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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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Stephen Richardson *Evercore Inc. - Analyst*

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Douglas Leggate *Wolfe Research LLC - Equity Analyst*

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PRESENTATION

Operator

Welcome to the second-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 second-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 this morning with opening remarks, after which the team will be available for your questions. As a reminder, for the Q&A portion, we will be taking one question per caller, consistent with our normal practice. A few other quick reminders. First, along with today's release, we published supplemental financial materials and a slide presentation, which you can find on the Investor Relations website.

Second, during this call, we will make forward-looking statements based on current expectations. Actual results may differ due to factors noted in today's release and in our periodic SEC filings. We'll make reference to some non-GAAP financial measures. 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*

Thank you, Guy, and thank you to everyone for joining our second-quarter 2026 earnings conference call. Before I get into our quarterly results, I want to acknowledge the other announcement we made this morning that I will be retiring as CEO effective September 1. I've spent more than 40 years at ConocoPhillips and have had the honor of leading the company for the past 14 years.

We have some of the most talented employees in the industry. And together, we have positioned the company for long-term success, with a track record of delivering superior returns on and of capital through the cycles, and I'm incredibly proud of what we've accomplished together. And I'm also excited that Andy will assume the role of President and CEO.

You all know Andy well already. He's been with the company almost 30 years. I don't need to list his credentials, but I do want to take the opportunity to call out the valuable contributions he's already made, helping to shape our company and strategy. His leadership experience and deep understanding of our business make him well positioned to lead the company forward, and I have full confidence in him and the leadership team he has chosen.

I will assume a transitional role of Executive Chairman to support a smooth leadership transition. Andy will have full accountability for leading the company and managing day-to-day operations. I want to thank our employees and the Board for their confidence they have shown in me over the years and our shareholders for their continued confidence in ConocoPhillips.

Let me now turn to the results for the quarter. ConocoPhillips delivered strong second-quarter results. Production was above the high end of our guidance range with our peer-leading Permian position, achieving a new record of over 900,000 barrels of oil equivalent per day. We generated over $4 billion of free cash flow, and we increased shareholder distributions to $3 billion, doubling our share repurchases from the prior quarter.

We also made meaningful progress on strategic initiatives that further strengthen our portfolio and support long-term value creation. We achieved our $5 billion disposition target ahead of schedule, expanded our commercial LNG offtake portfolio and added new growth opportunities in the Middle East at an attractive cost of supply. Simply put, ConocoPhillips is in a stronger position than ever before.

We have the highest quality asset base in the sector with the deepest and most capitally efficient Lower 48 inventory and a diversified portfolio of low cost of supply legacy assets. We are executing well and driving continuous improvement. Our balance sheet is rock solid, with leverage well below one times and cash of more than $8 billion.

We continue to lead the peer group in returning capital to shareholders as we've done in the last decade. Our cost reduction program is progressing ahead of plan. Our LNG projects will be contributing in 2027, and Willow continues to hit all key milestones in advance of first oil in early 2029. We remain firmly on track to deliver our $7 billion free cash flow inflection by 2029, effectively doubling last year's total free cash flow. All of this is made possible by the best people in the business, and I'm pleased to transition our leadership of the company with us being in such a strong position.

So with that, let me turn the call to Andy to discuss our second-quarter results and outlook in more detail.

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

Thank you, Ryan, and thanks to you and the Board for the confidence that you've shown in me. I'm excited to step into the role of President and CEO. The company has never been in a better position with a great portfolio and a strong foundation thanks to Ryan's leadership and our world-class workforce. Kirk and Nick will remain important members of the executive leadership team and trusted partners as we move forward, continuing in their role overseeing our operations.

And I'm pleased to welcome Konnie Haynes-Welsh to the team, our new Chief Financial Officer. She will be a great addition as we build on the strong foundation already in place. I'm also looking forward to working with our broader organization as we continue executing with the same discipline and focus that have served us so well. Turning now to our second-quarter performance. We produced 2,248,000 barrels of oil equivalent per day.

That was above the high end of our guidance, driven by strong operational performance across our global portfolio, including record Permian production. We generated $3.24 per share in adjusted earnings. Cash flow from operations was $7.2 billion and after $3 billion of capex, that translated into $4.2 billion of free cash flow.

We increased our second-quarter shareholder distributions to $3 billion. That included doubling share repurchases to $2 billion, plus $1 billion of ordinary dividends. And we ended the quarter with $8.1 billion of cash and short-term investments, along with $1.2 billion of liquid long-term investments. In short, this was another quarter of exceptional operational and financial execution.

Turning to our outlook. Our full-year guidance items are unchanged. We remain on track to deliver our plan. For distributions, we continue to target returning 45% of our CFO to shareholders this year. We averaged about 40% for the first half, meaning we expect to increase the distribution percentage over the second half of the year.

For third-quarter production, our guidance range is 2,290,000 to 2,320,000 barrels of oil equivalent per day. This improvement from the second quarter is driven by a production ramp in Qatar and continued Lower 48 growth. This more than offsets the impact of non-core asset sales of 15,000 barrels of oil equivalent per day in July.

