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PRESENTATION

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

Good morning. Thank you, everybody, for that little delay. I think we're ready to get started. My name is Ellen DeSanctis. I'm the Vice President of Investor Relations and Communications for ConocoPhillips. And on behalf of our entire leadership team it is my sincere pleasure to welcome you to the 2017 ConocoPhillips Analyst and Investor Day.

Today, you're going to hear from four of our executives, and at this time I'd like to introduce them and tell you a little bit about today's agenda. Ryan Lance, our Chairman and CEO, will address our value proposition. Many of you will recall that about a year ago, at this event, we rolled out a disciplined returns-focused offering to the market. We've made tremendous progress on executing on that value proposition in 2017, and we're sticking with it.

Matt Fox, our EVP of Strategy, Exploration and Technology, will describe our differentiated strategy in more detail and he'll show you how we expect to deliver strong performance over the next several years in any price environment. Al Hirshberg, our EVP of Production, Drilling and Projects, will discuss how our portfolio is uniquely aligned and integrated with our strategy and he will also cover our 3-year investment plan.

Don Wallette, our EVP of Finance and Commercial and our Chief Financial Officer, will describe our financial priorities and demonstrate how the execution of our strategy drives a very sound financial plan. Ryan will come back for some quick closing comments and then we'll turn the meeting over to question and answers.

Today's event is being webcast and the materials are now available on our website. We will also post a transcript and a replay of this event shortly.

If you've looked ahead in the materials, you'll notice that we have a slightly shorter presentation deck this year than in previous years and that's because we want to take the time today to really emphasize the highlights of the plan that we're laying out for the next three years. However, you'll notice that we've also included several detailed slides in the appendix and these include our 2018 capital and production guidance, they include some slides on our environmental, social and governance performance and then several slides that present supplemental information on some of our key assets.

We will make some forward-looking statements this morning. The risks and uncertainties in that future performance are described on the cautionary statement shown here, and also in our periodic filings with the SEC. We will use some non-GAAP terms today as well and we've provided reconciliations of any non-GAAP to GAAP terms in today's materials, and also on our website.

So again, welcome. It's my pleasure, again, to see all of you. Thank you for those joining us by webcast.

And now, it's my pleasure to turn the meeting over to Ryan Lance.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well good morning, and thank you, Ellen. We appreciate everybody in the room here today and those joining us on the webcast. I'm certainly pleased to be here today and look forward to updating you on the progress that we've made over the last year since our last Analyst and Investor Meeting. But more importantly, we look forward to sharing with you the progress on our future plan for value creation. Our plan is truly distinctive for an E&P company and that's what we're here to demonstrate to you today. So let's get started.

Now this slide should look familiar to you. It describes the disciplined returns-focused strategy that we rolled out one year ago. When we rolled this out, we were met with some skepticism. Certainly, production growth was all the rage. But it was time for an E&P company like ours to step up with a plan for creating value, and our conviction on this plan and what we're doing here today is even stronger.

Now the principles of our value proposition are shown here on the left side of the slide. It's to maintain financial strength, grow distributions to shareholders and pursue cash flow expansion on a disciplined per-share basis, and these three principles are strongly linked to value creation in the E&P sector.

Now in the middle column we list our five priorities for capital allocation. We laid these out last year and they're listed in order. Our first priority is to invest enough capital to maintain our production and pay the dividend. Second priority is to grow the dividend, its per-share rate on an annual basis. Third, to reduce our debt to achieve an A credit rating. Fourth, to supplement that ordinary dividend with share buybacks such that we return 20% to 30% of our cash back to our shareholders annually. And then finally, we'll allocate cash to high-return investments that drive per-cash flow share expansion.

Now we think these principles and these priorities are smart for this business, but not every company can do this. And on the far right, we show you why. We've listed four characteristics that we think are necessary to execute and to win at a value proposition like ours. Many companies have some but not all. We have all of them.

If I move clockwise, you need a low sustaining price. That's the key to driving free cash flow generation. You need a low cost of supply portfolio to drive returns. You need capital flexibility so you can adapt to higher and lower prices, and you need a strong balance sheet also to manage through the cycles. And these characteristics need to be linked to returns, which is what you see at the heart of that diagram.

And our principles, the priorities and the characteristics are at the heart of our goal to deliver superior returns to shareholders through cycles. We want to be the energy company that can attract investors back to a sector that has underperformed for far too long.

Now we laid this strategy out a year ago. We had some work to do to accelerate it, and that's what we did in 2017. Now if we start on the left side of the slide, we've strengthened the portfolio significantly; that gives us a significant competitive advantage. We've lowered the sustaining capital to $3.5 billion, and importantly, our sustaining price to less than $40 a barrel. We believe these both are industry leading. We've high-graded the less than $50-per-barrel resource base that we have in the company, and that inventory today has a cost of supply of less than $35 per barrel.

And next, we've laid the groundwork for improving our financial returns and delivering a significant return on capital back to our owners. We expect to divest about $16 billion of asset sales in 2017, and we used those proceeds to reduce our debt by $7 billion this year alone. Returned the equivalent of 65% of our cash from operations back to our shareholders in the forms of dividends and share buybacks.

Next, we believe we have a strategy that's been further differentiated, especially relative to the traditional E&P growth model. Our lower sustaining capital and our industry-leading sustaining price enable us to deliver top-tier cash flow. The proof, for over a year now we've covered our dividends and our capital from our cash flow. That demonstrates our resolve in this area. And as I mentioned, our payout to shareholders is top-tier. And we were early to differentiate on discipline with a focus on returns and per-share cash flow expansion, not production growth. Other companies today I think are trying to catch up.

Now on the far right, we've delivered on our operational targets as well. We're continuing to elevate our environmental, social and governance performance. In 2017, we're on track for record personal and process safety performance. You can never, ever take your eye off that ball. And for the 11th consecutive year, we've been named to the Dow Jones Sustainability Index. We take pride in being a leader in ESG performance and we strive to continuously improve. That's why this morning, you saw an announcement that we're taking a proactive step. We announced a greenhouse gas intensity emissions target. We intend to reduce our emissions intensity by 5% to 15% by 2030. This is an industry-leading step and it shows our commitment really to the environment. This is a key strategic objective for the company and you certainly manage what you measure. So we've transformed the business in 2017 and we think the market has taken notice.

This slide shows our total shareholder return since last year's Analyst and Investor Meeting, when we rolled out this new value proposition and strategy. We're showing a one-year total shareholder return versus the four main energy benchmarks, which are shown on the right side of the ConocoPhillips bar. Each of these represents a different industry set and we have outperformed them all.

Now on the left, you see the S&P 500 Index. Now we in energy have underperformed this benchmark. But we think it's important to keep this index in sight. We want to be the energy investment that competes against broad market performance. So I think we're pleased with our performance, but more certainly do not take it for granted, and we're not resting there. And we're not done delivering strong performance. The reason is we position the company to work in high and in low prices.

On the left, we believe we're advantaged, offering investors resilience to low prices. We have low capital intensity, meaning it takes less capital to maintain our production. We believe our $40-per-barrel sustaining price is industry-leading today. We maintain a relentless focus on cost because we know that the low-cost producer wins in this business. We have a 15 billion barrel resource base with a low cost of supply that can fuel returns with a high degree of capital flexibility. We have a strong balance sheet that helps us manage through the cycles.

Now we think the market understands how we perform in a low-price environment, but what about high prices? We can outperform in that environment as well. Our portfolio is oil-weighted. In addition, our exposure to Brent and LLS pricing is at an advantage relative to other E&Ps. We're predominantly in tax and royalty structures, so we don't have to materially cap our upside. We have a cost focus that works on both sides of this ledger. And recall that we had contingent value payments in both our Canadian and our San Juan Basin transactions. These are multiyear structures that will be a source of cash when market prices achieve certain thresholds. And recall, we took equity in Cenovus in our Canadian sales. Now those shares will likely be more valuable as commodity prices rise. We're unhedged, unlike many of our pure-play peer competitors, which gives us immediate exposure to price upside.

Finally, we can increase capital or create share distributions to create more value in those upcycles, but we'll keep our discipline when we think about that. So I think this slide summarizes why we believe we're so well positioned, whatever the market may bring.

So let's shift gears. That's a little bit about the past. Now let's talk about where we're headed. And I'm going to give you the punchline for what you're going to hear from the rest of the speakers today. This is our racetrack. We know we have a formula for how we're going to deliver significant value over the next three years and we're going to do that at a flat $50 price. What you're going to see today is a flat real $50 price for the next three years in our plan. This plan is fueled in the middle by a 15-billion-barrel low cost of supply resource base. You're going to hear a lot about these numbers today. I'll take you quickly around the racetrack. But the goal, the goal is to grow returns and that's the red box at the top of this chart.

Our plan targets annual cash return on capital employed growth of 2 to 3 percentage points per year, and at that rate our cash return exceeds 20% by 2020. We can sustain our production for $3.5 billion per year and that drives an industry-leading sustaining price of $40 per barrel.

By the end of 2019, we expect to have gross debt of $15 billion, which results in a very strong leverage ratio. And as you saw this morning, we're extending our 2018/2019 buyback run rate of $1.5 billion per year into 2020. And in that plan, we exceed our 20% to 30% target in every year. So the shareholder wins. And we still have cash available.

Our debt adjusted share count drops by over 10%. So if you're looking at per-share performance, that is very strong as well. And we'll average $5.5 billion of capital over the next 3 years, a level that maintains discipline, but it delivers 5% production growth and more than 5% cash margin growth.

And that brings us all the way back to returns, the ultimate measure of value creation. What do we deliver? We deliver cash returns of 20% by 2020, 20 by 20. And I want you to know, it's a returns target, it is not a growth target. So we're excited about the plan. We know that we're racing against stiff competition in this business. But I believe once again we're going to set the pace for the sector.

So I'm going to stop there. I'm going to turn the meeting over to the rest of the folks. They'll describe the plan in a fair amount of detail.

So let's get started, and we'll go with Matt.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Thanks, Ryan. Good morning, everyone. So Ryan just took you around our value creation racetrack and showed you the targets that we have for our three-year plan. My objective today is to lay out the strategy, to let you understand how that strategy drives our ability to achieve these targets.

