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PRESENTATION

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Good morning. I'm Bob Brackett, Bernstein's E&P analyst. Welcome to the second day of the Strategic Decisions Conference. This morning's session will feature Ryan Lance, the CEO and Chairman of ConocoPhillips.

I'll remind you of the format of these sessions.

They are modified fireside chat format. What does that mean? That means that Ryan will come up here in a minute. He will walk through slides for as long as he wants, 10, 15, 20 minutes. The two of us will then adjourn to the two chairs here, at which point I will start asking very high-level macro questions while you start to drive the conversation. You will do that with the white cards scattered around the room. Please write your questions down. Raise your hand. We have colleagues that will collect those, bring them forward to me. I will collate those questions into some sort of logical order, but I will not censor the questions. I will read all of the questions. So, it'll be a very open discussion.

With that, I will turn it over to Ryan Lance. Thank you.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, thank you, Bob, and thank you, Bernstein, for the opportunity to speak at the conference as well.

So, let me take a few minutes and describe to you a little bit about ConocoPhillips, what I believe, I think, is a unique strategy for the E&P business and a value proposition we laid out November of last year.

Before I get started, though, just a quick reminder that I'll be making some forward-looking statements, and the actual results can differ materially from those expectations. Now you can refer to our estimates and our plans as we do have in our filings with the SEC.

I'm obviously going to refer to a few non-GAAP financial measures today to really facilitate some comparisons between our peers and across periods, and you can find those reconciliations in our -- on our website and our supplementary material.

Let me get started. So, I want to start with what I call or what we call our strategy on a page. It's our approach to dealing with the industry cycles that we're going through. But first, maybe I'll step back for just a minute.

You might think of an E&P company's strategy as pretty simple: find and produce more oil and gas. That's part of it certainly, but the dramatic drop in the revenues in our industry experienced since 2014 has really changed the way that we think about the business at ConocoPhillips.

We really run the company to succeed through the cycles by offering investors resilience to the downside and the ability to capture upside as well. And we have to deliver that through the peaks and through the valleys in this business.

So, we really have embraced the underlying uncertainty in commodity prices. We're addressing it head-on and with a unique and strategic approach that's kind of shown here.

The top of this graphic represents our objective to deliver value through the cycles. So, in a range of $50 to $60 a barrel, we'll maintain a strong balance sheet, and we'll allocate cash between per share and absolute growth. At higher prices, we'll and at lower prices, we'll exercise flexibility and take the highest-value actions for our shareholders. We expect this disciplined approach to generate double-digit returns to our shareholders annually through a combination of margin and debt-adjusted per-share production growth, plus the dividend that we offer. We're focused on free cash flow generation even at these lower prices.

Now our priorities for allocating the cash flow are shown at the bottom of this slide. This is an example of how our priorities would work in a $50 a barrel Brent price deck, including the acceleration actions, which I'll speak to here shortly. But from the left, we'll maintain our production, we'll pay and grow the dividend and reduce the debt.

If you include the proceeds from dispositions, we achieve our debt target, we execute a share repurchase program and deliver modest production growth. And remember, that's at Brent prices of $50 a barrel.

Now further right, at prices above $50 a barrel, that would yield additional cash flow to buy more shares or to increase investments in our high-margin organic growth opportunities in the portfolio. We believe this is achievable through the cycles. It's competitive among energy investments and, we think, compelling. Certainly, it offers investors a disciplined formula for a very volatile business.

We laid out this proposition last November with a plan to meet our priorities within a 3-year time frame. And since then, we've rapidly accelerated that mainly through some additional targeted asset sales. In the last six months, since November, we've significantly exceeded our asset sales target with over $16 billion of deals featuring our Canadian assets and San Juan Basin, and those sales will enable us to essentially deliver that 3-year plan in less than 1 year, in fact probably more like 6 months.

So a moment ago, I mentioned that we built the company to be resilient to low prices while allowing investors to capture upside. Let me address that a little bit.

So in my opinion, I think we offer investors a way to achieve consistent and more predictable returns through the cycle. We provide resilience to low-side prices or lower prices because we have a low breakeven, below $50 a barrel Brent. We define that breakeven price as the price needed to generate enough cash flow from our operations to cover our capital and our dividend to our shareholders.

This is not an aspirational goal. We have been delivering this the last three quarters if you look at our quarterly performance. I think few, if any, really can match this performance in the E&P space. One of the reasons is we have a low breakeven price because we've got one of the lowest capital intensities in the business today. This means we can keep our production flat for a much lower portion of our cash flow than most of our peers.

We have a low cost of supply resource base, which drive profitable investments even at lower prices, and we have constructed a pretty flexible portfolio. We can reduce capital and run rate by 50 percent in any given year.

And finally, we have a significant balance sheet strength with the capacity to withstand even a low-price cycle environment for a longer period of time. At the higher side, at the higher prices, we generate significant cash flow upside for our shareholders.

Our portfolio is weighted to higher-value oil. We have a deep inventory of flexible, quick-payout, unconventional opportunities we can ramp up if appropriate to do so. The more -- the majority of our assets have favorable fiscal terms where we retain any price-related upside in a tax and royalty system.

We generally choose not to hedge our commodity prices, which means we get immediate and maximum price exposure.

