

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

COP - Q4 2016 ConocoPhillips Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2017 / 5:00PM GMT

## OVERVIEW:

Co. reported adjusted loss of \$318m or \$0.26 a share.



## CORPORATE PARTICIPANTS

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

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

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

**Al Hirshberg** *ConocoPhillips - EVP, Production, Drilling & Projects*

## CONFERENCE CALL PARTICIPANTS

**Neil Mehta** *Goldman Sachs - Analyst*

**Phil Gresh** *JP Morgan - Analyst*

**Doug Terreson** *Evercore ISI - Analyst*

**Alastair Syme** *Citigroup - Analyst*

**Edward Westlake** *Credit Suisse - Analyst*

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

**Paul Sankey** *Wolfe Research - Analyst*

**Paul Cheng** *Barclays Capital - Analyst*

**Blake Fernandez** *Scotia Howard Weil - Analyst*

**Roger Read** *Wells Fargo Securities - Analyst*

**Scott Hanold** *RBC Capital Markets - Analyst*

**Ryan Todd** *Deutsche Bank - Analyst*

## PRESENTATION

### Operator

Welcome to the fourth-quarter 2016 ConocoPhillips earnings conference call. My name is Christine and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded. I will now turn the call over to Ellen DeSanctis, VP, IR and Communications. You may begin.

---

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

Thank you, Christine. Hello, everyone and welcome to our fourth-quarter and full-year 2016 earnings call. Our speakers for today will be Ryan Lance, our Chairman and CEO; Don Wallethe, our EVP of Finance and Commercial and our Chief Financial Officer; and Al Hirshberg, our EVP of Production, Drilling and Projects.

Our cautionary statement is shown on page 2 of today's presentation. We will make some forward-looking statements this morning during the call that refer to estimates or plans and our actual results could differ due to many of the factors described on this slide, as well as in our periodic SEC filings. We will also refer to some non-GAAP financial measures today and that's to facilitate comparisons across periods and with our peers. Reconciliation to non-GAAP measures that most closely correspond to the GAAP measure can be found in this morning's press release and also on our website. And then finally, during this morning's Q&A, we will limit questions to one and a follow-up. And now I'll turn the call over to Ryan.

---



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

Thank you, Ellen and let me also welcome those joining the call today. Since our Analyst and Investor Meeting in November, we have received quite a lot of positive feedback on our disciplined, returns-based value proposition. But I think we also heard that we needed to show you that we can deliver on this plan. In other words, we said it, but you need to see it, so that's the punch line of today's call.

Since November, we've taken several actions that offer a snapshot of our value proposition in action. In addition, our fourth-quarter results underscore the inflection point we are at as a company. I will build on these themes over a couple of slides and then I will turn the call over to Don and to Al.

So if you turn to slide 4, this is an updated version of our value proposition on a page that we showed you in November. We showed our principles on the left and our cash flow allocation priorities and targets in the middle column. Shown on the right are proof points that these priorities are activated and delivering. Let me step through them.

In the fourth quarter, we generated sufficient cash from operations to cover our capital expenditures and pay our dividend for the second quarter in a row, at an average of \$45 to \$50 Brent prices. As you know, our first call on cash flows is to invest capital to maintain our production and pay our existing dividend and we are reiterating our 2017 capex plan of \$5 billion, which can achieve this priority.

Our second priority is grow the dividend. Earlier this week, we announced a 6% increase in our quarterly dividend rate. The dividend is an important part of our commitment to return capital to our shareholders and we believe this increase sends a strong signal that we intend to offer a dividend that is competitive, sustainable and affordable through the cycles.

In November, we set a debt target of \$20 billion by the end of 2019. We are making steady progress towards that goal. We reduced debt by \$1.4 billion in the fourth quarter. We are committed to maintaining a strong investment-grade balance sheet through the cycles and our plan is to reduce debt as it matures, but we are willing to reduce debt more quickly if we find ourselves with additional cash due to higher prices or earlier proceeds from our disposition plans.

We stated a goal to pay 20% to 30% of our cash from operations to shareholders through dividend and share buybacks. In mid-November, we began repurchasing shares under an initial \$3 billion repurchase authorization. However, like our debt reduction target, we would be willing to put more money to this priority if cash is available and the value is compelling.

Finally, we grew production by 3% on an adjusted basis in 2016 versus 2015 and we did this while spending only \$4.9 billion in capital. We are on track to grow up to 2% on that same basis in 2017 when excluding the full-year impact of our 2016 disposition plans. We are putting more money to shorter-cycle, low-cost-of-supply investments in the Lower 48. Growth will be balanced against our other priorities and that is key to our disciplined approach.

Our ongoing commitment to these priorities is that we can enable us to deliver more predictable and sustainable returns to shareholders no matter what the prices do. We believe these priorities are unique and they are working. That's why it's a compelling time to invest in ConocoPhillips.

Another reason is we are in a significant inflection point as an E&P company and I will describe that in more detail on the next slide. This slide describes that inflection point in three ways -- transformation, acceleration and differentiation. On the left, we've significantly transformed our company. The fourth-quarter performance highlights the many changes we made to our business during the past two years, which led us to cash flow neutrality in a \$45 to \$50 Brent environment.

As we go forward, you will see sustainable improvements in both our cash flow and income drivers, which will also drive improvements in free cash flow generation and in returns. Our margins should improve as we allocate more capex to high-return, short-cycle investments. We've guided to lower adjusted operating costs, exploration costs and DD&A versus 2016 and we think these improvements are sustainable and we are reducing our share count. These factors should provide strong momentum in 2017 and beyond.

We are also accelerating our value proposition. Investors don't have to wait for a significant price move to the upside for our priorities to start kicking in. As I mentioned, since November, we've increased the dividend, reduced our debt, initiated a share repurchase program and shifted

capital within our portfolio to higher-margin Lower 48 activity. We also expect to deliver \$5 billion to \$8 billion in asset sales that can fund additional debt reduction, buybacks or incremental growth. Our marketing processes are underway and we'll provide updates throughout the year.

Finally, what differentiates us compared to other E&P companies? We are managing the business for free cash flow and we laid out clear priorities on how we will allocate our free cash flow to generate strong returns. Our value proposition balances commitment with flexibility and balances reinvestment in the business with returning cash to owners. Our 20% to 30% payout of CFO is distinctive.

