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COP.N - Q4 2025 ConocoPhillips Earnings Call

EVENT DATE/TIME: FEBRUARY 05, 2026 / 5:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Fourth 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 of Investor Relations*

Thank you, Liz, and welcome, everyone, to our fourth 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 today with opening remarks, after which the team will be available for your questions. For the 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 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 and Chief Executive Officer*

Thanks, Guy, and thank you to everyone for joining our fourth quarter 2025 earnings conference call. 2025 was another very strong year for ConocoPhillips, marked by consistent financial and operational execution and a number of important strategic accomplishments for our company. First, we outperformed all our major guidance drivers from the beginning of the year -- CapEx, operating costs and production -- demonstrating the strength of our team's quarter-to-quarter execution. On a pro forma basis, we grew production by 2.5% in 2025, while driving significant reductions to both our capital and costs.

On return of capital, we met our objective to return 45% of our CFO to shareholders, consistent with our long-term track record, while again increasing our base dividend at a top quartile S&P 500 growth rate. And we did so while further strengthening our investment-grade balance sheet, certainly a differentiated accomplishment. Our cash balances are higher today than a year ago, and our net debt is lower, putting us in a very strong financial position to start the year.

We successfully integrated Marathon Oil, outperforming our acquisition case on the most important metrics. We added more high-quality, low-cost of supply resource, doubled our synergy capture, realized a further $1 billion of onetime benefits and completely eliminated the Marathon capital program while still delivering pro forma production growth. And as part of our drive for continuous improvement, we launched and have already made great progress on our incremental $1 billion cost reduction and margin enhancement initiative.

We progressed our commercial LNG strategy, growing our offtake portfolio to approximately 10 million tonnes per annum. And finally, we improved our Lower 48 drilling and completion efficiencies and advanced our differentiated major projects, which we expect to drive peer-leading free cash flow growth through the end of the decade. So 2025 was a great year for the company. While these are significant achievements, we're not stopping there. We will build on this success.

Turning to 2026. Our primary focus is on delivering $1 billion combined reduction across our capital spending and operating costs while growing our production on an underlying basis. On shareholder returns, we once again expect to return about 45% of our CFO to shareholders while continuing to grow our base dividend at a top quarterly S&P 500 rate. Top quartile dividend growth is sustainable as we expect our free cash flow breakeven to decline into the low $30 per barrel WTI range by the end of this decade.

Looking beyond 2026, I believe ConocoPhillips continues to offer a compelling value proposition that is differentiated both within our sector and relative to the broader S&P 500. As I've said before, I believe we have the highest quality asset base in our peer space, a distinguishing competitive advantage, especially in the context of a U.S. shale industry that continues to mature.

We are resource rich in a world that is looking increasingly resource scarce. We have the deepest, most capital-efficient Lower 48 inventory in the sector. And outside the Lower 48, we have an abundance of high-quality, low-cost of supply legacy assets, and we are uniquely investing in our diverse major projects to transform the free cash flow generation profile of our company.

As a reminder, the four major projects we have underway, combined with our cost reduction and margin enhancement initiatives are expected to drive a $7 billion free cash flow inflection by 2029 that will double our 2025 free cash flow generation. And that free cash flow inflection is now underway. We anticipate realizing approximately $1 billion of incremental free cash flow in each year from '26 through '28, with another $4 billion from Willow coming online in 2029. And that's a growth profile that's unmatched in our industry.

Now with that, let me turn over the call to Andy to cover the fourth quarter performance 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 fourth quarter performance, we reported another quarter of strong execution across the portfolio. We produced 2,320,000 barrels of oil equivalent per day, consistent with the midpoint of our production guidance. We generated $1.02 per share in adjusted earnings and $4.3 billion of CFO. Capital expenditures were $3 billion, which brought our full year capital spend to $12.6 billion.

We returned $2.1 billion to our shareholders during the fourth quarter, including just over $1 billion in buybacks and $1 billion in ordinary dividends, bringing the full year return of capital to $9 billion or 45% of our CFO, consistent with our guidance and our long-term track record.

We closed over $3 billion of asset sales during 2025, demonstrating strong progress against our recently upsized $5 billion divestiture target with $1.6 billion of proceeds received in the fourth quarter. For the full year, we paid down $900 million of debt and cash balances were up $1 billion resulting in net debt reductions of nearly $2 billion, highlighting our commitment to both returning cash to shareholders and our investment-grade balance sheet. Cash and short-term investments finished at $7.4 billion, along with $1.1 billion in long-term liquid investments. On reserves, 2025 was another solid year. Our organic reserve replacement ratio was just under 100% while our trailing 3 years was 106%.