Now let me walk you through the three strategic updates. The completion of our disposition program, the additions to our commercial LNG portfolio and our new international opportunities. First, we achieved our $5 billion disposition target ahead of schedule, with $1.7 billion of non-core Lower 48 asset sales in July, and we were really pleased with the value we captured for these assets.

While this completes our announced disposition program, disciplined portfolio management remains central to how we run ConocoPhillips. So we'll continue to high-grade and optimize our portfolio. That work never stops. Second, we recently signed two LNG offtake agreements each for 1 million tonnes per annum, one in Indonesia and one on the US Gulf Coast.

These additions bring our total offtake for 12 million tonnes per annum and marked another important step in scaling this business. Our commercial LNG strategy builds on our global scale and decades of resource LNG experience, allowing us to move lower value natural gas into premium-priced international markets while maintaining full value chain control to maximize margins through the cycle.

And third, we signed strategic agreements for low cost of supply growth opportunities in Iraq and Syria. This builds on the improved fiscal terms we signed in Libya earlier this year. These opportunities are part of a targeted and deliberate strategy to build on our advantaged, globally diversified portfolio. Each is a high-quality, long-life conventional asset with demonstrated production and meaningful redevelopment potential. They have attractive entry costs at highly competitive cost of supply. These fields are already producing today, and we expect the production to largely fund the redevelopment, delivering longer-term free cash flow upside with little to no impact on our capital spending.

To wrap up, our strategic priorities are unchanged. They are clear, consistent and durable and they have served us well for the last decade. We will continue to grow our dividend at a rate competitive with the top quartile of the S&P 500. We will protect and further strengthen our investment-grade balance sheet. We will return a significant portion of our CFO to shareholders right off the top.

And only after meeting all these priorities, we will evaluate disciplined growth with a focus on improving our returns on capital employed, and we are meeting these priorities while reinvesting to deliver a peer-leading $7 billion free cash flow inflection by 2029. That inflection is well underway. As free cash flow grows, our breakeven price comes down, our reinvestment rate comes down, and our financial strength and competitive positioning further improve. Every measure moves meaningfully in the right direction. That concludes our prepared remarks.

I'll now turn it back to the operator to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Ryan, what a great quarter to close on. And Andy, congratulations and well deserved on becoming the CEO. And Ryan, you've been one of the most consequential leaders in the history of the energy industry, and it's hard to imagine it was just 10 years ago, you had that defining Analyst Day that really laid the foundation for what the sector should look like, specifically the E&P sector.

So my question, Ryan, is why now? In terms of retiring and how you thought about the approach to succession planning? And then maybe bigger picture, as you reflect on your career, any advice you want to leave us all with as an investment and an energy community about how the sector can continuously improve from here?

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

Well, thank you, Neil. A lot in that. And I appreciate the kind words and really thank everybody on the call for their support personally and the confidence that you've shown in our company and we're committed to continuing that. There's probably never a good time, but succession planning has really been a fundamental part of my career and what we've done with the Board.

We have a very robust, evergreen process to ensure that we get the right leadership at every level in the company and it's always been front of mind. I've told a number of you in the past the very first board meeting I had with a new Board when I first became CEO, one of the topics was succession because I swore I wasn't going to go through a process that I went through somewhere down the road.

I've been in this business for 42 years, seen a lot and that includes 14 years as the CEO of the company. So, at the moment, I love the business. And we knew this moment was always going to come at some point in time. I'm proud of what we've accomplished. And like I said, we've been planning for quite some time. I think in terms of the timeline, I would say three things, Neil.

First, we wouldn't do this if I didn't think the company was in a strong position. And as Andy outlined in his comments about the outlook and the quarter, I don't think our portfolio has ever been stronger. We're executing well on all the projects and all the exploitation that we're doing. Everything is on track. Cost reduction programs are working well, and we're well on our way to delivering the $7 billion of free cash flow that we've committed that we're going to do in the company.

So one, I don't think the company has ever been in a stronger position. And I wouldn't leave if I didn't think that was the case. Second, I think you want to know that you're turning it over to the right leader who will take the company to the next level, and I'm confident that Andy is that person. He's been with me for 30 years. He's helped shape our execution, our strategy and bring strong leadership, and he's played really a key role in our success that we've had to date.

And then third, I would say, look, I've had a 14-year run, which is phenomenal. And I've just been so proud of the team, the company, what we've accomplished. It's been through lots of ups and downs in this business. But when you think about that, if I go much longer, two, three, four years, I don't give the next team at least a decade to be able to put their fingerprints and take this company onward and upward.

And so it's an important time to that because with Andy's leadership and the team that he's built and put around him it's going to take our company to a bigger and better place. So, I think that's just, now is the right time to be thinking about that and doing this. My advice, look this is such an important business in the world. We play in the middle of sustainability, of energy security and national security.

