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PRESENTATION

Operator

Welcome to the ConocoPhillips investor update conference call. My name is Ashley and I'll be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. I would now like to turn the call over to Ellen DeSanctis, VP, IR & Communications. Ellen DeSanctis, you may begin.

Ellen DeSanctis *- ConocoPhillips - VP, IR & Communications*

Thank you, Ashley, and good afternoon, and thank you to our callers for participating. We especially appreciate your interest on such short notice. We're hosting this call to provide more information on our Canadian asset sale transaction that we just announced. We believe this transaction will provide a significant and positive catalyst for ConocoPhillips.

The presentation we'll use for today's call is now accessible from our website. A replay of this call should be available this evening, and we will post a transcript of the call tomorrow.

We will also make some forward-looking statements during today's call. Actual results may differ materially from the expectations we share today. Slide 2 in your deck shows our cautionary statement, which describes the uncertainties and risks in our future performance. This information can also be found in our periodic filings with the SEC, including our recent 10-K filing.

Slide 3 lists our speakers for today's call. Ryan Lance, our Chairman and CEO, will provide a transaction overview. Don Wallette, our EVP of Finance and Commercial and our Chief Financial Officer, will describe how this transaction will accelerate the value proposition we laid out to the market in November 2016. Matt Fox, our EVP of Strategy, Exploration and Technology, will cover the portfolio and the strategic impacts for this deal. We also have Al Hirshberg, our EVP of Production, Drilling and Projects in the room with us today.

After our prepared remarks, we'll take your questions. However, given the late hour, we're going to limit callers to one question. Obviously, the Investor Relations team will be available after the call to take any additional questions you might have.

Now I'll turn the call over to Ryan.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Thank you, Ellen, and thank you, all, for joining us on the call today this evening. Before we jump into the details of this transaction, let's start at a high level on slide 4 with why this is a win-win opportunity for both our company and Cenovus.

For ConocoPhillips, this transaction provides an immediate catalyst to deliver the value proposition we laid out to the market in late 2016. With the cash proceeds from this deal, we will accelerate debt reduction and double our share repurchases. The transaction improves our underlying financial and portfolio metrics, which will drive free cash flow generation and returns. We've realized excellent value for these assets and we've retained some upside to higher prices in the future via our equity stake in Cenovus and an uncapped, five-year contingent payment. And we're not exiting Canada, a place where we have a long tradition. We retained our interest in Surmont and Blueberry-Montney, two areas where we think there is a lot of opportunity to create value from our low cost of supply investments there.

This transaction allows Cenovus to achieve a scope and scale of a Canadian major. They'll have operated positions in two premier asset classes where they can accelerate growth to create value. Not only is Cenovus getting first-class assets but first-class people as well. We expect the majority of our western Canadian employees to be offered the opportunity to continue to work the assets with Cenovus. We also took an equity stake in the company, which demonstrates our confidence in this transaction and their plan.

Slide 5 shows the summary of the transaction. Starting with the scope. What we're selling is shown in the map in yellow and includes our 50 percent interest in the Cenovus-operated FCCL Partnership and our Deep Basin gas assets in Alberta and British Columbia. In total, these represent 265,000 BOE per day of net after royalty production in 2016 and 1.3 billion barrels of proved reserves net after royalty at the end of 2016. As consideration for these assets, we'll receive $13.3 billion in proceeds, consisting of $10.6 billion of cash and $2.7 billion of Cenovus equity, based on yesterday's closing price.

In addition to the cash and equity considerations, there's also a provision for a 5-year uncapped contingent payment based on oil price. It kicks in when WTI is above $52 per barrel, and Don will describe this in more detail in a moment. We expect to close in the second quarter. That's the essence of the deal but if we move to slide 6, I'll describe our planned uses for the cash proceeds of this deal.

You'll recognize this slide from our November Analyst Meeting deck. It outlines our five cash allocation priorities. We've already taken care of priorities one and two this year, capital to maintain flat production plus grow the dividend. So, the cash proceeds from this transaction will be directed to priorities three and four, debt reduction and share repurchases. Cash proceeds will reduce debt to $20 billion by the end of the year and we're resetting our gross target -- gross debt target to $15 billion. We're doubling our existing 3-year share repurchase authorization from $3 billion to $6 billion.

