OVERVIEW:
COP announced acquisition of Shell Enterprises LLC's Permian Basin assets for $9.5b in cash.
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PRESENTATION

Operator

Welcome to the ConocoPhillips Market Update Conference Call. My name is James, and I'll be your operator for today's call. (Operator Instructions)

I'd now like to turn the call over to Ellen DeSanctis, Senior Vice President, Corporate Relations. Ellen, please go ahead.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Thanks, James. Good morning, and welcome to all of our listeners. We appreciate you joining us on short notice. Very pleased to have the following executives on today's call. Ryan Lance, our Chairman and CEO; and I'm joined by our 4 EVPs as well; Bill Bullock, our Chief Financial Officer; Tim Leach of Lower 48, Dominic Macklon, Strategy, Sustainability and Technology; and Nick Olds, Global Operations.

We're hosting this call to further discuss yesterday's press release announcing value-enhancing actions by the company. In conjunction with that release, we posted a short deck of supplemental material. Ryan will review that content in his prepared comments, and then we'll turn the call over for Q&A. We expect the call to last about 45 minutes.

Today, we'll make some forward-looking statements based on current expectations. Actual results could differ due to the factors described in yesterday's press release and in our periodic SEC filings. We'll also refer to some non-GAAP financial measures today, and reconciliations to the nearest corresponding GAAP measure can be found in the press release and on our website.
Thanks, again, and now I'll turn the call over to Ryan.

Ryan Lance - ConocoPhillips - Chairman & CEO

Thank you, Ellen, and good morning. My team and I are excited to discuss last night’s press release in which we announced several actions that will significantly strengthen our company’s competitive position for the future. And as I go through my remarks, I’ll refer to the page numbers of the deck Ellen just mentioned.

Slide 3 summarizes the actions which are bookended by our familiar triple mandate on the left and our proven foundational principles on the right. We announced a highly accretive acquisition of Shell’s assets in the Permian Basin for $9.5 billion in cash. This is a terrific opportunity for our company. While it’s a sizable transaction, it doesn’t change our game plan for the business. It takes it to another level.

We’re adding more high-quality assets and people to scale up our proven disciplined capital allocation framework. The deal makes us a stronger, more resilient company, but it’s especially compelling for shareholders and the industry overall. We also announced an increase in our ordinary dividend of approximately 7%. The ordinary dividend is an important component of our returns of capital approach. We set our ordinary dividend to be predictable and meaningful, but affordable through cycles. We also want to grow it with a goal to grow roughly in line with the S&P 500. Our growing dividend plus our recently announced -- already announced buyback program for this year represents over $6 billion in 2021 distributions. That’s a distribution yield of almost 8%.

Finally, we announced an improvement in our 2030 greenhouse gas emissions intensity reduction target. We’re increasing it from 35% to 45% to 40% to 50% from a 2016 baseline. And that improved target is now for both net equity and gross operated production. The transaction, the dividend raise and the improved emissions target address each of the vital elements of how our company continues to position itself as the strongest competitor in our industry.

We’re adding some of the most economically viable resources in the world, while enhancing our compelling multiyear plan and maintaining a strong balance sheet. Even after this cash transaction, we estimate balance sheet cash and investments at year-end 2021 will be almost $4 billion, which exceeds our long-stated operating and reserve cash levels. We’re further demonstrating our company’s ability and commitment to return capital to shareholders and generate compelling financial returns through cycles. And finally, we’re upping our commitment to ESG excellence.

Now let’s talk about the Permian transaction and why it makes us a stronger company, and I’m on Slide #4. As you know, we laid out a powerful 10-year plan just a few months ago that was positively received by the market. Coincidentally, at about the same time, we were invited to participate in the Shell Permian sale process. It certainly made sense for us to evaluate the properties, but the bar was very high. The deal had to meet three criteria. First, any transaction must meet our strict cost of supply and financial framework. Next, we must see a path to incremental value uplift from applying our commercial and technical skills to the acquired properties. But most of all, any deal must make the company better. For us, that means enhancing and being accretive to our compelling 10-year plan.