No matter where you go around the world, it's a really, really important business. And there'll be ups and there will be downs. It's still got some cycle time to the business. So it demands sort of investors and people like yourself that take confidence in the company, take confidence in the management team, confidence in the portfolio and the execution that we're executing and hang with us.

We're going to be here a long time. It's an important business. It's an important industry. We've all seen why energy security is becoming concerns for countries around the whole world. So I think what we're doing is really, really important to the world. It's important with this AI revolution that's coming, and we're going to benefit from that as well. But we just got to increase the interest in us, we have to perform.

We need to get back to a higher percentage of the S&P 500. And to do that, you got to compete against the S&P 500, and that's what we intend to do at ConocoPhillips. So thank you for the kind words, Neil. Really appreciate it, and thanks for your confidence and advice over the years.

Operator

Steve Richardson, Evercore ISI.

Stephen Richardson - *Evercore Inc. - Analyst*

Ryan, you've left an indelible mark on the industry and all of us who are involved. So, thank you for that. Your voice on these calls will be missed.

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

Thank you, Steve.

Stephen Richardson - *Evercore Inc. - Analyst*

Andy, appreciate the prepared remarks, but I would love for you to expand a little, particularly about your vision for ConocoPhillips and where do you aspire to take the organization in the next couple of years.

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

Yes. Thanks, Steve. I appreciate the question. Let me just start with sort of, I think, where Ryan ended. I've been very fortunate to have the opportunity to be involved in all the major strategic decisions that we've made over the past decade. So that should give you confidence that the key pillars of our strategy will remain unchanged. Our cost of supply focus, the capital allocation framework, our commitment to competitive and improving returns on and of capital, and our focus on disciplined execution, that's not changing.

But what I would say is don't confuse consistency of strategy with complacency. The goal of this leadership team is going to be to raise the bar on our performance and unlock even more value. But within our long-held capital allocation framework that works so well, we see tremendous potential for the company as we move into the next stage.

But top of mind is that our priorities are straightforward. We've got to keep executing the plan. We've got to deliver our major projects and cost reduction program that underpin our $7 billion free cash flow inflection – that is on track. That is going to be sort of hyperfocus for the team and myself. We will continue high grading the portfolio.

That's something that we've spoken about a lot in the past, and you think how our portfolio has changed over the years. We don't look at the assets as being static. We make sure all of our assets over time compete on a cost of supply base in our portfolio. So, portfolio high grading is something that you'll see continue at ConocoPhillips. So that's really important for us.

And we're going to look for additional ways to really improve our returns within our existing framework. So, I think you'll see a fair bit of continuity. It's not about one big change. It's about the cumulative impact of disciplined execution, continuous improvement, our strong behaviors and the organization that we have that drives value. And we have that. We have world-class employees and their ability to innovate and drive improvement is a key part of how we're going to continue to unlock value as we go forward.

Operator

Phillip Jungwirth, BMO.

Phillip Jungwirth - *BMO Capital Markets - Analyst*

Thanks and also, congrats, Ryan, on your retirement and really positioning the company exceptionally well for the long term. Great to see Andy's appointment to CEO next month. For the question, just want to touch on Qatar and get an update with what you're seeing there across the producing assets and also the NFE and NFS projects. And you did reiterate full-year production guidance despite the divestitures and Qatar not being fully back here in the third quarter. Just wondering what the risking or assumptions are around Qatar returning?

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

Phil, this is Kirk. Yes, certainly, as you're pointing out, there's been quite a bit of flux and forward looking certainly some uncertainty as it relates to conflict and the impacts that are playing out for us with Qatar. As you saw in the second quarter, Ras Laffan was largely shut in, although we did see some pretty limited volumes coming out of that business. And that was, as you would expect, it's a function of the ramp down that took place early in the quarter.

Naturally, there's a need to support local demand and consumption there in country, and they were able to achieve some of that certainly through our train. The planned turnaround that we had premised there in the second quarter, we were able to successfully execute a bit of upside here or glass half full, taking advantage of the downtime that did exist there at Ras Laffan.

We were able to get that work done so that as that train is expected to ramp up certainly over the next forward-looking quarter here in 3Q, we can be in a strong position of high uptime and execution coming out of that downtime. So certainly, as you're inquiring looking into the third quarter, our guidance does assume a ramp across the quarter.

And naturally, there's a fair bit of obvious uncertainty around the pace of the ramp as well as just overall throughput through the quarter. And so what we've done is just capture that within the uncertainty range that exists there in our total company and our guidance with respect to Qatar. Now if I move forward then into NFE and NFS, it can oftentimes get conflated with the downtime and some of the issues that we've had naturally around production with the Strait being closed.

But those projects were progressing well prior to the conflict, and they continue to progress really quite nicely through the conflict, especially the onshore build out of the liquefaction trains. And so naturally, of course, we're careful to always defer to Qatar Energy on formal updates. But what we're seeing from the schedule, the productivity we're seeing coming out of that, we're expecting any delays that may come on first gas or first cargo to be in the nature of months, not a full year.