Now I'll wrap up my comments on slide -- on page 7. This puts the merits of the transaction on a single page. In a nutshell, it will have an immediate and very positive impact on the company. We've supercharged our value proposition by exceeding the three-year plan we laid out in November in less than 1 year. The cash proceeds from this transaction will be used to reduce debt and return cash to shareholders through additional share repurchases.

Even though we'll have greatly exceeded our November disposition of $5 billion to $8 billion with this single transaction, we will continue to market the assets that we've previously planned for disposition. So, we now expect to close transactions totaling over $16 billion during 2017. This will make us a much stronger company and put us in an advantaged position for strong free cash flow generation and improved returns. This transaction unlocks the value of our Canadian portfolio as these assets will attract more capital than we have been allocating to them in recent years. Importantly, we'll retain our operated Surmont and Blueberry-Montney assets, which have a low cost of supply investment opportunities that compete for funding.

Underlying financial and portfolio metrics will also improve post this transaction. We've listed some of the most important metrics, our CFO at $50 per barrel Brent doesn't change. Our cash margins expand by 20 percent. We keep exposure to upside prices. Our portfolio average cost of supply improves. And our capital for flat production doesn't change.

Now let me turn it over to Don and Matt to cover these points in more detail.

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Thanks, Ryan. We go to slide 8. So, of the $10.6 billion of cash proceeds, we'll use about $7 billion to reduce balance sheet debt down to $20 billion in 2017. And looking to our debt schedule on the right, besides the bond maturity due in December this year, and the term loan in 2019, we'll target retiring near-term maturities through make-whole provisions, and that's all indicated in red. That will clear the runway out to 2020.

As we go forward in 2018 and 2019, we'll use our cash balances to reduce long-term debt to about $15 billion. What's indicated on the schedule in green is the potential to continue retiring near-term debt, but that's just one option. We'll look to optimize the reduction as we go forward.

The table on the bottom left provides the gross and net leverage metrics and interest cost impacts, and is based on our operating and disposition plans at a $55 a barrel Brent price from 2017 through 2019.

Moving to the next slide, I want to talk about our share buyback program. We'll use $3 billion of the cash proceeds to double our existing repurchase authorization to $6 billion over the next 3 years. In our original November plan, we returned a bit more than 30 percent of CFO through the dividend and buybacks at $50 per barrel Brent. In addition to that, we'll also return about 30 percent of this transaction's cash proceeds to shareholders. Also, since our disposition program has expanded beyond the original expectation, and with this early success, we're tripling our buyback program in 2017 from $1 billion to -- in repurchases to $3 billion. We expect to execute the remaining $3 billion of buybacks before the end of 2019. We're clearly honoring the priorities we communicated in November.

If you turn to slide 10, I'll briefly describe the other considerations we received with this transaction, Cenovus equity and a contingent payment. In addition to the upfront cash, at closing, we'll receive 208 million shares of Cenovus stock. There is a 6-month standstill from closing, which we expect to occur during the second quarter. The contingent payment extends for a period of five years from closing and there are no limitations on it, no annual or cumulative caps. We show the basis for the quarterly payments, which is tied to WCS oil price in Canadian dollars. Based on current exchange rates and differentials, the contingent payment would be in the money at around $52 a barrel WTI. So, for example, in U.S. dollars, assuming the exchange rates and diffs stay the same, if WTI increased to average $60 a barrel for one quarter, that would equate to a $48 million quarterly payment. So, if extended for a year, it would be roughly $200 million. The graph on the right shows the fixed and variable components and how the contingent value payment would change with price. It also illustrates how the equity value may also change with the oil price.

So, we're transforming our balance sheet, returning significant cash to shareholders to drive per-share growth and retaining upside to higher oil prices. And as Ryan mentioned, we're also maintaining a very strong portfolio.

I'll turn the call over to Matt to cover some of these highlights.

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

Thanks, Don. Slide 11 shows several key portfolio metrics on a pro forma basis effective at the beginning of this year. On the first row, we show our 2017 production estimate adjusted for the 280,000 BOE per day associated with this transaction. There's no change to our production expectations for the remaining assets across the portfolio. In the pie charts, you'll see that our oil sands position has been reduced by 2/3 of bitumen going from 15 percent of our total production to 5 percent. And with the sale of the Deep Basin assets, our North American gas position goes from 20 percent to 15 percent. So, the transaction clearly results in a shift to higher-margin barrels.