The acquisition of Shell’s Permian assets handily meets all three criteria. And this slide shows how impactful the transaction is to our June plan. On the left, sources and uses bars for the June 30 plan are adjusted on a pro forma basis for the new assets. The table data on the right puts the expected plan enhancements into perspective. CFO is up $20 billion to $165 billion over 10 years, and I need to remind you that that’s at a reference price of $50 per barrel WTI. Think about that. Free cash flow is higher by $10 billion as are distributions to our shareholders. In this updated plan, we distribute about 100% of today’s market cap over 10 years, again, at $50. At recent price levels, we could pay out the full market cap in just over half that time.

Our returns on capital employed improve by about three percentage points to almost 20% by the end of our plan period. That should be competitive with the top quartile of the broad market. You also see several other relevant operational and financial metrics that demonstrate how the deal will impact our key underlying drivers. Ten-year average annual capital increases by only $1 billion because we expect the reinvestment rate on these new assets to be consistent with our plan at around 50%. We’re going to run these assets under our capital allocation approach. Our expected growth rate stays modest at roughly 3%. Our cash flow sensitivities improve by over 15%. An average $10 per barrel change over the plan period
generates an additional $35 billion of CFO, up by $5 billion. This gives us greater torque to the upside, while enhancing our flexibility and resilience. And with this acquisition, we have improved our 2030 GHG intensity reduction targets by five percentage points.

Now Slide 5 summarizes the acquisition on a page. The key takeaways: accretion, scale, value upside and ESG leadership. The map on the left shows our existing Permian position in yellow and the new assets in blue. You can see how these two positions are highly complementary and contiguous. Now a few highlights. We're picking up 225,000 net acres in the most prolific part of the Delaware Basin. The resource has a very low cost of supply with stacked pay potential. The properties are 100% on nonfederal lands on the Texas side of the basin and include significant oil, gas and water pipelines and infrastructure. Estimated 2022 production of approximately 200,000 barrels of oil equivalent per day is high margin and immediately free cash flow generating.

The production mix is about 50% oil, 25% gas and 25% NGLs. At the assumed 2022 production rate and at recent strip pricing, we estimate operating cash flow of $2.6 billion next year. And based on our preliminary view of 2022 capital, that would be free cash flow of almost $2 billion. We're purchasing these assets for a headline price of $9.5 billion with an effective date of July 1. Our final outlay will adjust for the cash flows between the effective date and the closing date, and we expect to close in the fourth quarter of 2021.

So next, a few key transaction metrics. Based on strip pricing, 2022 EBITDA is 3.7 times and free cash flow yield is 20%, arguably great numbers. Flowing barrel and net acre metrics are roughly $47,000 and $16,000, respectively. Also great numbers and very competitive with recent deals, including those made at much lower priced parts of the cycle.

So to summarize, the transaction is highly accretive on key metrics. The properties are complementary and low cost of supply addition to our Permian position. The deal improves our ability to increase shareholder distributions across our 10-year plan. Post-closing as part of our ongoing resource high-grading work, we expect to increase our previously announced disposition target by $2 billion for a total of $4 billion to $5 billion by 2023. This is good business and represents additional sources of funds that can be distributed to our shareholders.

We see tremendous value upside from applying the efficiency gains we described in our June market update to this expanded portfolio. And like last year’s Concho transaction, the deal improves GHG intensity of our production mix.

Now let me go to Slide 6. In the June market update, we spent a lot of time discussing the value uplift we’re achieving as a result of the combination of our ConocoPhillips legacy Lower 48 business and Concho’s Permian position. We indicated that we were in the early innings of identifying and applying efficiencies. Today, ConocoPhillips is the leader in the Delaware Basin on capital efficiency shown on the left, and our momentum continues.

As we combine our one Lower 48 business with the high-quality assets and workforce from Shell, we’re confident we’ll drive significant improvements across many operational and financial metrics where we have a recent track record of success, and these are shown on the right, and they include better drilling day performance, more efficient completions, higher cumulative 12-month production, lower unit operating costs, better netbacks and realizations and focused efforts to lower GHG emissions. By the way, we also look forward to working with our non-operated partners on these properties to further drive efficiencies throughout the expanded position. It’s early days, but we see there’s lots of value upside to capture over time.