And so we're not expecting any delays coming out of those projects to meaningfully impact our free cash flow that we're continuing to see progress through the next couple of years. So strong confidence in what we're expecting coming out of Qatar.

Operator

Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Ryan, a bit of an end of era here. But I guess my biggest takeaway is there's hope for Guy Baber yet, right, given that –Andy used to run IR.

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

Well, I'm going to I'll miss the banter, Doug.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Good luck to you all. So my question, Andy, is, look, you're still guiding $12 billion, $12.5 billion. We know that peak spending of Willow is still ahead. The critical path, it seems to us to get to that huge free cash flow inflection is that spending comes down when Willow comes up. So my question is simply this. Is that the plan?

Or is there another major reset in long-term capex that causes that spending not to come down because if the answer is no, then the free cash flow inflection is kind of baked in. Yet the market doesn't yet seem to have confidence in it from at least from our discussion. So that's my question. And again, good luck to you all, congratulations.

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

Yes. Thanks, Doug. Let me just start with a correction. Peak capex of Willow is behind us. So when we -- to the first part of your answer is we passed the peak of Willow. And then the second part of your answer, we absolutely expect our capex to move lower from here, particularly as Willow comes online early in 2029. So the short answer is yes, capex comes down.

But I think that's only part of the story. And I think the bigger part of the story is what's happening to our reinvestment rate and our breakeven. Both of those come down structurally. Our free cash flow breakevens moved from the mid-40s WTI today to the low 30s by 2029. And perhaps, we don't talk about this enough, but the other side of that coin is obviously a lower reinvestment rate.

So we're meaningfully moving this in the right direction. We're improving the financial strength and the flexibility of the company. That's going to enable us over time to return more capital to our shareholders. And I do want to say that we don't have expectations that we're going to go to zero growth capital, maintenance levels once Willow is set up.

We'll continue to invest in our Lower 48 portfolio and our A&I portfolio, but for modest growth. But I want to emphasize, and I can't emphasize this strongly enough, that's sort of structurally lower reinvestment rate than where we are today.

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

And I would add, Doug, that we get some of this feedback as well. And you guys -- everybody knows us well enough. We have a high said/did ratio. We don't say things we don't intend to go do. So when we put out the $7 billion free cash flow inflection, you can count that we're going to – Andy, we all and Andy's team is going to deliver that. And there's two parts.

The CFO is going to go up, clearly, as these projects come online, but the capital is coming down, and we're going to have choices and options even post Willow start-up around what we do with the free cash flow that we're generating. And it's going to be significant. So and it starts by just making sure that we get these projects online.

You heard Kirk talk about LNG and the Willow question, but it's on track, and we're seeing the cost reductions that we expect to get, and we're going to see the capital reductions that we expect between now and when Willow gets started up.

Operator

Lloyd Byrne, Jefferies.

Francis Lloyd Byrne - *Jefferies - Analyst*

Hall of fame career, Ryan. You'll be missed. And Andy, congrats. We have a lot of confidence in you and your team. It's really strong. I want to focus on Alaska. And I just wanted to discuss the -- what you can say about the exploration results, the four-well NPR-A program. And then when will we get those estimates given the public data ruling? And then maybe what it means for the implications of the plateau at Willow, just the potential out there?

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

Yes. Great question, Lloyd. So certainly, I'll start with the first part of your question, specifically on the exploration program and what we can share. Well, certainly, I'd probably point you back even to the last quarter, coming out of that exploration season it was sufficiently encouraging that we were all willing to declare, Ryan, myself, that we will positively be bringing more resources into Willow into the existing infrastructure that we have there on the North Slope in advance of even drilling more wells.

So really quite positive. Naturally, we're still working through what those results are. And again, I always try to remind folks that it takes more than one well, typically takes at least another appraisal well to confirm our development plans, but really quite positive in how we think about what those four wells came out to show us. And with that, then, of course, we steered ourselves and our eyes are already focused on next year's program in 2027. The winter season that confines our activity and exploration.

So we've already started field surveying, I think, well locations and ice roads. And then we, very importantly, submitted our federal permit applications, which are required well in advance of us putting ice out there to begin drilling. And so when I talk about federal permits, I should really make a bit of a side comment here and acknowledge the Trump administration's actions that have been continuously supporting the development of domestic resources.

Certainly, in Alaska, as I'm pointing you all towards, but even in the Lower 48, and that's showing up, it's demonstrated through ongoing permit reform efforts on the federal leases, specifically in Alaska. And of course, we're seeing a wealth of participation in the recent lease sales there in Alaska as well as even in the Lower 48. So we're pleased with the outcome of the NPR-A lease sale. The acreage that we picked up is a natural bolt-on to our large existing position that we have there in NPR-A.

And we also see it as a really positive move with strong interest from our peer companies. From our view, increased activity, naturally, it's good for the state of Alaska, but it's really good for all of us. It improves the utilization of the fixed infrastructure, ours as well as others, the service industry infrastructure in such a remote area that creates new efficiencies for ourselves and everyone else.