On an asset class basis, we will still have 25 percent concentration in long life, low capital intensity LNG and oil sands that have very little decline over decades. So, we will maintain our leading low capital intensity position among independent U.S. E&Ps.

Moving down the page, this transaction will lower our adjusted operating costs from $6 billion to around $5.6 billion. Remember that because FCCL is an equity affiliate, operating costs inside the partnership are not reported on a GAAP basis. But the metric I want to highlight is in the middle of the page, CFO at $50 a barrel. At $50 a barrel Brent, this sale has no impact on our operational cash flows. Now you wouldn't expect that we could sell these assets for $13 billion and lose no cash flow, so let me explain that. There are 2 reasons. First, we wouldn't expect distributions from FCCL until prices exceeded $50 a barrel Brent because the cash generated has been reinvested within the partnership. Second, the western Canada assets do generate CFO at current prices, but this loss of cash flow will be fully offset by the lower interest payments we realize with our debt reduction. So, this is a $13 billion disposition with no impact on cash from operations.

We weren't expecting to contribute capital to FCCL this year and our investments in western Canada were focused on our Blueberry-Montney position, so our capital scope for 2017 is unchanged. Even though we'll take in a lot of cash from this transaction, we don't plan to increase our $5 billion capital budget. We're holding the line and maintaining our discipline.

Now let's look at how this transaction impacts our resource base on slide 12.

On the left side of this slide is a waterfall starting with our 18 billion barrels of resource that has a cost of supply of less than $50 a barrel. We're selling about 3 billion barrels of that resource in this transaction.

The right side of this slide shows our new cost of supply curve for the remaining 15 billion barrels. You'll see that the average cost of supply improves from roughly $40 a barrel to about $35 a barrel. So, we'll have an even more attractive, diverse low cost of supply portfolio and still have a resource life of over 30 years.

On slide 13, I'll quickly cover the Canadian assets we're keeping, Surmont and Blueberry-Montney. Most of you know our Surmont oil sands asset well. We're ramping up production at Surmont 2 and we have the potential to expand capacity by 50 percent through debottlenecking and brownfield expansion opportunities. We're also continuing to make progress on lowering the cost of supply of the resource base.

The Blueberry-Montney is an emerging liquids-rich unconventional opportunity for us. Over the last year, we've added to our position, drilled some very encouraging appraisal wells and we expect to achieve a cost of supply below $40 a barrel, which is competitive with our Lower 48 unconventionals. We plan to provide an update in our activities and the underlying resource base there later in the year.

That was a quick review of some of the positive impacts this sale will have in our portfolio. I'll wrap up my comments now by highlighting why this is such a significant strategic transaction for ConocoPhillips.

If you go to slide 14, you'll recognize that this is the 3-year plan we showed in November at our investor meeting. Now flip to slide 15. This is a recast of that 3-year plan. The sources of cash are on the left in the stacked bar, the uses are shown moving from left to right. And you can see that we're allocating cash in accordance with our priorities. We're investing the capital we need to sustain our production, we increased the dividend by 6 percent in February, we reduced balance sheet debt to $20 billion this year and we'll have net debt of $15 billion. We're doubling the share buyback program and we'll continue to generate modest growth from our capital program. So, the same priorities as November, except bigger and faster.

Now we'll leave you with a summary of the key takeaways and perspectives from the transaction on slide 16. Four months ago, we laid out a new strategy and value proposition. As part of that, we set specific priorities to be realized over a three-year period. From the close of this transaction, we'll have exceeded those expectations in less than one year.

As we've been talking to investors since our analyst meeting in November, we've received positive feedback for our plan. Investors just needed to see execution of our dispositions as a catalyst. Well the catalyst is here. With this transaction, investors immediately get a very strong balance sheet, additional buybacks and an unambiguous message that we are committed to delivering free cash flow and disciplined growth.

We believe we should see expansion of our cash flow multiple from this $13 billion transaction, which has no impact on cash flow. In the long run, we would then expect to further drive our valuation by delivering consistent and predictable returns-focused performance over time. Our goal remains to deliver double-digit returns to shareholders through the cycles, and we believe that today's transaction puts us in a very strong path to that goal.

With that, I'll turn the call over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Paul Cheng.