So moving to Slide 7. I’ve described how the deal improves our plan, represents an obvious add-on to our existing unconventional business and holds considerable upside. But I want to emphasize that while we’re adding more unconventional assets to the company, we still retain important portfolio advantages that are unique to ConocoPhillips and are shown here on this slide.

The transaction adds scale to our Permian, Lower 48 and to the company overall. We believe scale is important in this business because it enables the kind of efficiency improvements I just described. But even as we expand our Lower 48 unconventional position, our aggregate three-year base decline remains more than 30% advantaged compared to pure-play E&Ps. We also preserve our global and megatrend diversification advantage, which, we believe, is a tremendous differentiator in this business.

So let me end with a repeat of the first slide. The punchline of today -- yesterday's -- announcement actions are simple. They are strongly aligned with every aspect of our proven value proposition. The acquisition, the dividend increase and the improved GHG emissions intensity reduction
target are all consistent with the triple mandate and our foundational principles that guide our ambition to be the best E&P in this vital business. ConocoPhillips offers an exceptional plan for creating short, medium and long-term value, while embracing our important role in the energy transition.

So with that, I'll stop, and I'll turn it over to the operator for your questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from Neil Mehta of Goldman Sachs.

**Neil Mehta** - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Congratulations on the transaction. Ryan, I guess the first question is more strategic and the second one more housekeeping. How do you think about the right mix between your international and non-Lower 48 portfolio and the Shell portfolio? How do you make sure that you keep the right balance between these two businesses? And what is your message to investors about making sure that you keep the balance in check?

**Ryan Lance** - *ConocoPhillips - Chairman & CEO*

Yes. Thanks, Neil. I think we look at it through a couple of lenses. First and foremost, it goes through what -- you’re probably tired of hearing it, through our cost of supply lens. We’re after the best basins and the best opportunities of the world that compete with our portfolio. And to do that, we’ve described since November of ‘19 that it’s all-in cost of supply less than $50, but on a forward-looking basis, the investments have to compete in our portfolio at a lower than $40 cost of supply. So that’s kind of the first lens that we look at everything.

And then we start to balance things, like capital intensity. And we recognize that some of our legacy positions in Alaska, Norway, Canada, Australia, Qatar, they help us in capital intensity to help us lower that decline rate that I talked about early on, and we think that’s a competitive advantage. And we don’t want to lose that competitive advantage. So I think we are interested in expanding out. That’s why you see us competing for things like another train of LNG and NFE, while we’re doing some exploration and work in some of the other areas around the world. And while we’re supporting our legacy assets around the globe as well, whether that’s Alaska and Canada.

And so -- those are what’s important to us. And then as you think about the unconventional piece of the business, which now is over 50% of our business, we run that as a free cash flow machine. We were not running that. So we’re running that in a different fashion for modest growth, focus on returns of capital, on capital and this transaction makes that even better for the company going forward. So it is a balance of things that we look at. But first and foremost, we look at everything through our cost of supply framework.

**Neil Mehta** - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

All right. And then, Ryan, a couple of housekeeping questions. Can you remind us the product mix between oil, gas and NGLs for the assets that you acquired here? And then as we think about the closing of the transaction, we did notice the effective date was July 1. Is it fair to assume that there’s a decent amount of cash that’s going to be coming in that offsets relative to the $9.5 billion?

**Ryan Lance** - *ConocoPhillips - Chairman & CEO*

Yes, I can let Bill take those, Neil. Thank you.
Bill Bullock - ConocoPhillips - Executive VP & CFO

So yes, first, on your mix, as Ryan mentioned in his prepared remarks, it’s about 50% crude, 25% NGL and 25% gas. And then on your question about the actual transaction, it’s a $9.5 billion all-cash transaction, but it is with customary closing adjustments that are expected to reduce the number at -- for the net cash flow generated by these assets between July 1 effective date and ultimate closing date. And so notionally, we think that we’d be ultimately below $9 billion.