And finally, in our recent transaction, we put a contingent payment structure in place that allows us to capture the upside in the Canadian and San Juan Basin dispositions.

So, here's a question. Why can't every E&P build a strategy like this? Well, it's because it takes a portfolio and it takes low capital intensity, low cost of supply and flexibility, and we have that.

So, if we look at the portfolio, here's an indication. This chart summarizes a lot of those characteristics and features of our portfolio.

We're the largest independent E&P company based on production and proved reserves of 1.2 million BOE per day of production, and that's post dispositions on a pro forma basis. We're heavily weighted to oil or liquids-based gas prices like LNG.

We have 14 billion barrels of resources captured in the portfolio with cost of supply less than $50 per barrel Brent. And that's balanced between conventional assets, unconventional and long-life, low-decline LNG and oil sands assets.

About 3 billion BOE are in our LNG and oil sands assets. These deliver relatively flat production for decades. And they have very low sustaining annual capital, only about $500 million.

The next is our conventional asset class, about 5 billion BOE of resources. They get about $3 billion in capital in most years.

And finally, our unconventional assets. This class holds over 6 billion barrels of resources today, which is competitive with almost all or many of the pure-play companies. And we can hold production flat in these assets for about $1 billion of capital.

At the right is a further breakdown of our resources with a mix of varying supply costs, all below $50 per barrel Brent. And average is less than $35 a barrel Brent. And these numbers are -- this part -- these numbers are fully burdened. They include differentials, they include transportation, all the indirect and direct costs, the G&A and even have some inflation assumptions built back into them. And again, that 14 billion barrels of oil represents over 30 years of production.

The donut at the bottom shows how our $5 billion capital program is allocated. We're spending about $1.8 billion in the Lower 48, and most all of that is allocated to our unconventional position in the Eagle Ford, the Bakken, the Permian, the Niobrara.

$1.1 billion in Europe, where we have a very profitable, big legacy asset base. $900 million going to Alaska.

We've got $900 million going to Asia Pacific and the Middle East. That's comprised of most of our LNG and oil assets.

And $300 million going to Canada, where we've retained the Surmont-operated asset that we have there as well as an emerging Blueberry-Montney unconventional position.

And in these numbers, we include about $600 million of exploration. So, we're thinking about the future and future decades of opportunities for the company.

So, we're a globally diverse company with a very profitable investment opportunities across the globe, very diverse for years to come.

The capital intensity -- that diverse, global portfolio allows us to lower the capital intensity and generate differential free cash flow through the cycles that we talked about earlier.

And one of the important uses of this cash flow is to have differential share out -- or payholder share out relative to our peers. And as I said earlier, our goal is to return 20 percent to 30 percent of our cash from our operating activities to our shareholders. I think no other E&P can offer this kind of a program.

We'll execute our plan for returning cash to the shareholders through our dividend and a more flexible component, our share repurchases. We believe that flexibility is essential for a commodity business in order to maintain the low breakeven price we need to.

But a meaningful and growing dividend is also important. So, our dividend is set at a level that allows free cash flow generation and can increase, growing -- as cash flows grow. We've set a priority to increase our dividend annually, which you saw us do in February of this year. Our dividend yield today is above the E&P average and on par with the S&P 500.

And as I've said, we expect to repurchase some of our shares, and that will total about $3 billion in 2017, representing additional shareholder return. If you combine that with our dividends and our repurchases, you can see our overall 2017 shareholder yield today at today's share price is peer leading amongst both integrated and any E&P -- independent E&P companies.

So let me wrap up and why I think it's still an exciting time for the company despite the industry and despite the commodity price environment we find in, and that's because all our priorities have really been activated in our business.

We have a clear plan. And I can summarize really the case for ConocoPhillips in three words. And that's transformation, acceleration and differentiation. And let me address each one of these.

Now over the past three years, we have significantly transformed our company. We've lowered our breakeven from over $75 a barrel Brent to less than $50 a barrel Brent today. We lowered our capital spending from $17 billion in 2014 to $5 billion today. We lowered our capital intensity significantly. In fact, even at our current operating spending level, we are still growing our production and -- modestly, and we have a very focused exploration program on top of it. Our captured resource base includes 14 billion barrels with an average cost of supply of less than $35 barrel Brent, and that's post the transactions that we've announced. That represents again over 30 years of production.

Now this transformation required some tough decisions, but we're well positioned for whatever comes our way in the commodity price environment.

Next, as I mentioned, we've accelerated our value proposition. Investors do not have to wait for prices to rise or for our priorities to kick in. We've announced $16 billion of transactions in 2017, and we'll use those -- that proceeds to retire $7 billion of debt this year, reducing debt to $20 billion by the end of 2017. And by 2019, we expect to repay another $5 billion, putting our debt -- gross debt at $15 billion. We'll use another $6 billion of the proceeds to repurchase shares over the next 3 years, including spending $3 billion of that $6 billion in 2017. These divestitures improve our underlying margins and returns, and we also expect to have peer-leading upside as prices start to recover.

Finally, what differentiates ConocoPhillips from our E&P peers? We're managing the business for free cash flow, and we're going to prioritize how we allocate cash flow and you saw that on the earlier slide.

We're focused on returns, not on absolute production growth. We intend to return at least 20 percent to 30 percent of our operating cash flow back to our shareholders through dividends and share repurchases.