We are focused on returns, not absolute growth. We intend to differentiate ourselves by maintaining discipline through the cycles and across all value drivers. We are not going to chase prices up and down. We believe our diversified low-cost-of-supply portfolio is also an advantage. We have an 18 billion barrel resource base with an average cost of supply at less than \$40 Brent that can drive future returns. We believe this inventory of high-quality investment opportunity is distinctive amongst our competitors.

So transformation, acceleration and differentiation. These are the themes I hope you take away from today's call. We are on a more disciplined and resilient future path and that's good for all our stakeholders. Now let me turn the call over to Don and AI, who will describe our 2016 performance and our outlook for 2017 in more detail.

---

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

Thank you, Ryan. I will begin on slide 7 with adjusted earnings. This quarter, Brent averaged about \$50 a barrel and Henry Hub about \$3 an Mcf resulting in an average realized price just under \$33 per barrel. We reported an adjusted loss of \$318 million or \$0.26 a share. Year-over-year, adjusted earnings improved about \$800 million. We benefited from a 15% improvement in realized prices and a reduction in exploration expenses.

Sequentially, adjusted earnings improved about \$500 million. Approximately \$300 million of the benefit came from improved realizations and \$200 million from lower depreciation expenses. Depreciation expense in the fourth quarter was lower and this was primarily a result of performance-related reserve revisions and the addition of new reserves. Fourth-quarter adjusted earnings by segment are shown in the lower right side of the slide. Each of our producing segments showed improvement and three of the five producing segments were profitable in the quarter. The supplemental data on our website provides additional segment financial detail.

2017 guidance is also provided in the appendix of the deck and I want to comment on two expense items that are significant reductions from prior years, depreciation and exploration expense. We expect lower depreciation to continue in 2017. Our guidance for the year is \$8 billion versus \$9.1 billion in 2016. This may seem a little counterintuitive given the reserve revisions we announced this morning; however, about 90% of the revisions were PUDs, undeveloped reserves, which have minimal impact on our depreciable asset base.

Additionally, 2017 depreciation will benefit from the performance-related reserve increases we saw in the fourth quarter. And finally, our consolidated volumes will be a little lower in 2017, but offset by higher equity affiliate volumes.

Exploration expense guidance for 2017 is \$200 million versus approximately \$700 million in 2016, reflecting the wind-down of our deepwater activity.

If you turn to slide 8, I will cover cash flow for the fourth quarter. There is a full-year cash flow waterfall in the appendix, but we wanted to highlight the fourth quarter as a better reflection of the current environment and to demonstrate the inflection point message that Ryan emphasized earlier. As you can see, we continue to make progress on our cash allocation priorities. Again, this quarter we generated sufficient cash from operations to more than cover our capital spending and dividend. We started the quarter with \$4.3 billion in cash and short-term investments.

During the fourth quarter, we generated \$1.75 billion from operating activities, excluding operating working capital. Working capital was a \$200 million use of cash in the quarter. Proceeds from asset sales generated \$900 million. We retired \$1.25 billion debt maturity and accelerated the repayment of our term loan by \$150 million for a total debt reduction in the quarter of \$1.4 billion. Capital spending was \$1 billion. We initiated our share buybacks mid-quarter and along with dividends, returns to shareholders totaled a little over \$400 million. And we ended the quarter with \$3.7 billion in cash and short-term investments.

One final comment. As I mentioned last quarter, at Brent prices around \$50 a barrel, we would expect to generate about \$6.5 billion of operating cash flow on an annual basis. Based on the midpoint of our production guidance, that's still a good marker for 2017. We are going to be keeping a close eye on this just like you.

That concludes my comments. Now I will turn the call over to Al for his comments on operations.

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

Thanks, Don. Well, we had another strong operational quarter. Production came in at the top end of guidance and again, we again beat guidance for both capital and adjusted operating costs. I will begin with a review of our preliminary 2016 reserves. Final reserve details will be published in our 10-K in late February.

So on slide 10, you will see that we started the year with 8.2 billion barrels of reserves. We produced 0.6 billion barrels and had additions of 0.5 billion barrels, excluding market factors. So on that basis, our replacement from additions was 81%. That's an 81% replacement of production from additions in a year when we spent less than \$5 billion in capital and sanctioned no major projects. Our addition of 482 million barrels results in an adjusted F&D cost of about \$10 a barrel. Market factors reduced our year-end reserves by approximately 1.6 billion barrels and the oil sands represented over 70% of that reduction. About 90% of the reduction was PUDs.

Of course, these resources have not gone away. Remember these reserves were on the books in 2015 when the average Brent price was similar to today's price. So we expect to rebook reserves if current prices hold. The 18 billion barrels of resources with an average cost of supply less than \$40 a barrel that we discussed at our recent analyst meeting are also unaffected by these market-driven reserve changes. More details will be available in our 10-K filing.

If you turn to slide 11, I will cover some highlights from our Lower 48 and Canada segments. In the Lower 48, our production in the fourth quarter was 458,000 barrels per day. Once you adjust for asset sales, that's an underlying decrease of about 9% compared to our fourth-quarter production last year, primarily driven by our reduced activity levels in the unconventional. Production from unconventional in the fourth quarter was 226,000 barrels per day, a decrease of about 14% compared to our fourth-quarter production last year. Underlying declines were in line with expectations, but we also had some impact from winter weather in the Bakken that's behind us now. We began ramping up unconventional rig activity in the fourth quarter and are currently running 10 development rigs.

Moving to Canada, our production in the fourth quarter was 321,000 barrels per day. Once you adjust for asset sales, that's an underlying increase of about 17% compared to our fourth-quarter production last year. The increased production in Canada is coming from our oil sands production ramp up. For the quarter, we averaged 213,000 barrels per day. This is a new record for us. We've been pleased with the project execution in this segment and we expect Surmont to continue to ramp up during the year.

As I had mentioned during our analyst meeting, we added another 30,000 net acres to our liquids-rich Montney unconventional play in the fourth quarter and we also had encouraging results from our Montney appraisal program last quarter.

If you turn to slide 12, I will cover Alaska and Europe and North Africa. In Alaska, our production in the fourth quarter was 187,000 barrels per day. Once you adjust for asset sales, that's essentially flat compared to our fourth-quarter production last year. Only a few years ago, this segment was in decline and we've now turned the corner. Alaska continues to be a very productive area for us with access to medium-cycle projects with competitive cost of supply. We concluded phase 1 of Drill Site 2S in the fourth quarter. Drill Site 2S is another example where our experienced Alaska project team delivered ahead of schedule and under budget.