Operator

And our next question is from Roger Read of Wells Fargo.

Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Congratulations on the deal here. I guess one question I have, as you think about the increase in the disposition target here and about half of the acquired assets or planned to be acquired assets, you're not going to be the operator. Do those -- is that how we should be thinking about things in terms of dispositions? Or is it more, as you say, cost of supply and look broadly across the company?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. No, thanks, Roger. No, I think it's going to be driven on what kind of assets we don't think compete in the portfolio or to the right hand of our cost of supply curve. So as we look at -- we announced $2 billion to $3 billion as we came out with our market update. Those processes are well in place, and we've got assets in the market right now. There are some global assets, and there are also some Lower 48 assets in that mix. We just expect when we see this with the expanded position that we have in the Permian Basin right now, there's going to be opportunities for us to continue to high-grade the portfolio, which is what we should be doing. We should be taking things out of the right-hand side of the cost of supply curve and we should expect to continue to lower that and look for assets that don’t compete, and we expect we're going to find some.

And Tim is here too, he can speak. But we're going to make this better, and we're going to core up the leasehold. That's, we feel like we can go do that and address the -- some of the issues we've already -- I've already been approached by some of the non-operated partners to get going and do that. So absolutely, we'll be trying to make it better.

Operator

Our next question is from Doug Leggate of Bank of America.

Doug Leggate - BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research

Tremendously, logical, Ryan. So congratulations from me as well. A couple of ones from me. On the CapEx guide, it looks like, I guess, it’s about $700 million next year. And then you’re talking about $1 billion, just looking at the disclosure you’ve given. Can you walk us through how that trajectory plays out? Is this really more about Oxy holding the majority of the production flat for a period of time? Or when do you see it starting to grow? And is it predominantly on the Conoco assets at prime cycle? Just trying to understand the CapEx flexibility.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, Doug, it’s early days for us as we think about it. As we looked at the assets and looked at the DUC inventory and what’s going on, we kind of viewed roughly $700 million next year. That slowly ramps up to about $1 billion and actually goes a little bit above that over time, such that the average across the 10-year plan is about $1 billion. But I'd tell you, we haven't -- we're going to get in that. And I would say that's kind of notional
for now. Our experience is we put Concho and ConocoPhillips together is the efficiencies, the technology and the learning and the organization has been quite dramatic. So the efficiencies are getting better. And rest assured, we're going to tell the team when we set a scope of work, trying to get that scope work done for as cheap as we possibly can and fully expect that's going to happen both on the non-operated properties and the operated properties as well.

So we look forward to working with our non-operated partners to improve upon what's already been done and bring our talented Lower 48 organization to bear on that. So these are notional kind of capital numbers. We'll set a capital budget like we typically do by the end of the year and kind of articulate what that looks like for both our Lower 48 and our global assets as well. But I think as you notionally think about it like that, but we're bound and determined to improve upon it.

**Doug Leggate - BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research**

My follow-up is probably for Bill, whoever wants to take this. But it's really on -- you didn't really mention much about synergies. I'm guessing that's an upside to the numbers you've laid out. So I'm just wondering if you can kind of walk us through what you think that might look like, the nature of them. And where you see -- obviously, in the operating portion of the asset, how you see potential synergies coming out of this.

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Yes, Doug, we see -- obviously, we didn't make a meal out of it this time. I just remind you, it's an asset deal, not a corporate deal. And once we get our fingers and we get a hold of the steering well on these assets, we expect to make considerable improvements, both commercially and technically. And Tim is here, he can maybe describe a little bit about what we've seen on the -- after the combination with Conoco and Concho -- ConocoPhillips and Concho and then the same kind of things we hope to do on these assets.

**Tim Leach - ConocoPhillips - Executive VP of Lower 48 & Director**

Right. And I don't really think about these as synergies as such, but there's so many different ways to win on this transaction from just making the wells better, longer laterals, working with our outside operated partners to core up. We have more assets throughout the Permian, we have kind of more chips to play with on that trading to make a more core position for both companies. And we also mentioned the infrastructure -- the downstream infrastructure, our gas marketing and products marketing expertise that we have in ConocoPhillips. So all those things are ways that we can add value to this transaction. And I think you're going to see a lot of value created through the transaction.

