of supply of those projects, and the free cash flow growth we're going to see coming out of the company. So it's quite sustainable and leaves us room to buy back some of our shares, which we're leaning into quite a bit right now.

Operator

Bob Brackett, Bernstein Research.

Bob Brackett - Sanford C Bernstein & Co LLC - Analyst

Yes, good morning. As much as I'd love to ask a few questions on Willow, I'll change the topic a bit. And that is to talk about the 2026 guide at 0% to 2% and we've seen other large E&Ps and integrations with similar sorts of guides in a backdrop where WTI is sitting below \$60. So can you talk about what macro world you envision or which you plan for that we're going to see next year? And how does that inform that capital guide and production guide?

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

Yes, thanks, Bob. I think we like to say we have a lot of flexibility in the company. Production is kind of an output of our plans. We kind of set sort of a constant level-loaded scope within the Lower 48. Nick talked a lot about what that means for kind of the production growth we see coming out of that. Our view, the view of the macro is supportive. Again, we kind of set this at a \$60 WTI. To your point, WTI is trading a little bit below \$60 at this moment in time. Our call would be probably seeing some inventory builds. We saw some this last week. We'll see how it continues onshore in the OECD countries, but we probably see some downside pressure coming through the latter part of, the ending part of this year and into maybe the first part of next year.

But that's why we have a balance sheet. That's why we have cash on the balance sheet. We want to continue to fund our programs. We came out with a 0% to 2%. We think that sort of makes a lot of sense with the macro that we're seeing today. But it also is informed by the medium and longer term, which we're quite constructive on today. Again, we see about 1 million barrels a day of demand growth not abating itself throughout this decade and well into the next decade. And we think there's going to be a call on crude and even a call on conventional crude, depending what you believe the unconventional supply coming out of the US is going to look like at these kinds of prices or even elevated prices.

So we see some modest growth in the unconventional, continuing maybe flat to some slight growth into next year, depending on the price. But I think it sets up well to be a bit more reflective as we go into 2026, which is what we've tried to show with our 0% to 2%. But, remind everybody, we've got a lot of flexibility in the portfolio both ways.

We have opportunities to reduce more CapEx should we think that's the need. We can use the balance sheet should we decide to do that. Then obviously we've got opportunities to ramp up on the other end as well. So we just think we have a lot of flexibility in the company, but I think this is a good place to start based on sort of how we view the near-term macro and where it's been developing.

Operator

Jeffrey Lambujon, Tudor Pickering Holt.

Jeffrey Lambujon - *Tudor Pickering Holt & Co Securities LLC - Analyst*

Good morning and thank you for taking my question. I'll bring it back to Willow if I could, and want to say I appreciate the detail earlier in the call that spoke to the breakdown there on the refreshed expectations. Can you also talk about the confidence level in the updated range and essentially what might be locked in from here? It'd be great to just get a sense for what flexibility there might be up or down, if things change enough over the course of the buildout or if the wider range that you have now captures the most likely scenarios in your view and it's more a function of where you end up within that range. Thanks.

Kirk Johnson - *ConocoPhillips - Senior Vice President, Global Operations and Technical Functions*

Yes, good morning. Again, I would say we're winding back here a little bit. We recognize there was quite a bit of inflation coming out post-COVID over the couple years leading up to our taking FID in late 2023. And we were actually seeing that abate a bit in late 2023, which is why we took a view of just a couple percent. And we felt like, obviously, the monetary actions globally were going to knock that back a little bit.

And so, again, we took that view at the time. And this is just a really good time for us being roughly halfway through the project to reconcile what we've been seeing over the last couple of years. And as you know, across labor markets and engineered equipment, we've definitely seen some movement, which is much more on the average of 4.5% to 5%. And that's been actual and realized. You can certainly see the data yourself across the last couple of years.

Now sitting here today, we're seeing inflation rates abate a bit. We're starting to see inflation again in the 3%, 3.5%. But candidly, we're taking a view that this compounding inflation could, based on the contracts that we have tied to market indices, could continue in that 4% to 5% range. And so we've largely budgeted for that for the next three-plus years of the project, just to ensure that we're not falling back into prior assumptions in FID. I would say we've got a lot of confidence in the way we're putting this capital guide forward here at this time. Again, able to stand here in this position with that confidence because the team is executing just so well on the project.

We're not seeing schedule slip. We're not seeing other challenges, certainly the upward cost pressure. You're not seeing -- we talk about scope discovery. This is really about inflation across the broader market, and we've taken a conservative view for the next couple of years. So yes, confidence in how we're pushing this out here today. And again, just pleased with how the project's moving forward and here for the next couple of years.

