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COP.N - Q1 2026 ConocoPhillips Earnings Call

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OVERVIEW:

Company Summary

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

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PRESENTATION

Operator

Welcome to the first-quarter 2026 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 first quarter 2026 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 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 be making forward-looking statements based on current expectations. Actual results may differ due to factors noted in today's release and in our periodic SEC filings.

We will 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 and Chief Executive Officer*

Thanks, Guy, and thank you to everyone for joining our first-quarter 2026 earnings conference call. As we begin, I want to start by acknowledging the ongoing conflict in the Middle East. Our thoughts are, first and foremost, with our employees, our partners, and the broader communities directly affected by these events.

The supply curtailment and ensuing macro volatility have not only impacted energy markets but are also being felt across the global economy. Periods of volatility in our industry are inevitable, but this conflict reinforces the importance of both U.S. and global energy security. We certainly hope for a swift and diplomatic solution that resolves the conflict, protects U.S. interests, opens commerce and provide stability in the region.

Now turning to the first-quarter results. We delivered another strong quarter of strong financial and operational performance. We generated $2.4 billion of free cash flow and returned $2 billion of capital to our shareholders. In the Lower 48, where we have the deepest and highest quality inventory of any operator, we continue to improve our peer-leading capital efficiency, meaningfully increasing the number of three-mile plus laterals in our program.

In Alaska, we're winding down another successful winter construction season, with the Willow project now 50% complete. Our teams have completed the project's gravel scope, an important milestone, and mobilization for summer work is underway. We also recently completed our four-well exploration program in Alaska, the first in a multiyear program to leverage existing infrastructure to unlock additional low cost of supply resource consistent with our long-term track record.

It's still early days but we are excited about the opportunity and the results and more low cost of supply resources coming to the greater Willow area. As the broader industry increasingly recognizes Alaska's unique resource potential, we believe our long-standing position, legacy infrastructure investments, and technical expertise provide us with a meaningful competitive advantage.

Turning to LNG. We recently executed a third-party tolling agreement in Equatorial Guinea, extending the life of the LNG facility well into the next decade. This is a strategically located asset in a gas-rich part of the world surrounded by discovered resource, which supports its long-term potential. Additionally, the Port Arthur LNG project continues to progress very well, with first LNG expected next year.

Turning to the outlook. While ongoing events have significantly tightened crude oil and LNG markets, the macro environment remains volatile and pretty impossible to predict. Amidst such uncertainty, it's critical our priorities remain steadfast. They are clear, consistent, and they are durable. They have served us well for the last decade and will continue to guide us into the future.

We will continue delivering base dividend growth competitive with the top quartile of the S&P 500. We will maintain and protect our investment-grade balance sheet. Recall last year, we were one of the only companies that delivered on our shareholder return objectives and strengthened the balance sheet. We'll continue returning significant CFO to shareholders right off the top.

We've averaged about 45% over the past decade through the cycles, and after meeting all these priorities, we'll evaluate disciplined reinvestment for growth. In terms of how these priorities are translating to our 2026 plan, our expected CFO generation is up materially given our unhedged oil and LNG torque.

Shareholders will directly share in this upside with our 45% of CFO return of capital objective. We have also added a modest amount of Permian activity over the second half of the year to maintain our operational efficiency into 2027. Long term, ConocoPhillips continues to offer a compelling value proposition that is differentiated in the market.

We believe we have the highest quality asset base in our peer space. As we have said before, we are resource rich in a world that is looking increasingly resource scarce. This is a distinguishing competitive advantage. We have the deepest and most capital-efficient Lower 48 inventory in the sector. And outside the Lower 48, we have an abundance of diversified, low cost of supply legacy assets, and we are uniquely investing in our portfolio to drive peer-leading free cash flow growth. We're on track to deliver our previously announced $7 billion free cash flow inflection by 2029, driven by our cost reduction efforts, LNG projects, and Willow.

So with that, let me turn the call over to Andy to cover our first-quarter performance and updated outlook in more detail.

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

Thanks, Ryan. Starting with our first-quarter performance, we produced 2,309,000 barrels of oil equivalent per day. This includes the impacts of the Middle East conflict on Qatar volumes and higher royalty rates at Surmont from higher oil prices. These impacts were partially offset by strong performance across our Lower 48 and international portfolio.

In the Lower 48, we produced 1,453,000 barrels of oil equivalent per day, representing 4% year-over-year growth on an underlying basis. We generated $1.89 per share in adjusted earnings and $5.4 billion of CFO. Capital expenditures were $2.9 billion. We returned $2 billion to our shareholders during the first quarter, $1 billion in ordinary dividends, and $1 billion of share repurchases. We ended the quarter with cash and short-term investments of $6.7 billion as well as $1.2 billion in liquid, long-term investments.

Turning to our outlook, we are updating our guidance to account for the impacts of recent macro events and the uncertainty surrounding the Middle East conflict. To be clear, this is not a call on when we think the conflict will resolve, we're simply trying to provide a clear and transparent framework for you to model and assess the underlying performance of the company.