**Operator**

And our next question is from Phil Gresh of JPMorgan.

**Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst**

Two quick questions for you. First one, I know your plan has not changed as a result of this transaction. But I'm curious if it makes you think differently at all about projects like Willow, which would obviously still have a lot of upfront capital and has regulatory uncertainty. Does that become a bit more of a back burner option now that you have the Shell acquisition to integrate?

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Yes, I can let Nick describe. I'll just hit a high level, though, Phil. No, it doesn't change our perspective at all about Willow, but I can let Nick tell you kind of where the latest is there.
**Nick Olds** - ConocoPhillips - Executive VP of Global Operations

Yes, Phil. As we laid out in June 30 in the market update, Willow remains very competitive in the portfolio, even with the Shell assets. We’re continuing the front-end engineering, engineering design work in service of FID. Currently, we won’t FID the project based on the Alaska District Court litigation. We’re working closely, Phil, with the BLM and just working through the cited key attributes with the BLM. We’ll keep you posted. But Willow clearly remains competitive in the portfolio.

**Ryan Lance** - ConocoPhillips - Chairman & CEO

And arguably, probably has moved a little bit to the right given the litigation, but we’re still focused on moving the project forward when we have the ability to go do that.

**Phil Gresh** - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

Got it. My follow-up question is just on the $4 billion ending cash target. You mentioned purchase price adjustments, obviously. Any other factors to think about there? And I’m partially thinking about the sell-down of the Cenovus share. Is there any acceleration of that time line, which I believe was originally to the end of 2022?

**Ryan Lance** - ConocoPhillips - Chairman & CEO

Yes, Phil, we have accelerated. Our swap in the CVE will be done probably earlier than the end of ’22. But the thing that’s probably not included in the estimated cash balance if we are able to close some of the dispositions before the end of the year, that would — those are not included in that estimate of our approximately $4 billion cash balance by the end of the year, and we’re progressing those pretty hard right now.

**Operator**

And our next question is from Scott Hanold of RBC Capital.

**Scott Hanold** - RBC Capital Markets, Research Division - MD of Energy Research & Analyst

Can you talk through the AMI structure you all have with Oxy there? I mean...

(technical difficulty)

**Operator**

I’m sorry. We seem to have lost the questioner. Let’s -- please dial back in. And we’ll go to Ryan Todd of Piper Sandler.

**Ryan Todd** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Maybe a couple of follow-up on the earlier ones. Maybe first, as you were talking about portfolio balance and capital allocation, I mean it looks like according to the initial plan that the capital for these assets would be largely additive to the 10-year capital program that you rolled out earlier this summer. But you continue to increase the depth of opportunities with this towards the very low end of your portfolio cost curve. As you look forward over time, I mean what does it mean for other assets in your portfolio, whether Bakken, Eagle Ford, et cetera, and their ability to compete for capital with these high-quality Permian assets?
Yes. Thanks, Ryan. I think as we look at it today, we've got very competitive investments, both in the Eagle Ford and the Bakken. In fact, we're looking to ramp a little bit of activity in both particular areas as we go forward. But yes, when we look out over the horizon in that 10-year plan, the Eagle Ford, Bakken, the Permian are all very competitive on a cost of supply basis and attract capital. Now the Permian is getting probably a bit more in the lion's share of the capital because of where the cost supply sits, but that's not at the expense of the Eagle Ford and the Bakken. It's probably at the expense of maybe some other assets around the world.

But what we're finding is we're just getting more efficient and better at what we're doing. So it takes less capital to get that. And believe me, our organization understands what it takes to get capital based on our cost of supply framework. So we have a lot of intermurals inside the company to make sure that -- figure out how to make it competitive, so they get funded on a cost -- not -- basically, they get funded capital. Otherwise, they know if they don't and don't figure it out, then the assets will typically leave the portfolio over time.

And maybe a follow-up on -- I think Shell said that the production is currently at 175,000 barrels a day, you're targeting 200,000 for 2022. What's the right way to think about activity levels or the trajectory of production over the next four to six quarters, I guess, through the end of next year?