Paul Cheng - *Barclays Capital - Analyst*

One, just curious. With this transaction, your balance sheet is much improved. Does that in any shape or form, that changed your view on the M&A, your appetite for the outlook?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well Paul, our view of M&A hasn't changed. What Matt described, the pretty deep and rich resource base with a lot of low cost of supply opportunities for us to execute. And as we said numerous times, we're doing that in a very disciplined way to focus on returns. With that said, we're in the market every day. We alluded to what we've done up in the Blueberry-Montney to build our position up there. So, we are active in the market today but satisfied with the portfolio that we have.

Paul Cheng - *Barclays Capital - Analyst*

Can I just have a quick follow-up?

Ellen DeSanctis - *ConocoPhillips - VP, IR & Communications*

Sure, Paul.

Paul Cheng - *Barclays Capital - Analyst*

On the asset sales, other than the one that you already identify and have the data room open, with this one you already exceeded. So, should we assume that you're pretty much done or that there's still other assets that you're going to sell beyond what you already identified?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

Paul, this is Matt here. No, we're continuing the marketing process on the assets that we identified back in November as assets that we intended to test the market with. So, we're continuing that process.

Operator

Our next question comes from Neil Mehta.

Neil Mehta - *Goldman Sachs - Analyst*

Congratulations on a good transaction here. Can you go into more detail, Matt, as to why your cash flow is unchanged at $50 a barrel Brent? You gave it to us a little high level, but if you can drill into it because there's an interesting data point there. And then as you thought about monetizing this asset, what type of oil price do you think that this transaction implies if you want to weigh in on that piece?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

On why the cash from operations hasn't changed, we have no expectation of distributions from FCCL at $50 a barrel. So, we weren't anticipating any CFO contribution from FCCL. The western Canada assets do generate cash flow at current prices but that will be -- that's more than offset by the reduction in the cost of our interest payments on the debt and - Don showed you a slide on how those interest payments will reduce. And so we're -- that's why there's no change in CFO.

Neil Mehta - *Goldman Sachs - Analyst*

And then any comments on the oil price you had in mind as you were selling this asset?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

No, I think that maybe that's a question for Cenovus. But no, we're not going to comment on that.

Operator

Our next question comes from Doug Leggate.

Doug Leggate - *Bank of America Merrill Lynch - Analyst*

Guys, I wonder if you -- maybe this is for Don. Could you walk us through the capital gains implication? Your comment in the press release about -- the facts were a bit confusing. Just walk us through what the net cash inflow you think will be after tax?

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Yes, Doug. No, I can understand how the tax can get complicated and confusing. Really, the short answer on that is that the after-tax proceeds on this from a cash standpoint or a proceeds standpoint will be exactly the same as the before-tax proceeds. And the reason for that is because of our current Canada tax position. So, because of that, we expect to be able to access the full proceeds.

Doug Leggate - *Bank of America Merrill Lynch - Analyst*

So I just want to be clear. So, the $1 billion financial tax benefit and then the comment at the end, the tax expense associated with the sale, there's no cash impact from either of those comments, so you're basically getting the $10.9 billion?

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

No, that's all financial tax and that will be reflected in the financial gain that we show when we close the deal. But yes, we will see that $1 billion tax benefit. And it's just because of certain accounting rules. As soon as we sign the PSA, we have to recognize this deal is more probable than not, which means it goes held-for-sale, and that's what triggers that tax treatment now. So later when we do close the deal, we'll have a partially offsetting tax expense, but it won't fully offset that $1 billion. But that has nothing to do with the cash tax, that's just the financial side.

Operator

Our next question comes from the line of Paul Sankey.

Paul Sankey - *Wolfe Research - Analyst*

Just on the guidance, I mean, obviously this massively exceeds your disposal target in one shot. Was that -- what's the background for that? I just wondered, I mean, it's not a negative. I just wondered how come this sort of came up outside of your guidance.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, Doug, -- or Paul, excuse me, when we first had some initial conversations back in the fall of last year after we had announced our $5 billion to $8 billion disposition plan, and then I'd say there was some interest to have a conversation and that those conversations heated up kind of in the first part of this year. They got more serious along the lines of what we've outlined today. So, it was something that came about as a result of us talking about our $5 billion to $8 billion disposition plan. And then our Deep Basin, our western Canadian assets were a part of that plan.

Paul Sankey - *Wolfe Research - Analyst*

Yes. And was the -- I guess it was totally excluded from your plan previously guided so that the $3 billion of extra that you talked about this year, would you have any assumptions for this in the asset disposal target you talked about late last year?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

Yes, we did, Paul. About $2 billion. We felt that we will be selling about half of western Canada.