In addition, we recently announced an important and exciting discovery in Alaska. In 2016, we successfully drilled and tested two exploration wells on the Willow discovery in the Greater Mooses Tooth unit with encouraging results. Initial technical estimates indicate the discovery could have recoverable resource potential in excess of 300 million barrels of oil. Appraisal of the discovery commenced in January 2017 with the acquisition of 3-D seismic. As a follow-up to the discovery, we acquired significant new acreage in the December 2016 lease sale to allow us to follow up on the discovery.



In 2017, we will also continue to progress development of the GMT-1 and 1H NEWS projects.

In Europe, our production in the fourth quarter was 221,000 barrels per day. That's an underlying increase of 1% compared to our fourth-quarter production last year. We've been able to deliver low cost of supply projects that will add production in Europe. We brought Alder onstream in November and it's continuing to ramp up. For 2017, we will be continuing to progress Clair Ridge, Aasta Hansteen and development of the Greater Ekofisk area.

If you turn to slide 13, I will cover APME and Other International. In APME, our production in the fourth quarter was 400,000 barrels per day. Once you adjust for asset sales, that's an underlying increase of 15% compared to our fourth-quarter production last year. During the year, we've achieved key milestones with first production at Malikai, Bohai wellhead platform J and APLNG Train 2, which marked the completion of a six-year megaproject. For 2017, the focus is making sure we reap the full-year production benefit of APLNG, KBB and Malikai. We will also be progressing Bayu-Undan infill wells and appraising Barossa as a backfill option for Darwin LNG.

Our Other International segment is focused on the exploration and appraisal of unconventional reservoir potential. In 2016, we drilled two exploration wells in Chile. In 2017, we will continue to focus on exploration and appraisal in both Chile and Colombia.

So let's move to slide 14. Our 2017 operating priorities remain unchanged from what we outlined at our analyst meeting in November. That's production of flat to 2% growth compared to 2016 production, excluding the full-year impact of dispositions in Libya for \$5 billion of capital and \$6 billion of adjusted operating costs. We expect first-quarter production to be between 1,540 and 1,580 thousand barrels per day and expect to have our typical profile through the year with second-quarter and third-quarter turnarounds.

We will also continue to implement our more focused exploration program. And finally, as Ryan mentioned, we are making progress on our planned \$5 billion to \$8 billion of assets sales. We have active processes underway and will update you throughout the year. So operationally everything is on track for 2017. And now we will turn the call over for Q&A.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Neil Mehta, Goldman Sachs.

---

### Neil Mehta - Goldman Sachs - Analyst

The first question I had for you was around the dividend raise. So earlier this week, you raised your dividend by 5% to 6%. Is that a good proxy for what we should expect going forward post 2017 as well? And then, Ryan, can you just talk about the buyback program and how you weigh that versus dividend growth on a go-forward basis?

---

### Ryan Lance - ConocoPhillips - Chairman & CEO

Thanks, Neil. Yes, certainly, a couple days ago, we announced a 6% increase to the dividend. So what we are doing -- it's driven by the fact that we've reached cash flow neutrality in the company. We are generating free cash flow. What we described to our investors, it was important, our second priority to grow the dividend. Felt that was important to do. We have reached that milestone. As we look at the market, we see some recovery in the market. We continue to, as AI said, operate really well and we will continue to generate free cash flow as we go forward. So recognizing that priority, we will be growing our dividend and that's our intention to do that.

We are augmenting that right now with share repurchase as we generate the free cash flow, so I view those together. We are going to target our 20% to 30% return to shareholders. I think we are at the upper end of that right now with respect to both the dividend and the share repurchase.

We will balance those two as we go forward. We are going to set the fixed dividend, make sure it's affordable and make sure it's sustainable through the cycles. So that's how we are thinking about the fixed portion of our return to the shareholders combined with the flexible part through share repurchases.

By the way, on the share repurchase piece too, Neil, I would just remind people we got started in mid-November after the analyst meeting, so that represented only half a quarter in terms of the amount we are trying to buy back over the course of a year.

---

**Neil Mehta** - *Goldman Sachs - Analyst*

Appreciate that, Ryan. And the follow-up is just on the asset sale program, the \$5 billion to \$8 billion. When do you expect to be able to provide us an update on San Juan, which seems to be the one that is most progressed and can you just comment on early market appetite for North American natural gas assets?

---

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

Yes. I think we are seeing a lot of interest. These are pretty high-quality assets, so we expect a lot of interest and the fact that we are getting that through the data room right now, we expect to get bids in and have some decisions probably over the next couple of months with respect to San Juan.

---

**Neil Mehta** - *Goldman Sachs - Analyst*

Great. Thanks, Ryan.

---

**Operator**

Phil Gresh, JP Morgan.

---

**Phil Gresh** - *JP Morgan - Analyst*

First question, I think you answered it on the buybacks, that you are run rating more like \$250 million per quarter and with oil probably averaging closer to \$55 at this stage relative to the \$50 you talked about at the Analyst Day, just wondering how you think about that excess cash. You had given an example in one of your slides at the Analyst Day that looked like \$2 billion, maybe \$3 billion of debt pay down per year each of the next few years. Is that a reasonable way to think about this year? For debt pay down?

---

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

Phil, I will jump in on the debt. I think what we've said is that if you look at our maturities, I think \$1 billion this year and a little more next year, that we would pay it down as the bonds matured. If we had excess cash flow, then we would look at potentially accelerating some of that and we certainly have a convenient way, an efficient way of doing that with our term loan that's due out in 2019. But, beyond that, we are not providing guidance on what proportion of excess cash flow would we allocate to debt versus buybacks versus investment in the business.

---

**Phil Gresh** - *JP Morgan - Analyst*

Okay. And then the second question would just be we've seen a lot of activity out there from an acquisition standpoint, particularly in the Permian and given your positioning in US shale and your strategic objectives that you've talked about, obviously and M&A really isn't on there, so is it fair

to assume that you are really not looking at those type of opportunities, or if something came up with say contiguous acreage that could enhance your position, would you consider it?