For production, the midpoint of our annual guidance is updated to 2,310,000 barrels of oil equivalent per day. This reflects a 20,000 barrel of oil equivalent per day annual impact due to Qatar being excluded from second-quarter production guidance and a 15,000 barrel of oil equivalent per day annual royalty rate adjustment at Surmont due to higher prices. We've made no other adjustments to our annual production guidance.

The midpoint of our second-quarter production guidance is 2,200,000 barrels of oil equivalent per day, which reflects the full exclusion of Qatar production from guidance for the quarter, the Surmont royalty rate adjustment, and planned second-quarter maintenance.

Moving to operating costs. Full-year guidance of $10.2 billion is unchanged, reflecting a $400 million reduction from 2025 due to the benefits of our cost reduction and margin enhancement program. We made strong progress in the first quarter, and we remain confident in realizing the full $1 billion run rate by year-end.

For capital spending, we're updating our guidance to a range of $12 billion to $12.5 billion versus our prior guidance of about $12 billion, representing a 2% increase at the midpoint. This increase is due to slightly more Permian activity over the second half of the year. We're adding a rig to keep pace with the completion efficiencies, and we expect higher levels of non-operated spend. These modest activity additions will maintain our operational continuity into 2027.

Additionally, we're incorporating a guidance range to capture the uncertainty around the macro environment as well as the Middle East conflict, specifically as it pertains to the timing for NFE and NFS spending.

To wrap up, we delivered strong first-quarter results. We executed well financially and operationally. We continue to advance our strategy, and amid a volatile macro environment, we remain committed to clear, consistent and durable priorities, that have served us well for the last decade.

As Ryan mentioned, our expected CFO is up materially from the beginning of the year. We remain unhedged on oil and LNG to ensure we capture the price upside with 40% of our crude production linked to premium markets such as ANS and dated Brent. And shareholders are directly participating in this upside as we remain committed to returning 45% of our CFO, consistent with our long-term track record.

Looking ahead, we remain focused on executing our plan and enhancing our differentiated investment thesis, unmatched portfolio quality, including leading Lower 48 inventory depth, attractive long-cycle investment, strong return on and of capital, and driving sector-leading free cash flow growth 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)

Scott Hanold, RBC Capital Markets.

Scott Hanold - *RBC Capital Markets Inc - Analyst*

A lot happening, obviously, out on the macro front. And I know you all do a lot of work on the oil macro in addition to obviously having feelers out there. Can you give us a sense of your view of what's happened in the market if you've got any view of physical versus the financial kind of position of oil?

And how you expect like operators to act and react? It sounds like you guys are going to maintain operational efficiency, but it would be good to see if you've got a view on what you're seeing and hearing from others.

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

Yes. Thanks, Scott. Maybe I'll let Andy talk a little bit about some of the numbers that we see out there and then maybe I can come back and address some of your broader set questions after that.

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

Thanks, Ryan. Scott. Yes, I'll start with -- I think you said this for me. There's certainly a lot of moving pieces out there right now. And I'll summarize sort of our view of the world. I'm not sure it's too different to others, but it's -- I think it's good to summarize it.

For about two months now, we've had about 10 million barrels a day of production offline that even factors in the redirected volumes in countries like Saudi Arabia. We have seen inventory and SPR releases that have partially backfilled some of that lost supply. And the ongoing SPR releases that have been announced, they'll certainly help through the May, July timeframe.

But I do think it's really important for people to understand that the brunt of the supply shortfall is currently being absorbed by refinery run cuts and demand curtailments. Now if you include the Persian Gulf refineries that have been damaged, the total global refinery run cuts right now probably amount to around 8 million barrels a day.

Now as we look forward from here, we think the biggest challenge we're about to face is that the markets sort of had a bit of a grace period initially when the tankers that left the Persian Gulf in late February were still on the water. Now all of those have reached their destination. The impacts of the lost supply is going to start to become more apparent.

We could possibly see from here now inventory draws really start to accelerate. You've already seen that governments in over a dozen countries are implementing policies to ration or otherwise reduce demand in advance of physical shortages.

And so given those factors I've just described, we are downgrading our view of global oil demand to be sort of flat year-over-year with probably a bit more risk to the downside if the conflict goes on. And probably one final point I'd make before sort of passing it off to Ryan is, despite efforts that are ongoing to manage demand, we are going to start to see some import dependent countries potentially start to face critical shortages as we get into the June, July time frame.

So I'll probably stop there. I'll let Ryan sort of add sort of a bit more to that.

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

Yes, maybe Scott, how are people acting. I think people are watching pretty closely to see what happens. Maybe a little bit of short-cycle investments and I'm sure that will come up in our call with the capital. We're just trying to maintain the efficiency gains that we've got in the Lower 48, and we won't be drilled out of some of our OBO activity. But we're trying to look longer term as well, as Andy said, assess the supply and the demand fundamentals.