In our view strategy for an E&P company boils down to three things: what portfolio you choose to have, how you choose to allocate capital and how you manage uncertainty. And we've been very clear on our choices across all three of these dimensions.

First, we've radically reshaped the portfolio over the last few years and none more so than this year, with more than $16 billion of expected asset sales. We have several smaller dispositions to complete over the next few months, but we see our major portfolio restructuring as essentially complete.

We now have high-margin assets that all offer low cost of supply investment opportunities. So our portfolio is fully aligned with our strategy. Second, we've been crystal clear, I don't think we could have been more clear, on our priorities for capital allocation.

On the next slide, I'll show you how this three-year plan delivers all of those priorities. And third, we're choosing to manage uncertainty by focusing on the fundamental characteristics that drive competitive advantage in a commodity business. A low sustaining price, a low cost of supply, capital flexibility and a strong balance sheet. So these three markers are the basis of how we think about strategy. But every strategy must begin with a clear goal. Otherwise you are recreating Alice's conversation with the Cheshire Cat. If you don't know where you're going, any strategy will do. And our goal is very clear. We intend to deliver superior returns to shareholders through cycles by growing the dividend, reducing debt, reducing share count and growing cash flow from operations.

So let me repeat that, because you can think of this as our strategy in a single sentence. We'll deliver superior return to shareholders through cycles by growing the dividend, reducing debt, reducing share count and growing cash from operations. So how does our plan deliver this strategy?

Let me start with cash sources and uses at our sustaining price of below $40 a barrel. At $40 a barrel, we expect to deliver about $5 billion a year of cash from operations. As Al will describe in a few minutes, we can sustain our current production for $3.5 billion a year. So at $40 a barrel, we can cover our sustaining capital, pay a growing dividend and still have cash left over. No future growth is required. No miracle needs to occur, our sustaining price is below $40 a barrel right here, right now.

Priority 3, reducing our debt to $15 billion. And priority 4, returning a total of 20% to 30% of cash from operations to shareholders is fully funded by the remaining cash flow of $40 a barrel and cash on hand. And this includes extending our $1.5-billion-a-year buyback pace into 2020.

Through the combination of the growing dividend and share repurchases, we plan to distribute more than 30% of cash from operations and in all three of these years, and in fact, the average over this period is more than 35%. But this doesn't fully utilize our cash proceeds, as you can see on the chart here. Because there'll be further cash coming in over these three years, as we liquidate our stock associated with the Canada transaction.

Finally, let's look at priority 5, disciplined investment. Given our success in fully achieving priorities 1 through 4, we think it's time to activate this priority, while maintaining cash flow neutrality. Included in the $5.5 billion capital, we intend to invest an average of $2 billion a year in our low cost of supply portfolio to deliver cash flow expansion of more than 10% a year through a combination of production and cash margin growth. I'll go into this in more detail in the next slide.

And based on this plan, at $50 a barrel, we expect to meet all five priorities and still have cumulative cash available of around $4.5 billion. So how will we allocate this excess cash? Our intention is to allocate it across priorities 4 and 5, and the exact split will be guided by circumstances at the time. But let me be clear, maximizing total shareholder returns through the cycles is the primary decision criterion for allocating free cash flow.

Now let me dig a little bit deeper into how we'll allocate the $2 billion of cash flow expansion capital. It will be allocated across three types of investments. On average, we'll invest about $1.2 billion a year into our unconventional assets to grow high-margin, short-cycle production over these three years. We'll also invest an average of $500 million a year into future major products that will deliver production beyond 2020.

We believe it's important to sustain our strategy into the next decade with these low cost of supply, lower-decline-rate projects that take advantage of our existing legacy infrastructure. Finally, we'll spend about $300 million a year on a mixture of conventional and unconventional exploration opportunities to deliver long-term resource additions and long-term production. We expect this incremental capital to deliver high-return cash flow expansion of more than 10% a year, and result in a three-year average reserves replacement of more than 100%.

Now Al will go into more detail in all thre of these investment categories in his section. But I want to take a few minutes here to make it clear why we believe this is a very good use of shareholder capital. And here's why. It improves financial returns, gross cash flow per debt-adjusted share further reduces our sustaining price, and because CFO grows, our leverage drops and our shareholder distributions can increase. That provides a balance of near-term and longer-term sustainable growth and adds to our low cost of supply resource base.

And critically, it's more than fully funded from cash flow from operations and generates additional free cash flow. To be clear, investing this capital isn't about growing production for its own sake. It's about generating high-value earnings and cash flow to boost our financial returns. So when we invest this average capital of $5.5 billion a year, how do we measure up against our targets?

Well, at $50 a barrel we intend to achieve every one of them. Returns are at the top of the list, because as Ryan said, this is the ultimate measure of value creation in our business. In this plan our objective is to increase our absolute ROCE by 1 to 2 percentage points each year and increase cash returns on capital by 2 to 3 percentage points per year. When you have $50 billion of capital employed and you are investing just over $5 billion a year, this pace of returns improvement is substantial. Our target is to grow production per debt-adjusted share annually by more than 10% and deliver cash margin growth of more than 5%. By the way, that margin growth is beyond the significant improvement in margin we've already seen this year associated with the dispositions. When you put these 2 metrics together, you have very strong cash flow growth per debt-adjusted share, but also return on average of more than 35% of CFO to shareholders, exceeding our target range, and would achieve our debt leverage target of less than 2x. And this will all be underpinned by a sustaining price of less than $40 a barrel and a significant portfolio of opportunities, with an average cost of supply of $35 a barrel.

So why have we picked a strategy focused on delivering these objectives? It's because they do two very important things. First, we know that in our business these metrics correlate most strongly to total shareholder returns over time. Therefore, we believe that long-term returns for our shareholders will grow strongly based on these metrics. Second, meeting these objectives ensures that we can profitably sustain the business not just for the next three years, but for many years beyond that. And we think these are an appropriate measure of short-term, medium-term and longer-term objectives that'll allow us to deliver superior returns through cycles, and that's our goal. And we're committed to achieving these objectives at $50 a barrel. But what if prices are not $50 a barrel? I have to give some context before I address that; I want to step back and give you some insight into how we think about price. Because in fact, we know with confidence what prices will do. They'll go up and they'll go down, but not necessarily in that order. And that's why we believe that predicting price is useless, but scenario planning is priceless. So before we get into what we do when price is above or below $50 a barrel, let me just remind you of our principle scenarios.

At high level, we have two supply-side scenarios. We have a high-supply case that we call "unrelenting unconventionals." This scenario results from an increase in resource base and reduction in cost of supply of new production coming to market, and leads to the low supply curve you can see on the right. Our "resource restriction" scenario on the other hand is driven by potential limitations on global resource access, which results in a higher supply curve on the right. And at high level, we have two demand scenarios. Our high-demand case, which we call "great growth," is driven by stronger-than-expected global economic growth, resulting in increased demand. Our low-demand case is caused by weaker economic growth, carbon constraints and technology advances in electric vehicles or renewable energy. For obvious reasons, we call this "demand destruction." So for each of these scenarios, we develop supply and demand curves. And where the curves intersect represent price scenarios. So I guess scenarios are not really priceless. Because in fact, the combination of each of these supply results in a different future price path, which I'll describe next.

The combination of "unrelenting unconventionals" and "demand destruction" results in average prices over the next 10 years being constrained in a $40 to $55 a barrel range, with the average likely declining over time. On the other hand, the combination of "resource restriction" and "great growth" results in prices that are $60 to $80 a barrel or even above that. The other two combinations result somewhere in between this range. But in all cases, the significant volatility, cyclical behavior, and we can move from one scenario to another over time.

So what do we do with this range of possible outcomes? Well, the first thing we do is we acknowledge that we don't know what the price is going to be. That's why our strategy is focused on having a low sustaining price, low cost of supply, capital flexibility and strong balance sheet. We must be able to deliver superior returns regardless of the future price path.

The second thing we do is we recognize that portfolio diversification has a role in guarding against an unpredictable future. For example, "resource restriction" slows the pace of investment in the Lower 48 unconventionals. We'll be very happy that we have a large resource base we can invest in, in our conventional portfolio around the globe. That's also why when we're making portfolio decisions, we test it against these scenarios to inform our strategic choices and to minimize regrets. And we believe this process has served us very well over the last few years as we've made some very significant strategic decisions. And then, of course, the final thing we do is we test our strategy against these scenarios and, in particular, assess our strategic flexibility to manage the inevitable cycles ahead.

When we test the different prices, we start by aligning our potential actions with our priorities for capital allocation that you can see on the left here. Our plan shouldn't need any significant adjustment with prices in the $45-to-$55-a-barrel range. If price is above $55 a barrel for a certain extended period, it will be critical that we manage inflation to retain our low sustaining price.

We'll also consider holding cash in the balance sheet such that our net debt could be below $15 billion, as it is now. As our track record shows very clearly, increased shareholder distributions will certainly compete for capital allocation. We won't increase long-term capital commitments above our base plan. However, we might exercise flexibility to increase short-cycle investments if we can do that efficiently, and if doing so results in strong returns at lower parts of the price cycle. Now talking of prices cycling down, if price is below $45 a barrel for an extended period, we'll capture deflation to reduce our sustaining price, we'll still achieve our $15 billion debt target and we'll use cash on hand to level load our buybacks.

In this environment, total shareholder distributions could be significantly above our 20% to 30% range. We'll be willing to exercise capital flexibility even if that results in lower production growth rates. However, we wouldn't expect production to drop unless prices were significantly below $40 a barrel for a sustained period.

The key point is we expect prices to vary over time, and our strategy is explicitly designed to accommodate that. So let me wrap up with a summary of our strategy to deliver superior returns to shareholders through cycles. Our strategy is based on a fundamental belief that to win in the commodity business, we must have the characteristics Ryan described at the beginning of the presentation. We must have a low sustaining price, a diverse low cost of supply investment portfolio, capital flexibility and a strong balance sheet. These attributes provide resilience to downside, allow us to expand cash flow by reducing debt and reducing share count, and ensure that we sustain significant leverage to upside prices.