---

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

Well, as we have said in the past, Phil, we are in the market. We look at all these. We watch everything that is going on and we give our teams money to core up their acreage in and around their positions. As I described what we did in the fourth quarter up in the Montney. We had a unique opportunity to core up a fairly significant position that was contiguous to our acreage. We've been doing deals like that in all the big areas that we operate in, so that is nothing new to us.

The hurdle rate is quite high in the company. It's got to compete on a cost of supply basis for us. So right now, I don't really feel like we have a gap in our portfolio, so we are not out looking to build -- we are building some new areas through the exploration channel that we are excited about, but we have a lot of undrilled locations to go drill.

On your previous question, I might just add one thing to Don's response too is follow the priorities. If we get free cash flow, we've already satisfied and grew our dividend. We are going to look to reduce debt on the balance sheet and we will look to increase our share, ramp up some share repurchases if we think that's the right thing to go do.

---

**Phil Gresh** - JP Morgan - Analyst

Great. Thank you.

---

**Operator**

Doug Terreson, Evercore ISI.

---

**Doug Terreson** - Evercore ISI - Analyst

Ryan, the company reported positive free cash flow again this quarter and free cash flow should rise further in 2017 it looks like and on this point, you guys seem pretty confident that you can make your growth and returns profile despite a level of spending that is historically lower than it was in the past. So my question is what is it in the new reserve and production mix or the spending and financial framework that is so different than was the case in the past because you are spending a fraction of what some of your peers are that supports your confidence to deliver in this area?

---

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

Thanks, Doug. It's really the journey that we've been on getting the major projects up and running and the switch in the portfolio to these shorter cycle, high return, low cost of supply investments that we've got. I remind people that 30% or so of our portfolio doesn't decline for over a decade and that allows us to reduce the capital burden to maintain and modestly grow the company, which is why we feel very confident that we've got that capability to do that at the \$5 billion-ish capital level.

And then the proof point is exactly as you point out. We grew 3% last year and spent \$4.9 billion of capital. So that's why we have confidence. We've exited the deepwater so we are not in that piece of it and we've seen the technology and the innovation pretty apparent in our portfolio. So all those things come together and it's buried in that deep 18 billion barrels of resource base that we have and the journey that we've been on over the last couple of years and we've got now to a place where low capital intensity in the company and it can support a very strong returns-focused value proposition like we laid out to investors last November.





**Doug Terreson** - *Evercore ISI - Analyst*

Okay. And then also strategically there seems to be a lot more private equity funding in the United States energy sector during this cycle than there has been in past cycles. So my question is how do you view this competitive threat both in terms of competition for resources or oilfield services or whatever else you deem meaningful to the topic and do you think it's significant enough such that it could hold broader implications for your portfolio down the road or is it too early to know?

---

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

Well, I think it's a really good question. We've spent a lot of time and I would say probably not a little bit of private equity, a whole lot of private equity money chasing certainly in the Permian right now. And I think as we look at it -- for us, I guess, our focus and attention right now is on the reflationary pressures that you might see and just make sure that we've got a myopic focus on holding our margins and making sure that we keep everything.

As I said, we are not going to chase prices up and down. As prices rise, if we see a lot of inflationary pressures, which some of this activity and the PE guys are kind of driving right now, we will spend -- pay really close attention to that. We don't have to chase it up and chase the growth down. We've got a portfolio that we can make sure we do it right and make sure we are focused on margins and returns. But it is -- we've got a close eye on it. We are wondering -- we are watching the activity in the rig rates and it's interesting. We are not sure what they are selling.

---

**Doug Terreson** - *Evercore ISI - Analyst*

Okay. Thanks a lot, guys.

---

**Operator**

Alastair Syme, Citi.

---

**Alastair Syme** - *Citigroup - Analyst*

Can I just ask about the new US administration and how that influences your thinking, particularly maybe your view around the Canadian heavy oil position?

---

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

Well, I think it is a little early to tell. We certainly hope that the administration at least in terms of what they've talked about is going to give us a little bit of regulatory relief, which we think is good. There are some things that the last administration were proclaiming that were a bit worrisome on how it might slow the business down, both on the regulatory side. And on the infrastructure side, we've seen President Trump make his decisions on Dapple and on Keystone, so hopefully some of that infrastructure will get moving that's needed to be there.

I think a lot of uncertainty on the border adjustment tax and its potential impact on how crude and other products move across the border, whether it's south to Mexico or some of the crude that moves down from Canada into the US. I think there is a little bit to be seen yet what that means. Does it get exempted or how are the details of that going to unfold. We are watching it closely, but I think it's a little bit too early to tell on that last piece.

---

**Alastair Syme** - *Citigroup - Analyst*

Thank you. My follow-up is just in terms of Doug's question on the capital coming into North America. Given your perspective and looking across the industry, is the pace of restart in the US surprising you?

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

Yes, I guess it probably surprised us a bit to the upside, but in the heart of these unconventional plays, the cost of supply has come down and we are still getting more efficient and the technology and the innovation is still improving. So yes, there is maybe some pace at which people are coming back is a bit surprising, but it's not surprising in terms of the overall macro. The growers are protecting their multiple, so they trade on multiples of cash flow, so they've got to get on and run hard.

---

**Alastair Syme** - *Citigroup - Analyst*

That's great perspective. Thanks very much.

---

**Operator**

Edward Westlake, Credit Suisse.

---

**Edward Westlake** - *Credit Suisse - Analyst*

Good morning and congrats on the cash and discipline and you've clearly said that your priorities aren't really going to change, but I guess you've got a couple of assets, which possibly could benefit from higher activity, particularly thinking the Delaware, the Red Hills and China Draw seeing some very good well results from the industry there. So maybe just talk a little bit about what are the gating factors for you to decide to go a little bit faster in that shale portfolio.

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

Well, Edward, if I just summarize where we are in our Lower 48 activity, remember on the last call I told you that we were still at three rigs at that point in time, but we were planning to ramp to eight by the end of the year and it would be four and four in the Bakken and the Eagle Ford and then we would start adding rigs in the Permian in early 2017 and that is what has happened. We did end the year at eight with four and four and since then, since the beginning of this year, we've added an additional rig in the Eagle Ford, so we are up to five there and we've added one rig in the Delaware at China Draw.