And so again, we see all of this as really positive news. But if I continue to bring this back to kind of your ending question, how does this play out for us against Willow. So this lease sale as well as our multiyear exploration program that we have been and we'll continue to execute, lays the groundwork for us to continue to leverage Willow and that infrastructure we're building there for decades into the future.

And you've seen this from us before. This is our playbook. We've been doing this with Kuparuk and with Alpine. So these new satellite pads that will eventually come from the exploration program and from these lease sales, will fold into our program well into the future. Naturally, there's going to be years of plateau in Willow post first oil.

And then once ullage or capacity starts to show up well into the 2030s, we'll be in a really strong position to start bringing in more oil from the satellite pads. So I'm going to continue to reinforce something that you've heard from Ryan and from Andy, just earlier this morning, which is our capital is going to come down post first oil. Capital is moving back into a very ratable expectation that you've seen from historical averages from us in the past.

Our reinvestment rates in Alaska have consistently been in the 30s and you should expect that from us post first oil well into the future. All of this continues to underpin and preserve our confidence in this free cash flow inflection that ultimately culminates with Willow in 2029. So really, really expect from us to be laying the groundwork for us to use this infrastructure for decades into the future.

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

And I'd step back, Lloyd, we just did a 20,000 foot in support some of what Kirk was saying about the President, this administration and their policies that really are strengthening our energy security and dominance here in the United States. The permitting efficiencies that Kirk is talking about, the better regulatory certainty and this regular cadence of lease sales is not only benefiting our company, but it's benefiting the industry as well.

And they’re -- the whole administration’s support is kind of just advancing these developments that help meet the energy demand that we know is increasing. So it's the Willow project, it's -- Kirk talked about the exploration sale in NPR-A and the interest that, that brought back to Alaska. We saw the lease sales in New Mexico and North Dakota here earlier this year that -- and a regular cadence of those even in the deepwater has been helpful.

And it's helped us get record production in the Permian, and we're leaning in on investments on LNG side on the Gulf Coast of Texas. So all those things are just helping to contribute to a positive investment climate that we see from this administration. So it's been helping Alaska and it's helping our company in lots of different areas, and I know helping this industry as well.

Operator

Scott Hanold, RBC Capital Markets.

Scott Hanold - *Rbc Capital Markets - Analyst*

Yes. Thanks, and I want to give my congrats to you as well, Ryan, Andy and Konnie on everything going on. For my question, I was wondering if I could delve into shareholder returns a little bit. Obviously, Andy, as you indicated, there's going to be a big step up here in the second half of the year. How do you envision that happening with buybacks?

Is it going to be ratable or are you going to be opportunistic with the incremental? And if you could further provide some context, as you start seeing that free cash flow inflection increase, I mean, we're doubling our free cash flow, like in a few years. Do you all still -- are you -- what is the plan with that payout ratio? If you stay at the 45% payout ratio, that's a pretty large quantity or do you guys think you'll eventually feather back to sort of the baseline that you have out there?

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

Yes. Thanks, Scott. A couple of things to cover there on the short term and then the medium and longer term. So I think I said in my prepared remarks, we averaged about 40% of our payout for the first half of the year. And we're continuing to basically guide to 45% for the full year. So you can do the math on how you get -- if you start with 40%, you end with 45%, what's going to happen in the second half of the year.

And we remain committed to the 45%. We don't choose to manage this quarter-to-quarter. All the volatility we've been seeing sort of in commodity price has been a pretty good reminder of why we don't do that. So I'm not going to try to guide sort of daily, weekly, monthly, what we're going to be doing. I'm just going to reaffirm that the 45% of our CFO is what we're shooting for this year.

And then as we look beyond this year and your question is as we start getting this free cash flow inflection and a materially lower reinvestment rate, and as Ryan and I have described, we're not predicting a big ramp in capex here, then that kind of starts to sort of narrow down where does that cash go? And it's -- I don't think we're contemplating feathering it back to any note, it's more -- we're going to be in a much more flexibility as these projects come online to basically look at our commitment and we think our peer-leading distribution and the way we've set the company up to have the assets, the portfolio to drive that reinvestment rate allows us to stay peer leading with our distributions, and I really don't see that changing.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Yes. Ryan, congratulations, you're one-of-a-kind and when the history books are written on US energy, US shale, you will deservedly have a couple of really important chapters. And Andy, I also want to express my congratulations to you, you're clearly the right person to lead Conoco in terms of the next stage of the company.

My question is really regarding some of the recent news flow we've gotten from the Middle East. In particular, I was wondering if you could highlight some of the opportunity set in Iraq at the Kirkuk field. Love to hear a little bit more about this transaction? And how should we think about this in terms of this transaction and your 2029 free cash flow inflection.