But in our view, these attributes are not enough to deliver superior returns to shareholders. They must be combined with a focus on financial returns and a commitment to shareholder distributions. And we're confident that this combination of strategic pillars is how we will deliver superior returns to shareholders through the cycles. It's also how we'll deliver the rest of this presentation.

Al will cover the first three and Don will cover the second three. So over to you, Al.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Thanks, Matt. Matt tried to convince me that I should put some of his jokes into my section, those price jokes that he had. But after seeing the reaction, there wasn't a whole lot of laughter. I'm feeling pretty good that I didn't take him up on it. He tried to convince me that even if they didn't work for him, because of my accent they might work for me. But I think I made a wise choice there.

Okay. My objective for today is to give you an update on our unique, high-quality portfolio. It's a key driver in our ability to be able to deliver the performance that Ryan and Matt just talked to you about, because it's so well-aligned with our strategy. One of the strengths of our portfolio is its diversity. We don't rely on any one geography or geology or product type. We can import and export technology and capabilities across our various assets around the world. In other words, we think our portfolio gives us a competitive advantage to deliver the strategy that we've just laid out.

So I'll start my section with a short overview of our five operating regions to give you some perspective on the role that each of them play in our strategy.

In Alaska, we're undergoing a renaissance in this legacy asset. Over the past few years, we've been increasing capital there to pursue attractive infrastructure-led programs and expansions around our existing core position, while significantly lowering our cost of supply. Earlier this year, we also announced a material discovery at Willow, which we believe has the potential to be a highly attractive future development opportunity.

Our Canada region has undergone a massive transformation this year given our divestitures there. This region is now highly focused and positioned to deliver strong performance from our remaining resource-rich asset base, including both the improving Surmont joint venture and our very competitive Montney position that we've established there, that I'll talk about a bit more in a minute.

Now, after a couple of years of constraining our activity in our Lower 48 region, we put more money to work in this area starting this year. As you'll see, we're already generating positive net cash flow there. In Europe, we're all about leveraging our positions in our high-margin assets, both in the U.K. and in Norway. We've got several development drilling programs and medium-cycle projects underway in that region. And finally, in the Asia Pacific/Middle East segment, that really represents the best of two worlds. We've got attractive LNG assets at Qatar and at APLNG in Darwin in Australia, and we have a set of high-margin conventional assets in Malaysia, Indonesia and China that come with profitable future investment opportunities.

So that's a quick flyover of our global operations from a regional perspective. But before I move forward, I just want to remind you that we have provided detailed proof-point slides in the appendix of your deck for each of our key areas to show you the progress that we've made in these assets over the past year. But I'll focus the discussion today on the overall quality of our portfolio and how these asset classes work together to generate exceptional results.

I'll begin by providing an update on our low cost of supply resource base. So this is a snapshot of our resource base shown by asset class and cost of supply. You've seen this resource base data from us before. We want to update you on our progress since last year. Before I get into the details though, just got to remind you of our key definitions here. Cost of supply, it's the WTI equivalent price that generates a 10% after-tax return on a point-forward and fully burdened basis. In our definition, cost of supply is fully burdened with midstream infrastructure, facilities cost, price-related inflation and foreign exchange changes, and both regional and corporate G&A costs.

So I think you could see that the way we use this metric is clearly not single-well economics. Cost of supply is the primary metric that we use in the company for capital allocation, and it has the advantage of being independent of price forecast. Any oil price above the cost of supply will generate an after-tax fully burdened return that's greater than 10%.

Now on the far left, we showed you a resource base of 18 billion barrels with a cost of supply less than $50 last year. This year, after adjusting for 2017 production for our asset dispositions that we've announced so far and for additions that we've made over the past year, we now have 15 billion barrels of resource that has a cost of supply less than $50 on a WTI basis. And by the way, if we showed you the same data on a Brent basis, the numbers would all be the same within rounding.

Now we increased the portion of this cost of supply that's $40 a barrel and less cost of supply by 30% over the past year. We also have over 23 billion barrels of captured resource that has a cost of supply that's higher than $50 a barrel, but we're not including that here. We're working hard to continue to bring that down and bring it into this less than $50 resource, but it's not there yet. So we don't include those 23 billion barrels.

Now on the right side of the chart, I'm showing you our corporate cost of supply curve for everything that's below $50 a barrel. As you could see, we've got attractive investments in all three of our asset types. Unconventional shown in yellow, conventional shown in green, and the LNG and oil sands shown in orange. Each of these asset types plays a different role in our overall strategy, as I'll explain in a minute.

Importantly, the average cost of supply of these resources has dropped to below $35 a barrel over the past year. So, in a nutshell, our resource base keeps getting better and better as we work on every aspect of high-grading, cost-improvement, technology-driven efficiencies and execution; all of these drive stronger returns.

Now over the next few pages, I want to ground you on the characteristics of each of our asset classes, starting with our unconventional portfolio. Our world-class unconventional portfolio is comprised of about 8 billion barrels with an average cost of supply below $35 a barrel. Now, as you can see in the green stacked bar, about 85% of this resource has a cost of supply that's below $40 a barrel.

Our unconventional assets represent the flexible, short-cycle investments in our portfolio. These assets generate attractive margins and strong returns with relatively quick paybacks. The key to expanding cash flows in a more uncertain macro environment with lower oil prices is to have that low cost of supply.

Shown on the map are the five core plays in our unconventional portfolio today. Each of these is at a different stage of maturity and asset life cycle. The Niobrara and the Montney are still relatively immature and in the appraisal phase, but they do show great promise. We're planning more active appraisal programs in both of those in 2018.

Our Delaware position is emerging from the appraisal phase and moving into the development phase. Our Bakken position is the most mature of our North American unconventional plays, although it's continued to improve significantly in performance over the past year. And finally, our Eagle Ford position, it's in an optimal place on the maturity life cycle curve and it's still in its prime. It's the poster child for how we approach an unconventional play to maximize the value of the asset.

Next, I want to provide you an overview of our conventional asset class. Last year, we said these were the great assets that seemed like nobody ever asked us about. Today, investors are showing more of a keen interest in these assets. They understand the unique role that they play by delivering medium-cycle chunks of profitable production. This is a set of assets that's often been overlooked since the shale frenzy. You find these assets in our legacy positions: places like the U.K., Norway, Alaska, China, Indonesia and Malaysia as well as in the U.S.

The 4 billion barrels of conventional assets shown in the green stacked bar have an average cost of supply that's less than $30 a barrel, an improvement of about 20% compared to last year. About 95% of this resource base has a less than $40 cost of supply. So we like these assets and they have a significant role in supporting our strategy, and so do our LNG and oil sands assets. These are the low-to-no-decline assets and the role they have in our strategy is to lower our capital intensity of our overall asset base. Within this asset class, we find 3 billion barrels of resource with a less than $35 average cost of supply.

Since last year, we've achieved a 15% reduction in the average cost of supply and we continue to improve the competitiveness of these assets. On the right side of this chart, you can see the key assets in this part of our portfolio. Our Surmont joint venture in Canada, QG3 in Qatar and APLNG and Darwin LNG in Australia.

So that was a quick overview of our three asset classes. On the next few slides, I want to spend some time taking you through the two key headlines that Ryan and Matt gave you, which is our annual sustaining capital of less than $3.5 billion and our sustaining price that's less than $40.

So my goal over the next few slides is to provide the proof points for how we can hold our production flat for just $3.5 billion a year. We've been reducing this number every year as we've transformed the company through focusing the portfolio and driving down costs, both OpEx and CapEx. Low sustaining capital is important because it's the most leveraging factor for us in being able to generate free cash flow. The less we need to spend to stay flat, the more cash that we have available to deploy into other priorities, and the greater the resilience that we have to low prices. So this is a true competitive advantage.

I showed you this construct last year, and I think it's still useful for describing conceptually how our diversified assets in the portfolio work together. Moving from top to bottom, our unconventional production wedge today produces about 250,000 barrels a day. We can maintain flat production in the unconventionals for about $1.3 billion a year, including new infrastructure costs. Moving down in green is the conventional wedge. We produce about 600,000 barrels a day from our conventional assets, and that's with improved margins since our sale of much of our North American gas this year. We can keep our conventional production flat over this period for about $1.9 billion of annual investment in high-return projects and development drilling around our legacy fields. And finally, our LNG and oil sands wedge. It produces about 300,000 barrels per day. This production has also been high-graded this year with the sale of FCCL, leading to improved margins for these assets as well. These assets require relatively little sustaining CapEx, about $300 million annually to stay flat.

Now our ability to stay flat in the LNG and oil sands with little sustaining capital is pretty self-evident. So on the next few pages, I'll focus on describing in more detail how we can keep both the unconventional and the conventional wedges flat over the next several years, and I'll start with the unconventionals.

The unconventional wedge on the left side of this chart shows our current base in darker yellow, which is declining at about 25% per year. Above that in the light yellow is the decline replacement wedge that grows to 180,000 barrels per day in 2020. In total, we need to spend an average of about $1.3 billion annually to keep our unconventional portion flat for the next three years. About $100 million of that will go to maintenance activities on our current production base, and an average of $1.2 billion will be invested to offset declines. That investment will add production of 180,000 barrels a day in 2020, offsetting decline and sustaining our unconventional production level. Now by the way, this average $1.2 billion a year includes about $300 million annually for new infrastructure, so we have accounted for planned direct and indirect facilities and gathering investments over this period.

Now on the right, we show how many rigs we need to offset decline in our Big Three areas. Some people refer to this plot as our decoder ring. The curve shows our estimate of the three-year production compound annual growth rate that would result for our Big Three as a function of average rig activity. So the red line labeled 2016 is the trend line that we showed you at last year's analyst meeting. The black line is our revised trend line for this year. I like these curves because they're independent of costs, inflation/deflation discussions. They really represent pure performance improvement for us over the past year. And due to that performance improvement, we can now deliver flat production from just under five rigs versus the six rigs that were required a year ago.