Turning now to our guidance for 2026. As Ryan said, we continue to expect a significant reduction in both our capital spend and our operating costs, combining to drive a year-on-year improvement of about $1 billion. 2026 capital spend guidance of about $12 billion is consistent with the preliminary outlook provided last quarter down about $600 million year-on-year due to significant capital efficiency gains in the Lower 48 and a decline in our major project spending. 2026 operating cost guidance of about $10.2 billion is also consistent with the preliminary outlook, down about $400 million compared to 2025.

The improvement in 2026 is driven by a combination of our cost reduction program and a full year of Marathon Oil synergies. 2026 production guidance is 2,330,000 to 2,360,000 barrels of oil equivalent per day providing modest growth for the year. First quarter production is expected to be in the range of 2,300,000 to 2,340,000 barrels of oil equivalent per day, including the estimated impacts of weather-related downtime from Winter Storm Fern.

In the Lower 48, once again, we expect to deliver more production for less capital as we continue to benefit from the highest quality asset base in the sector. We are a clear leader in inventory depth with over two decades of low cost of supply inventory across the Permian, Eagle Ford and Bakken. We're also the clear leader when it comes to bottom line results, capital efficiency, the amount of oil we recover for every dollar of capital we invest. We have the best rock in the best part of the best plays, and our team continues to execute really well.

In 2025, we improved our drilling and completion efficiencies by more than 15%. We expect our capital efficiency improvements to continue in 2026, again driven by strong well productivity, ongoing D&C excellence and further increases in our longer lateral developments.

Now turning to Alaska and International. A few important themes stand out for 2026. First, we continue to progress our advantaged major projects, consistent with the comprehensive update we provided last quarter. Our LNG projects are more than 80% complete with NFE expected to start up in the second half of this year, while Willow is nearing 50% complete and on track for first oil in early 2029.

Second, we remain focused on infrastructure-led exploration and are shifting our focus this year to Alaska, where we have four wells fully permitted and are looking to unlock additional resources near to our infrastructure hubs building on our decades of disciplined exploration and appraisal spend in Alaska. And third, we'll continue to leverage our diverse low cost of supply legacy assets for ongoing capital efficient development. including at Surmont, where we delivered our most recent pad ahead of schedule and on budget, with another pad expected online early next year.

To wrap up, 2025 was a very strong year for ConocoPhillips and we're looking to build on this success in 2026, starting with a $1 billion improvement in our CapEx and costs as the multiyear free cash flow growth profile we've discussed is now well underway. And we'll continue to find ways to enhance our differentiated investment thesis, unmatched portfolio quality, including leading Lower 48 inventory depth, attractive long-cycle investments, strong returns on and off capital and a sector-leading free cash flow growth profile through the end of the decade.

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) Our first question comes from Neil Mehta from Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Ryan, you talked about depth of inventory, strong reserve replacement and you've got some great projects coming on here in the next couple of years. Just your perspective, as the industry is now set to accelerate consolidation potentially of whether Conoco is really more of an organic story on the go-forward given those characteristics? Or do you see a role that Conoco is playing in consolidation?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

Yes. Thanks. Yes, I appreciate the question. Look, we've done our heavy lifting on the M&A side over the last 4 years to 5 years. And I think I've never seen the portfolio in a better shape and really no strategic gaps that we can identify.

We're globally diverse. We like our combination of a leading resource position in the Lower 48 combined with what we've got going on around the world and the LNG projects that we're leaning into the Willow development and then what Andy talked about in some of our other projects going on around the world.

So our pivot has been to the organic side of the portfolio. I can see the rationale for some of the M&A activity in terms of capturing the synergy, but we've been there, done that. We've got that behind us, and our focus is on the organic opportunity set that we have inside the portfolio, which we think is significant. As I said in my opening remarks, I think where we've gotten ourselves to is pretty resource rich and what we believe is becoming a more constrained world on the resource side. But we like where we're at.

We like the portfolio, and we're pretty focused on the organic side of the business.

Operator

Our next question comes from Lloyd Byrne from Jefferies.

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Lloyd Byrne - *Jefferies - Analyst*

Can you -- you've been pretty clear in the past, Ryan, about what it would take to go back into Venezuela. And I was just wondering if there's any update there? And if I may, do the recent events impact the Citgo sale at all?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

The Venezuela question right off the top, Lloyd. Yes, look, I get it, seeing the news and look, our -- we're pretty focused on what we've talked about in the past, and that's the focus on the pathway to get some recovery on what's owed us in Venezuela. And that's our first priority right now is making sure they owe us a significant amount of money, we've been after that. So we know where all the assets are and that's the basis of our focus as well.

We're trying to be helpful with the current administration and provide them with our sense of what's happening on the ground. A lot has to happen. Obviously, security needs to improve, fiscals. We need a constructive relationship with local governments and the local people that actually want U.S. companies there.

And then you need durability on the policy side. You need durability both in Venezuela and clearly here on the U.S. side. But we're helping the administration kind of think through the short, medium and long term, but our focus remains on trying to get the recovery that has owed us from the two judgments that we have in place.