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

Well, thank you for your comments, and we're happy to take that question. So I'm actually going to maybe just broaden it a little bit and sort of maybe talk about Iraq and Syria. There's a lot of similarities to what we've got here. So they share pretty similar characteristics. What we're targeting here is large resource bases with low entry costs, competitive cost of supplies and then structures very importantly that become self-funding relatively quickly.

So let me just Kirkuk just look at that one a bit more specifically. Kind of a few sort of important points to note here. First, the structure, the contract structure is attractive. Those of us have been around a while will remember some of the old legacy technical service contracts in Iraq. This is not that -- under this agreement, we receive a share of the incremental production, the reserves and we recover our costs.

Second, as I've said before, is that the capital here is actually pretty modest in terms of us getting into this. We currently expect sort of this to close the Iraq transaction with Kirkuk around year-end, and we expect the acquisition capital to be in the $300 million to $500 million at close. And very importantly, that includes our share of historical costs spent to date.

It also includes our expectation of costs from now to the end of the year. So as we think about this longer term, we actually expect this joint venture to fund its own activity from its own cash flows. So no to little capital expenditures for ConocoPhillips is our base case here. And that's all interesting in terms of the structure and the funding. But most importantly, this asset competes really well within our portfolio.

The opportunities are comfortably within our cost of supply thresholds, we're looking at the cost of supply here around $30 a barrel. And again, with long-term resource upside. So that's the Kirkuk opportunity. And then in Syria, you saw a couple of announcements there, too. Now the opportunities here are a bit on the smaller side, yet they share the basic characteristics of what I just described for Iraq.

They provide us a lot of long-term optionality. And then we've also got a long history of ConocoPhillips in Syria. So that goes back several decades. We know the country well and we know the upside that's there. So I kind of try to wrap it up, I'm going to say is that the common denominator here is that we're stepping into existing, previously producing assets that are underdeveloped and they're where the redevelopment then can be funded largely from the assets own cash flow with a goal of really preserving our capital efficiency.

So we see this as having limited to no impact on our capital program. When we think about our $7 billion free cash flow inflection we laid out in 2029, that's not impacted by this at all. In fact, what we see this is as is upside to that in the future. So again, I think these are great adds to our portfolio. And I think they fit really nicely within what we described earlier of our strategy about how we always high grade the portfolio and are looking for assets to meet the characteristics that we like and add them to our portfolio. But within the framework, that's the key part within the framework of how we manage our capital programs.

Operator

Sam Margolin, Wells Fargo.

Sam Margolin - *Wells Fargo Securities LLC - Analyst*

I'm not going to be able to beat the prior congratulatory remarks. So I'll just say thanks for being a great ambassador to the space and helping to rise a tide.

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

Not necessary, Sam. Thanks.

Sam Margolin - *Wells Fargo Securities LLC - Analyst*

All right. I mean maybe we can take another level down into this reinvestment rate and payout ratio theme because it is, as other analysts have said on the call, it is the most frequent question that comes back to us from the investment community. When Conoco has an opportunity to be a peer leader in regular dividend growth, not just because of the cash flow inflection. But also because of the composition and the production mix that's changing, right, you'll have less unconventional as a percentage of your total production.

And so what are your thoughts, Andy, if you can put your CEO and CFO hat on at the same time on just any friction or points of conflict in taking that position as a leader in regular dividend growth if you worry about dividend breakeven or the overall dividend burden or if you think that is very much in play.

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

Yes. Great question. And I think you framed it up in terms of the things that we obviously think about when we think about dividend growth. I'd start with, again, continuity statement we already have peer-leading, top-quartile S&P 500 dividend growth. That's not changing. That's the plan. I absolutely with the team look really closely at sort of what does it do to our -- when we basically increased the dividend, what's happening to our breakeven.

And as I described earlier, with the free cash flow inflection we have with the capex coming down, the CFO growing up, our free cash flow breakeven is structurally reducing. So that's very constructive for the dividend. We also look very closely at our buyback program. I know you guys look at the dividend per share in terms of how much we're raising that I look very closely at the absolute dividend burden.

And having the buyback program is very helpful basically when we're increasing the dividends we have been sort of in that top quartile, sort of 8% plus type range. When we're buying back 5% of our stock on average each year, that's basically making it much more viable that we can keep doing that without having a big impact on the burden.

So yes, we look at the dividend burden, we look at the breakeven impact. And all of those things look really positive, and we feel very confident about the way we're growing the dividend on the top quartile with the S&P 500 and fully expect us to carry on with that strategy.

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

And why you didn't say it necessarily specifically, Sam, I mean, Andy referred to the share buyback program and maybe some of the criticism we get a little bit is we're procyclically buying shares. We don't believe that. When we deliver $7 billion of free cash flow over the course of the next two, three years, we believe our share price has got to improve with a doubling of that free cash flow.

So we don't believe that we're procyclically buying our shares, which is an important part of our return to, return of capital thesis, and that's only going to get more flexibility as the top line CFO continues to grow.

Operator

Betty Jiang, Barclays.