Now let's move on to our conventional asset class. As I said a moment ago, these are the assets in our legacy positions across the world. Within the conventional wedge, we expect to spend about $400 million a year on average for maintenance activities on our existing production shown in the dark green part of the plot. This work scope includes asset integrity, efficiency improvement, regulatory compliance and emissions reduction efforts. Now, in addition, we expect to spend $1.5 billion per year on programs that will replace decline of about 175,000 barrels per day in 2020 in order to sustain our conventional production. That's what's described on the right-hand side of the page.

Now within this asset class, there are two kinds of programs. First, our conventional drilling programs around existing fields and infrastructure. These are core quick-payback programs. The second type of investment in our stay-flat capital plan are medium-cycle, lower-risk projects that we've been doing successfully for years. In our sustaining capital case, we're only including medium-cycle projects that will start up in the next three years. Projects further out in time, I'm going to show you separately in a few minutes. The bar chart on the right adds up the production buildup from both our development drilling programs and these medium-cycle projects. These projects are expected to be completed and on production within the next three years. Projects like these add wedges of high-margin production that extend the life of our existing production areas.

So that wraps up the detail underpinning the $3.5 billion of sustaining capital. We've worked hard across every aspect of our business to lower that number over the past few years. So why have we done this? We've done this to lower our sustaining price.

As Ryan mentioned in his opening comments, today we've announced that we've achieved the sustaining price that's now below $40 a barrel. We know many other companies aspire to get to this level sometime out in the future, but ConocoPhillips has done it now. There is no waiting necessary. Through our portfolio upgrades, our capital efficiency improvements and our cost structure reductions, we're now positioned with what we believe is one of the lowest sustaining prices in industry.

Now the upper right side of this chart shows that our estimated cash flow from operations at $40 a barrel is expected to exceed the capital that we need to maintain production and pay our growing dividend. The lower right bar shows WoodMack's projection that ConocoPhillips will have the lowest sustaining capital cost per barrel of production amongst the U.S. independent E&P companies in 2018.

So low sustaining CapEx drives our low sustaining price, which is the key to cash flow generation across a range of prices. And of course, it's our job to allocate that free cash flow in a manner that generates returns for shareholders. That's what our priorities dictate, and that's what we intend to do. So let's talk about that next.

As Matt described earlier, our planned three-year average CapEx of $5.5 billion includes $2 billion per year aimed at not only expanding our cash flows, but fueling our future. This slide shows planned capital investment that we expect will deliver about 5% compound annual growth in our production, greater than 5% compound annual growth rate in our cash margins and a greater than 10% compound annual growth rate in our cash flow. That's over the next three years at $50 a barrel. Of the $2 billion, $1.2 billion will be directed to near-term, short-term projects entirely in the Eagle Ford and in the Delaware Basin. I'll show you more detail on that $1.2 billion program in a moment. About $800 million of the $2 billion per year is capital that will fuel our future by driving medium- and long-term cash flows and contributing to reserve replacement and resource additions over time. Now of this $800 million, $500 million will be spent on what we call future major projects, shown in the middle bar. The green half of this bar represents investments that are analogous to our medium-cycle projects that I described in the conventional wedge earlier. But these are not yet sanctioned and, therefore, they still have flexibility on timing. We also expect to spend on a project to develop gas to backfill the Darwin LNG plant. That's shown in the orange part of the middle bar. I'll provide some color on this category of investment shortly. And finally, $300 million of the $800 million will be directed toward exploration. About half of that, the green part of the bar on the right, is for conventional exploration in and around our existing infrastructure. The other half shown in yellow is for unconventional exploration in places where we can acquire material positions for a low cost of entry with a flexible program pace.

On the next slides, I'll demonstrate the value that we expect to create from these investments, beginning with the $1.2 billion Eagle Ford and Delaware investments. So we can see here a very compelling case for our planned incremental $1.2 billion annual investment in unconventionals. Over the next three years, we expect to grow our Big Three unconventional production by 22% on a compound annual growth rate basis. So from my earlier slide, you know that we can keep production in the Big Three flat for five rigs. So for an additional six rigs or 11 rigs in total across the three plays, we can deliver 80% more high-margin, high-return production in 2020. So that's what's shown on the stacked bars on the left. Production grows from about 220,000 barrels per day in 2017 to over 400,000 barrels per day in 2020, a 22% CAGR with 11 rigs. For comparison, if we use last year's decoder ring curve, 11 rigs would have only given us a 15% CAGR. So this 11-rig program is about the same level of activity that we've been running in the second half of 2017. We're not increasing activity level to accomplish this result. Now your next question should be, so what do I get for this investment? And that's what's shown here on the right. The green bars represent more than $2 billion of cumulative net cash flow delivered from these assets through 2020. Our Big Three plays are net cash flow positive this year. And with this plan at $50 a barrel, that net cash flow continues growing in the coming years as shown on the right. Now net cash flow does not grow quite as much as you would expect in 2018, and that is really due to Delaware infrastructure spending that does not start to pay out until the next year in 2019. Finally, if you go out to the far right curve, we would expect to generate over $1 billion of net cash flow from these assets in 2020, and I should remind you that these net cash flow figures are fully burdened with regional and corporate G&A costs as well as all the infrastructure costs.

So now let me give you a little more detail on our three-year plans in the Eagle Ford, the Delaware and the Bakken plays. I'll start with the Eagle Ford. You can see on the chart the usual data. I won't take you through it. But we do have the benefit here of built-out infrastructure, and our data analytics program has driven continued improvements, which we're applying now across our extensive inventory of locations. So even though well count here in the Eagle Ford is increasing, and we're now over 1,000 producing wells, we've still been able to achieve a lifting cost that's below $2 a barrel. Included in the appendix is the perennial chart that we show you that demonstrates that ConocoPhillips is the best in industry in the Eagle Ford, again this year maintaining the lowest cost of supply, the highest oil rate per well and the highest net present value per acre of our competitors. In 2017, we expect to produce an average of about 130,000 barrels per day in the Eagle Ford, and this should grow to over 245,000 barrels a day in 2020 with the six-rig program. That's a compound annual growth rate of about 25%.

Now in the Delaware, we have a 75,000-net-acre position in two focus areas: China Draw and Red Hills. Coring up our acreage over the past few years has allowed us to drill more 10,000-foot laterals, which doubles the reserves per well while only increasing the capital per well by about 40%. We've improved our land position now to the point that most of our wells will be 10,000-foot laterals, and over 95% of our wells in this area will be long laterals of 7,500 feet or more. For the past few years we've been appraising, and we've been taking the time to apply the learnings necessary to ensure that we can execute an optimized returns-focused development plan. This is the key to maximizing recoveries without overcapitalizing. So we're now at a more advanced stage of understanding the best development plan for the Delaware, so all of you will be glad to know that we are going to put more money to work there over the next few years. So we're producing about 20,000 barrels a day from this acreage in 2017. Over the next three years, we plan to increase that production to over 85,000 barrels per day with the three-rig program. We're sometimes asked if our Delaware position is material enough for a company of ConocoPhillips' size? The answer is yes.

On the far right side of this slide is the Bakken. Our Bakken position is at a more mature stage in its life cycle. We plan to execute a development program here that will maintain our plateau production of around 70,000 barrels a day going forward. We've got many years of low cost of supply locations to drill, but we're choosing to develop this asset for steady cash flow, not growth, while we continue to reduce costs and increase efficiencies there.

There's a lot more detail on the progress that we've made on each of these, again, in your appendix slides. But adding up all three plays, production will grow to over 400,000 barrels a day with an 11-rig program, and we could do this for many years. We believe this is a prudent and compelling use of shareholder capital.

Now, let's move on to the next tranche of spending within the $2 billion of organic capital, namely future major projects that have not yet been sanctioned, but that we will be funding in the 2018 to 2020 timeframe and that will contribute volumes out beyond 2020. Some of the projects are shown on the inset map on the slide. You can see that we have multiple medium-cycle projects planned in Alaska, the North Sea, China and Australia. We plan to spend an average of about $500 million per year between 2018 and 2020 to achieve production of about 90,000 barrels a day from these projects in 2025.

I'll show you now a few more details on the biggest two of these projects. On the left is a description of GMT2 in Alaska. As we continue our westward expansion, we can leverage the infrastructure from prior projects, such as CD5 and GMT1, to lower development costs as well as minimize our environmental footprint. We successfully reduced GMT2's total cost estimate by about 10% over the past year, and we continue to pursue additional improvements there through longer laterals and facility debottlenecking. These improvements, plus operating cost reductions, have resulted in a 15% decrease in the cost of supply for this project since last year.

Barossa, shown on the right, is the leading option to backfill our Darwin LNG plant when Bayu-Undan goes on decline early next decade. So we plan to invest about $750 million over the next three years in this project. We had a successful appraisal program at Barossa in 2017, which resolved volume uncertainties there favorably and increased our expected resource recovery by over 40%. Based on the appraisal data and the ongoing optimization work there, we've been able to simplify the facility design and reduce the development well count, and that's resulted in about a $1 billion capital reduction for the project. This savings has the potential to backfill into Darwin, and are contributing to the less than $40 a barrel cost of supply for the project. A roughly 30% reduction is realized by not having to build a new LNG facility and the additional 25% decrease in cost of supply has been realized due to the increased EUR in the optimized development plan.

Next, I want to cover our exploration investments, which are highly focused on a few themes and where we plan to spend about $300 million per year for the next three years. As you know, we've undergone a significant shift in our exploration program over the past two 2 years to core up in the areas where we have access to infrastructure and where the entry costs are low. This approach is integrated with our overall goal to keep a high degree of flexibility in our capital by adding resources that have shorter cycle times. Although we've retooled our program, we have retained the critical expertise that's allowed us to capture over 10 billion barrels of less than $50 per barrel cost of supply resource over the last 10 years, primarily in unconventional plays and around our legacy assets. That expertise is being deployed in Alaska, Europe and APME on infrastructure-led exploration. We're also utilizing our extensive expertise to pursue liquids-rich unconventionals in both North and South America and advantaged gas plays in South America.

Over the next two slides, I'm going to show you two exploration opportunities that could develop into material pieces of business for ConocoPhillips over the next few years. Namely our Willow discovery in Alaska and our Montney position in Canada.