And finally, I think we have a unique portfolio, a low cost of supply, global, diverse portfolio that can drive double-digit returns annually with a very low execution risk.

And I really don't think there's another E&P business in -- a company in the business today that can really have this combination or can match what we've done to transform the company, what we've done to accelerate our value proposition and what we've done to differentiate ourselves in this space.

So, with that, let me stop and I look forward to a chat with Bob and you all.

QUESTIONS AND ANSWERS

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Well, great. Well, thank you, Ryan.

Again, you'll have cards scattered around the room. Feel free to write those questions down. Raise your hands and we'll get a colleague to kind of scoop those up. And then I'll start the conversation while we collect some of those, and we'll start, obviously, with commodity price.

Implicit in your strategy is this belief -- or not belief but a -- building a range of crude where sort of $50 is the -- when you start to get a little red; above $60, you get green. Is that sort of the corporate view? We're going to be in that range bound world, for the foreseeable future?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes, Bob, I think our view is with time, we probably will see some lowering of mid-cycle prices over time given the well-supplied world as this business has been through a transformation over the last 5, 6, 7 years, gone from a resource constrained to a very resource-rich world. So, we see over time probably mid-cycle prices going down, whether you started at $75 a couple, 3 years ago to $65. Now our view is you're probably even below $60 in terms of mid-cycle price. But we see there's probably going to be a lot of volatility. There's a reasonable case that says the lack of investment over the last 5, 6 years might lead to higher prices coming over the next couple. I worry about that case because of what I see happening in the tight oil today. The rig count is at a level that I would have thought would have been there at the year-end, not at the end of the first quarter. So, we already see the volumes coming from the tight oil taking up some of the surplus demand that's being created in the world today. So, I think that the bottom line is, you have to figure out in an -- in the E&P space how to not only thrive but survive in that $40 to $50 world. We know what to do if it's $60 or $70. That's not a problem. You have to build a business plan that is resilient, that offers shareholders double-digit returns, that is viable and competitive at that kind of a price deck. If you're waiting for $60 to bail out your business model, you might be woefully disappointed, and that's where we've come to. We're not claiming we know what the price is going to be, but we know we've got to set up the company, and that's the journey that we've been on over the last couple years, is to set the company up to not only survive but thrive in a $40 to $50 environment. And if you look at our performance over the last three quarters, we're generating free cash flow today at these kinds of prices, and I don't think there's many, if any, E&P companies that can make that claim.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And then you mentioned an oil-weighted portfolio. Talk about natural gas briefly as well.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. So certainly, we have a large position in natural gas. We've been selling down our North American gas position over the last couple years. It used to represent about 25 percent of our portfolio and now represents something closer to 10% percent or 15 percent of the portfolio. But we're still a believer in gas, so some of our Asia LNG, which is oil price-linked gas, there's still some very good markets. We have some great markets in our Indonesian gas that we're supplying into Malaysia, into Singapore and some of those international gas. So, we're pretty agnostic relative to whether it's gas or oil. We just want it to be competitive on a cost of supply basis in the portfolio, and we'll make the investments. To get into the capital allocation conversation in our company, you have to have a cost of supply that's less than $50 a barrel Brent. And so your gas projects have to compete against, the oil projects have to complete against everything. So, we have been diluting North American gas because we think that's a pretty flat supply curve for the next -- for as long as the eye can see, given the associated gas coming with the tight oil and all the other gas. And we see gas go to $3.50 and rigs show up in the Haynesville. More show up in the Marcellus. They come back to Utica. And it drives gas prices right back down. So, we think North American gas prices are kind of range bound.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

How do longer-cycle conventional projects compete for capital with shorter-cycle unconventionals assuming similar breakevens?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. So again, in our company, the knife fight is about cost of supply. You got to get your investment down below $50 barrel cost of supply, and you can get into the capital allocation conversation. So, all my regional presidents around the world are involved in those conversations. They see what the unconventional shorter cycle are doing. But with that said, adding a platform in Norway, the U.K., China, Malaysia, another drill site in Alaska, sustaining capital in Canada to support Surmont Phase 2, they have to compete at that kind of a level, and they're finding ways to go do that. So, the fact that we have a global legacy assets around the world. Adding another drill site in Alaska, for instance -- it's our 25th drill site that we've added over the last 40 years in Alaska -- the cost of supply of that is well below $40. Yes, it takes maybe 2 to 3 years depending on where you're at. So, we have some of those investments sitting in our portfolio. But the other learning that we've had from this downturn is you better not put all those into your portfolio such that your capital is inflexible in any given year. So, we're trying to reload them into our portfolio, slot them into development. But in any given year, we want 50 percent flexibility in our capital program to react to the commodity price environment. So, we're not, not doing them. They have to be competitive in the portfolio, and then we're timing them in such that we retain annual flexibility.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And you mentioned the shorter-cycle unconventionals and 2 to 3-year project cycles. One thing you've done in the transformation is exit deepwater, and now we're seeing you sell longer-cycle oil sands projects. What's the future of a 5-year project at ConocoPhillips?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, they still are there. I think you have to be careful when you slot them into your program. One of them, for us, is our LNG facility in Darwin, which is in the northern territories of Australia. The field that supports that LNG facility is going to start on decline here shortly. And by early in the next decade, it probably stops producing. So, we're actively today working the backfill. We've done some exploring. It's called our Barossa. And we're -- but we're preparing to bring that into the next phase so we can ramp it in to fill in behind Darwin. That's a 5-year cycle time project because it requires probably an offshore platform of some sort, maybe even a floating vessel, to handle the NGLs. And so that's a very large green or brownfield LNG project, but it is a 4-, 5-year cycle. So again, we're not eliminating those from our portfolio. We're just being very careful as to when they slot in and, more importantly, making sure they compete on a cost of supply basis. They're something that we'll invest in that will deliver us an annual -- an after-tax rate of return of at least 10 percent at $50 Brent prices. So, we have to have that to be competitive.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