With respect to Citgo, we see no change at this point, encouraged by the administration's comments regarding wanting to get the asset in American hands or U.S. hands, that's constructive. And obviously, if there's still an appeal process to work through in that judgment from the courts. And then an OFAC license is required ultimately to satisfy that, but we would stand to collect some of our judgment through that process, but we see no change -- no reason to believe that it isn't going forward as it's been described to us.

Operator

Our next question comes from Steve Richardson from Evercore ISI. Your line is now open.

Stephen Richardson - *Evercore Partners Inc - Analyst*

Maybe we can step back a little bit from the Venezuela question, Ryan. I was wondering if you extended the concession in Libya this quarter. And this seems to be part of a broader trend where there's a lot of opportunities arising internationally for your company and others. And so I was wondering if you could just talk more broadly about how you evaluate those options versus your current portfolio? And is it just a question of kind of risk-adjusted cost of supply? Or -- there's obviously other opportunity costs there, but I was wondering if you can just talk about that more broadly and how you're evaluating those opportunities?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

Yes. Thanks, Steve. So I'd draw a little bit of a distinction. I mean, we've been we've been trying to improve fiscals in Libya for nearly a decade. So we finally got to that point with here a couple of weeks ago was signing the agreement with the Libyan government and our partner there. But it's something -- it's an asset inside the portfolio that we're trying to improve every day. And so this just is another organic opportunity inside the portfolio, specifically to Libya.

And the improvement in the fiscals are just going to make it more competitive as we think about it. But we've been investing money in Libya, and this just makes those investments even more profitable and more competitive in the portfolio as we go forward as a result of what we've done. I think more broadly, what you're getting at, yes, there are some opportunities. And as the world becomes a little bit more resource constrained, there's opportunities in around. We look at those as well.

We had a new one come into the portfolio through the Marathon acquisition of Equatorial Guinea. And so that's one we're focused on as well, trying to figure out how we can grow that LNG plant on the island and make it a long-term asset for the company, but that kind of fits into that organic side of the business, just trying to make that asset better over the long term for the company, doing similar things in Malaysia.

But there are new country entries that are happening, and we see that with new wildcat exploration maybe around the world from other competitors in new countries. We look at those and look for opportunities that might benefit the company and be additive to our plans and be consistent within our financial framework. And so it's exactly what you did. It's a risk-adjusted cost of supply of that opportunity and would it compete for capital inside the company? And could we slot it in with what we're doing inside the company over the long term, the next 10 years and 20 years.

So the uniqueness about our company is we have that muscle inside the company. We're already a pretty diverse company. We've got a BD organization that looks around the world, not just in the Lower 48 in the unconventional space, but also conventionally around the world, but it's got to compete inside the portfolio, just like everything does in the organic side of the business. So I think we're really well positioned to look at that and see what can be additive to the company.

Operator

Our next question comes from Betty Jiang from Barclays. Your line is now open.

Betty Jiang - *Barclays - Analyst*

I want to ask about the Alaska exploration program. So we just started this year, the first of a multiyear program. Can you speak to the objective of that exploration program? What's the risk; how big is the scale of the resource being targeted? And if successful, are we talking about extending the plateau for Willow? Or is it more upside to the ultimate production capacity of that project?

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

Great question, Betty, good morning, thanks for that. Yes, certainly pleased to report that we're out in front of this winter season here. We got an early start just based on weather under ice road activity. And of course, we have all of the permits required for both the wells as well as the seismic that we have planned up there here this year. And even to that end, we were able to spud the first of those four wells just within the last couple of days.

So strong progress that we're seeing on those four. But again, to your question around intent and objectives here, we're out there exploring to the west of Willow and actually to the south. And so as you've certainly heard from us before, our objective is to continue to find what we might describe even though it's onshore as tieback opportunities into both Willow and actually into our WNS Alpine asset as well. So to your point, this is an opportunity for us to identify continued volumes, continued resource plays to bring into this existing infrastructure and Willow being the next hub, if you will.

And when we look back on our performance history there in Alaska, we have and continue to project or expect we'll produce well over double the volumes through those existing facilities through that existing infrastructure over double what we originally premised when we took FID on those. And so naturally, then that's our same objective here for Willow specifically as we explore to the west, we'll be looking for those resource opportunities to just keep that infrastructure full.

Obviously, a bit early to start making a call on total resource size, et cetera. But naturally, we have some pretty high aspirations and targets that we're pursuing, and we'll be going after this for several years here now. We've got four wells here premised this year but we've got a multiyear plan that we intend to carry out again, so that we can maximize as we do globally the infrastructure that we have and our ability to bring new volumes into that, that creates this advantaged cost of supply for us using the existing kit.

Operator

Our next question comes from Arun Jayaram from JPMorgan. Your line is now open.