Now we made this Willow discovery in 2016, but we kept it tight until we could further evaluate our results and acquire different additional acreage in the area. Since the discovery, we've increased our ConocoPhillips net acreage in this area by over 600,000 acres at a cost of about $30 an acre. The map on the left side of the page shows our acreage acquisition progression over the last 18 months. You can see we have a significant position now that's close to where we have infrastructure and a long history of strong operating capability. We estimate that the Willow discovery wells found gross resource of at least 300 million barrels. That makes it one of the larger recent conventional discoveries globally. We've utilized the ConocoPhillips proprietary seismic technology known as, Compressive Seismic Imaging or CSI -- no that's not the TV show -- to identify additional prospects in the area around Willow. That was the one Matt joke I had to put in there. In 2018, we're planning a five-well drilling campaign to appraise Willow and to drill three more exploration wells in the area. We also plan to shoot additional CSI seismic. So this is a very exciting play for us. We expect to update you after our 2018 activities are complete.

Our Montney position is a great example of adding a new position in the play for a low cost of entry that's very flexible and has a low cost of supply. Back in the beginning of 2013, we only had 14,000 acres in this area. Over the past few years, we very quietly built a 106,000-acre position. And it's all 100% working interest in what we believe is the sweet spot of the play where we have high liquids yield. Now the best part of this whole thing though, is that we acquired this acreage for about $1,000 an acre. As part of our 2017 appraisal activity, we recently drilled, completed and flow-tested two wells that produced at double the average 30-day rates of competitor wells across the play. Those two wells are shown in the blue dots against the competitor wells in gray. Notice that many of the competitor wells in the Montney show up on the far left side of the graph with very low liquids content. Our wells are in the 50% to 60% range for liquids. So I think you can see now why we didn't include this Montney acreage in our Canadian transaction earlier this year. We've added 1.5 billion barrels of resource to our resource base for this asset this year, bringing our total resource estimate for the Montney to 2 billion barrels, with an average cost of supply of around $30 a barrel.

We're leveraging the knowledge and the expertise from our other unconventional assets to accelerate our appraisal drilling here, and we're planning a 12-well pad for next year that will allow us to test spacing and stacking. We've already improved our drilling times by about 50% over a relatively small number of appraisal wells, and I expect that we'll have more improvements in the future as we bring our best practices to bear on this position.

Our Montney acreage has the potential to be a significant contributor to future cash flows for our company, and we look forward to updating you on this one as well as we learn more about this opportunity.

Now I'm confident that you can see now why we say that our high-quality portfolio is well aligned with our strategy. We've got an advantaged resource base of low cost of supply unconventional, conventional and oil sands and LNG assets with all of the important characteristics that are shown here. Our planned investments will make a meaningful impact on improving cash and earnings returns on capital employed. And that's our mission, to provide superior returns to shareholders through the cycles. Our portfolio is key to delivering on our goal, and we believe it offers a distinct competitive advantage compared to our peers.

So now I'm going to turn the meeting over to Don to show you how all of this progress translates into a sound financial plan.

Don Wallette - *ConocoPhillips - CFO and EVP of Finance & Commercial*

Well, thanks, Al.

My objective this morning is to show you how the differentiated strategy that Matt described, combined with the unique high-quality portfolio that Al just covered, can deliver a compelling financial plan, a plan that's strongly aligned with shareholder interests.

Let's start with the financial tenets that we believe will attract and retain investors to ConocoPhillips. They're listed on the left side of this chart, and they should look familiar. They're the very same ones that we laid out a year ago.

First, we're focused on generating strong and growing free cash flow, and we have a natural advantage with our low capital intensity, low cost of supply portfolio, and our cash generation only gets stronger as we direct investments toward high-margin production growth.

Second, we believe financial strength is a competitive advantage. Our balance sheet has been restored, thanks to the success of our asset sales program. Over the next couple of years, we'll use a portion of our current cash balances to continue reducing debt down to the target level of $15 billion. The combination of debt reduction and cash flow growth will bring our leverage down to a level that we think is optimal for our company.

Third, we've differentiated ourselves by setting a shareholder payout target. Last year, we set a target to annually distribute 20% to 30% of cash from operations to shareholders through the cycles. We've exceeded that target by a wide margin this year, and in our plan through 2020, we also exceed the top range of that target in each year.

Finally, everything must be in service to financial returns. That's the ultimate measure of value creation. In our plan, returns improved substantially without needing help from higher oil prices.

I intend to discuss each of these in more detail, but here is the punchline. We're planning on a step-improvement change in all four of these areas, and that's shown in the next slide.

We've transformed our financial performance in 2017, but we're just getting started. We're delivering strong competitive results today, but we expect significant improvement as we execute our three-year plan, which is built around a $50 real price. This chart illustrates the improvements our plan delivers over the next three years.

Looking at our key financial targets out to 2020, here is what we're planning: free cash flow to be greater than 35% of operating cash flow; our leverage ratio reduces to less than 2x on a gross-debt basis; we plan to return over $12 billion to owners from 2017 through 2020, and in the $50 plan that Matt described earlier, we still have over $4 billion of cash on hand available for further allocation; and we're targeting cash returns on capital employed to grow to over 20% by 2020.

I want to give you some color and some proof-points behind each of these metrics, beginning with our focus on free cash flow generation. We turned the corner on cash flow neutrality over a year ago. This chart summarizes our results over the most recent four quarters, where competitor data is also available. I'll step through the waterfall, starting on the left. Over that time period we generated $6.5 billion of cash from operations excluding working capital, and you can see from the orange bar that we invested a little under $4 billion of capital, leaving free cash flow of a little bit more than $2.5 billion, which represents about 40% of operating cash flows. And then you can see our dividends in the next orange bar. And then even after capital and dividends, you can see the free cash flow that we have remaining. And this was during a period where oil prices averaged, as you know, in the upper $40s.

Not only have we been generating strong free cash flow, the chart on the right shows we're delivering top-tier performance compared to both the integrated oil companies and the largest E&Ps. We're competitive with the strongest cash-generating IOCs, shown in yellow here, and we're truly distinctive when compared with the largest E&Ps shown in blue. But we're not satisfied with today's level of free cash flow. We plan to double it within the next three years.

This chart shows how and why our free cash flow doubles over the next three years at a $50 oil price. Starting on the left, in 2017, production grows annually at about 5% a year over the next three years, as Al described. That's represented by the first green brick. Next to that is a brick representing cash margin expansion, and that's greater than 5% a year over the next 3 years. We are growing volumes, but we're growing margins even more. By 2020, through this combination of modest production growth and cash margin expansion, free cash flow more than doubles. That's indicated by the green portion of the 2017 and 2020 bars. And off to the right is a green bar that represents the free cash flow we could generate if prices are higher than $50. As you know, we have significant leverage to higher oil prices.

Al described the sources of production growth that we expect. I want to take a minute to discuss the drivers of margin expansion as we go forward. I want to make two important points related to margin growth. First, the actions that we've taken this year to high-grade our portfolio have significantly reset our margins. This chart shows how the quality of our product slate has improved due to this year's asset sales. In 2016, North America natural gas and bitumen represented over 30% of our sales volumes. As we go into 2018, you can see that those products represent less than 15%. As a result, our realizations have increased by about $5 a barrel equivalent. I'm not sure that this aspect of the impact of our asset sales has been fully realized or understood. Again, putting price movements aside, we see that the portfolio shift has driven a margin uplift of about 18%; that's locked in.

The second important point is that we expect more to come. Looking forward, this time, margin expansion is not driven by portfolio effects, but rather by the investments that we're making into assets that improve underlying margins. The chart on the right shows how cash margins on a per barrel basis are targeted to grow more than 5% a year through 2020. The stacked bars show how much each asset class is contributing to the per-barrel margin. Notable here is how the margin contribution from the unconventionals is expected to more than double over that time period. Then, if we look up to the drivers of the margin expansion represented by the gray bricks, we see that realizations have only a minor positive impact. The main driver is due to the investments we're making in the low-cost unconventionals. This ties back to Al's example from the Eagle Ford, where lifting costs are less than $2 a barrel. And since we're not adding rigs as cash flow expands, our unit overhead cost will be declining. And then the final gray brick up there on the right, we're also going to see margin improvement from the lowering of our interest expense as we continue to reduce debt.

So that covers our free cash flow generation discussion. We're there now, we're top-tier, and we're not stopping.

Next, I want to touch on our financial position and reiterate our balance sheet targets. Most of you are familiar with this because we have been updating you throughout the year. At last year's Investor Day, we laid out a plan to reduce debt to $20 billion by the end of 2019. Because of the success of the asset sales, we'll be below $20 billion this quarter. And to make our gearing more compatible with our new operational footprint, we reset the debt target to $15 billion. We expect to easily meet that target over the next couple of years using cash on hand to retire debt. And along the way, our interest costs are going to be reducing substantially. When we reach the $15 billion target, annual interest expense will have dropped by about $400 million when compared to 2016. And the progress we have made to restore our financial strength has been noticed by the rating agencies and the debt markets. Our financial position is strong. As you've seen, we can already generate strong free cash flow at low prices. Our debt today is already the lowest that it's been since before 2012 when we became an independent company. As the chart on the right shows, we have no near-term need for refinancing. We have a large cash balance, ample liquidity and a clear path to attaining each and every one of our capital structure goals. We're doing all of the right things to meet our target of an A rating.

I want to turn now to shareholder distributions; a prominent and differential part of our strategy. Our payout consists of our dividends and our buybacks. We seek a dividend that is top-tier amongst E&Ps and one that grows each year, and we complement that with a level of buybacks that makes us competitive on distributions against energy overall. We announced our 20% to 30% target a year ago and have significantly exceeded it this year. We expect to return the equivalent of about 65% of operating cash flows to owners this year. The chart on the right shows this year's payout far exceeding a group of integrated and E&P companies. We've noted here also that our plan to 2020 delivers an average payout that would also exceed the top end of that range.

As for buybacks, we have stated our intention to buy $1.5 billion of shares over each of the next three years or a total of $7.5 billion including 2017. At recent share prices, that represents about a 12% reduction in outstanding shares. And we'll consider opportunities to increase buybacks during this plan period when cash is available and the value is attractive.