So if I think of it, you'll have a capital allocation process that goes to the best projects first. If you get to sort of 50 percent long cycle, you might say, well, let's have enough shorter-cycle stuff in there to create flexibility.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Exactly. And what do we push back a little bit on the long cycle? How can we phase things a little bit different to retain that flexibility? That's the beauty of having these kind of large, unconventional portfolio like we do. Those resources aren't going anywhere. We don't have to drill into headwinds called inflation or those things. Make sure our margins are protected. It's flexible, it's ratable, turn-up-able or turn-down-able. And the beauty of having a large portfolio like that, it gives you a lot of flexibility to manage some of these other aspects.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And you already have a fairly large resource base, and yet you're still committed to exploration, which is the longest-cycle part of the business. What's the exploration strategy?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. For us, the -- we've retooled that considerably. You mentioned deepwater. We made the decision actually at $100 oil to get out of deepwater. So, we took a little bit of criticism for that. But when we looked at the portfolio and looked at the opportunity set within our onshore unconventional, we just didn't think deepwater was going to be competitive in the portfolio sub-$50 cost of supply. There may be some opportunities around the world, Brazil, subsalt, that can compete in that kind of a world. But certainly, the Gulf of Mexico, deepwater Paleogene, in our view, was going to have a struggle to compete against that. But in this business, it is a declining business over time. So, you do need to worry about the next decade and where resources might come from and how do you backfill behind a 14 billion barrel resource base that we currently have today. But when you do that, exploration has to be on a full cycle, $50 cost of supply basis. So, it does kind of retool how you think about exploration. For us, it's advantaged gas. We see some opportunities in certain regions around the world where gas is still very advantaged. And so, we're exploring those areas. We're exploring in and around where we have existing compelling infrastructure and we have a good track record: Alaska, Norway, Malaysia. So, we've really tooled back our exploration program in and around the areas where we have legacy large positions we go after advantaged gas, and we like the unconventional space. And then we recognize that the geology in the United States is not unique to United States in the unconventional space. It's a bit more challenged in other places because while the subsurface may look really, really good, the surface issues and the risk associate that create a longer cycle time for those projects. So, they have to compete on a $50 cost of supply basis. But we see some opportunities there. So, we're unconventionally exploring in Colombia and Chile, part of South America. And we're still doing some exploration in the U.S. as well, trying to look for what are new, unconventional opportunities. And you'll hear more about some Canadian stuff that we've been doing as well, slowly adding to our position up there.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Yesterday, one of your competitors spoke at this conference and heavily emphasized ROCE, return on capital employed. Why is ROCE not a greater emphasis for ConocoPhillips?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, it is, actually. It's part of -- it's a main driver in my compensation, our named executive officers. And it's a part of our annual and our long-term program. So, we're -- it's a -- in terms of -- total shareholder return, return on capital employed and cash return on capital employed are three of the main metrics that we use in all of our programs. So, when I talk about cost of supply, it's important for me to represent. When -- we have completely changed our vernacular inside our company to cost of supply. It takes price projections and price curves out of the conversation. So, it really is, how do you get below a $50 Brent cost of supply. And again, a reminder, that's an after-tax rate of return of 10 percent at $50 fully loaded. So, it includes infrastructure spend, exploration spend. It includes inflation. It includes overhead, my overhead, regional overhead. It is a fully loaded number. And the reason we do that is we need to see the direct tie in our projects to return on capital employed. So, if we're doing things at $50 Brent and we're doing it at an after-tax rate of return of 10 percent, cost of supply of $50, our ROCE will move to that 10 percent. It's very important for us to do that. Now it may take some time at $45 or $50 oil, but that's not our base case for prices either. So, at higher prices, that return moves up. But no, it's a very important measure. And we've been consistent ever since the spin. This has been a large part of how my named executive officers, how our compensation is determined. And not just for the executive officers but for the whole company. Our annual program and our 3-year program, long-term compensation programs are built around these metrics. So, they're very important in our company. Have been -- we haven't just started talking about it this year or last year, we've been talking about it for five or more years in our company.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And generally, technical teams in the oil patch think in terms of cash flow models, and they think forward-looking DCFs that eventually become somewhat backward-looking ROCEs. I'll point anyone interested to your Analyst Investor Day deck from last fall, where there is a mapping of how do you get from a cost of supply, which your technical team can internalize, to a corporate-level return so that (inaudible).