Paul Sankey - *Wolfe Research - Analyst*

Understood. And then just a follow-up. Forgive me if you've mentioned this, but could your repeat your capex guidance, such as it stands?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, Paul. The capex guidance stands at $5 billion for 2017.

Paul Sankey - *Wolfe Research - Analyst*

Are you talking any longer term than that at all, Ryan?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Not at this moment. Tell me where prices are going, Paul.

Paul Sankey - *Wolfe Research - Analyst*

I believe our official forecast is for -- yes, anyone can read it if he wants to read it.

Operator

Our next question comes from Edward Westlake.

Edward Westlake - *Credit Suisse - Analyst*

I definitely should have paid more attention to slide 53 at the Analyst Day. So, $9.4 billion of cash, if I do the math correctly, $15 billion gross debt divided by 1.6, that's $55 in 2019 real and capex of about $5 billion. Obviously, there's room for buybacks, there's room for dividends, there's room for maybe accelerating the growth. I guess the challenge is that there are majors out there with much higher absolute levels of dividend and there are pure-play E&P companies with faster growth. So maybe think about post this deal, which is excellent, how you reposition those metrics. And I have a smaller follow up.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well I had -- our value proposition, hopefully, was pretty clear in November and that's free cash flow generation. And the numbers you just rattled off from the slide demonstrate that we're generating that free cash flow at $50 and $55 a barrel when you take our cash flow metrics and roll them into the debt target like you've done. So, we're just -- we're committed to going in -- we're committed to that, we're committed to the discipline, we're committed to making sure that the capital program is only focused on those lowest cost of supply, highest returning opportunities in the portfolio. So, this doesn't impact our value proposition, it just reinforces it. And as we said, it transforms and accelerates it dramatically and that's what we're talking about doing.

Edward Westlake - *Credit Suisse - Analyst*

I mean, would you revisit the dividend just in the normal cycle at board meetings post this deal being done?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well we're committed to annually growing the dividend and that's what we're committed to do. That's our second priority as we've outlined in our priorities. So, we're returning a lot of cash back to the shareholders and through this acceleration of the share repurchase program. And I would say just look at our target, is that we're committed to delivering 20% to 30% of our cash back to the shareholders on an annual basis. But we're going to do that through a combination of fixed dividend and share repurchase.

Edward Westlake - *Credit Suisse - Analyst*

Okay. And then a small follow on was just, I mean, we were just going to ratio down your oil sensitivity by the oil production lost. Any other things we should consider? Obviously, some of your natural gas is oil sensitive, but I don't know if you've done a number off the back of an envelope for oil sensitivity post this deal.

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

The high-level sensitivity, Ed, that we were using is $250 per dollar of barrel -- $250 million, sorry, per dollar a barrel. That's going to be more like to $210 now.

Operator

Our next question comes from Scott Hanold.

Scott Hanold - *RBC Capital Markets - Analyst*

Just a question on some of the compensation coming in with Cenovus shares. Can you give us a little background on why that was part of the decision, taking compensation? And maybe, what is the big picture plan, just if you'd be willing to elaborate on that?

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Yes, this is Don. I can comment why Cenovus sales came into the picture here. Really, we were just looking for the maximum value that we could get for the assets, and that happened to come through a combination of cash and equity and also the contingent payment as well. Long-term, as far as our interest in the Cenovus shares, while we're optimistic about the Cenovus story and their strategy and how they've increased their competitiveness and we know the value of the assets and the quality of the assets they're getting, we're drillers, we're not natural equity investors. So, we're not -- we don't see ourselves as strategic investors in Cenovus, and we will liquidate our position over time, and we'll do it in an orderly way because it's in our best interest.

Ellen DeSanctis - *ConocoPhillips - VP, IR & Communications*

Ashley, is there another question?

Operator

Our next question comes from Roger Read.