I think at a minimum, we think the floor probably is going to have to raise up a little bit, at least relative to where we were before the conflict started. Recall, we had a mid-cycle WTI price of about $65, and that's -- we believe that's probably going to come up with the floor.

But we're trying to assess right now given the demand dynamics and the supply dynamics, what long-term effect that's going to have on what we would call a mid-cycle equilibrium price and for how long that might persist. And recall, we were pretty constructive over the last few years before this got started with some uncertainty around how the physical and paper markets were acting a little bit, and this has just accelerated a lot of that. But certainly think the floor probably has to come up to account for the changes that have occurred over the last couple of months.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Yes. Ryan, Andy, great comments there. And definitely, our thoughts are with your people in the region. I want to pivot over to Alaska, and we went through winter construction season here. And so I'd love the mark-to-market on how those plans progressed, where do you stand in terms of Willow construction? And what are the big milestones as we continue to derisk this project and get to that free cash flow inflection?

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

Yes, Neil, thanks for the question. We've had a really strong showing here just in the last six months in Willow. So I'll probably address maybe a couple of things. I'll touch on Willow, directly your question, and then very related to that, given it is the winter season, we've also had a really strong showing in exploration as well. So I'll take you through a little bit of how we're seeing these projects progress.

Starting with Willow, as mentioned in the opening remarks, we are, in fact, at 50% complete on the project. And that -- achieving that requires a collection of key milestones that our teams have been able to accomplish and get behind us here. And this winter season in Alaska, we accomplished the entirety of our planned work scope, which admittedly was a little bit of a challenge. We had quite a few weather days, not dissimilar from our very first winter season. And despite that, again, the teams were able to accomplish the full winter scope.

And by that, certainly probably most important to us as part of critical path was the civil work. And so we were able to get all of the bridges down and the entirety of the gravel scope. So think roads, pads, and then even the airstrip, and that sets us up then for our ability to execute the summer work and especially important with gravel, it allows you to dry and mature that gravel, create the compression necessary on that to continue the structural work that's upcoming, then obviously in the construction of future facilities and even pipelines.

And then as it relates to pipelines, important this year for us was the east-west scope. And that's important because it allows us to begin to make the connections back into the existing operations. And by that, I mean Western North Slope or Alpine with those connections just within the coming week, we'll be bringing fuel gas. And then we'll be firing up our power for Willow. And so again, we've just been really successful in accomplishing the scope here, we've laid out as we continue to commission the op center.

And then, of course, with engineering largely wrapped up and complete here in the Lower 48 on the Gulf Coast, our process modules achieved a similar milestone, which is also being 50%, just slightly better than 50% complete there in fabrication. That's important because certainly not this summer, but next summer, we have plans to sea lift those into Alaska, which becomes the next major milestone for us to get those processing modules up there.

And so again, all of this in aggregate, puts us in just a very strong position for this early oil expectation that we have for 2029, and all of that is on track. And that's obviously important. So it's underpinning this compelling value proposition that we have for the $7 billion free cash flow inflection.

But then even thinking well beyond that is exploration. And again, also, as you heard from Ryan, we had a strong showing here too. We speak a lot to the four wells that we had planned this year, which were successful for us, but this is the largest winter season and exploration that we've had since 2020. And with that came the four wells, but we also shot seismic and then we also did quite a bit of gravel exploration and had really high success ratio there on finding gravel for future pads.

So when we look at that exploration program, again, as you heard from Ryan, I'm really pleased to report, and by that I mean we found hydrocarbons out there where we were prospecting and drilling. And so naturally, then our subsurface teams are poring over the results, seeking to ensure that we can well characterize what we found.

And of course, commerciality comes with typically more than one season. And that's why we call these exploration and appraisal wells and seasons. It will take several, but certainly with what we found really looking forward to the opportunity to keep Willow full.

Again, and I think that underpins our objective here, which is we're in this to identify new resource and pad development opportunities to do just that, which is keep this infrastructure full. And you've seen the track record from us in the past. And with the success that we've been realizing just in the last six months, again, just a really strong showing from our Alaska team.

Operator

Betty Jiang, Barclays.

Betty Jiang - *Barclays Services Corp - Analyst*

The -- a lot of eyes right now on the short-cycle response to higher oil prices and you guys being the first one out of the gate and sort of leaning into activity in the Permian, which clearly makes sense for you guys given the deep inventory.

But can we just get a bit more color on the decision process from Conoco's perspective to link into Permian activity now? And alluding to your mid-cycle views earlier, what price would it take to flex activity further? And what will be the sensitivity on production outcome in 2027?

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

Betty, Andy here. Maybe I'll quickly start this and then Nick can talk a bit more specific about the details of what we're doing in the Permian. I did cover in the prepared remarks that what we've done here is effectively increased the midpoint of the CapEx by about $250 million. And I think it is important to sort of to describe why we're doing that.

It is -- we keep having the operational efficiency that Nick will talk to. And it's important basically the way we think about steady state that we keep that going. So on the operated side, it really is just a continuation basically of our steady state, just given how efficient we're being.