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. So, we put a decoder in our deck. So, you'll see the deck and you'll see that someone asked the question, but maybe we haven't been talking about it locally enough. But this is not something new in our company. This is something we've been doing for a long period of time. It's a key metric that we drive the whole organization around. It is what our cost of supply is built around.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And then how do you get investors to recognize your true value? Or are you permanently stuck in the middle, i.e., you're not a growth E&P and you aren't viewed as being an attractive div yield co?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. No, I understand. And it's largely -- that's why we -- during this conference, that's why we meet with our investors, trying to figure out. It does feel a bit bimodal in terms of investors' attitudes. Today, if you're bullish on commodity price, there's a lot of growth in names that you can invest in. If you're maybe bearish and a lot more defensive, there's a few yield names you can go to today in the business. I guess what we're trying to describe to you is a unique value proposition for an E&P company, one that doesn't chase the cycle up and spend every bit of their cash flow chasing capital, and then when the market turns, your growth rate goes from the double-digit down to low-single digits because you're fighting decline. We don't have to do that. And maybe to see the performance of the company, we have to go through a cycle to kind of see that. But we're value earning. We're generating free cash flow. We're committed to generating free cash flow. We're focused on returns, and we're focused on keeping the margins. So, the question I ask all investors is yes, you like these really growth stories and you see the production growth in the pro forma going from the lower left to the upper right. Is their cash flows doing the same thing? I think that's what you have to look at in this business. To your point, it's about cash flow growth. It's -- you can get production growth, but if inflation and other forces eat away at the margins, which we saw at $100 barrel of oil in 2013 and 2014, it's really how can you maintain your margins at these kinds of prices and maintain your returns. So, we think we are offering a unique value proposition to investors, but people have to warm up to it. But it is founded, in our view, in the macro going forward, with volatility and lower prices over time, and our view of our portfolio. Our portfolio has a low capital intensity. Because of the portfolio we have, we don't -- so if you look at the percentage of cash flow and capital going into our plan to keep production flat and compare that to our E&P competitors, I think you'll find that we've got some of the lowest capital intensity in the business. I think that's important, if you believe in volatility, that this business is going to go through a period of volatility given the tight oil resource that we see in the world today.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Are you seeing rising service costs? And where specifically?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes, we are. It's an interesting question. I think if you're a pure-play Midland or Delaware Basin guy, you're experiencing double-digit inflation today, right, whether it's pumping services or sand. And even rigs are kind of coming back. The advantage of a global, diverse portfolio like ours is we still see deflation around the world. It's deflating in Malaysia. It's deflating in -- or China. It's deflating in Australia. It's flat to deflating in Canada. It's flat in Alaska. It's deflating in Europe. So, there are certain categories of spend in certain geographic areas that are inflating today. In pumping services, sand in the Delaware and Midland basins, it's inflating a lot. And it's starting to kind of move in to Eagle Ford and up in the Bakken. Not as much as the Delaware Basin but, yes, absolutely, if you're a pure-play player in one of those two basins, you have to figure out how to offset some pretty healthy inflation today in the service side of the business. But when I look across our whole portfolio today and I compare 20 percent -- 80 percent of our capital is going internationally into areas that are deflating. So, I don't worry in our portfolio about the inflationary pressure. But I'm certainly worried about the activity that we're doing in certain basins and in certain categories of spend. So, you got to figure out how to offset that with efficiency gains or you just stand back and watch a little bit and let the people fight it out and fight another day.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

When you showed your cost of supply by project is color coded for -- unconventionals is color coded for the global LNG and the oil sands, and then sort of conventional at the low end of that cost curve are all three colors, meaning you have projects -- sort of a world view that shale is a low-cost barrel, your cost of supply would say, actually I can switch and choose, what will you do going into the fall with your planning process if there's persistent inflation in onshore U.S.?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, I think we'll look at our plans later this year. But if we see persistent inflation that starts to erode the margins, we'll allocate capital to the lowest cost of supply, highest-margin opportunities in the portfolio. And you're right, Bob. For us, the uniqueness is, we've still got a lot of opportunities in Alaska, in Europe, in Asia across the portfolio. So, it really is a -- it's a knife fight in the company to get allocated capital. And for us, it's about returns, it's about margin. And if inflationary forces are eating away at the margin, the resources aren't going anywhere. We can come back. The beauty of our global, diverse portfolio and one of the value proposition that we've laid out is focused on returns and free cash flow. And we've got the flexibility to move our capital around and still maintain our production and grow, grow the company at a pretty low amount of capital. And if we park some cash on the balance sheet, we'll do that rather than spend it and risk reducing our margins and diluting our returns.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And talk about the portfolio. You had two sort of very big, very well-received asset sales this year. Other things in the -- and you've sort of pulled forward, accelerated, I guess, in your vernacular, the strategy, do you then revisit that strategy and say, I think we can do more to focus the portfolio and realize value where a buyer might see more value than you do?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, we're pretty agnostic in our portfolio, and I think we've demonstrated that we're willing to shrink or sell if there's more opportunities for other people to invest in things. We really look at assets if they compete and they're going to compete on a cost of supply basis, and we'll allocate capital to them. We're absolutely willing to make those investments, and we'll grow and develop the company that way. If we see assets that are not competitive for capital and we can find a way to monetize them that it captures our value-neutral sales price so it creates -- or it meets or exceeds our hold price, absolutely. We've been willing to go sell those assets. But I'd say big -- we don't envision big asset sales programs on the portfolio going forward, but we're constantly looking at it every year to make sure that things are competitive. And if we aren't going to allocate the capital or if we're going in a different direction, we're willing to sell those assets and monetize.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