Roger Read - *Wells Fargo Securities - Analyst*

Congratulations on the deal. I guess what I'd like to try to understand is, value proposition of buying back your shares at this point versus thinking of production growth longer, not so much the immediate increase to $3 billion in '17 but continuing on by essentially adding on, well, to adding on. However you want to think about it adding on to buying in '18 in '19? Is that something that could be adjusted relative to production growth or share price? Or how do you think about the value between buying back the shares and production growth?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, thanks, Roger. No, I think again, we're committed to delivering 20 to 30 percent of our cash to the shareholders. So, we recognize that in a rising commodity price environment that we hope we're in over the next couple of years, that the fixed dividend doesn't return enough. That's why we're augmenting that with the share repurchases. We believe we've made structural changes to our company, lowering our operating costs, improving our capital flexibly, getting our breakeven down low. So, we ought to be generating and we will be generating free cash flow at some pretty low Brent equivalent prices. So, that gives us the option to do that. We know we have a low cost of supply portfolio, so we'll be looking at opportunities to make some more investments in that. We'll see where the market's going. We'll see what inflationary forces are doing here in North America and just make sure that we're getting the proper return for the investments that we're making.

Operator

Our next question comes from Ryan Todd.

Ryan Todd - *Deutsche Bank - Analyst*

Maybe just a quick one, I know I think you said in the presentation that maintenance capex are effectively the capital necessary to keep the production flat, stays unchanged. I mean, if you think about long-term portfolio decline rates, does this -- does selling these barrels have a material impact on a longer-term portfolio decline rates? Or how do you think about that over -- on a 5-year view?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

No, it doesn't. The decline rates of the remaining portfolio are essentially the same as they were from the -- and before the transaction. So, there's no significant impact on decline rates.

Ryan Todd - *Deutsche Bank - Analyst*

Okay. Is that generally because this was expected to stay flat as was the rest of the portfolio?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

Yes, but we were expecting to see some decline in western Canada.

Ryan Todd - *Deutsche Bank - Analyst*

Okay. I guess on the Deep Basin assets?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

On the gas assets, yes.

Operator

Our next question comes from John Herrlin.

John Herrlin - *Societe Generale - Analyst*

Yes. On page 18, you had a $150 million pension settlement expense. How many Deep Basin employees are you expecting to matriculate to Cenovus?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

We expect it to be 700 or more that will transfer.

Operator

Our next question comes from Fernando Valle.

Fernando Valle - *Citigroup - Analyst*

Just quickly, you guys increased the target for debt reduction and for buybacks. The annual growth stayed more or less the same. Is that a view on oil prices? Is that a view on the overall returns growth? Or can you just discuss a little bit on the rationale on why your activities are going to stay the same and deciding to reduce the debt and increase the buyback instead?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

I think we're just committed to the discipline that we laid out in 2017. We'll reassess that as we go forward into 2018 and '19, depending on where the market is and what the opportunity sets look like, what inflation is doing and where our shares are trading. So, we'll make that determination. We're committed to the priorities that we outlined in November, so we're going to get our debt down to the target that we talked about. We'll immediately get down to $20 billion this year. We have a plan to get it down ultimately to $15 billion gross over the next two years, and we're committed to delivering 20 to 30 percent back to the shareholder. We're doing that through a dividend and share repurchase. So, that part of is set. To the extent we've got additional free cash beyond that, we'll look to that investing in the portfolio or depending on where we believe the macro is going, we may hold some on the balance sheet. But that's kind of the plan that we laid out in November and we're sticking to that.

Operator

Our next question comes from Pavel Molchanov.

Pavel Molchanov - *Raymond James & Associates - Analyst*

Just a quick one on the timing of this deal. I can't help noticing that, that three international companies, including yourselves, have sold oil sands since the carbon tax in Alberta took effect less than three months ago. So, what I'm wondering is, did the implementation of the carbon tax and the visibility on this escalation in the future play a role in your desire to exit the oil sands?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

No.

Operator

Our next question comes from Philip Gresh.

Our next question comes from Guy Baber.

Guy Baber - *Piper - Analyst*

Congratulations on the transaction, everyone. Could you just talk through expectations around ROCE progression, perhaps just put some color around what the portfolio change might do to expectations on return on capital employed? And maybe how a view of returns and the importance of returns played a role in this transaction?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, Guy, it's we're -- the value proposition that we laid out is one of free cash flow generation with a pretty intense focus on returns. So, we expect in terms of the changes that we made to the company, that we'll be improving both our absolute and the relative return on capital employed that we have as a company. And that's an important measure to us. We get that going and improving that, that will -- a lot of what we're trying to do in the company takes care itself at that point in time. So, we are expecting and in terms of the plans that we're executing, the capital we're putting into the business, the operating cost structure that we've established, the reserves and the cost of supply we have captured in the portfolio and investments we're making, will absolutely start to deliver higher returns on capital employed as we go forward, and that's absolutely what we're focused on.