Arun Jayaram - *JPMorgan Securities LLC - Analyst*

Hi, Ryan and team. Gentlemen, trends in well productivity, increasing recovery rates have become a pretty hot button topic in U.S. shale. I wanted to talk a little bit about ConocoPhillips' Lower 48 business, looking at the data, the Enverus data in '25, you guys had a really good year in terms of productivity in the Bakken, Eagle Ford and the Permian. And I know it starts with good rock, but I was wondering if you could talk about some of the levers you may be pulling from a technology standpoint that may be contributing to the attractive trends in well productivity that we're observing today.

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

All right, Arun. Yes, we certainly did have a strong productivity year in 2025 across that entire portfolio, as you mentioned. It was definitely consistent with our type curve expectations and consistent with the high quality of inventory, as you mentioned, One of the things we continue to do is we benchmark ourselves in each of our basins. And I'm pleased to say, on an oil productivity per foot, we're amongst the best in every basin we operate.

Now specifically, I want to call out a couple of areas that you mentioned in the Delaware Basin and Eagle Ford, we saw impressive year-on-year improvements. In the Delaware, our oil productivity per foot in 2025 is up about 8% year-on-year, and that's even with a notable increase in our average lateral length of 9% year-on-year. Now a couple of components to dive in on the Delaware side. Again, we know the depth and quality of our acreage position out in the Delaware, but the teams are continuously optimizing our development strategies and adjusting spacing and stacking. And then, of course, depending on where you're drilling in North Delaware, Southern Delaware, you have a little bit of mix driving that, just due to the vast deep broad portfolio.

Now pivoting to the Eagle Ford, our 2025 oil productivity per foot was up another 7% and that's off a very strong program in 2024. And again, we're a clear leader in the Eagle Ford, and we have the lion's share of remaining Tier 1 inventory and have had strong well results of any operator. Now in the Eagle Ford, we brought in the Marathon assets. We've integrated that together. Teams continue to optimize completion designs using diverters to improve recovery, and we're seeing those in the results that you had mentioned.

If you look ahead to 2026, we expect consistent strong performance across all of our basins like we've demonstrated over the past several years. And this is a key driver in our ability to deliver low single-digit growth in the Lower 48 alongside a reduction of more than 5% in capital compared to 2025.

Operator

Our next question comes from Doug Leggate from Wolfe Research. Your line is now open.

Doug Leggett - *Wolfe Research - Analyst*

Good morning. I think it's good afternoon, everybody, I should say apologize. I'm in Europe, so I don't know what the heck time is. Guys, I wanted to go back to Ryan's comment about the breakeven trajectory getting to the low 30s by 2030. I'm trying to understand a little bit about what the moving parts are.

Where is it today? And what is the assumption in where CapEx is from the $12 billion this year in 2030 that gets you to that number, please?

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

Good morning Doug or afternoon, Doug or evening Doug, depending on where you are in Europe. Yes, I can step through that one. So where we are right now, sort of our pre-dividend free cash flow breakeven right now is in the mid-40s. And you'd add about $10 for that with the dividend. So that's kind of your starting point.

And then as you say, as a reminder, we have our preproductive capital spend. It's down from where it was in 2025. We still have the preproductive CapEx between now and Willow coming online, and that works off that. If you do the math on what we said on that, that's about $6 basically just on that simple preproductive capital. And then as we've talked about sort of in our prepared remarks, you kind of got the free cash flow.

It's already starting to improve today, and it's going to continue to improve and we're effectively going to almost double our preproductive CapEx -- cash flow, sorry, by the time that Willow comes online. And when you put all of that together, that's basically how we take our free cash flow all the way down into the low 30s by the time that Willow is coming online and then you add the dividend back on top of that. So we're going to be down right in the low 30s when we have Willow and then adding another $8 to $10 for the dividend as we -- remember, we're buying back shares as well. So that sort of reduces the dividend burden over time as well. So that's kind of the trajectory we're on, and we're pretty excited about it.

And I think we think it's part of the story we have here in terms of that free cash flow trajectory we're on, we think is second to none, and it's going to drive sort of a breakeven that comes down, I think, faster than anybody else can come close to matching.

Operator

Our next question comes from Devin McDermott from Morgan Stanley. Your line is now open.

Devin McDermott - *Morgan Stanley - Analyst*

Hey, thanks for taking my question. Ryan, I wanted to come back to one of the international growth assets that you listed in response to a prior question, and that's Equatorial Guinea. I know you've been evaluating potential backfill projects for the LNG facility there. And I believe just over the last few days, there was an agreement reached between Equatorial Guinea and Cameron for the unitization of the Yoyo-Yolanda fields. I know it wasn't Conoco-operated asset, but it's one of the potential tie back resources into that LNG plant. So kind of a broader question since you listed as a growth potential area.