Well, like we said, we have a number DUCs that they'll prosecute probably by the end of the year. The 175,000 has bounced around a lot. It's been higher than that. It's been lower than that. And again, the 175,000 is kind of their annual average that was Uri winter storm impacted and a number of other things. So as we look at our plans, at least notionally today, as we bring the assets in, we think that 200,000 barrels a day is a pretty good estimate for next year based on the kind of activity that they're running today with maybe a slight uptick in activity, but not a significant one. And we're going to optimize that once we close and get them in the portfolio, we're going to go to work and make sure we're doing the best things first.

Can you hear me this time?

Yes, Scott. Sorry, we lost you.

Scott, no worries. No worries. So can you give a little color on the AMI structure you all have with Oxy there? It's my understanding that you do control a larger portion of operational control on the acreage. Could you provide that percentage? And also just indicate with the 50-50 operate split on production next year, how do you get there if they have a higher percentage of the operated acreage?
Ryan Lance - ConocoPhillips - Chairman & CEO

Well, they don’t. Based on what we know today, it’s around 50-50 between op and no-op today. I’m not that familiar with the operating agreements, Scott, to understand, but I know we’re -- from talking to Shell and what our folks said, they’re pretty aligned with how the non-operated partners are prosecuting the acreage and have a pretty good idea of what they plan for next year. And obviously, the largest being Oxy is one we’ll be talking to quite a lot in the next coming months to make sure we’re aligned in terms of how it’s being developed to make sure the capital allocation makes sense.

But we’ve got a large Permian portfolio now. And we’ve got the ability to move things around to accommodate changes that might come that we didn’t expect. That’s the beauty of the scale, size and scope of what we’ve put together here now. And so we’re not going to be held hostage to anybody. We’re going to do what’s right for the company.

Scott Hanold - RBC Capital Markets, Research Division - MD of Energy Research & Analyst

Understood. And what is the drilling inventory in the assets? And what does this add for resources? And I know you did say it lowered the cost of supply, but do you have a number with that?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I’ll let Dominic answer that.

Dominic Macklon - ConocoPhillips - Executive VP of Strategy, Sustainability & Technology

Yes. Thanks, Scott. What we’re refining, we have a very, very rigorous process, I think you know, around our cost of supply analysis. We’re going to be refining that analysis in the months ahead. But what I would say is given the scale of this 225,000 net acres in the heart of the sweet spot of the Delaware, we know that, that resource is going to be as good and as competitive as the very top tier we have. We know the area well. For the transaction cost of supply analysis we have done, our economic models extend well beyond 10 years. So we know we’ve got excellent resource for at least that kind of time frame.

In terms of our total resources, we think about this deal really being about quality rather than quantity. And so obviously, our resource portfolio is stronger now with the addition of these very low cost of supply resources. But we have announced a $4 billion to $5 billion of dispositions. So we will see an impact of that. But I think the key takeaway is that even after that, we still expect to see greater than 20 billion barrels of resources, less than $40 cost supply when you actually work through all of this. And that would be enough to sustain our current pro forma production for over 30 years. So we’re in a very strong resource position, and this acquisition just makes that resource base higher quality and better. So that’s -- but we’ll be providing an update on our full cost of supply curve in the coming months.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. I would add too to that, Scott. It’s not about resource capture. It’s about moving our cost of supply curve to the left and having all those underwrite our returns of capital back to our shareholders. So it’s all in service to that strategy and value proposition that we’ve laid out as a company for the last and played out as a company over the last four to five years.

Operator

Our next question is from Leo Mariani of KeyBanc.
Leo Mariani - KeyBanc Capital Markets Inc., Research Division - Analyst

Just a couple on the housekeeping side real quick. So I wanted to get a sense if there's any significant midstream commitments or MVCs that may come along with this transaction. And then also just a sense of rough estimate of what you think the incremental G&A might be here as well.