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Guy, this is Don. I might just add that we do expect this transaction will be accretive to ROCE. I mean, if you just look at the performance of our Canadian segment, the fact that we've been in a tax loss position there for a while, they're not -- they haven't been as profitable as some of our other segments and so, we're removing that asset base without the loss of a lot of profit is going to be accretive.

Operator

Our next question is from Michael Hall.

Michael Hall - - *Analyst*

Just curious on the additional debt reduction in 2018 that you guys have outlined, as well as the further share buybacks, are those contingent on monetizing the Cenovus equity stake?

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Monetizing the Cenovus stock?

Michael Hall - - *Analyst*

Yes.

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

No. Not the reduction down to our goal that we talked about in November of $20 billion, we will have done that before we start to liquidate any Cenovus stock because of the standstill, the 6-month standstill.

Michael Hall - - *Analyst*

No. I was asking about the 2018 target of $15 billion gross.

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

I think that's more contingent on the stability of the oil markets than anything else. We should have -- if markets are $50 or higher, we should end the year, based on our expected success on this transaction, as well as others with pretty sizable cash balance and we'll be building cash balances if markets stay in that $50 plus range. So really, the threat would be the market more than anything else.

Michael Hall - - *Analyst*

Okay, that's helpful. And was the additional -- sorry, was the sale of the remaining Canadian oil sands business also discussed or contemplated with this transaction, the Surmont?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

We are happy with our Surmont asset. We have -- we're ramping up production. We have good opportunities to expand that facility, so we're very happy to retain Surmont.

Operator

Our next question comes from Paul Cheng.

Paul Cheng - *Barclays Capital - Analyst*

Hey guys, sorry that took -- if I could have two additional quick questions. One, the $15 billion, Don, is that a medium-term debt target or that is really the long-term you think you would be happy to settle just at that? Second one, that previously, I think you guys have talked about having $1 billion of the investment you could grow maybe 1 to 2 percent in production. Now that -- was that given your production base has changed, both in absolute level as well as the mix, the $1 billion investment that will help growth that we're talking about.

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

So I'll take the first one, Paul, on the $15 billion. I would characterize that as a medium-term objective, not a long term. But again, you really don't -- I don't feel any sense of urgency or even that much priority on it now that we get down to $20 billion. And the reason for that is because I do expect, again, given market stability, that we'll have our net debt at $15 billion. And so, if markets are stable, we'll convert those cash balances to reductions of long-term debt as conditions warrant. So, I think we're there from a leverage standpoint from a net debt, and the expectation is over a couple of years, we would probably have the opportunity to reduce our gross debt down to the $15 billion level.

Paul Cheng - *Barclays Capital - Analyst*

And actually, Don, if the market condition's favorable means that you generate excess cash. Do you have an ultimate thing that you'd -- we need to feel very good if you drop down that certain debt to $10 billion or less. Any number you will be able to share?

Don Wallette - *ConocoPhillips - EVP, Finance, Commercial & CFO*

Well I think a net debt, or ultimately, a gross debt of $15 billion for the operating profile of this company is really a sweet spot. That's where we aim to get to and further reduction as far as I'm concerned becomes inefficient. We have better uses for our capital.

Paul Cheng - *Barclays Capital - Analyst*

And how about the second question?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

Yes. On the growth for $1 billion, yes, we have been talking about 2 percent growth at $1 billion and that will improve as we strengthen the portfolio some but -- so you can do the math yourself and that will get you in the ballpark.

Paul Cheng - *Barclays Capital - Analyst*

So you'll just prorate it, Matt? Or is there an adjustment that we need to make?

Matt Fox - *ConocoPhillips - EVP, Strategy, Exploration & Technology*

I think that's a good placeholder for the time being to do that.

Operator

I'm showing no further questions. I would now like to turn the call back to Ellen DeSanctis for any further remarks.

Ellen DeSanctis - *ConocoPhillips - VP, IR & Communications*

Thank you, Ashley. Thank you very much to our participants. Again, I appreciate you hopping on in a short notice and IR is happy to answer questions through the evening and tomorrow if you have any.

Again, thank you very much for your interest.

Operator

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

Editor

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