We have a second Permian rig that will be coming on in the next week or two that will then take us to 11 and then we will have additional activity with another rig in the Permian that may also have part of the year in the Niobrara as well and we also plan to do some drilling in some of our Permian conventional this year. So we will be in that 2 to 3 rig range in the Permian this year. As we've been adding these rigs, we've been doing what I talked about on the last call of very carefully checking the cost and going out into the market, seeing what kind of rates we can get and seeing how long we can lock for and that's been one of the things that's driving our pace of moving back into these areas.

---

**Edward Westlake** - *Credit Suisse - Analyst*

Is it fair to say that one of the surprises that might come over the next few years -- obviously, we can't predict oil inflation, but just because of the productivity that you are seeing in the Delaware, that your production growth may even be slightly above the 2% range for the level of capex that you are putting in because of the productivity improvements?

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

Well, I think that is certainly a possibility. That is one of the things that has driven our outperformance over the last couple of years is that exact sort of thing. I think you have seen some of that across the industry, so it's a little early to predict that one, but we do, given the low number of rigs



that we were running through most of last year, we are going to continue to decline in our Lower 48 unconventional out through about the second quarter before we start to turn back up with these rigs that we've added as we get to more of a steady state at higher rigs.

---

**Edward Westlake** - *Credit Suisse - Analyst*

Thanks. Helpful.

---

**Operator**

Doug Leggate, Bank of America Merrill Lynch.

---

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

Thanks. Good morning, everyone. Guys, you've still got a number of projects that are ramping up and obviously some startups next year, the biggest of which being Train 2 in Australia. Can you give us some idea what the exit rate -- the trajectory is going to look like through 2017 for production?

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

The exit rate of --.

---

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

No, for the portfolio generally, but I just illustrative being an APLNG ramp up. You've also got Gumusut and I guess Keababangan and a few others, but I'm just trying to get an idea what the trajectory of production looks like and what the capacity of the portfolio looks like at the end of next year whenever it comes online.

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

I think, Doug, you will see our traditional U-shaped production curve where we've got -- it's really driven mainly by turnarounds in the second and third quarter that will cause our second quarter and third quarter to be lower and back up higher in the fourth quarter, but I think that U-shape -- I expect by the time we get out to the back end to the fourth quarter that we will be at production levels higher than the first quarter, so it's got that kind of shape to it.

---

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

Okay.

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

The major project momentum is a significant part of that. We'll add probably 80,000, 90,000 barrels a day next year in 2017 volumes over 2016 from these various major projects.

---

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

So going into 2018, the momentum should be north of 1.6 again is what I am getting at? Does that sound about right?

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

It should be in that kind of neighborhood. We will get to those kind of quarterly projections as we move through the year, but -- and of course, all these numbers are ex-asset sales, ex-disposition -- don't have the dispositions in there, whatever those may turn out to be. So you have got to be careful with these numbers. (multiple speakers). So that is the kind of shape that you would expect in the curve that we'd be up in that kind of territory by the time you get to exit of 2017.

---

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

And it's those projects combined with the momentum that comes out of the Lower 48 as we come through our profile and the rigs that Al mentioned are running in the Lower 48 gives us a strong exit coming out of the year into 2018.

---

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

Okay. Thanks for that.

---

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

Again, our full-year guidance, Doug, has been zero to 2% production growth for \$5 billion of capital, so you can look at that trajectory and figure out where we exit the year.

---

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

Okay. It was kind of a segue I guess into my follow-up, which is on the asset sales. Ryan, I don't know to the extent you will share with us, but \$5 billion to \$8 billion, what is the -- if you could frame for us the production that goes along with that and more importantly the operating cash flow that goes along with that? And I will leave that there. Thank you.

---

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

Yes, we haven't really talked -- it's really highly dependent on the mix of the assets that we ended up selling, Doug, so we haven't provided any guidance specifically on the cash flow and the production. We will update that as we go through the quarters and tell you exactly what the cash flow and the production impacts are as we sell the assets, but the timing of that, we are trying to move as quickly as we can and it's really hard for us to forecast right now what order those things might go out in and what the annual quarterly or annual impact might be depending on the assets we are selling.

---

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

Ryan, just for clarity, would it be reasonable to frame it that the asset sales will be accretive to the remaining portfolio unit margins?

---

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

Oh, yes, absolutely.

---

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

Great. Thank you.

---

**Operator**

Paul Sankey, Wolfe Research.

---

**Paul Sankey** - Wolfe Research - Analyst

On the reserves replacement, I was wondering could you outline to the best extent possible how much of the reserves replacement was associated with long-term projects that started up in the course of 2016? And the reason I'm asking is you are clearly getting to the point through actual performance where \$5 billion a year seems to be easily your standstill capex level for maintaining volumes, but I was wondering would that imply also quite rapidly or you wouldn't replace reserves at that level of spend. Further to that, does it matter? Thanks.

---

**Al Hirshberg** - ConocoPhillips - EVP, Production, Drilling & Projects

Okay. There's two, three parts in there; I will try and take them, Paul. Well, first of all, as I mentioned earlier, in terms of our additions, we had no project FIDs in 2016. It's those FIDs that generate those lumpy reserve ads from major projects and so really that wasn't a factor in 2016. That 81% additions didn't have any drive from major projects. That's I think the first part of your question (multiple speakers).

So it's not that we are not going to have any sort of these medium-size project FIDs in the future; we will and I think in years when we have some of those FIDs, we will likely move our way above 100%. If you look at our plan out through the next five years, we average around 100%, but it is lumpy as major projects hit FID. But I think you are correct in your thinking that, as we move more capex to these shorter-cycle unconventional and you have a year when you don't have FIDs, this is not an unreasonable level to expect to be at.

And the second part of your question about does it matter, my answer to that is no. I think the important thing to really remember here is what Ryan mentioned earlier, the 18 billion barrels of resource base, which doesn't change one iota from the things we are doing here on reserves that's got an average cost of supply below \$40, that's really what we are busy processing. And then, of course, there's the other 27 billion barrels in our resource base that's above \$50 cost of supply that we are busy using new technology and driving costs down to try to move it below \$50 and our exploration program. Those are all feeding that feeder pool and that's what we are drawing off of that tells you that we are not -- despite a number like 81%, we are not getting ready to run out of opportunities to invest in any time many decades out into the future.