But if you think of being a Permian pure play and you're in the basin, you've got a fairly focused strategy, you're going to feel those inflationary pressures, some of those companies will integrate vertically, they'll own some standalone, some equipment. Your strategy is not to pursue that but rather to be able to reallocate capital outside of a hot basin.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes, I think so. I think this industry has owned rigs before. I think it's... good luck. I don't like it. Been there, done that. It's a tough game when cycles turn down. Sand is an interesting one. I get to -- I had once owned a sand mine. Well, 3 years ago, no one was pumping -- for those that are familiar, no one is pumping 100 mesh sand 3 years ago. Now everyone's 100 mesh sand. So, if you owned a mine that didn't have 100 mesh sand, you're kind of sheer out of luck today, right? Brown sand. People have white sand at 20/40, 40/60, 70/40 sand. I mean, I can't predict where the technology is going 2 to 3 years from today. And what I don't want to be is because I own a sand mine, I have to pump this kind of sand when I know that there's a better technology, a better widget, a better tool. So, my experience, our experience has been that the markets there -- I'd rather capture what I need to in the market, rather have long-term relationships with the suppliers so that I can kind of offset the swings, and then let technology play itself out. And the ultimate tool, as you said, Bob, is I can reallocate capital. I've got a large, global portfolio. The resource isn't going anywhere. I can come back to it when things loosen up, and I'm perfectly willing to go do that. We've demonstrated that over the last couple years in terms of our capital allocation. We went to three rigs in the Lower 48 when we were drilling against this headwind.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Can you imagine a world where international unconventionals is a lightly trodden market? There's not that many folks out doing that. In theory, those could be underpriced, mispriced assets. Permian is -- everyone and their sister is there. Can you imagine a world where you would sell down Permian to go do something interesting internationally?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, yes. So, I guess is your Permian position a big enough position? Is it compelling? Is it really going to allocate capital? And we've got a 80,000-acre or so position. I think it's 100,000-acre position in the Permian. In a modest sort of rig program, that could be a couple of 100,000 barrels a day. That's a pretty big, compelling position in any company's portfolio. So, we're not in a hurry to try to monetize that position. We see it -- let's figure out what the optimum way to produce to let the technology go. Well, let's figure out how to produce the different benches. So, we're not in a hurry to sell that position. In fact, we've been adding and subtracting. We've sold some acreage in the Delaware and the Midland basins over the last couple years, and we've added acreage in that to core up our position. So, we like it. If you're in the sweet spot, which we are, it can be a compelling position. And we'll make room for other unconventional international opportunities in the portfolio. Again, if it competes on a cost of supply basis, we'll figure out how to fund it.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Let's come back to sand because there's something people might have missed. You talked about -- I mean, clearly, one of the biggest trends we see in fracking wells is more and more sand per foot, more and more sand per well. We see in this transition from white sand to brown sand as a way to get a closer source of sand and a lower quality. Now you brought up 100 mesh sand. There's a technology evolving, moving toward finer and finer grained sand to frac wells. Talk about what Conoco is doing -- is -- Phillips is doing. Is that something that we should be excited about?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, I think we're all experimenting with that. How do you -- I mean, the golden grail in unconventional is stimulated rock volume. How do you maximize in your penetrations to stimulate rock volume in and around the wellbore? 5 years ago, industry -- we were only stimulating maybe 20 percent to 30 percent of that gross rock volume. Very inefficient. And we found that through the use of 100 mesh and some other technologies, denser, more sand, more pounds per gallon of sand, denser per clusters that we can actually move up and stimulate more rock sand. And that's really -- so we're -- we've got to stimulate rock volume pilot. We're doing pilots in the Eagle Ford. We're doing pilots in the Delaware. And it's all about trying to figure out how to maximize that stimulated rock volume. And that's why I stated technology is still in the third or fourth inning of this 9-inning game, because we're still trying to figure out how to go do it. And by the way, what you figure out in the Eagle Ford doesn't work in the Wolfcamp-1 or the Wolfcamp-2 or the Wolfcamp -- or the Niobrara or the Bakken. They're different enough. They're different enough geologies, different enough fluid properties and rock properties that you've got to experiment. And in one case, maybe 20 percent 100 mesh as the lead-in sand to begin your frac job is going to be very optimal in one area and it's not optimal in another area. And that's why I don't want to get hung up on owning these things is because I don't want to constrain my technology people and say, okay, guys you can only use this sand because we own it. And I owned a deepwater drillship five years ago. And when you drill prospects, because you own a drillship, is a bad business. And if you own 12 rigs and you want to go to 10 rigs, it's a bad business, right?