Just talk about how you're seeing the opportunity set there and where we stand on projects to backfill and keep that LNG plant full?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

Yes, I can provide some over comments and maybe have Kirk come in behind. I think we were encouraged by the Cameroon conversations and then here recently, Chevron's conversations at Aseng. So we're working hard to try to make the asset that we acquired from Marathon something more than a 5-year asset, how do we make it a 10-, 15-, 20-year asset. So we've been busy with some HOAs with the Equatorial Guinean country and doing exactly that. We're encouraged by the opportunities that we see out there.

We're encouraged with the cross-border cooperation because that just leads to more opportunity to bring more volumes across the island. Maybe Kirk can describe some of the more specifics that we're looking at today.

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

Yes. Certainly, Ryan. And Devin, as Ryan has been describing, we've been in discussions, certainly having taken on this asset through the Marathon acquisition. As we've taken it into the company, we've been actively in contact with a number of other operators in and around our LNG facility and upstream assets, thinking about how do we leverage that infrastructure, specifically the liquefaction facility that's using our technology there on the island. Certainly, discussions have progressed very well, really pleased with that, specifically with Chevron.

They've made some notable progress in a few of their projects. A couple of both new fields as well as continued development of some existing fields that create some upside for that. And then naturally, we are, as Ryan said, we're in some HOA -- confidential discussions with the government and a few others around continued infill opportunities, especially gas in and around Malabo and our operation there. So again, this is a continuation here of the theme of what we've been able to do so well, whether it's internationally in Alaska, which is continued to find resources that exist to create this advantaged cost of supply to use existing infrastructure. So expect us to continue to make some progress in that way there in EG.

Operator

Our next question comes from Ryan Todd from Piper Sandler. Your line is now open.

Ryan Todd - *Piper Sandler - Analyst*

Thanks. Maybe can you talk about how you think about Lower 48 activity levels and commodity price. As you highlighted in your presentation, you clearly have a tremendous amount of high-quality drilling inventory. You've moderated your pace of growth in the Lower 48 of late given kind of current global crude supply balances and a weaker crude price. But as you look over the next 1 to 2 years, what would you need to see to step up activity levels and grow a little faster in the Lower 48. And maybe with that, could you maybe elaborate on what you've said a couple of times is the pretty constructive maybe crude oil view in the medium to longer term?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

Yes. Thanks, Ryan. Yes, we have our own sort of macro view on supply and demand and I'd say, consistent with a lot of what people were saying, we see some -- saw some softness coming into the year. So we set our plans and our budgets in '26 based on that. Obviously, we've seen a little bit of tailwinds with the current geopolitical things that are going on around the world.

But generally, thought 2026 would be a little bit more tougher year on the commodity price. We set our plans accordingly. And Nick's team, as he's described, has been doing a great job capturing the efficiencies, and we've been able to grow that business without adding more capital to it. And that's kind of our starting place. So I would say our scope is kind of set for 2026 with what we're trying to execute.

We don't like to whipsaw these programs up or down, and we'll use the balance sheet in the downside case if we need to. And we're comfortable with where we're at in '26. If prices were even to increase, would just give us more flexibility to -- in the company. We are constructive going forward over the next number of years. As we think about later down the road in this decade, we think we're going to have LNG and Willow coming on at the right time when the world needs this oil.

So we're pretty constructive as we go forward. And over time, we'll see what our view of the macro is. We'll see what we think about the cost. And if we want to start ramping up in the Lower 48, we can do that. If there's a call on more unconventional crude.

But today, I think, we're pretty comfortable with our plans. There's a lot of volatility in the market, but we're built for this. We're built to handle it with the balance sheet that we have and the programs that I know the teams are executing there, trying to get as much as they can for every precious capital dollar that we are spending. So we're trying to balance our returns of our capital back to our shareholders with the returns we're getting on the capital that we're putting back into the company. So this year, we should see some modest production growth and executing the plans to start delivering the free cash flow inflection that we see over the course of this decade, starting this year with $1 billion and next couple of years with $1 billion and then another $4 billion coming with Willow.

And we think that's hugely differential relative to our competitors in this space.

Operator

Our next question comes from Nitin Kumar from Mizuho. Your line is now open.

Nitin Kumar - *Mizuho Securities USA Inc - Analyst*

Ryan, I'm sorry, I'm going to take you back a little bit to the direction of Venezuela, but it's not really about Venezuela. The expectation is the Venezuelan heavy crude might back up some of the Canadian production. What's your view of WCS spreads given that you're seeing some of the other heavier crude from other parts of the world hitting the Gulf Coast?

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

This is Andy. I can jump in and take that one. Yes, I think the short answer is sort of in the short and medium term, we're not really expecting to see that much of an impact. As most people know, that if you start with sort of the PADD 2 refiners, they're structurally reliant on the Canadian heavy and have minimum alternative options to displace those barrels. And as you say, the Gulf Coast refiners can process the heavy barrels and we're starting to see some of those refiners express interest in purchasing some of those Venezuelan barrels.