Betty Jiang - *Barclays Services Corp - Analyst*

I guess I'll just pile on the congratulations and wholeheartedly agree with everything that's been said so far. My question is on LNG, just given the headline today to add 2 million tonnes per annum one in the Southeast Asia, in Indonesia, one in Gulf Coast. Just wondering about the strategic rationale to add the Indonesia piece and how that fits into the Gulf Coast portfolio.

And then stepping out, clearly, market is pretty constructive on LNG fundamentals for the next few years. But there's still debate around balances further out as the new supply coming to the market. So just would love some thoughts on the through cycle earning power of this growing LNG marketing portfolio that you have built.

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

Let me just jump in there on the first part of your question. So yes, we added another 2 million tonnes of offtake, one in Indonesia was off the Bontang North Hub field. And then we had another one on the Gulf Coast. Now just stepping back in terms of our strategy a little bit. That's unchanged. The majority of our offtake is coming from the Gulf Coast. And we positioned ourselves to have that low cost of supply with high-quality, low liquefaction fees. And again, a lot of that -- most of that's in the Gulf Coast.

But what we're doing here is we're supplementing it with some Pacific Basin supply, again, that's low cost of supply, too. And this was always part of our strategy. And we don't expect to have a huge amount of our portfolio in the Pacific Basin. But the reason we really like to have some is it kind of, it is very beneficial for us, and particularly our commercial organization and the flexibility it provides as we start thinking about how we optimize the portfolio thinking about when we're doing substitution and diversion, having some LNG on the Pacific side is very helpful for just the overall optimization.

So it's not a change in our strategy. It's really just a tool to make sure that we can optimize and get the best margins. And then to the second part of your question around, yes, you're looking -- look where prices are right now, they are very constructive. And the way I'm going to answer this, I'm going to take a bit of a step back to sort of our views where we were prior to the war with the Iran. We were a bit of an outlier in that we were always constructive on LNG demand and LNG pricing.

We've been saying for quite some time that we think it's the part of the energy complex that's going to grow the most. It's going to double between here and 2050. So we've always had a view that the pricing in -- for LNG is going to be pretty constructive. And that's why we're building the portfolio we are -- and -- but just like our E&P portfolio, low costof supply wins in E&P and in this world, think of low liquefaction fee as the version of low cost of supply, we're making sure that we're building a portfolio that is very, very competitive.

We expect over the long run that we'll be making pretty significant cash flow from these assets. We know there will be some volatility over time, but we think that the price sort of -- the price risk here is very much asymmetric to the upside. So when we do see prices move, they tend to move a lot more on the upside than the downside. So that is something that attracts us to this.

And just to put it in context, for every $1 in MMBtu that we see in margin, that on 5 MTPA, that's about $200 million of cash flow for us. So as we as we build this portfolio up sort of to that 10 MTPA to 15 MTPA, and we start seeing those kind of margins increase. This is a very material cash flow engine for ConocoPhillips, and we think this is a really important part of the energy complex for us to have a big stake in.

Operator

Josh Silverstein, UBS.

Josh Silverstein - *UBS AG - Analyst*

Congratulations to both Andy and to Ryan as well. And Andy, maybe for you looking forward, I'm curious how you're thinking about the portfolio mix. The Lower 48 has gotten up to around 65% of the production base with Willow and LNG ramping up over the next few years, maybe that comes down a little bit. But I was curious how you see the balance of maybe unconventional versus conventional if you want to look at it that way. And maybe was the entry into Iraq, Libya and Syria kind of deliberate to kind of get you a little bit more balanced towards conventionals as well going forward?

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

Yes. Thanks. So the way we think about it is somewhat agnostic basically on where the resource comes from. So we're going to look for the best cost to supply assets that we can find. Now that said, all things being equal, it's pretty nice to be able to balance some conventional with the large and growing unconventional position we have.

So things like Willow, things like NFE, things like NFS, things like we're doing -- we've done in Iraq and even going back a bit further, some of the things we did where we increased our working interest in Surmont and we took more equity in APLNG. These are things that help balance that portfolio. But we look at the assets basically in terms of do they compete on a cost of supply basis.

And then when they do compete on a cost of supply basis, we then like to have that mix. You say it really does help us with giving us an advantage on our decline rate versus others. It helps with our reinvestment rate versus a pure unconventional company. But we're not going to overreach and do something that isn't competitive just because it's not unconventional.

We look for the best opportunities. And pretty pleased with how we've been able to balance the portfolio with the big transactions that we were able to do with -- in the unconventional to grow that position. And then sometimes some of the ones we do on the conventional side sort of slip under the radar a little bit because they're smaller, but they've accumulated to quite big numbers.

And of course, when we bring Willow on, that makes another material difference. So I certainly like having that diversity in the portfolio. I think it sort of helps us drive sort of the reinvestment rate down. And I think you'll see that continue. But not an expensive, we're not going to go and do something that -- doesn't compete on a cost of supply and that's exactly as how I described Iraq earlier is that it has all -- it ticks all the boxes from the structure, but first, second and third thing that's important is it competes on a cost of supply basis. And I think that's how the team and I are going to keep looking at this going forward.