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, the incremental G&A is minimum. It'd probably close to rounding -- round-off error. I think that's one of the beauties and another synergy, I guess, we were maybe not that specific about some of the synergy capture. But certainly, on the G&A side, this is hugely accretive. It brings a whole bunch of barrels with very, very minimal G&A with it. On the midstream side, I can have Bill talk to that.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, sure. These are producing assets. And as you'd expect, they've got numerous commercial contracts that are just part of the normal course of the business that is going to be coming over. And we're looking forward to integrating these into ConocoPhillips and really getting our commercial organization focused on further optimizing the assets over time. So look forward to getting those in, and we've got a good track record of making those better.

Leo Mariani - KeyBanc Capital Markets Inc., Research Division - Analyst

Okay. That's helpful. And obviously, just from a strategic perspective, when you look at the transaction, $9.5 billion, not a small deal. How did you guys kind of think about whether or not to pursue the deal versus maybe a big ramp-up of returns to shareholders given the current high commodity price environment? How did you kind of balance those two thoughts?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, Leo, I mean, that's the elegance of our cost of supply framework. We didn't evaluate this at current commodity prices. So it has to meet our framework, which is all-in under $50 cost of supply and then the future investments have to compete for capital under $40. So it's agnostic to price. So we wouldn't have done this deal if it didn't fit our framework. So I don't really kind of view it kind of in that cyclic sort of fashion, which I think the question kind of implied. So that it says, well, do you give all $9.5 billion back to the shareholder? Well, we're going to create additional value that shareholders should want. This is our business. This is what we're good at. This is what we do really, really well, and it was contiguous with the acreage that we've already picked up, and we can apply our quality operations and commercial staff to a much larger position in the Permian Basin. So we're going to create a lot more value over the next 10 years and beyond with this acquisition. And then I would remind everybody, we raised the dividend by 7%. We're already returning 8% of our market cap over $6 billion this year, and our distribution yield is nearly 8% just this year. So we're walking the talk. We're not -- these aren't just words that are coming out of our mouth. We're following exactly what we've told our shareholders to do and returning a significant amount of the capital back to the shareholders of our cash flows that we make each and every year.

And these are going to cash flow at these prices over $2.5 billion. So the shareholder is going to get 30% of that capital and it's going to come back at you. And then probably, most importantly, it's accretive to our future returns. So it raises our ROCE by over -- by about 3% over the course of this next decade. So I think we're putting -- our actions are speaking for the words that we're saying, and I think the shareholders ought to take that. And this transaction fundamentally further underpins that value proposition that we've got out there.

Operator

Our next question from Paul Cheng of Scotiabank.
Paul Cheng - Scotia Howard Weil, Research Division - Research Analyst

Two questions, please. First, Ryan, can you -- if you're looking at the assets that you acquired for the supply cost under $40, could you give us an idea that what is the inventory number and how that's split between operating and non-operating? I know for next year, you're saying roughly about half of the production is operated and half non-operated. But from a total inventory standpoint, how that may look like? Is there any meaningful change from that?

And secondly, that given there's a lot of non-operated position here, is there any opportunity to swap the non-operated and that -- with the operated and such that you can maybe change the composition so that you can increase the number of operated wells in this portfolio?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, Paul. I think with this transaction, we understand it's probably 50-50 between the operated and the non-operated both from a current activity level and from an inventory perspective as well. I don't know that may change a little bit over time, but that's our view of it today.

And then to your second question, absolutely, that's what we're going to do is maybe probably -- we're more advantaged than Shell was in this particular space because we have more tools in our toolbox. We have more things to work with in the Permian Basin that others might be interested and that should allow us to core up, make sure we can drill the longest laterals we can, make sure we can core up the acreage the best way we can. And that's what -- that acumen came to us in a large degree from the Concho transaction. That's what they had been doing for years. And by pulling our two companies together and then being able to do this transaction, is just -- we've got a lot of capability in that particular regard. And you bet that's what we're going to be doing day one is making sure we can improve upon our position that we evaluated even today. And we expect that to get better over time.

Operator

Our next question is from Neal Dingmann of Truist Securities.