---

**Paul Sankey** - Wolfe Research - Analyst

Got it. And then, thanks very much, Al. The follow-up would be is there a new breakeven price for you given that you've been cash flow-neutral in the second half of 2016 at a somewhat tiny bit lower price than \$50 and performance improvements continue? Could we now think about you guys as a \$45 in 2018 or can you set some new parameters for yourselves? Thanks.

---

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

Paul, I think we will stay with what we've got there. I think in the high \$40s is probably the right way to think about our breakeven price going forward and acknowledge that the fourth-quarter cash flow was very strong and if you annualize it, you may come with a higher result -- you will come with a higher, stronger cash flow result, but you do have to keep in mind the product mix that we anticipate as we go forward with consolidated volumes at least over the next year declining and being replaced by equity affiliate volumes. And you are in that range at \$50, \$55 where distributions are pretty uneven and difficult. So I think we will stay with where we are on our cash flow breakevens.



---

**Paul Sankey** - *Wolfe Research - Analyst*

Just a very quick update. The \$6.5 billion of cash flow you talked about was at what price for what year? (multiple speakers)

---

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

That was for this year at \$50.

---

**Operator**

Paul Cheng, Barclays.

---

**Paul Cheng** - *Barclays Capital - Analyst*

Ryan, just curious, it seems like right now everyone wants Permian and not too many people want Eagle Ford and Bakken. And you mentioned that you have some extra cash, you are thinking about accelerating debt repayment, but, at the same time, the thing in business that you want to be countercyclical investment. So on that basis, how internally you contemplate? Is it better off to see if you have extra cash to look at opportunities to be a consolidator in the Bakken and Eagle Ford given not too many people are interested at this point than accelerating paying the debt? Can you maybe help us to understand how is the thought process behind when you decide one way or the other?

---

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

Well, we look at each opportunity individually and then somewhat collectively as well, Paul. So if the guys come up with a good opportunity like we saw the swap that we did up in Canada in the Montney, if we see good opportunities like that in the Eagle Ford and the Bakken, we are constantly looking. So the guys are doing 5 and 10 or a couple thousand acre trades constantly in our business, both in the Permian and the Bakken and in the Eagle Ford.

So if we see an opportunity, absolutely. If it competes on a cost of supply basis and it can mold in and not just be additive to our portfolio but substituted in our portfolio, we will absolutely take a look at it. We are not letting those go, but we judge that against our progress towards making sure our debt is coming down on the balance sheet and make sure that we are giving an appropriate amount back to the shareholders. So we are putting all those three things into the bucket and trying to make those assessments as we go through the course of the year.

---

**Paul Cheng** - *Barclays Capital - Analyst*

This may be for AI, maybe for Ryan, you, also. The cost environment that you guys have talked about, can you give us some idea, an update where you see the cost pressures start to pick up or even some signs that you start to have the evidence saying that you may be picking up very soon? Get some idea on that. And also, AI, along the way, since I always ask that question, maybe you can give us the number for the shale oil production by play. Thank you.

---

**AI Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

Okay. I will start with the cost question. I would say so far -- from what we've seen so far this year, we would expect our 2017 cost levels to be broadly in line with 2016. On the call last quarter, in response to a similar question, I told everybody that we really hadn't seen any request for cost increase yet and I can't say that this quarter. We are starting to see some requests for increase, some cost pressure in the Lower 48 in the last month or two, as you have seen the whole industry talking about.



But, in our particular case, there's three offsets to that that you just think about in terms of how you think about how it is going to impact ConocoPhillips. One is that our international costs are still coming down. So if you look at our Lower 48 unconventional drilling, it's on the order of \$1.5 billion out of the \$5 billion that we are spending. So really when we talk about some of the pressure we are seeing, it's just against that slice of our \$5 billion, that \$1.5 billion. That's the first point. And it's being offset by still seeing some things coming down in the other parts of our business internationally. So that's the second piece is that international offset.

Then the third piece is we have, as you have heard me talk about before, done some locking of cost levels and so we are benefiting from that as we go through 2017. We've got cost locks on various contracts that are on the order of a year or less that will slow down how we see some of this inflation as we go through 2017. So overall what we've seen so far I think we are broadly in line in 2017 with where we were in 2016.

---

**Paul Cheng** - *Barclays Capital - Analyst*

Al, can you give us which particular product or service that you are seeing the cost increase requests?

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

I would say in the Lower 48 unconventional space, so rigs and pressure pumping and cement and all those sorts of things where, as Ryan said earlier, there's been a pretty -- the pace that things are being put back to work is nothing like the pace that they came off in the last few years, but it's been steady and particularly in the hotter areas, places like the Permian, places where the excess equipment and crews have been taken up, that's where you obviously start to see some price pressure. So it's been a mix across the board and some of it is geographic depending on how much is available in a given area.

Then let me answer your other part on doing our fourth-quarter volumes. So Eagle Ford came in at 143,000 barrels per day; Bakken at 53,000; Permian at 18,000 and the total, there's some other smaller pieces, so our total L48 unconventional is 226,000 for the quarter. I should mention that, in those numbers, we had a weather impact of about 8,000 that was unusual winter weather impact across the fourth quarter. So when I think about those numbers -- when I look back at what our projections were for the fourth quarter, we are actually spot on what we expected from our Lower 48 unconventional except that we were down 8,000 from where we would've projected and that was really weather-driven.

---

**Operator**

Blake Fernandez, Howard Weil.

---

**Blake Fernandez** - *Scotia Howard Weil - Analyst*

I had two questions for you. One is on deferred tax and one is on Libya. Maybe if I could start on Libya. Can you quantify what the earnings contribution was in the quarter and whether you are actually producing in 1Q and then if we are at a sustainable run rate here when that is back online, does that change your capital outlook whatsoever?

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

So, on Libya, you would have seen in our numbers that we actually averaged 9,000 barrels a day net in the fourth quarter. If you look at our January numbers, we are producing more like -- it's grown to about 12,000, so that's over 80,000 barrels a day gross now coming from Waha.

I also said on the last call that we were having a lot of difficulties with damage at the tank farm and the loading port at Es Sider and with the kind of production we were having, we might be able to get a first cargo before the end of the year. That did not happen with the time it took to get everything repaired there.



We have now loaded three cargoes just in January from Es Sider. So as this production has picked up, we've been able to load three cargoes and that's advantaged for us because we do -- during those years when we didn't have any production, we did establish a tax loss carryforward and so now as we are picking these cargoes up, we are getting that cash flow back and so that is a benefit to us here in the quarter.