And then on the non-operated side, as I said in our prepared remarks, it's more in anticipation, and starting to see the early signs of this, of some of our non-operated partners starting to ballot us for more wells. So I'd say it's more sort of the $250 million is more around sort of operationally setting ourselves up and sort of being thoughtful about what we keep our steady state, and we react to partners versus a big sort of macro call on price.

Maybe with that, I'll let Nick just give a bit of the specifics on what we're doing. We can come back. There is more to cover.

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

Yes. Thanks, Andy. As Andy mentioned, that $250 million of additional activity is concentrated in the Delaware, and that's a combination of operated and non-operated. On the operated side, we continue to drive significant efficiencies both on the drilling and the completion operations.

On our completion efficiencies, that's slightly outpacing the drilling side. So we're adding another Permian rig versus prior plan to help us keep pace with our frac crews and maintain our level-loaded, steady-state operations approach that we've talked about for a number of years.

The key item and ultimately, what we don't want to take place is have any frac gaps due to the efficiency improvement that we're continuing to capture. If you recall, last year, as we exited 2025, we had a 15% improvement in D&C both operational efficiencies, and we continue to see those trends. But on the completion efficiencies, those are outpacing it.

Now if I pivot to the non-operated OBO side, we have started to see more well ballots from our partners, which will likely translate to a higher level of OBO spend over the second half of the year. And we're not going to elect out of low cost of supply, high-return OBO projects in this price environment.

We've seen it in the past. They're competitive projects, they're short cycle with good returns. So that's the right choice from a returns perspective. Again, this activity additions are a modest capital add to our second half program, and we'll maintain our operational efficiency going into 2027.

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

Yes. I would just add that these are no-brainers. These are duhs for us. We're not going to be drilled out of inventory by others, and we're going to keep our efficient machine running and so these are last half of the year, doesn't have a large impact on 2026. But sets us up for the continued growth that we're seeing in the Lower 48 in our portfolio.

Year-on-year, you saw it in the first quarter, you'll see it year-on-year, and that will continue into 2027. In the meantime, we'll be assessing what we think mid-cycle price is going to go do and what the new equilibrium might look like and then what that follow-on means to the cash flows that we generate as a company, the returns that we're going to send back to our shareholder in what we reinvest for growth and development in the company. And that will be coming later this year just as part of our normal processes.

Operator

Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

So I guess, Ryan and Andy, I'm looking at slide 5 and those of us who have been around long enough, Ryan, remember what you went through in 2016 with the dividend. And now we're sitting here looking at low 70s, you're probably doing $10 billion of free cash flow according to your chart, and that's got 70% upside. My question is that you've stuck to the 45% cash flow payout. Your commitment is actually more than 30%. And clearly, there's a little bit of post-cyclical stuff going on with the share price.

These windfalls can be capitalized in different ways, especially through your dividend policy. So I just wonder if you can walk us through in these kind of situations, why not flex down in the payout? Why not think more about the longer-term dividend to breakeven the balance sheet. I'm just curious where your head is at on buying your shares at the top of the cycle? It might not be the top of the cycle, but it's certainly elevated for the time being.

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

Yes. No, thanks, Doug. I mean, we like to think about share repurchase sort of in a dollar cost average. We tweak around the edges, which is why it was probably a little bit lower in the first quarter, but it was a good time to be buying in March and in April. So you'll see probably us buying more in the second quarter as we go forward.

But more fundamentally to your question, so our 30% floor is set in a mid-cycle price construct that we start with for the company. So we think about what mid-cycle prices are, what an equilibrium, look, we know we're never in a perfect kind of world, but we have to understand that from a supply and demand percentage perspective. So we can understand sort of what cash flows do we generate, what can we get back to the shareholder.

And clearly, since we set that coming out of the downturn in 2014 and 2015, when we recast the value proposition for the company, it made sense, but we've had mid-cycle prior. So the actual price has been higher than our mid-cycle call for most of that time. So we've been able to afford and been able to provide more than 30% back to the shareholder.

Our history has been, I think, now coming up on a decade through the cycles even through the low point of the COVID pandemic in 2020 and the high point of 2022 when we were sending quite a bit back to the shareholder. So we think about it through cycle, we try to set a mid-cycle price. And we just are constantly trying to drive down the reinvestment rate in the company.

We're trying to drive growth for the least amount of capital as we can in the business, which is why Nick talks about what we're doing in the Lower 48 to drive the efficiencies that his team is doing, but Kirk is doing around the rest of the world and the opportunity we have in our legacy assets. So we've been able to afford something higher than our base, and that represents the 45% commitment that we've made for this year because we recognize that the strength and the power of the company is doing.

Now we don't want the dividend to get outsized as you referred to before, which may have been -- for those that remember pre-2015, 2016, there's not many of us around anymore, Doug, maybe you and I, and that's about it. But look, we want to make sure that we can sustain the dividend. We want to make sure we can grow the dividend at a competitive S&P 500 rate. We think that's important, being able to constantly, continually, annually grow it.