But our view is the incremental Venezuelan barrels will likely get absorbed. The market will rebalance the global flows and we kind of -- will you see a thing from month to month where there's maybe crude being backed out or being moved in different directions, possibly. But take a step back and look at the bigger picture. The way we are thinking about it is that the annual global demand is growing basically 1 million barrels a day. And we're going to need incremental sources of supply to help meet that demand growth.

So our modeling isn't really sort of showing that the Venezuelan crude coming in is going to have a particularly material impact on Canadian heavy.

Operator

Our next question comes from Scott Hanold with RBC Capital Markets. Your line is now open.

Scott Hanold - *RBC Capital Markets - Analyst*

My question is on your balance sheet. Obviously, you've got a very strong cash position and investments. I think there is some investor kind of concern over there, at least in the short term where your shareholder return strategy, at least at that 45% rate does dip into it. Could you just give us your context on how you think about your cash balance, how much is reserved for utilizing at this as you ramp to that free cash flow inflection point?

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

Yes, I can take that one, Scott. I think in the prepared remarks, I stepped through sort of just how strong our cash balances are starting this year and the fact that we actually reduced our net debt by $2 billion. So we're starting with a balance sheet that is in a really, really, really solid position. I think we look at it across a range of prices. And I think we've been pretty clear that 45% of our CFO basically works across basically a range of prices in terms of our distributions and that's kind of what you could expect.

And there's a reason we have a strong balance sheet is if there were a period where sort of a quarter here and a quarter there you're needing to drop into the balance sheet to sort of help fund that. That's what we would do. That's what it's there for. So I think given where we're starting with cash, I don't really see sort of any real concerns basically around sort of headwinds to being able to fund distributions or maintaining a strong balance sheet.

Operator

Our next question comes from Sam Margolin from Wells Fargo. Your line is now open.

Sam Margolin - *Wells Fargo - Analyst*

This question is about the progression of the free cash flow contribution in '27 and '28 before Willow and in the context of NFE coming on in the visible horizon here. Could we ask you to decompose that progression a little bit and maybe at least frame where the range of LNG contribution, both on the cash flow side and on the spending roll off are coming in? And then I guess the market context is that European gas inventories are pretty low and you have some European regas exposure that looks like it will be full over the next season. So if we could get some color on that, it would be great.

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

Okay. Kind of touching a few different topics there. I'll try and sort of -- try and cover them. The first part of it is we've been very clear that sort of basically, we're seeing $1 billion per year, '26, '27, '28 of free cash flow improvement. And I think you're starting to allude to this, that '26 basically is essentially being driven by the OpEx and CapEx guidance that we've given driving that.

But as we get into '27 and '28, a significant part of that is being driven by the LNG where we have NFE coming on, Port Arthur coming on and NFS coming on. So we're seeing that basically drive the next $2 billion after the one we have now, then the next two comes from those LNG projects. And remember, it's a combination of the revenues coming on, but the CapEx is going away as well. So that's $2 billion. A big chunk of that is coming in '27 and '28 from the LNG projects.

We've -- when we've given that sensitivity on the $7 billion of free cash flow inflection, we've put prices out there basically for that. And I think where we basically placed the first 5 million tonnes that we have out of Port Arthur Phase 1 into Europe and Asia. So we feel pretty good about that. And our view, I think, is that we're feeling pretty confident basically around sort of LNG prices basically holding up over the rest of this decade. So it's kind of -- that's what's built into our sensitivities.

And we're also in a situation where between now and 2030, where we're actually much longer Henry Hub natural gas than we are LNG. So if you think about it in Nick's area, in the Lower 48, we produce of 2 bcf a day of gas, that's about 15 Mtpa. And for every dollar we see move on the price on Henry Hub, that's over $400 million of sensitivity to us, whereas the first 5 million tonnes that we have coming out of Port Arthur between now and the 2030 time frame, every dollar movement on that is about a $200 million movement that we have. So we're actually much more exposed to higher gas prices than we are compressing LNG margins in the -- between now and the end of the decade. So I think I touched on most of what you're asking there.

Operator

Our next question comes from Phillip Jungwirth from BMO Capital Markets. Your line is now open.

Philip Jungwirth - *BMO Capital Markets - Analyst*

You reached an agreement with Western Gas during the quarter to restructure Delaware gas contracts. The question is more around -- you have over 200,000 net acres in the core that you picked up from Shell couple of years ago. Maybe it's a little less optimal in terms of operatorship, working interest or acreage configuration. But with the midstream getting more ironed out, does this at all advance the ability to do a larger acreage swap here? And if so, how meaningful could that be for Conoco's capital efficiency and developing this asset going forward?

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

Yes. Exactly. If I go back to Shell, I mean one of the key things as you look out in that area, as we continue to core up in strategic trades all the time, to increase our lateral lengths in that area. That drives our capital efficiency as we extend the laterals in there, and we continue to do that on an ongoing basis. As you mentioned, for the Western Midstream we did directly contract that through WES, and that's one of the key drivers that Andy had mentioned that achieves that $1 billion of cost savings run rate by year-end 2026.