Now we're coming to the most important part of our financial plan, how our plans and actions will turn into returns. Because that's what investors want: returns. And we have a laser focus on earnings returns. As the chart on the left shows, based on consensus data, we're positioned to deliver some of the strongest relative improvements in ROCE in 2018. The drivers of this improvement are the investments that we're making in the unconventionals, reductions in unit DD&A over time, and reductions to capital employed due to debt reduction and the distributions to the shareholders that we intend.

We're targeting returns on capital employed to improve between 1 and 2 percentage points a year over the next several years, and that's at $50 a barrel. This metric has significant upside at prices above $50 a barrel. The key is to not forfeit the upside by losing discipline, and we won't.

As a big company with a large capital base, a 1 to 2 percentage point increase in a year is a big movement, especially when not counting on a boost from oil prices.

Our cash returns on capital employed accelerate even faster, and that's one of the most compelling aspects of our plan. Between 2017 and 2020, cash returns on capital employed are targeted to increase between 2 percentage points and 3 percentage points annually. That's substantial growth in returns.

The waterfall indicates the expansion in the numerator, cash flow, which is driven by growth in production and expansion of margins. The reduction in the denominator, capital employed, is driven by the reduction in debt and the reduction in equity due to buybacks and dividend distributions. Our plan sees cash returns on capital growing to over 20% by 2020 under a $50-per-barrel price scenario.

Let me end with a recap of our financial priorities and the compelling improvement we're poised to deliver between now and 2020.

We double free cash flow. We cut our leverage ratio roughly in half. We returned over $12 billion of capital back to owners, and cash returns are targeted to grow to over 20% by 2020. All of this at $50 a barrel. We believe this plan makes ConocoPhillips truly distinctive. We've given you a road map for tracking our progress on executing a compelling plan that's designed to deliver superior returns for shareholders through the cycles.

And now I'll turn the meeting back to Ryan for some closing comments.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

All right. Well, we've certainly taken a lap around the racetrack. I'll go back to where we started, our value proposition on a page. Today, I think we've shown you the drivers and the metrics that perform against a differentiated strategy in the E&P space. I think we've shown you how the portfolio is uniquely aligned with our strategy. In fact, it's very integral to that strategy. And I think we've shown you a financial plan that should attract and retain investors. It's clear, it's measurable, and it will drive superior returns to the shareholders.

So with that, let's get to the Q&A. I'll invite Don, Matt and Al back up to the stage, and if you hold one second, I think we have some microphones coming around. And let me get the guys in place, and we'll take your questions.

QUESTIONS AND ANSWERS

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Doug Terreson, here in front. You got him.

Doug Terreson - *Evercore ISI, Research Division - Senior MD, Head of Energy Research and Fundamental Research Analyst*

Ryan, you guys went in pretty much the exact opposite direction of your peers last year and were rewarded by beating the E&P stocks by around 25 percentage points, and you're also the only large-cap E&P company to match the S&P 500. And so today, you're clearly doubling down on the value-based growth and return of capital pledge, which should reposition the company in many different ways, especially financially. So while you covered capital allocation for organic growth and also for the balance sheet, my question is, how do acquisitions play into the mix, especially given your forthcoming balance sheet because it's going to be a lot stronger? Two, what's the current level of attractiveness of acquisitions? And three, what are the specific financial criteria? Or are they same as for normal investments?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. So we have made a lot of progress, as you point out. Thank you, Doug. Again, as I said at the beginning, growth and production was all the rage a year ago. We set out a plan. We've doubled down on that plan really going here today. As I think about the inorganic side to the equation, it is interesting. We've got the financial capacity and we've come to a place, we consider some of that stuff, but it's got to be accretive to returns. So whatever we do is not just getting big for big's sake, it has to improve the return focus over the long-term for the company as we think about that. And we think about the M&A and kind of the three buckets. And the very large stuff that most people kind of think about, that's really hard. Shareholders and board members sitting in the board rooms are quite divided. The bid-ask is really very wide if you're focused on anything you do to improve your returns. But I'd also say it's a very high hurdle within our portfolio. Anything that's got to be substituted in the portfolio can't be additive to the top. We've described to you the portfolio. We've done that for a number of years. It's about less than $50 barrel cost supply, the average of $35 we've got, anything we add into there has got to be competitive in the existing portfolio and that's a very high hurdle. But we are doing some of the smaller things. You saw the Montney position that we've added. You saw the acreage position we've added in Alaska as a result of some of those opportunities. So we're in that knife-fighting world every day, adding the smaller things to the portfolio. Because we think it's improving the portfolio. More importantly, over time it's going to improve the returns.

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

Philip Gresh, JPMorgan. Just wanted to kind of follow-up on the payout to shareholders piece. If you look at Slide 12, the sliver of dividend growth there is actually fairly modest, which I think is meant to illustrate a $40 case, not necessarily the $50 case, but I was just wondering how you think about dividend versus buyback. You've laid the buyback piece very clearly, but it seems like the dividend growth perhaps could grow, cash flows or some other metrics, so how do you think about that?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, I mean, we think about the dividend. We wanted reliable, sustainable annual increases to the dividend. If somebody thinks we're going back to where we were in 2017 with regard to the dividend, we're not going back there. So we wanted to be sustainable. We want to be sustainable through the cycles. But we understand that in some of the upcycles our cash flow is greater. And if we want to return 20% to 30%, we're going to do it variably through the share buyback play. So we want a dividend that's sustainable long-term, it's growable on an annual basis. You saw what we did last year when we raised the dividend. You should expect that from us on a constant basis, but not trying to go back to a place where we were a couple of years ago with the fixed cost of the company being that high. Again, we have a view of volatility in prices. You can share that view or you can have a different view. We think there is volatility, and dividend has got to work through the cycles to be affordable, but we augment it with a variable distribution to the shareholders. So we believe we need to be distributing a fair portion of our capital back to the shareholders on an annual basis. That's how we think about it.

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

Doug Leggate from Bank of America. Related -- I've 2 actually, they are related question to Phil's. So you've laid out a 3-year plan, $50 base case, what role does -- where does the share price appreciation come into the mix in a higher oil price environment in terms of how you continue to prioritize the buybacks versus balancing investment?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. So I think there's kind of short- and a longer-term maybe question in there. So short-term, yes, well we've been above $50 a barrel for all of the month now, right? We're not going to change our distribution policies on a monthly basis. Direct to the prices, we believe that there's probably going to be some volatility. To your point, longer-term, $60, $65 a barrel, you've seen the plan. You've seen what we generate at $50 a barrel. The incremental cash that we should have coming to the company over the next three years even at $50 a barrel, let alone if you believe it's going to be $60 or $65. I would tell you that we've had a history as a company distributing that back to our shareholders. We have a target. That target is meant to work through the cycles, low-end, high-end of the cycles. But we've shown you that we will share incremental surplus cash back with our shareholders. We did that through the Canadian transaction. You should expect us to be thinking about that as we consistently generate additional free cash flow as well. So based on our history, based on where we are at as prices rise, we continue our discipline on our capital investments, and we grow free cash flow. The shareholders ought to expect to get distributions that accommodate that.

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

So to be clear, if -- say your share price -- let's be little nuts for a second, your share price is $70, do you still be as aggressive in the buybacks as you are today?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, we've said we will dollar-cost average through the system. We're not going to try to time the market with extra or lower share repurchases. We're not going to time the market. I don't think what we've laid out today, I don't think is captured in our share price. So to your point, we would hope that the shareholders would see the value of the value proposition for the strategy and the delivery of that going forward. But we intend to dollar-cost the average as we do that.

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

My follow-up, hopefully a quick one. A key part of what everything you've laid out today is sustaining capital of $3.5 billion. As you, I think Al talked about establishing or looking for the next round of legacy assets, which one would assume comes with legacy spending -- legacy assets spending and at the same time, you're becoming little bit more skewed towards unconventional. So on the 3-year view, what happens? How do you see that $3.5 billion sustaining capital evolving over the longer term?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, maybe we can ask Matt to talk about that.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Yes. So this $3.5 billion of sustaining capital is what it takes over the next few years. As we're growing production, our goal really isn't the flat sustaining capital, our goal is to drop the sustaining price. Now as production grows, the sustaining capital required to do that will increase a little bit and over the years, but the sustaining price will actually drop because as we're adding new production it's coming at higher margins. So overall, we should expect to see beyond these three years, some increases in sustaining capital, but reduction in sustaining price, and that's our primary goal, the sustaining price.

Paul Sankey - *Wolfe Research, LLC - MD and Senior Oil & Gas Analyst*

Paul Sankey of Wolfe Research. The phrase was you've doubled, but I think in many ways, you've tripled down because you've extended the timeframe through '18, '19, '20. And you've really gone through here on a line-by-line basis, how you're going to get there in more detail, I think than we've seen in any recent analyst meeting from any company. I can't help feel -- and you've achieved your targets from last year to your credit. I can't help but feel a little bit of throwback to the 2000s when we used to get these kind of very detailed analyst meeting layouts and they all kind of went horribly wrong. One way or the other, they weren't delivered. I think on reflection, it was mostly costs and inflating oil prices that were the problem, but I wondered what your perspective is on what are the threats to achieving this level of layout in terms of what you want to?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, I'll let any one of the guys kind of chime in from their perspective as well. From my perspective, going forward, I think what's different about the world today than it was in 2000 is if you're a company that has a large, compelling, big piece of your portfolio sitting in the unconventionals, it gives you tremendous amount of flexibility these companies didn't have back in 2000. You think about our company back into 2012, we had seven multi-billion-dollar major projects in execution at the same time. We had virtually zero capital flexibility. And even at $110 a barrel, we identified that as a significant issue for the company. So I think what's different today, and I think we've demonstrated that last year, we're willing to dial back our flexible capital program. We're willing to dial that back and not drill into the headwinds of inflationary pressures in order to keep the discipline in the company, keep the sustaining price to deliver sustaining capital as low as we possibly can.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes, I think that's exactly right. A little bit more I might add on that is just on the inflation front. I think you've seen what we were able to do in 2017 with some pretty strong inflationary pressures in the Lower 48, and we're still able to keep dropping our CapEx as we went through the year. I think we've not only transformed the portfolio of the company in the last few years, we've really transformed the culture also with respect to cost, both CapEx and OpEx. We've taken our operating costs from a few years ago around $10 billion to down in the $5.5 billion range, almost cut it in half. And of course, we cut our CapEx more than in half. But we've -- if we do get sustained higher prices, obviously, there will be inflationary pressure on us. But we're going to drive our activity in a way to resist that and to not just feel like we have to hit the ask on the next rig or the next frac crew just to go out there and drive activity.