It's something we think is competitive with the S&P 500 top quartile. And that's our commitment to go continue to do that. But at the same time, we want to make sure the dividend does get an outsized portion of our cash flows at a mid-cycle price, whatever mid-cycle price we call. So we're trying to manage both those things. And typically, the dividend today is certainly affordable, growable but doesn't represent the full 45%.

So we're augmenting that with the share repurchases. And we think that makes sense over the long haul. It reduces the absolute burden of the dividend going forward. It might have some pro-cyclic nature to it a little bit. But we aren't -- we don't cling to it steadfast.

We'll ratchet up and down a little bit quarter-to-quarter to try to manage some of that, but we do want to make sure we hit the 45% made up between the base dividend and whatever shares we're repurchasing in the market, and we try to take a pretty ratable effort to go do that.

Operator

Lloyd Byrne, Jefferies.

Lloyd Byrne - *Jefferies LLC - Equity Analyst*

Can we talk about OpEx a little bit. It continues to stand out. And if you could just maybe comment on its trajectory from here? And then is there anything other than maybe conservatism that keeps you from bringing the full-year guide down?

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

Andy here. Yes, so I think I can take this one in terms of we did set our budget at $10.2 billion, and that was, as a reminder, $400 million lower than last year. And as you point out, our 1Q results were very strong. We're really pleased with them. And it's predominantly being driven by that we are taking costs faster than we'd originally premised from our cost reductions, both on the labor side and on the non-labor side with our lease operating costs.

So when we look at it and Q1 is reinforcing this, we're very confident that we're going to hit that $1 billion in run-rate savings by the year-end. But really to get, I think, to the heart of your question in terms of guidance. I think it is only the first quarter. We're very, very pleased with how things have gone. But we'd like a little bit more time before we revisit whether we would want to reduce guidance or not.

Operator

Devin McDermott, Morgan Stanley.

Devin McDermott - *Morgan Stanley & Co Ltd - Analyst*

I wanted to ask on the LNG portfolio outside of the Middle East first, just a little bit of additional detail on this EG agreement you signed and more broadly, you have this big commercial portfolio of LNG offtake contracts, including 5 million tons off of Port Arthur. I was wondering if you could just give an update on where you stand in marketing and placing those commercial LNG volumes? I'd imagine have gotten more valuable with everything going on in the market right now.

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

Sure. I can start with the second half of your question and then specifically to Equatorial Guinea, I'll let Kirk jump in and maybe share a bit more on that. So yes, our LNG strategy, we -- on the commercial side, we really couldn't be more pleased with the progress we're making. I think as you say that what's happening in the market right now, our view is that we have seen a structural tightening of global LNG, not just for this year but for quite some time to go.

You'll recall that pre all the events in the Middle East, we actually had a bit of a contrarian sort of view versus consensus where we thought the market was more in balance versus sort of the thesis of a bit of a glut. So that's obviously all gone away now. And depending -- I think everyone is now sort of seeing sort of the tightening market.

And as we look at it specifically, where we -- we're in a situation where we've got sort of first movement advantage here now where we've pretty pleased that we put our 10 million tonnes that we already have in place. Just like we think about our E&P portfolio, low cost of supply, in this world, low liquefaction costs are important, we've got that where we've already placed the first 5 million tonnes predominantly to Europe and a bit into Asia for Phase 1. And as you can imagine, sort of the conversations we're having about placing sort of what else we have is intensifying right now with interest in sort of in those volumes that we have.

So I think it's just reinforced. The global security element of it as well in terms of the importance of having positions on the Gulf Coast and the value of that. And that's really just played into our strategy really say the first mover event has been very important to us on the commercial side.

And probably one last comment to make before passing it off to Kirk. It's -- we'd be remiss not to also mention sort of our -- the rest of our resource LNG business outside of commercial with APLNG and others that we're effectively, those projects are priced off of long-term contracts linked to Brent for the most part. So they're also sort of doing well in this environment as well.

So I think the LNG strategy is all proving out very nicely for us sort of along the lines that we would hope. And then maybe specific to your Equatorial Guinea question. I'll let Kirk jump in.

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

Devin, certainly, as you're pointing to, the EG LNG asset came to us through the Marathon acquisition, and it came with a strong reputation of performance. And so the question for us was really about longevity. And the more we've come to understand just the performance and the capability of that asset and that organization. We've just been really quite pleased.

As described, certainly in the release, we were able to strike an agreement, a tolling agreement with a third party at EG LNG. And so again, maybe to just step back a bit, this EG LNG asset for us or the Equatorial Guinea asset comes with an upstream operation from the Alba unit. Obviously, we have production facilities offshore, and then there on the island next to Malabo, the capital. And then, of course, we have an equity position in EG LNG as well.

And so our ability then through EG LNG to strike this agreement then comes with an opportunity to further extend the life of this EG LNG asset. It allows us to run that facility at a strong utilization rate and pushes the life of that asset again well into the 2030s. And that gives us a bit of time, which you've also seen some press from us around the HOAs that we've been striking there with the Ministry in Equatorial Guinea looking at discovered resource.