---

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

Blake, I could also add we don't know what the future stability of Libya is going to be. That's why we always exclude it from our results and so forth, or segment it. If Libya were to continue as it is now without interruption, then that could generate between \$150 million and \$200 million of cash flow that's not included in the cash flow estimates or sensitivities that we have.

---

**Al Hirshberg** - ConocoPhillips - EVP, Production, Drilling & Projects

And I forgot, Blake, I forgot to answer your question about capex pressure from Libya. If you look at what's going on there now, there's a lot of work just in repair mode. If you think about fields like North Gialo that were the next medium-cycle project we might do there, it's still a way off. Things are not organized in country and I don't think will be this year to begin to spend any significant capex on things like that. I think it's going to be mainly basic blocking and tackling this year just trying to -- in repair mode trying to keep what we've already got online flowing.

---

**Blake Fernandez** - Scotia Howard Weil - Analyst

Got it. Okay. Thanks. Really the deferred tax, I will just be brief here. Don, I think you mentioned \$50 a barrel should equate to about \$6.5 billion of cash flow. I noticed deferred tax is still a negative drain as Lower 48 is negative net income. When that reverses, I guess I'm wondering does that cash flow sensitivity that you guys provide, should we be thinking of applying that plus maybe some additional benefit from deferred tax once you hit \$60 a barrel or so?

---

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

Blake, those sensitivities should be good. I think we qualified them that they were sensitivities for 2017 and they were within a specific range of oil prices of \$50 to \$60. So once you get above \$60, then we will probably give you some different guidance that's going to be driven by the deferred tax.

---

**Blake Fernandez** - Scotia Howard Weil - Analyst

Okay. Great. Thank you.

---

**Operator**

Roger Read, Wells Fargo.

---

**Roger Read** - Wells Fargo Securities - Analyst

Coming back to the cash flow and the production commentary earlier, the lost 8,000 barrels in the US and the cash flow was good in the fourth quarter, was there anything in the cash flow or as we think about maybe over the second half of 2016 that you would call out as was either helped or hurt by circumstances? I'm just trying to think about it again relative to the guidance given and whether we should think of it as there really isn't much play or there have been some one-time items both favorable and unfavorable.





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

Roger, the cash flow in the fourth quarter I consider really clean. We always look at our underlying cash flow that we don't publish, but how is the business really performing and that CFO ex-working capital \$1.75 billion almost identically matched our own internal view of what the underlying business was. I will mention the only add to that was really the realizations were a little higher than we would've expected driven by tighter basis differentials pretty much across the board.

So what that means is that our cash flow sensitivities have embedded our own assumptions about product differentials and the realizations that we are getting are reflecting improvements over our assumptions. So we are not changing our views of those differentials that are embedded in the cash flows, but, as we go forward, that provides a bit of upside to the cash flow potentially.

---

**Roger Read** - Wells Fargo Securities - Analyst

Okay, great. Thanks. As we think about what's going on with the reserves and obviously, things could get re-booked, but I don't know if this question is for Ryan or for AI, but what is the right way to think about a reserve production ratio that you would either be comfortable with or would want to target or is that just something that falls out relative to all the other factors that you are managing?

---

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

Well, I think we have said it repeatedly at our analyst meetings and stuff. Our R to P had been running 14 to 15 or so. We've been willing to let that drift down and that's a consequence, as AI talked about, as we move more investment to the shorter-cycle investments. I think we will let that drift down a little bit, but it probably doesn't fall off the cliff or anything because, as AI said, we've got a lot of resources and as we look forward in our plans over the next five years or so, we actually average about 100% reserve replacement. So R to P will drift down a little bit and then it will flatten out naturally.

---

**Roger Read** - Wells Fargo Securities - Analyst

And would we expect much of an impact on reserves with the planned asset sales?

---

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

Yes, there will be, commensurate with the -- like San Juan Basin, we've got reserves booked against that asset. So yes, as we see the assets and the disposal process work forward, we will see the rate and reserve impacts from those as well.

---

**Roger Read** - Wells Fargo Securities - Analyst

And I guess I can't get you to give me a number there. I'm just kidding of course. All right, thanks.

---

**Operator**

Scott Hanold, RBC Capital Markets.

---

**Scott Hanold** - RBC Capital Markets - Analyst

A couple of quick ones. First, AI, you commented obviously there was a pretty good opportunity for you to bolt up in the Montney. Could you just give us a sense of what the plans are up there in 2017 and do you all think that that can compete with some of the other stuff you've got going on in the Lower 48?



**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

I guess I would characterize the Montney at this point as we are still in appraisal mode. We've been quite impressed by our latest batch of wells and what they've done and the liquids mix that we've gotten from those. And so I would say that we've seen enough up there to see that we've got something that looks like it could compete in our portfolio and so we are going to continue with that appraisal work, make sure we know what we have.

One thing we haven't mentioned is part of that -- some of that work that we did to pick up that acreage we also did pick up some gas plant capacity and that's giving us a little bit more infrastructure, allowed us to -- some of these wells frankly that we brought on have flowed strong enough that we needed a little more capacity to be able to just handle the offtake.

So I would say that it's come on better than we might have expected and now we are continuing to press forward with our appraisal plan and that will drive us to figuring out what pace we want to put in infrastructure and develop that asset at. But I expect that over time you will see that it looks like something that could compete in our portfolio against the Lower 48.

---

**Scott Hanold** - *RBC Capital Markets - Analyst*

Okay. So it certainly sounds like a 2018 thing if things work out. In Alaska, you talked about the discovery in the Greater Willow area and obviously bolting on some acreage up there as well. Can you guys give us a sense of how that would play out? When could we see the potential impact of some of these obviously high returning conventional projects like that?

---

**Al Hirshberg** - *ConocoPhillips - EVP, Production, Drilling & Projects*

Yes, I think Willow is a very interesting discovery for us in the Greater Mooses Tooth area out west of Alpine. We not only have that discovery, but we were also able in both the state and federal lease sales in December to pick up another 750,000 acres gross. We are 78% across all this acreage in our ownership. And so we have stood up a team up there in Alaska to really do the work, the development planning work to figure out what is the most optimum way to develop this new discovery. You could see it being on the order of 100,000 barrels a day kind of production rate that would be supported by just what we've discovered so far. So we need to think hard about how we move forward around infrastructure, etc.