Evan Calio - *Morgan Stanley, Research Division - MD*

Evan Calio, Morgan Stanley. Your stock has been clearly very successful with an outsized asset sale program, a lower growth rate and a higher cash return strategy. So I guess, my question is, why is 5% the right rate? I mean, why wouldn't you grow less, buy back more and kind of sell assets that may not be optimized at your current pace and really maintain that complete differentiation versus E&P peers, which at least in some segment are very similarly unconventional?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

We're a bunch of engineers, you can rest assured, we'd study that ad infinitum. I'll let Matt describe to you, but you're right. I mean, we could -- some of the extremes say just invest your sustaining capital, distribute everything else back. How did we hit that spot? And I mean what Matt described to you a little bit how our thinking revolves around that?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Evan, I think that for everybody that asked us that question is suggesting keep your production flat and distribute everything to shareholders, somebody is saying while you guys have got a great portfolio, you should be putting more in the ground. Our view of that is that we think we found the right balance between those two things. We do have a very strong portfolio that can deliver improving returns overtime. And we know that we should invest some capital in that. But we think our company of our size in a mature industry should also be giving cash back to shareholders. So what we think we found here, and we've tested a whole lot of alternatives, what we think we found here is a sweet spot that balances those two things and that's what we've laid out.

Evan Calio - *Morgan Stanley, Research Division - MD*

And then maybe a follow-up if I just could on the impressive $3.5 billion sustaining capital number, particularly because you have less clarity with that on the conventional wedge, how long do you see that sustainable for? I understand that assuming a flat price or otherwise, how long could you sustain that low a capital base?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So the sustaining capital, I sort of answered that a little bit earlier that might increase beyond the three years, but the sustaining price will decrease. Because as we are growing production, we are growing the margins, and as we're growing production, we're increasing some barrels that will decline. So the sustaining capital will increase a little bit, but the sustaining price will drop because the margins are growing faster than the requirement for capital.

Evan Calio - *Morgan Stanley, Research Division - MD*

Well beyond three years is, I guess.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Well beyond three years. I believe that will happen over these three years. They have -- $3.5 billion works for five years, actually. And so the question is beyond what you stand to show a lot more growth and that's sustaining capital increases, but most important thing is that the sustaining price drops.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And that's really what we're focused on. Evan is making sure we keep the sustaining price as low as we can, which then drives more free cash flow generation, and that's really what's key to the business. That's what's improving the returns.

John Herrlin - *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

For the unconventional spend, how much of it is midstream, and will you have to build a gas plant in the Montney?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Al will answer.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes, the $1.2 billion that I've talked about of spend on average per year over the next three years in order to grow that unconventional, about $300 million per year of the $1.2 billion, a lot of it's on water infrastructure actually, building to gas gathering points and building oil processing capacity.

There are no gas plants in there. Our plans in each of our areas where we're spending infrastructure money involve building gathering to a gathering point and then using third-party gas plant processing.

John Herrlin - *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

Okay, that's great. The other thing is CSI, you want to explain it?

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes. So Compressive Seismic Imaging is actually a proprietary technology that ConocoPhillips invented. We've got patents on it, et cetera, that we've had for about five years now. We've done these CSI shoots around the world. And of course, as is natural in an organization, there was some resistance to a new technology at first. But as our geoscientists around the world have seen this demonstrated and what it does for you, the demand has been voracious. We can hardly keep up with them. But fundamentally what it does is, instead of an orderly sampling pattern like you normally have in seismic, there is a random sampling and then we use mathematics that really comes from the medical field. The same tomography-type mathematics that's used when you get an MRI done at the hospital that gives you a 10x upscale on the definition that you get, the resolution for the same amount of seismic points or of course, you can shoot less seismic points, get the same resolution you had before for a much lower cost. But of course that's not what the geoscientists ever want to do. They want the 10x resolution and spend just a little bit less money. So it's allowed us to see things that we couldn't see before, without spending more money to get the seismic.

John Herrlin - *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

(inaudible) facilitate (inaudible)

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes, exactly. So that's why we're going back in Alaska. And another interesting thing about CSI that we haven't used it for so far, but it's next on our list. Next year is when we are going to start using it on the unconventional. So we have a CSI shoot planned next year in the Permian.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Ryan Todd. You mentioned a little bit the Montney. It doesn't look like the Montney really figures. The three-year plan looks like it's primarily driven by the Big Three U.S. onshore plays. Is there much capital allocated or much contribution expected for the Montney within that three-year window? And what would you need to see to allocate additional capital to other areas within the unconventional onshore?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Go ahead, Al?

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

So the way that decoder ring curve is built is based on the Big Three because that's where our significant volume growth over this three-year period comes from. But the CapEx we're showing in there actually does include a rig in the Niobrara and also some drilling in the Montney. Some of which is appraisal work and is in the exploration budget, but some of which is also in that development budget. And there's also some infrastructure money in both of those places, that's all in that $1.2 billion that I was talking about earlier. But in this time period, we'll be starting next year and out into '19 building the first tranche in the Montney of our infrastructure needs that will get us up to that first level of production, which that's still not going to be big numbers in that time period compared to the kind of production that you see from our Big Three, from the Bakken and the Delaware and from the Eagle Ford.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

It's going to be an important stage in the Montney. I think Al described to you a 12-oil pad, where we want to really get in there and do a judicious sort of appraisal activity and understand stacking and spacing requirements. We've learned how important that is before you launch off in your manufacturing to know exactly what you're going to do. So we'll do that this year. And it does represent a bit of an acceleration over what we thought maybe a year ago we'd be doing in the play.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

So in effect in this 3-year period, we've got money in there to continue doing that appraisal work in both of those areas, but we haven't loaded up on the volumes when we show you like that curve. We're not counting on getting a lot of volumes from either of those two areas, the Niobrara or the Montney in this time period.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay. And maybe a follow up on Alaska. You mentioned doing some stuff there on near-term projects. You mentioned Willow and the surrounding acreage you've picked up around there. What's the potential size of the prize you think there in that Willow and then surrounding acreage area? And is this the type of thing that can extend your Alaskan plateau from 10 to 20 years? Can it drive higher levels of growth? How big of a resource are we talking about there?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, we don't think Willow is the last thing. Obviously, we picked up a pretty large block of acreage based on the seismic imaging. And Matt, maybe you can give them a little bit more color on that.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Yes. So when we made the Willow discovery, that allowed us to calibrate our seismic to look specifically for that type of prospect. When we did that, we could see a lot of follow-up potential on the seismic structures and sediments that look the same size as Willow, many of them, and across that area. So we see a lot of follow-up potential. Now these are stratigraphic traps. So just seeing them on seismic doesn't mean there is oil in them. But every one we drilled so far has hit oil in them. So we're hopeful that several of these Willow lookalikes will deliver additional production. So this year we're going to have a -- we're hoping to do a five-well program here. Two wells to appraise Willow because it's a large areal extent. And three exploration wells, one out in the west close to Willow that we call West Willow. And then two actually to the east of Alpine on the same sort of geologic play type. So we see a lot of that running and as far as what the implications are for Alaska rate for the long-term, time will tell. I mean, one thing we could do is just extend the plateau for 20 years. And -- but depending -- we'll do what makes the most economic sense and that could be growing production once we get through this exploration and appraisal phase.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

So it's still early days. And if you look at Willow itself, we said earlier that it could support about 100,000 barrel a day kind of development, just that first discovery that we made, but we need to see what else we got around. We got a lot of development planning work to do before we really know the optimum way to develop it.

Guy Baber - *Simmons & Company International, Research Division - Principal & Senior Research Analyst of Major Oils*

Guy Baber, Simmons & Company. Thank you guys, very much for all the details, super helpful. My first question was on the free cash flow trajectory and the evolution over the next three years. So for 2018, with $5.5 billion of CapEx and your dividend, is the growth that you guys are driving and the margin expansion, is that sufficient to organically cover the CapEx and the dividend for 2018 specifically? Or is that even a priority for you guys? Do you think about on a year-to-year basis like that? Or is it more that you are thinking about the free cash flow that you generate over the three-year time frame?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

I can let Don provide the details, but we absolutely think about that as we think about how we manage the programs, both on a longer term and an annual basis.

Don Wallette - *ConocoPhillips - CFO and EVP of Finance & Commercial*

Yes, I mean, for 2018, we do expect to achieve cash flow neutrality next year and each of the three years in the plan that we just talked about. I can give you -- and you'll find some sensitivities in the appendix of the material. I think we've updated those for 2018 going forward. But this would probably be a good time for me to give you a good new benchmark. Because over the last year, you've heard me say that we can generate $6.5 billion of operating cash flow at $50 Brent. So now looking forward, 2018, putting the vast majority of the dispositions behind us and the plans that we laid out today, and then shifting our convention back to a WTI convention now to be consistent with our competitors, so that new number I'd like for you to refer to as we go forward in 2018 is $7 billion of operating cash flow at a $50 WTI benchmark. And I think that will be useful as we go through earnings calls over the next four quarters or so.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And I think we've updated the sensitivities to reflect sort of the portfolio and the plans going forward, so you can apply those.

Guy Baber - *Simmons & Company International, Research Division - Principal & Senior Research Analyst of Major Oils*

You read my mind there, that's where I was going with that. And then my second question was, I wanted to talk -- if you guys could talk a little bit about the evolution in the sustaining capital relative to last year. But it looks like relative to last year, the big decline was on the conventional side of the portfolio, a pretty impressive decline. So can you just talk a little bit about what the specific drivers are there? I'm imagining deflation capture, but then when we look at the U.S. unconventional side of the equation, for about the same amount of current production, 250,000 barrels a day, it looks like the sustaining capital there went up a little bit from $1 billion to $1.3 billion. So can you can talk about kind of what the drivers are there and what you're seeing differently?