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Tight -- if we're in the third or fourth inning of tight oil, what inning are we for North Slope, for North Sea, for International, for LNG? Are those mature technologies?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, that's what's amazing about the competitive nature of the business and the technology and the innovation. In Norway, for instance, they wouldn't have -- they probably wouldn't even consider unmanned platforms because the -- is it safe? Is it -- we got to put people on a platform to make sure. Well, we've got the Norwegian government now willing to consider unmanned platforms because of the way the environments progress and the way the technologies come around in terms of remote monitoring and sensoring and how you can actually move between platforms. You can actually go by man. In Alaska, for instance, the next -- the drill sites that we're building today don't look anything like the drill sites we were building just five and 10 years ago because of the technology, the innovation and then what's happening. So, we're -- we don't have to put big separator vessels out there. We can put three flow meters because they work now. And so even though we're legacy assets that are 40 years old, we're finding great opportunities and low cost of supply to exploit that resource base, and we're still exploring. We have one of the most successful exploration seasons in Alaska over the last two years than we've had in the last decade. So, the resources there, we're getting smarter about how we do seismic, we're getting smarter about how we develop things and the technology is moving. The data analytics, the artificial intelligence, the multilateral technology, all that is making a -- is going to make a difference as we go forward in this business. That's why I'm concerned about the supply side of the equation going forward. It's still going to be a well-supplied world.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

What is the future of CP Chem? I think you should either grow this business via M&A through the coming ethylene cycle, trough or exit but not status quo. Your thoughts?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes, I'd -- so if you followed us, again we spun off that business in 2012. So, when we spun the downstream business, the chemical business went with it. So that's now -- that piece of business resides with Phillips 66, our sister company that had all of our refining and downstream assets. So, I don't have a chemical business anymore to offset, but -- so that's a good question for Phillips 66.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And talk about -- think of this world. If technology is robust in tight oil and if technology -- did OPEC overplay its hand? And did it create such a stress to the system that it forced the system -- the E&P industry to become so lean that it will continue to put pressure on oil price?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Well, I think that's -- whether they intended to do that or not, I don't know, but that's in fact what's happened. So, I think the -- certainly, the $100 oil drove a lot of technology and efficiency and innovation to allow us to figure out how to make these unconventionals work. And then the downturn has really stressed the system to make sure we can maintain our margins, get the cost of supply down, get these opportunities economic. And like us, our portfolio and others who are in the sweet spots of these plays, we see cost of supply that -- in the best part of these plays that are sub-$40 a barrel. So, you will make a 10 percent after-tax rate of return at a $40 Brent price world. And I think that's where they underestimated. My own view in talking with folks at OPEC -- and so maybe a little vignette. Back about four years, five years ago, I was invited to the Vienna meeting. I was on the -- a stage like this in front of all the big OPEC crowd with, at the time: Ali Al-Naimi, who was the Minister of Saudi Arabia; the Venezuelan Oil Minister; the Iranian. And I got up and I told them that U.S. would surpass Saudi Arabia in production in five years. And I got laughed off the stage. And three years later, Naimi invited me back, and he said, "I'll be damned, you were right. And we need to understand this a little bit more."

And the message to him at the time was, this isn't going away in three, four, five years. So, to put it in perspective, our industry has found over 400 billion barrels of resource in the last 10 years. 400 billion. That's 10 Prudhoe Bays in the last 10 years in this business. And so, I think the recognition that is now coming is, one, that it's real; that it is competitive at a $50 barrel price deck; and it's not going away. It is here for a long time. And I think I saw the first hints of that recognition this year at CERA Conference in Houston. So, the big conference that most of the oil industry comes to in Houston. And OPEC reached out and reached out to our company and a couple of other companies and spent some time with our technical people, saying, we want understand it. I've never seen that before. So, I think the -- whether they plan to do it or not, I don't think so. Here's what's happened. But I do think they have now woken up a little bit to the realization that it's here, it's here to stay, it's competitive even at these kinds of prices. And it's going to be a supply source in the world. So now everybody is looking at the demand side of the equation, saying, how much is demand going to grow over the course of the next few years? And how much supply is needed to meet that demand? And you better set aside a pretty significant supply coming from U.S. or North American tight oil.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

So what do you think that wedge of supply could be on an annual basis? Is it 0.5 million? Is it 1 million?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes, give me the price.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

At sort of at mid-$55s.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

It's probably over 1 million even at $55. Now I would have said that that's like $70 a couple years ago. I would have told you it takes $70 barrel prices to generate 1 million barrels a day of growth. December to December this year, we'll probably be at 1 million barrels a day of growth. Annual average, annual -- some are saying 500,000, 600,000. My bet is it's probably closer to 700,000 barrels a day of annual average between '16 and '17 of growth just coming from the light oil. I'm surprised the rig count is as high as it is today. I would expect it at the end of the year, not at the end of the first quarter. So, it just tells us how much opportunity, resource and money there is flowing into the E&P space. And that's why I worry about the price. I worry about the volatility.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And then money -- in a world of extremely low interest rates, we've changed -- I always joke that if you fly to California and you go talk to Google or you go talk to Apple and say, I've got capital for you to commit to technology and new ideas, they'll say, no, thanks, we got more cash than we know what to do with. If you stop instead halfway in West Texas and ask people, hey, do you have anything you can use with all this capital, they'll say, yes, I can stick it in the ground. And so, in a world where interest rates are low, capital markets are wide open more or less and you're lending against very short-cycle and very low-risk projects, we see it's not just the E&Ps to blame, it's capital markets as well. And that doesn't seem to be going away.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