It's tough to predict timing because, as you know, the regulatory up there dealing with the federal government has been pretty uncertain in the past on our other step out projects, but I would say the earliest you could imagine bringing on a new round of things like Willow that we just discovered would be out in the 2023 kind of timeframe.

---

**Scott Hanold** - *RBC Capital Markets - Analyst*

Understood. Thanks a lot.

---

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

Christine, this is Ellen. We will take one more call just to be respectful of the time here. One more question, excuse me.

---

**Operator**

Ryan Todd, Deutsche Bank.

---

**Ryan Todd** - Deutsche Bank - Analyst

Thanks for squeaking me in here at the end, guys. A couple quick ones. The first on cost. Your capex came in quite a bit lower in the quarter, which continued a trend of doing that all throughout 2016. Can you talk a little bit about what drove the beat on capex? Was it efficiency gains or deferral of activity and does that have any implications -- I know that the \$5 billion number for 2017 is the base case at this point. Does it put some downside risk potential on that number or is that offset by other things? And then I have one follow-up.

---

**Al Hirshberg** - ConocoPhillips - EVP, Production, Drilling & Projects

Okay. You are right. Every quarter, it seems like our operating groups have been getting more and more efficient and surprising us with lower costs. That's happened on both the capital cost side and the operating cost side because you've noticed we've been lowering that number all as we went through the year. Now we've projected an even lower number there for 2017.

As you look at what generated this latest beat of \$300 million basically, we had said \$5.2 billion in our guidance and came in at \$4.9 billion. About 80% of that underspend is outside the Lower 48. So it's consistent with some of the comments I was making earlier about where we are starting to see a little inflation and where we are still getting more deflation. So we had lower costs in Indonesia, Malaysia, Norway, UK, Alaska and we also had lower cash calls from APLNG, which were driven by just a higher price environment that we had in the fourth quarter.

So it really was not a slippage or deferral kind of thing, but really continuing to drive down costs that drove that. So we were able to do that, still grow the 3% production, as Ryan talked about earlier and still leave us very well-positioned on volumes coming into 2017. So I think we are in good shape there. It's not like there has been anything that -- there was no change in scope that really drove that.

As far as how that goes into 2017, I would just rely back on the comments I made earlier about what we are seeing in inflation so far. At this point, I think that we expect the overall cost environment to be similar enough to last year that we should be able to execute the plans we have in mind and this kind of range of prices in the \$5 billion range again this year.

---

**Ryan Todd** - Deutsche Bank - Analyst

Great. Thanks. And then maybe a quick one. I appreciate the granularity that you gave us on maybe some of the near-term trajectory in the US unconventional volumes. If we think about you ramping the rig program up to that 11 or 12 rigs over the course of this year, and if you were to stabilize at that level, what would that mean for -- what would that type of activity mean for the medium-term trajectory in the US onshore? Is that flattish production? Is that modest single-digit growth, low double-digit growth? Anything to kind of --?

---

**Al Hirshberg** - ConocoPhillips - EVP, Production, Drilling & Projects

So let me paint a picture for you there to give you an idea of how that looks. As I said before, I think we will probably hit the low point in the Lower 48 unconventional in the second quarter. If you look at where we will end up if you look at 2017 versus 2016, Lower 48 unconventional volumes actually expect will still be down between 5% and 10% year-to-year. We were down 5% in 2016 versus 2015.

But if you look fourth quarter to fourth quarter, 4Q 2017 versus 4Q 2016, I expect we will be up 5% to 10% in the fourth quarter versus the prior fourth quarter. But even that doesn't really reflect this rig rate. If I reference you back to our analyst meeting, we gave you that handy-dandy decoder ring -- Ellen tells me it is slide 55 in case you want to check -- but if you look on there, we will average actually a little less than 11 rigs this year, but, of course, you have to get to steady state on the rigs, which we are certainly not at yet before you get the kind of things that are on that slide 55, but 11 rigs gives you between 10% and 15% compound annual growth rate in our Lower 48, in our big three from the low point this year. So once we get to a steady state, assuming we do at that kind rig level, that's what you should expect from us is in the 10% to 15% annual growth in our big three areas at these kind of rig rates.

**Ryan Todd** - *Deutsche Bank - Analyst*

Thanks. Very helpful.

---

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

Thanks, Ryan and I will go ahead and wrap things up here. By all means, if there are any additional questions, feel free to ring into IR. Christine, thanks for moderating for us and thanks to all of our participants. Appreciate your time and interest.

---

**Operator**

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

---

**Editor**

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

This document contains forward-looking statements. Forward-looking statements relate to future events and anticipated results of operations, business strategies, and other aspects of our operations or operating results. In many cases you can identify forward-looking statements by terminology such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and other similar words. However, the absence of these words does not mean that the statements are not forward-looking. Where, in any forward-looking statement, the company expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that such expectation or belief will result or be achieved. The actual results of operations can and will be affected by a variety of risks and other matters including, but not limited to, changes in commodity prices; changes in expected levels of oil and gas reserves or production; operating hazards, drilling risks, unsuccessful exploratory activities; difficulties in developing new products and manufacturing processes; unexpected cost increases; international monetary conditions; potential liability for remedial actions under existing or future environmental regulations; potential liability resulting from pending or future litigation; limited access to capital or significantly higher cost of capital related to illiquidity or uncertainty in the domestic or international financial markets; and general domestic and international economic and political conditions; as well as changes in tax, environmental and other laws applicable to our business. Other factors that could cause actual results to differ materially from those described in the forward-looking statements include other economic, business, competitive and/or regulatory factors affecting our business generally as set forth in our filings with the Securities and Exchange Commission. Unless legally required, ConocoPhillips undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Cautionary Note to U.S. Investors - The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved, probable and possible reserves. We use the term "resource" in this presentation that the SEC's guidelines prohibit us from including in filings with the SEC. U.S. investors are urged to consider closely the oil and gas disclosures in our Form 10-K and other reports and filings with the SEC. Copies are available from the SEC and from the ConocoPhillips website.

Use of Non-GAAP Financial Information - This document includes non-GAAP financial measures. These terms are included to help facilitate comparisons of company operating performance across periods and with peer companies. A non-GAAP reconciliation is available at [www.conocophillips.com/nongAAP](http://www.conocophillips.com/nongAAP).

---



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.