Operator

Paul Cheng, Scotiabank.

Paul Cheng - *Scotiabank GBM - Analyst*

Hey, guys. Good morning. Ryan, I think as you mentioned earlier that you think that there's a maybe increasing call on oil, even on the conventional. And when we're looking at over the past 10 years, I think you guys have drastically reduced your dependence on exploration because you have such a great profile in the Lower 48.

And as the shale oil is maturing, how should we look at it? Will you think that you still have such a huge portfolio that you really don't need to increase your exploration effort and you can just rely on that on the shareholder to continue to increase your resource, your production? Or that you think the challenge on the longer term is really not that we need to start maybe increasing the effort given it's a long cycle business.

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

No, thanks, Paul. I think you bring up -- I guess there's probably an industry-wide macro question around that. Are we investing enough industry-wide on the exploration side? And have we lost some of that muscle inside the industry for that end, large project execution for that matter? And there's probably a bit to that from the industry side.

Speaking specifically to our company, you're right. After kind of the early 2000 timeframe when we first got into the Eagle Ford and saw the -- grown our unconventional position inside the company and then really changed the portfolio pretty dramatically over the last number of years to really focus on those low cost of supply opportunities and resources that we now have captured inside the company. It has put a less reliance on exploration.

But I remind everybody, we continue to spend \$200 to \$300 million a year on exploration to continue to feed some of the legacy assets we have around the company. And years past, that's been in Malaysia, been in Norway. We've moved that around throughout the years, depending on some of the activity level and the opportunity set that we find. And we're doing it again next year because we're focusing most of that exploration probably up in Alaska to support the Willow development and get the company in a position to be able to feed that infrastructure that we're building out there for decades to come.

So it's about a redirection of exploration. But we've been able to do that within that \$200 to \$300 million allocation inside the company. We just spud a well in the Otway Basin of Australia to try to find more gas that we can bring into Australia. So this is not just one area. We're appraising the discoveries that we had in Norway a year or so ago. So we are spending some of that money.

To date, it hasn't captured a higher capital allocation inside the company because we've been able to get everything we wanted to get done for that \$200 to \$300 million. But I think you're right. Macro-wise within the industry, you're seeing a lot more of that. We've just been blessed with a, we're a resource-rich company in a resource-starved world it looks like going forward. So I think we're uniquely positioned relative to many of our peers in the industry with having to consider significant ramp-ups in that capital allocation.

Operator

Charles Meade, Johnson Rice.

Charles Meade - Johnson Rice & Company LLC - Analyst

Good day to you, Ryan and Andy, and to the rest of the Conoco team there. I'd like to ask a big-picture question about your global LNG strategy. You guys make this distinction between resource LNG and commercial LNG. I'm wondering if you can talk about how those two -- how you think differently about those two pieces of the business, how they complement each other, and perhaps how they compete with each other.

And maybe wrap into that, one could make the argument that with the amount of resource you guys have in the Lower 48 that, that make a distinction between resource LNG and commercial LNG is kind of a distinction without a difference, and maybe comment on whether that's a valid argument in your view.

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

Hey, Charles. This is Andy. Yes, it's a great question and a big question as you say in terms of sort of comparing the two and how we think about them. So I'd probably go maybe back all the way to the beginning. We've been in the LNG business really since the 1960s. I think we were involved in basically sort of inventing this business. So we kind of know a thing or two about it. And we've traditionally sort of, until recent years, had what I would call the resource LNG, sort of the traditional LNG business, where it's been very much about finding a stranded gas asset.

And you find a gas asset, you find people who will buy the LNG, then you build the LNG facility. And off you go. That's kind of where this industry was for years, and we've been a big player in that with our Australia asset and our Qatar assets over the years. And that has served us really well. But as you fast forward to what's happening in the Lower 48, it's a little bit of a different model and you kind of started to touch on this where, you've got so much gas in the Lower 48 that you don't need to treat it like a facility-by-facility approach where you've got the stranded gas that you're trying to tie to one facility. So the whole model is different, effectively, in that you're trying to take this gas in the Lower 48. And our strategy is pretty simple, where we're trying to basically take what we think is low-cost of supply North American gas and get ourselves access to international pricing in TTF and JKM. And that's exactly what we're positioning ourselves to do.

We've made great progress in doing that with, as I talked about in the prepared remarks, the 5 MTPA at Port Arthur Phase 1 that we've now fully placed, and then we're now moving on to Port Arthur Phase 2 where we took four MTPA and another 1 MTPA at Rio Grande. So we're trying to basically get ourselves in a situation where we can basically convert Lower 48 gas into international pricing.