Operator

James West, Melius Research.

James West - *Melius Research LLC - Analyst*

And Ryan, congrats on a great 14-year run as CEO, and I'm glad you're going to get some time to work on your golf game now. Congrats to Andy and Konnie as well. I guess my question follows along a bit with that portfolio strategy question. As we look at kind of the last couple of quarters, especially this quarter with some big moves into the Middle East. Should we expect a similar type of cadence of kind of new projects as we go quarter-to-quarter or year-to-year going forward? Or will there be some slowing as you have molded the story around dividend growth and free cash flow, significant ramp coming?

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

Well, this has certainly been a pretty busy quarter. So I don't want to set an expectation that we're going to do what we've done with Iraq and Syria and dispositions to the extent we have this quarter, every quarter. I'm going to steal Nick's line when it comes to Lower 48 production, sometimes it's lumpy. Things come -- sometimes they come in bunches.

So I wouldn't read into this quarter's activity as sort of a sign that we're going to be doing this kind of activity every quarter. Our teams -- we're looking at things. The Middle East is certainly an interesting space right now with a lot of activity and we're one of the few companies that can really compete in that space. And we're one of the few companies that sort of know how to be nimble and make that work.

So yes, it's an area we're looking at. But I go back to the strategy answer I gave. It's got to fit within that framework and our strategy and our capital structure, our reinvestment rate. So everything we're doing is really to enhance that. We're not going to break that structure. And so as these opportunities come along, that's what they're being evaluated against.

And it's the same on the disposition side. As we look at the portfolio, we formally achieved our $5 billion target, but that doesn't mean that disciplined looking at the portfolio stops, that's something that we do every day in the team. So I think the short answer is, it was a busy quarter. Please don't expect the exact same level of activity every quarter, but our teams are always looking for the right opportunities for ConocoPhillips.

Operator

Gabe Daoud, Truist.

Gabe Daoud - *Truist Financial - Analyst*

Congrats to Ryan and Andy as well. I just wanted to maybe ask about Lower 48 and any particular technologies that you guys are testing around improving productivity or recovery factors, particularly in the Permian. But I would also, I guess, just love generally an update around the Lower 48 and what you guys are working on.

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

You bet, Gabe, good morning. Well, let's start with on the technology side. So we are testing a range of technologies with a clear objective to not only improve recovery, but more importantly, improve capital efficiency, as Andy just mentioned, meaning that fewer dollars spent per barrel of oil on an EUR basis. So we're seeing really encouraging results from real-time fracture diagnostics where we can optimize our completions stage by stage.

We're using surfactants and far field diverter applications and may provide a little bit more detail on the real-time fracture optimization that allows us to optimize frac designs on the fly. And we're seeing -- we're adjusting stage volumes up to plus or minus 30% to improve reservoir contact and recovery. And that's given us the potential to cut completion costs and improve cost of supply.

In fact, we've seen adjustments up to 60% of the frac stages for a well versus the original basis of design. Now on the far field diverters, we've seen that work extremely well in the Eagle Ford. That's where we can divert frac energy away from offset wells and keeping the frac in the near target wellbore reducing runaway fractures or what we call frac hits, and that's improving recovery as well.

And then finally, we've heard a lot about surfactants out there. We have been testing fit-for-purpose surfactants and see encouraging results in the Permian over the last 12 months, where we've seen cumulative oil volumes and lower water oil ratios. In fact, we are realizing a range of results but up to 20% uplift in oil productivity for a treated versus untreated well.

Now we'll need to look at the longer-term performance and how that plays out, but very encouraging early results. Now as a reminder, when you look at these results, the biggest driver on productivity and recovery is still rock quality, and we have peer-leading Tier 1 inventory depth across the four basins that we operate in. And this is where we really see the differential, Gabe, as the broader shale industry matures, that rock quality advantage should translate into even wider capital efficiency advantages in our peer group.

A couple of other items on capital efficiencies that we've been really leaning into this year is really lateral length is a key driver for that. We're increasing our average lateral length by 15% this year compared to 2025. And in fact, we've doubled the number of three-mile laterals or greater this year as well. And then if you specifically look at the Permian, all of our wells that we're bringing online this year are greater than two miles with several three- and four-mile laterals being drilled.

And then as we talked about last year, that 15% improvement in D&C efficiencies, that's more feet per day, more stages per day. That continues into 2026. We're seeing that through continuous pumping, auto frac, simul frac and remote fracs. So just hats off to the team. They are really executing well. You've obviously seen it Ryan and Andy talked about the Permian production record.

We hit 920,000 in second-quarter, and that was a key driver for our outperformance and just seeing really just strong base and development well performance. Teams are executing well. And in fact, if you look at that outperformance over the first half of 2026, Permian production was up 10% year-on-year onunderlying basis. That's actually stronger than any peer major or E&P. So yes, just bottom line, executing well and hats off to our teams.

Operator

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