And I think that's an important clarification, which is there are opportunities, known resource, specifically gas in and around the island and Equatorial Guinea waters that we can begin pursuing to understand what those look like for us to bring those to a commercial opportunity. And again, utilize the ullage of the capacity that will exist for us long term in that asset.

So again, it's an interesting asset. Sales out of EG LNG consists of both SPA and a long-term SPA as well as spot. And it's in a great position to take cargoes both north into Europe or around the horn into Asia. So again, pleased with how this asset is continuing to prove itself out there as well.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

I had a quick follow-up on LNG. I was wondering if you could comment how some of the Middle East disruptions are impacting your view of the LNG macro picture. I was wondering if perhaps you can give us a little bit of an update on the NFE and NFS projects, just given some of the disruptions in that part of the world?

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

Yes, I can start with the macro and then Kirk can go into the specifics on NFE and NFS. From a macro perspective, I kind of touched on this on an earlier answer, but if you think about what's actually happened with the two months that we've basically had, Qatar production shut in, in terms of not going through the straight. That's 20% basically of the LNG sort of that's not flowing. And maybe a better way to put that into context so that people can visualize it. That equates to something like 200 cargoes that have not basically sailed. So, 200 cargoes haven't been delivered.

So our view of the macro is that we likely have already seen a little bit of a structural change here where there's going to be LNG shortages for quite some time. And when we look at basically where we're at with this is it's going to be a situation where prices are likely going to be quite constructive for a period of time as really people are going to have to basically bid on price to sort of manage the demand supply piece of this equation.

And I think when you look at what Qatar's publicly said around the damage to Ras Laffan that it's going to take some time to get that capacity back on the market as well. So our in-house view is that we've essentially seen a bit of a structural change on LNG with all that's happened and it's going to take quite a long time to basically get anything back close to where we used to be.

So I think with that, I can let Kirk talk specifically about sort of our position in NFE and NFS but -- so the broader macro is one where I think this is sort of crystallizing to be a little different to the oil in terms of where we know we kind of start to know where we are with this.

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

I would add too, Arun, before Kirk jumps in on NFE and NFS that we're watching gas inventories in Europe that today are well below where they should be given the build that they should be experiencing. So really concerned, depending on the when winter comes across Northern Europe and how hard that winter comes is the gas going to be there. Certainly, the inventories that today at this moment in time would put a kind of a blinky light on some of that going forward. So maybe Kirk can talk specifically about Qatar.

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

Yes. Maybe just a few quick clarifying comments, Arun, on how this certainly is affecting us. Naturally, I think you understand and folks know that one, our single producing asset there in Qatar is N(3). And as a run rate, that was roughly 80,000 barrels of oil equivalent here last year. So a good run rate, and that's roughly 3% of our total company production and very similar on total CFO. So, worth clarifying that the remainder of our global portfolio has been largely unaffected, really unaffected by these recent events. So it's really been quite contained to just simply this N(3) asset.

And naturally, as you'd expect, QatarEnergy QE executed a very controlled ramp down and ultimately largely a shutdown across most of their trains there at Ras Laffan for both security and process integrity reasons, but also because clearly, as Andy mentioned, with the straight closed, there's just limited capacity, if any, to lift cargoes there. As QE disclosed, two trains were struck. Those were not ours. And again, that took just under 12 MTPA off the market.

And QatarEnergy has been quite explicit about the fact that they expect that to impact the global market for upwards of three to five years. And so again, unaffected for us. And while it's easy to conflate the construction of NFE/NFS with the operation of those, they're really quite separate. And what we are pleased to see is despite the conflict construction on NFE and NFS both has been progressing. Now naturally, there has been some impacts and some interruptions, but much different than on operations.

And so -- also, while QE has disclosed that they do expect delays, it's a bit premature to provide really strong guidance on just specifically how that's going to manifest. But I would say, largely, we're expecting the delay to be to the tune of months. And you'll also recall QE guided on second half of this year's start-up. And so it could be possible certainly that, that extends into the early part of next year.

So again, we chose to simply guide on production for the company on 2Q removing that from guidance. Certainly felt like that was best in terms of clarity for all and then we'll be watching this closely as both construction and our own production there in QE continue to evolve, very conflict dependent. Hopefully, that's helpful.

Operator

Bob Brackett, Bernstein Research.

Bob Brackett - *Sanford C Bernstein & Co LLC - Analyst*

Apologies for a bit of an educational question, but there's a couple of topics that I'm working on educating folks and you may help. One is just the idea of 101 on price realizations, especially as they pertain to timing given the very sharp moves in crude price we've seen. And the second would be a bit of 101 around the engineering of shut-ins. You guys have certainly a 2020 track record of understanding that stuff, shut-ins and the potential long-term impacts to production. I appreciate that.