And what I would remind everybody is that we're also in a position where this is where this commercial strategy complements our business so well. We produce over 2 BCF a day in the Lower 48 and 2 BCF a day in round numbers is about 15 MTPA. So, it also works as a natural hedge to our Lower 48 gas exposure. Back to your first question, I don't really see them as the resource energy competing with, with what we're doing in the Lower 48. They're kind of different models, but we've certainly been able to learn from the resource LNG.

And that's why we've been able to sort of implement the strategy we are doing, basically, where we're trying to control the entire value chain. And you only can do that with our global size and scale. And that's how we basically think we capture the economic rent. So hopefully, that helps sort of frame up how we think about the difference between the two. But it's not like an either-or choice for us. We think that they both serve a really important role and we're happy to be playing in both, as you can see, with NFE and NFS on the resource side and what we're doing on the commercial side with Port Arthur and the other announcements we've made today.

Operator

James West, Melius Research.

James West - Melius Research LLC - Equity Analyst

Hey, good morning, guys, or I guess close to good afternoon. I wanted to follow up on the LNG question. Obviously, the strategy is pretty clearly defined here. You had a lot of commercial movement during the quarter. You're at 10 MTPA now. I think you've said the past 10 to 15 is kind of a range. Are we at a point where maybe you pause and digest, or do you lean in and go up to that 15?

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

I'd say, very briefly, our strategy remains unchanged. We're executing exactly what we said. The 10 to 15 MTPA is a size that we feel very comfortable about. It gives us the size that we want to be able to optimize our portfolio, be able to divert cargoes, as I mentioned in the prior question, be able to control really the value chain. I don't think anything's really changed there. The 10 to 15 is kind of what we're looking to fill out right now.

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

And I think, James, it's also a function of not getting too much commitments on the front end. Make sure you can place it on the back end. So we're being deliberate about that. And we know if we get more opportunity for low liquefaction cost opportunities, we'll add more to the 10 million MTPA. But we've got to back it up with regas on the other end and have a plan for it. So we're being deliberate now that we've reached that 10 million tonne mark.

Operator

Kevin McCurdy, Pickering Energy Partners.

Kevin McCurdy - Pickering Energy Partners BD LP - Analyst

Hey, thank you guys for fitting me in. I want to come back to slide 7 for a moment on the incremental free cash flow. And I know that you've shown this before with the \$4 billion of free cash flow from Willow, but I think that's quite an eye-catching number. And I was wondering if you could

provide anything kind of high level on how you get there in terms of margins, productions, maintenance, CapEx in that first year, and also to ask if that's a fairly good number to use heading forward for Willow post-2029.

Kirk Johnson - ConocoPhillips - Senior Vice President, Global Operations and Technical Functions

Yes. Hi, Kevin. Good morning. This is Kirk. So certainly, as you saw in the waterfall and the details and the supplementals on Willow, you can really take it directly from that. So as we compare against what was a historical and expected spend here this year of just over \$2 billion, as mentioned by Andy in the prepared remarks, we're expecting that here on the Willow Capital spend here this year. And then that moves down, plateaus for the next couple years.

And then on sustaining capital, post-first oil, we're expecting to spend roughly \$0.5 billion in just continued development drilling for the Willow project. Obviously, we're starting pre-drill. We've got some pre-drill planned in 2027. And then that will extend. And that pre-drill is all baked within our total Willow project spend. But then post-first oil, that \$0.5 billion.

So in essence, what you're seeing is this inflection downward of capital from roughly \$2 billion to an average of \$0.5 billion first oil. And then at first oil, you're getting the CFO associated with, again, why we like Alaska. It's 100% oil sales. It's Brent premium. And again, that is the balance then of the \$4 billion free cash flow improvement against a reduction of roughly \$1.5 billion on CapEx.

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

And I'll just remind Kevin that you see all the prices that that's assumed at \$70 prices. We've given a sensitivity to that as well in the materials.

Well, let me thank everybody for participating today. Just a few summary comments. We continue to execute well. We're improving our plan, and we're well positioned for a strong 2026, as evidenced by the new guidance we've provided today. And I'd say the team continues to find a lot of ways to enhance value and what we think is a differentiated investment thesis.

We have an unmatched portfolio quality. We've got a leading Lower 48 inventory depth combined with attractive longer cycle investments in the LNG in Alaska that we've described today in quite a bit of detail. And we continue to have a strong track record of returns on and of our capital. And that's all leading to a sector-leading free cash flow growth profile that takes us all the way to the end of this decade. Thank you all for your interest in ConocoPhillips, and we appreciate the questions.

Operator

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

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