No, it doesn't. And I think you're dead right, Bob. I think as we look out, the access to capital of risk-free return, when interest rates are quite low, some people are looking and they look at our cycle and say, well, it feels like it's the bottom of the cycle, so I'm a little bit bullish on prices. And I can play that uptick, and I can play that with some of these E&P space. I was surprised, even through the downturn, many of these companies that should have went away didn't. So, the debt holders became equity holders, and they materialized out of the back end the same way they looked like they came in the front end of it. We sold our San Juan Basin asset. 31 companies went through the data room. I didn't recognize the names of 28 of those companies. And there were only two private -- or two public companies. The rest were all private. A man, a dog, your telephone, the post office box and an office somewhere. And you ask them, this is a multibillion-dollar, huge asset. Yes, I have no problem, I got $5 billion of money available. So, to your point, it's -- there needs to be -- you all have many choices on the growth side, right? I mean, if you want to pick an E&P growth company, you've got lots of choices, lots of options. You just got to sort through that. And then there's frankly too many choices, too many options. We need consolidation in this business that, at these low interest rates and the kind of private equity money that's out there and the frothiness sort of in the market for some of these names, just makes consolidation, while it should be happening, difficult to take place.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And you've taken advantage of that, right, by selling the San Juan and by...

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

We have. So, we've tried to be counter-cyclic in that space. We sold a bunch of assets at $115 oil prices. So, get -- we knew they weren't going to be competitive in the portfolio. We knew it took $80 prices for those assets to be competitive, and we got out and then we sold. We slowed down some of that as the price turned down, too, because we weren't sellers of all assets on a $40 strip. We did the Canadian transaction because they were willing to put in a contingent payment. They were willing -- and we get half of that upside. So that's the only way we would sell oil-based assets with this kind of a market. And the gas assets, our view at least, is a pretty flat supply curve over the -- through the next decade in North America specifically. And so, we're willing to monetize that production stream because the opportunity set was being -- was getting to be noncompetitive in the portfolio from an investment side. So, we can monetize that cash flow or that production stream early. And there's still buyers out there that are pretty pro North American gas. They see the export market picking up. They see the CP Chem question. They see the crackers being built on the Gulf Coast. There's going to be a market now for more of these NGLs and gas. So, some who are of a bullish view of gas prices are willing to step up and pay.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And so that's the irony, is where you would want consolidation there doesn't seem to be a force to consolidate.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

To drive it, right.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Instead, it's almost deconsolidation. I can sell a low-decline, out-of-favor asset to private equities and then take that capital and redeploy it into a broken Permian asset.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Yes. No, you're exactly right. And I think if a downturn persists for a longer period of time where we stay at $45 or $50, it's going to take us a while probably to flush that out. And of course, people -- most people are going to see some sort of recovery as inventories work themselves off. So, it's against that backdrop and a backward-dated curve that the status quo persists.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

So how could we consolidate as an industry? I mean, it's not the late '90s, it's not the Conocos plus the Phillips and the BPs plus the Amocos and the ARCOs?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

It's -- I think the lower-for-longer and lower mid-cycle prices make a difference. And if we do see that kind of environment work out, natural consolidation will start to occur with some of the players. I think the interesting thing about some of these private equity guys that are jumping into the business, they're dealmakers and, all of a sudden, you've got to run a 10-rig program or a 5-rig program. And you're starting up from a, again, that dog or telephone play. Very small scale. And these unconventional resource plays are petrotechnically people intensive. So, to do them right, you need drillers and engineers and geologists and geophysicists, production engineers. You need -- and then all the service and support staff that comes with it. So, my question is, some of this -- I wonder what happens over the next couple years as these guys have to scale up because they need to deliver double-digit growth rates, right? That's what they built their business model around. They -- it's the dog that got the cart. Now they've got to execute. Now they've got to go deliver. And it's not trivial to go do that, to hold your resources, recruit and train, develop and build and then hold those human resources to chase a rig. It's a lot of people to chase a rig. And you multiply that by five or 10 depending on how many rigs you're running. And I wonder how that shakes itself out over the next couple years.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

And do you worry that you will be a source of talent as an organization? You can go and find folks that have been at ConocoPhillips for decades, they're getting toward that retirement age, private equity comes and say, join us?

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Sure. That -- we watch that pretty closely. What I tell my organization, my people, is we won't be -- we're going to pay competitive prices and we're going to pay competitive salaries. We did a lot of work when we spun the company as an independent E&P to make sure that we offer competitive payback. And so, we give equity down the lower levels of the company, our petrotechnical people, get equity in the company. And so, we'll be competitive. But you're right, I mean, it's -- they'll pay you -- they're some people whatever it takes to get them and attract them into the company. But we will watch it pretty closely. And we have tools in our toolbox to help us. Some people do want to go to a pure play, but they got to move to Midland or Pecos, Texas and they've got to operate five rigs out. They lose the opportunity to go to Europe, to Alaska, to Canada and to Malaysia and to -- so we offer some unique pieces in our -- for our employees that -- being a globally diverse company like ours can offer. So, there's still opportunity.

Bob Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

With that, we're about 10 minutes from the top of the hour. I thank you, Ryan, for taking the time, and I thank you guys in the audience as well.

Ryan M. Lance - *ConocoPhillips - Chairman and CEO*

Thank you, Bob. Thank you very much.

Editor

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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