But on the strategic trades, we continue to do that on an ongoing basis. And if you look at long lateral inventory in that area you mentioned, if I step back to 2023, about 60% of our Permian future well inventory was 2 miles or greater. But today, that's at 80% due to the strategic trades and core ups. And in fact, you look at the 2026 program, 90% of those wells are 2 miles or greater. So we continue to do that with our BD and land teams coring it up, and that drives the capital efficiency.

When you look at that core up opportunities. If we go from a 1 mile to a 2-mile lateral. We improved the cost of supply about 25%. But if we go to 3 or 4 miles, we add another 10% to 15% cost of supply reduction.

Operator

Our next question comes from James West from Melius Research. Your line is now open.

James West - *Melius Research - Analyst*

One thing that came up that I noticed in the slide deck this morning that stood out to me was your reserve replacement ratio. It's been very impressive over the last 3 years, well above your peer group and the big oils. Curious what's been driving that. And curious how you see that going forward.

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

This is Andy. I'll take the question. Actually, thank you for the question. So asking about reserves. We think reserves remains an important and very relevant metric, especially the organic reserve replacement.

As you know, that's basically essentially what we're replacing with the drill bit. As you said, 1 year performance is important. We do also focus on our multiyear track record, especially when you think about some of the longer cycle projects. So just to quickly step through the numbers, our 3-year organic reserve replacement is 106% and our 5-year organic reserve replacement is 133%. And what's particularly pleasing about that is across that time frame, we've got strong contributions across our entire global portfolio, Lower 48, Alaska and International is another example that Ryan was pointing to earlier the power of our diversified portfolio.

And '25 was no different. It was another solid year of organic reserve replacement. So we effectively maintained the reserves technically 99%. And that -- if you then take that and basically exclude the impacts of revisions there to the lower oil prices, the organic reserve ratio, when you're not taking price provisions into account, we've been 110%. So again, it was a really good year for us.

And I think where you alluded to, we think our track record, we'll put it up against anybody in terms of the majors or the E&Ps over the short, the medium and the long time frame. And just in terms of how we think about it, we really do think reserves continue to be an important barometer for our industry. And no matter how you slice it, it continues to be another proof point, just on the quality of our portfolio. And it was a really good year for us again, where we had additions yes from the Lower 48. We had additions coming from Coyote up in Alaska, great performance out of our Australian business unit where we increased some reserves there.

And then just some of the commercial negotiations we do across Asia and that is to add some reserves there as well. So important for us reserves to keep a really close eye on it. And I think it's a good litmus test of sort of how well basically we're doing and we couldn't be happier with it.

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

And I would add just one thing, James, as well. I mean people ask us, when we talk about our sub-$40 resource -- sub-$40 cost of supply resource that we have inside the company. And is it real or how real is it? I think this is the proof point is we're converting those resources into reserves, you ought to feel comfortable, and we've been doing this over the long haul, both in our history and we given Andy's comments, that's what we expect to happen going forward because of that the resource that we've got captured inside the company and our focus on the organic investments in the company to turn that resource into reserves.

Operator

Our next question comes from Paul Cheng from Scotiabank. Your line is now open.

Paul Cheng - *Scotia Howard Weil - Analyst*

Ryan, just curious, you still have a lot of runway in the Lower 48. But I think no matter how we look at it, shale oil is getting mature. And as that happened, how over the next 5 years, your capital allocation is going to shift or that is going to make any changes to position the company post 2030. I mean we clearly that you have a very, I think, visible path for the next 5 years. But post 2030 that with that major asset is going to be maturing.

How are you going to position given you are a very large company, so to turn a big ship is going to take time?

Ryan Lance - *ConocoPhillips - Chairman and Chief Executive Officer*

Yes. Thanks, Paul. Look, we -- our view inside the Lower 48, just in particular, is over 2 decades of low cost of supply inventory. So we're going to be in this business for 20-plus years. It's not going to roll over in 5 years in our portfolio.

But I take your point, I think, broadly in the industry, we're at these kinds of prices seeing sort of plateau-ish production in the shale, North American or U.S. shale, but that is not the case inside our company. So we will see sort of major project capital spend, the preproductive capital that Andy talked about, that will start to roll off through the end of this decade. We continue to -- we'll see growth in our unconventional investments as we continue to capture efficiencies and look at that business, but we've got multiple decades of growth opportunity there. And then Kirk talked about the rest of the business.

We see opportunities in Alaska. We see them in Canada. We see them in -- we talked about Equatorial Guinea, the signing of the new agreement in Libya. So I think we're just in a completely different place than a lot of our competitors, and we've got a lot of optionality for investment in the portfolio to continue sort of modest growth depending on what the commodity price environment ends up being. And again, we're pretty constructive long term as we see demand growth continuing to grow.