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

Okay. Bob, Andy here. I'll start with the -- maybe the first part of that question on pricing. I'm looking forward to reading your report on this because you can probably teach us a thing or two as well. But maybe I'll describe it from sort of our perspective from ConocoPhillips. And hopefully, that's helpful, and I'll let Ryan maybe mention -- talk about the other parts of the question.

So in terms of sort of -- I think it might be -- if I answer your question from the pricing, really from our portfolio perspective and then you can sort of -- you can infer from that. When you think about our portfolio, we're in a situation where about 40% of our crude volume is linked to either Alaska or international price markers. And conveniently, that's split pretty equally between the two.

And then specifically to how the -- what we're linked to and how the pricing works, the international crude oil volumes, they're mainly linked to dated Brent pricing, which you've been seeing, we're all -- I think everyone is now talking about dated and ICE like we haven't done it in a long time. But you're seeing basically how the dated Brent basically has been trading at a premium to ICE, more the physical to the ICE.

Now on the ANS side of things for us, ANS is effectively priced off of ICE Brent. So we basically have a bit of a 50-50 split between the two, but with a lot of Brent leverage. And then -- specifically to your question around then, you do see a bit of a lag basically in terms of when do you see the cash versus when do you see the earnings related to these things? So you'll see it flow through the earnings first, obviously, but with the lag basically in timing of when the cash actually comes in.

And that varies basically market to market for us. But you'll start to see sort of the cash more meaningfully come in sort of a month or so later. So that hopefully helps us explain our exposure to sort of it and sort of maybe help you sort of understand sort of how the importance of whether we're on dated or whether on ICE.

But I am going to take an opportunity while you asked the question, there's another point that sometimes gets lost in all of this, this quarter. But yes, we've got that global exposure, and that's really important. But I also want to sort of just mention on our realizations that we have a large Lower 48 component as well, which is obviously priced off of WTI. And we were really pleased with the realizations we were getting on our WTI. I think we had about a 98% realization this quarter.

And that might get a bit lost when you look at our total company realization when it all gets mixed together because when you mix it all together, you had three or four things happening with you saw the WTI to Brent diff really, really expand out to about $9 a barrel. And then obviously, you've got the timing of the sales that we have in places like Norway. But it is a pretty complicated set of moving parts right now. And there's going to be some timing between cash and earnings that are going to take a month or two to sort of all start to line back up.

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

And on your second part, Bob, I assume what you're talking about is the subsurface impact to shut in. And I guess some of our experience would be -- don't have direct experience with a lot of the Middle Eastern assets, Saudi and UAE and others, but probably similar to what we have on the North Slope, very large, productive, high porosity, high permeability assets like that, we wouldn't expect a whole lot of problem with them coming back to -- it will be a ramp-up period to be coming back to pretty much full capacity, minus any surface constraints or issues that were created as a result of damage that they might have above ground.

But in some of these, you have to ask here, are they keeping the waterflood going while they're shutting in, if that's the case, they're probably building pressure and you probably get some flush production. So it's probably very, very high-level answer to your question, but I wouldn't expect a huge supply impact as they bring back on these fields or damage to the subsurface.

Operator

Josh Silverstein, UBS.

Josh Silverstein - *UBS AG - Analyst*

I wanted to get an M&A update from you guys, maybe more from a divestiture angle. I know you guys are very resource rich as you mentioned, and you do have an ongoing divestiture program. I was just curious if these non-core assets are you seeing strengthening valuations for these right now given the higher pricing, does it make you want to be more aggressive in selling assets into this market? And then maybe just an update as to how you're thinking about the Port Arthur Phase 1 equity stake that you have on the investor front?

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

Yes. I can take that question. So probably worth us putting our divestiture program that we've announced sort of in context. We'd announced a $5 billion program and $3 billion of that is already behind us. So there's about $2 billion of the program that's to go. And I would really very much put this in sort of the business as usual for us. I think it's -- I'll say because I think it's out there in the public markets and being talked about a lot. We do have data room opened in the Permian right now, and we've got a couple of packages in that.

And -- but this -- it's really important when we think about this. It's not -- the Permian is not one sort of big thing. It's a collection of assets within a basin. And these are assets that we would consider within the Permian that are non-core to us, probably something that we wouldn't get to in 10 to 15 years, given the depth of our inventory. And of course, yes, we are seeing sort of a lot of interest in that.

But I think it's very, very important to sort of emphasize I think our track record will show this, that we are not going to be schedule driven by this. This will be -- and we won't sell anything that we're not getting full value for. So, we'll go through a process and if we get offers for full value for non-core assets that we're not going to develop for a while, we'll certainly take a look at it. But it's very much around the edges and just the usual portfolio type cleanup work that we always do.

And then to the last part of your question on Port Arthur Phase 1, we're kind of in a perfect situation here where we certainly don't need to sell anything. That asset is being derisked every day as it comes closer to first production and we'll have that asset online in 2027. So, we can't wait to see that happen. And it's -- I think everything that's happened in the Middle East has just reemphasized sort of the importance of having these secure assets that we have in our portfolio.