Neal Dingmann - Truist Securities, Inc., Research Division - MD

My first question is just on your disposition of asset sales. You mentioned with this transaction and even previously, obviously, with Concho and all, you all have a pretty dominant infrastructure position. Could you talk about, is that in the mix about consideration either, I don't know, spinning that off, selling any of the above?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. I mean we'll look at that midstream infrastructure that Tim talked about, I think it's over 600 miles of oil, gas and water handling, and we'll do what makes a lot of sense for the company. It's too early to say what we're going to do, but that will be part of the mix. I mean, we'll look at that and decide what's the best way to move forward with that infrastructure.

Neal Dingmann - Truist Securities, Inc., Research Division - MD

Okay. And then just secondly on -- I think I know the answer to this, but I want to ask anyway, it's just on hedging. Your thoughts on potentially any hedges about -- on the new assets, the new production.
Ryan Lance - ConocoPhillips - Chairman & CEO
No.

Operator
And our next question is from Phillips Johnston of Capital One.

Phillips Johnston - Capital One Securities, Inc., Research Division - Analyst
Just wanted to clarify some prior comments about the implied $700 million of CapEx for next year, just for modeling purposes. If I'm not mistaken, Shell is running about four rigs today. So just a two-parter question. First, I know there were some comments about a 50-50 split next year in terms of operated versus no-op. Does that apply also to that $700 million CapEx? Is it roughly $350 million operated, $350 million non-op?

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes. That's probably close enough for today.

Phillips Johnston - Capital One Securities, Inc., Research Division - Analyst
Okay. And would that assume that 4-rig program on the Shell properties continues, I think you mentioned maybe a slight uptick in activity?

Ryan Lance - ConocoPhillips - Chairman & CEO
Well, I think maybe a slight uptick in the overall whole position, but notionally, yes, that's probably okay.

Phillips Johnston - Capital One Securities, Inc., Research Division - Analyst
Okay. And that's maybe a slightly above kind of maintenance program, it sounds like?

Ryan Lance - ConocoPhillips - Chairman & CEO
I believe so.

Phillips Johnston - Capital One Securities, Inc., Research Division - Analyst
Okay. And just lastly, just for housekeeping modeling purposes. When in the fourth quarter should we model the closing of the deal?

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes. I don't know. It will be in the fourth quarter.

Operator
Our next question is from Roger Read of Wells Fargo.
Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Just wanted to do a quick follow-up, if I could. I don’t think it’s been addressed, Ryan. I was curious how the transaction came together if you can say at all? And the reason I’m asking is, Shell described this as a core asset as recently as earlier this year and companies are allowed to change their mind. I’m not criticizing them. But I’m just curious, doesn’t sound like they were actively marketing it. So maybe just any insights on how process came about.

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I mean, that’s -- most of that detail is probably best served to Shell. I don’t know how they changed their mind. I’d just tell you that kind of the middle part of the year, we -- I got a call and asked if we might be interested in participating in a sale of their Permian assets. We weren’t expecting it. We weren’t out there trying to work on it or push or something like that. So the call was a bit of a surprise and I said, yes, we would certainly take a look at it. We understand all the different positions in the Permian. We’re pretty familiar with what everybody does. So I think we turned it over to Tim’s team and maybe Tim can comment a little bit about what they saw.

Tim Leach - ConocoPhillips - Executive VP of Lower 48 & Director

Yes. I would just say that one of the other aspects of this transaction is that these assets have been on our wish list at Concho for a long time. I mean as we looked at the radar screen of things that we thought would be a good fit with our asset position all the way back to when they were acquired. But I think putting Concho and ConocoPhillips together, I don’t think either one of us would have been pursuing this individually if we weren’t combined. So I think it’s another strength of the combination.

Ryan Lance - ConocoPhillips - Chairman & CEO

But it was a surprise to us when it became available. And obviously, we’re interested. And as we went through the data in the data room, the team identified a pretty compelling opportunity, obviously.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

James, this is Ellen. I’m going to cut in here. We’re right at our 45 minutes. So we’ll close the call. Our listeners are more than welcome to call us back for any follow-up questions. We truly appreciate your time and interest, and thanks for your support. Have a great day.

Operator

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