So that's going to give us the opportunity to continue to invest organically in the portfolio across a broad set of assets that have already captured to develop that resource potential that we have. And it doesn't stop by the next decade in the Lower 48, it continues for quite a period of time. And I think all the data -- third-party data supports that. We're just not talking our book here.

Operator

Our next question comes from Charles Meade from Johnson Rice. Your line is now open.

Charles Meade - *Johnson Rice - Analyst*

If I could, I'd like to go back to Alaska. And can you give us an update on how this season's costs at Willow are tracking versus the updated assumptions you guys gave us last quarter and perhaps fitting in that or maybe tacking on to that, if -- how the loss of this rig 26, whether it's going to affect you either on your development or exploration side?

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

Charles, thanks for the question. We certainly had a number of inbounds especially on the latter part of your question around the rig incident. So I might start there, and then, of course, I'll address your question on Willow. Certainly, a very unfortunate event there with that rig D26. Of course, naturally top of mind for us were the folks that -- the individuals that were around the rig and the few that were piloting that rig.

Fortunately, no injuries. And of course, the owner, the operator of that rig are ultimately accountable and they are leading both the investigation and the response. We're naturally in support of that company. And working with them as they coordinate and manage in and around that. That rig was 1 rig of 2 rigs that we had planned for the exploration program here this year.

We roughly assigned two wells for each one of those rigs. And of course, we have multiple rigs up there running. And so we were able to just simply backfill that D26 rig with one of the active rigs that we have operating within our existing units. And so the exploration program continues, and we'll be able to pivot those rigs back after the exploration season into our ongoing development. So no change to either exploration.

And to your point around Willow, we have two rigs premised for the predrill on Willow leading up to start up in early 2029. And D26 was one of those rigs. Now again, because we have multiple rigs deploying, no impact. And again, pre-drill starts for Willow next year in 2027. So ultimately, what you're hearing from me is after that unfortunate event, no impact on our exploration and no impact on Willow.

On Willow, you heard certainly earlier in my comments that we were able to get out early due to an early start to the winter season and some cold weather with ice, the same goes for Willow. And so that winter construction season for us started early. It's on track and proceeding really quite well. When we think about the work scope that we have planned here for this year, it really revolves around some of the earlier points you've heard from me. We're trying to knock out the bulk of the gravel work here this year, roads, pads, the airstrip.

So that we have full year-round access into Willow in a more efficient way than we have in the past. We'll be continuing pipeline work, bridges, et cetera. And then, of course, all the work here out of the state on prefab of the process modules continues, and we're seeing some strong progress from our business partners on that front as well. And then back to your point, yes, we're seeing costs come in as we guided. We're seeing that cascade down largely because last year's winter construction season was our largest.

And then we've been able to knock out some pretty important milestones up there on the North Slope. Our permanent camp there in Willow is open. And that's pivotal because it allows us to start moving away from a turning away a lot of these temporary camps that we've had to rely on. And so this is part of the story about our ability to wind capital down from previous levels in the last few years. So we'll be coming in on pretty major milestone here within the next couple of months of being 50% complete on the project.

And so naturally, both cost and schedule are looking good for us for an early 2029 first oil.

Operator

Our last question will come from Kevin MacCurdy from Pickering Energy Partners. Your line is now open.

Kevin MacCurdy - *Pickering Energy Partners - Analyst*

Hey, good afternoon. I wanted to ask about Canada. You highlighted that the 104 WA Surmont pad was ahead of schedule. I wonder if you can talk about the financial and operational impacts and the timing of that pad was CapEx and production brought forward? And do you think this could be like an ongoing trend for your operations there?

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

Yes. Appreciate the question on Canada. It's a place the Surmont asset specifically is one where we just continue to see really strong performance. And ultimately, we have positioned ourselves for first oil -- first steam late last year and then first oil early this year. That came in about a month early.

And that was on PAD 104W-A. And so ultimately, that activity is cascading through. It's, in essence, rolling through as we have started work on the next PAD 104W-B. And as you've heard from me in the past, we're expecting to bring on a new pad roughly every 12 months to 18 months, and we are expecting this next pad to come on in about 12 months from now for a first steam and first oil. And so that activity is really quite level loaded.

Certainly, as you can imagine, with that kind of pace. And so we're not seeing necessarily a material change in certainly how we think about capital or even our production profile, other than it derisks certainly the growth that we've started to see. And when we think about -- when I talk about growth in Surmont, it's really quite moderate and disciplined with this pace of capital deployment. So again, we took a bit of a cut last year with having reached payout on the full Surmont project last year. Net royalty has changed on us.

And yet when I back up a little bit and I think about the health of the asset and how it's performing, gross volumes continue to be climbing and to be up. So we're -- the performance of these pads is offsetting decline. And again, just really pleased with how the overall asset is performing and how our capital and production is coming in on trend.

Operator

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