So maybe a day will come in the future where we get an offer that basically, it fits into sort of an infrastructure type investment. But we're certainly under sort of no need to basically sell that asset. And I can't really see why we would contemplate that while it's still under construction. We'd rather get it on and maybe in the future it isn't core, but nothing there that I would say that we're not happy with.

Operator

Philip Jungwirth, BMO Capital Markets.

Phillip Jungwirth - *Bank of Montreal - Analyst*

Your Montney position has a lot of resource and you've had better results than some of the offset operators up there. Just wondering what's the appetite or value creation opportunity to add to this liquids-rich position where others might not have the same technical understanding or operational capabilities? And separately, could Canada at all fit into the LNG offtake strategy, if you were to target the high end of 10 to 15 MTPA?

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

Yes, Phillip. I appreciate the question on Montney. We've been continuing to see some really strong performance, and certainly, as you highlight, coming out of our Montney asset. We've been progressing this in a very disciplined and deliberate manner. And while we're out of the appraisal phase, we are admittedly still in what we would describe as early development, actively optimizing our plans and incorporating all of the learnings that are really quite unique to the basin.

And as well as all of the optimizations that we're able to reap from our mature and very distinguished position here in the Lower 48. We've been running roughly one rig and expect to continue in a very similar pace and fashion because, again, certainly, as we've experienced in the Lower 48, when we naturally pair up really strong crews, whether it be drilling and completions with each other. We, too, are seeing some really strong performance across the two.

And we like the performance again because it is so strong liquids. We're roughly 50% liquids with a couple of streams there between NGLs and then condensate and crude, and we're able to take advantage within that liquids market of each one of those. And so it's a very competitive resource. Naturally, we do, in fact, because we have such a strong position, and we've been seeing such good performance. We're watching the opportunities. We watch the landscape, but certainly as it relates to M&A or BD work, we'll be smart about this.

And if we see there's an opportunity that creates a lot of synergies for us, naturally, we'd entertain that. And then, of course, on the gas side, because we are so dominant in the liquids position, this is not a major driver for us. And in fact, we're naturally hedged to some degree because we use fuel gas. We use the gas directly associated with Surmont and our operations there in the oil sands. So I would say we're encouraged to hear that there are plans for the next phase of LNG offtake coming out of Canada.

We'd like to see Canada bringing much more scope and scale at a better pace there. And so I would just say our growth plans are certainly dependent on offtake to get very aggressive in the Montney with our own development plans are going to -- we're going to need to see a call on those barrels and on that gas and more offtake coming out of BC. So again, I would just say this is something for us to watch carefully, and we'd like to see some more progress by those who are maturing those projects.

Andy O’Brien

Maybe I'll just quickly jump in there as well, very directly from a commercial LNG perspective. We'd be very happy to have a bit more offtake on the West Coast. But just like our E&P portfolio, with cost of supply, liquefaction fees basically drives everything. And as we look at it, if there's competitive liquefaction fees, from expansions that happen and new projects in Canada, we'd be -- we'd certainly want to take a look at that just like we'd take to look at offtake from many other locations. So yes. I think having some West Coast offtake wouldn't be a bad thing in our portfolio.

Operator

Alastair Syme, Citi.

Alastair Syme - *Citi Infrastructure Investments LLC - Analyst*

I wonder if I can get you to talk to the attractiveness of incremental capital of the Delaware versus refrac opportunities in the Eagle Ford? How would you compare and contrast those?

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

Yes. So if you look at the Delaware and Eagle Ford, obviously, they're quite different. But on the refracs in the Eagle Ford, we do typically do 50 or 60 in a year -- you can think about -- you can execute one for about 60% of a development well and get a 60% uplift on that original completion on your EOR. So, in that case, you're looking at kind of mid-$30 cost of supply to upper $30 for refracs. If you then go to the Delaware, which is some of our lower cost of supply, you're executing currently kind of the low $30s to mid-30s.

So from an overall Delaware, we'll have a stronger overall return than a refrac, but they're very, very close. We're talking probably $2 to $5 of cost supply difference. So very, very, very competitive in the portfolio between those two opportunity sets.

Operator

Kevin MacCurdy, Pickering Energy Partners.

Kevin MacCurdy - *Pickering Energy Partners - Analyst*

Looking at the updated capital program this year, you addressed the Permian activity earlier. But on slide 5 of your deck, you show some potential variance in regard to the macro, Middle East uncertainty. Can you expand on that a little bit? Would this just be deferred Middle East spending? Or are there any other considerations represented in that chart?

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

I think predominantly, I think, as Kirk's covered and I've covered it earlier, it's really a range of uncertainty on what happens with NFE and NFS capital during the year. I think Nick also covered one of the other uncertainties and Ryan covered that we don't know exactly what's going to happen on the non-operated side in the Lower 48, but we're not going to -- as we described, we're not going to put ourselves in a situation where if we get balloted that we won't participate in low cost of supply projects.

So I would just take it as a general uncertainty bar right now in a very uncertain world basically.

Operator

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