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes, okay. It's a little bit apples and oranges between that chart from last year and this year. So if I just take it from the top down, in the yellow, you're right that we talked about keeping our 250 of unconventional flat for around $1 billion last year, now it's $1.3 billion. Actually all of that $0.3 billion is really due to these infrastructure costs that we put in there now for the Montney and Niobrara. They weren't mature enough last year for us to have a development plan to be able to estimate the infrastructure cost and they weren't in there. So really that number, actually when you look at it apples-to-apples, has actually come down year-to-year. Now on the flip side on the conventional, it looks like it's come down a lot from last year. On an apples-to-apples basis, it's not nearly that big. There is a change in convention there, where in last year's number, we had future major projects that weren't going to bring volume in the near term included in that capital number. And this year, we thought it would be more transparent to build our CapEx from the ground up, show you the $3.5 billion that it takes to hold flat and then separately justify the $1.2 billion of unconventional spent for growth, the $0.5 for future major projects and the $0.3 for exploration. So those got pulled out of those stay-flat numbers. So it's a little bit of apples to oranges. But if you throw all that out and dig down into how much did it really come down apples-to-apples, the $4.5 billion number from last year, if you convert everything, comes out about in the $4 billion to $4.1 billion range. So we have reduced that number apples-to-apples about $0.5 billion down to $3.5 billion this year.

Blake Fernandez - *Scotia Howard Weil, Research Division - Analyst*

It's Blake Fernandez with Howard Weil. The first question is just pretty minor, but unless I missed it, I didn't see the typical operating costs and DD&A guidance for the year ahead?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Don, you want to take that?

Don Wallette - *ConocoPhillips - CFO and EVP of Finance & Commercial*

Yes. I think we're going to give that maybe in December, early in the year.

Blake Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Okay.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

The 4Q call, I think.

Don Wallette - *ConocoPhillips - CFO and EVP of Finance & Commercial*

Okay 4Q.

Blake Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Okay. Second question. It sounds like you're done with the major divestures. I'm trying to understand, is the right runway going forward to think about like $1 to $2 billion and then within that, Al, you mentioned a couple of different times infrastructure. I'm wondering if there is an opportunity once you have enough scale there to kind of consider a sale to MLPs or create your you own or do some kind of a -- something creative there?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, I think on the disposition side, I wouldn't factor in $1 billion to $2 billion annually. I think we've gone through the portfolio pretty well. I think it may be hundreds of millions of dollars as we kind of clean up the portfolio. I wouldn't be considering large-scale dispositions sort of in our plans over the next three years. We're constantly pruning the portfolio, and we'll continue to do that. But I probably wouldn't put a $1 billion estimate in front of that, if you're thinking about us over the course of the next two to three years. You'll see some more as we continue to clean up the portfolio, but they will be smaller in size. The last part, I forget.

Blake Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Infrastructure. I know a lot of that was on the fill...

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, the MLP. Most of that went to Phillips 66 in the spin. So obviously, we'd consider that as we grow up in mass scale, but we don't have anywhere near the scale right now to consider something like that in our portfolio. And in fact, we're actually kind of going in a little bit different direction. By virtue of waiting a little bit in the Permian now, there's a lot of opportunities to utilize third-party infrastructure for very cheap cost. So we don't put the capital employed in there to go do something like that. So we're just a measured pace as we move that up.

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

Roger Read, Wells Fargo. Al, going back to your decoder ring kind of comments. Seeing the rig count come down from a year ago. As you look in the forecast to 2020, how much more, be it well productivity improvement, is in there? It doesn't sound like it's an inflation- deflation driven event. So I'm just curious, room for improvement beyond the numbers laid out here as we think about CapEx for maintenance on the growth side? Or I guess is this a static or a dynamic outlook as we're thinking about it from today to 2020?

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Yes, there's a couple of different pieces there. It's largely static in terms of the way that's been done. So we're not assuming a strong CAGR of improvement in our performance out in those three years as part of how we built that curve. It's essentially built on today's performance, with maybe some places where we're early days, where we have obvious learning curve-type improvements that we know we're going to get, those will be built in there. But it's not built on the next great thing data analytics is going to do for us, or the next new discovery we're going to make in how to frac our wells. It doesn't have that sort of thing in there. And in fact that potentially could be a little bit of an offset to what Matt was talking about earlier. He was saying the $3.5 billion doesn't last forever. Because as we grow, that number is going to tend to grow because your decline barrels are bigger. But that statement is based on no big improvements in our performance. To the extent that we are able to continue to get more efficient, more capital efficient, more operating-cost efficient, then we can potentially offset some of that. It's not built into the numbers that we're showing you now. The cost of supply numbers and all the data that we showed you, the inflation that's assumed in there is based on a $55 world is kind of what's assumed.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And I would add the culture of the company now is driving to do as much as you possibly can with those less precious capital dollars and operating cost dollars. So I'm convinced we're going to find ways to continue the efficiency improvements. They may start waning a little bit, but we're going to continue to find ways to do more with less.

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

And just a quick follow up. On the exploration and appraisal spending, as you think about either more cash flow out of the operations or higher oil price, how does that fit into the allocation question as you think out, not necessarily that you have to find the something but you want to find the next thing. Where does that waiting go in there relative to share repur, debt purchase and conventional investments?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Yes, so we think that the optimum exploration program for us is about that $300 million, sort of laid out over the next few years. We know how we're going to spend that money. There are attractive plays. As Al said, some around the existing infrastructure like the Alaska stuff we just talked about, some in the Montney and some in South America that we didn't talk about. For example, we have an exploration play in the La Luna shale, which is the shale that sourced all of the oil in Columbia and Venezuela. And it's the same sort of shale as the Eagle Ford. We think we've identified a sweet spot there. So we're going to be doing some exploration there. But we think that $300 million spend is going to be enough, certainly for the next several years, and to continue to add to the low cost of supply resource base.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And the thing we're doing on the exploration side, its all got to compete in a lower-than-$50-barrel cost of supply world for us, fully loaded. So we're not exploring for anything that doesn't meet that hurdle. And if we find something, takes appraisal and go develop it and it gets above that hurdle, but we'll probably try to monetize it somehow, but we're actually thinking we've got opportunities and sets in there that will compete well as the discovery comes into the development portfolio. And we'll make room for it.

Jason Gammel - *Jefferies LLC, Research Division - Equity Analyst*

It's Jason Gammel with Jefferies. Just looking at the sustaining CapEx at $3.5 billion or even the all-in CapEx of $5.5 billion with 100% reserve replacement implies the $12.50 finding and development cost at the high end and $8 at the $3.5 billion sustaining, pretty dramatic increase in capital efficiency from, let's say, trailing three-year average. Can you talk a little bit about how that's been achieved? And how much of it is just general deflation versus increasing quality of the portfolio in capital allocation? And then within that 100% reserve replacement, how much of that should we think of as coming from the unconventional investment versus the investment in the conventional?

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Go ahead.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So the -- our average F&D over this plan is around $11 a barrel. The -- and the reason for that is a lot of this capital is going into the unconventionals when you put the sustaining capital and the growth capital there. And the F&D and that part of the portfolio is less than $10. So the aggregate is somewhere in the $11 range, so that's why we can get more than 100% reserve replacement with less capital efficiency.

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

Just a follow-up to my previous question. One of the interesting aspects of BP's plans is that they've capped CapEx. They said they won't spend more than $17 billion. There's a real argument that the prices in this timeframe, actually as you've shown, could let's say go back to $75 a barrel sustained. How would this all change in a much higher-price scenario?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, I think the way I would describe it, we've kind of set our scope over these three years. Now at a higher price, we'll get some inflationary pressures. We might see some growth in capital. But what we're trying to communicate to you is we feel really comfortable with the scope that we've outlined. So if you come to me and say are you going to double your scope, meaning are you going to double your rig count in the unconventionals or something like that, that's not in our sight. So we've really locked the scope down for this plan that we've described to you over the next three years. We've not -- so we said on average, it's going to be about $5.5 billion. If we see $70 oil, we're going to be faced with some increased inflationary pressures. We have ideas and ways we can offset that through efficiency gains and other kinds of things. But more importantly, we know the scope we want to deliver over the next three years. And then the price is going to be a function of what? How much that costs will be somewhat of a function what price environment we're in.

Paul Sankey - *Wolfe Research, LLC - MD and Senior Oil & Gas Analyst*

Yes. And it feels that the 5%, which I guess is an upside surprise from today, the 5% CAGR, is that on a per-share basis? I wanted to clarify?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

It's absolute. On a per-share basis it's significantly higher than that because the share count is going to be down and our debt-adjusted per-share basis is significantly higher again and you can do that, I mean we lay that math out in the deck.

Paul Sankey - *Wolfe Research, LLC - MD and Senior Oil & Gas Analyst*

Right. So I assume that we would imply that it would be more about cash return to shareholders than acceleration even in the...

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. I think we've demonstrated that in our past. We will not drill into really significant inflation headwinds.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

And I might add, that's the program we're staffed for as well across our organization around the world. We're not set up to go do some other plan with lot more activity.

Michael Hall - *Heikkinen Energy Advisors, LLC - Partner and Senior Exploration and Production Research Analyst*

Michael Hall, Heikkinen Energy. I guess kind of just thinking through the allocation of that unallocated $4.5 billion of cash, how do you arrive at what's the right level of cash on hand for the business plan? And then what's the bias in terms of using that unallocated capital over time? Is it to further bolster the portfolio or to build on to the return of cash to shareholder theme?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Mike, I'll let Don ask how much cash do we need to run the company. We can both probably comment on the prior year.

Don Wallette - *ConocoPhillips - CFO and EVP of Finance & Commercial*

Well, obviously, we have a lot of cash on hand today, but that cash has pretty much been pre-allocated. For debt reductions, another $5 billion, and then share buybacks over the next two, well three years now. But the answer to your question, what's the sort of operating cash needs of the company? That's less than $1 billion, call it a billion dollars, that's what we would normally would do. But depending on the environment, if we feel like the market is kind of overheated, the commodity market is overheated, we don't mind letting cash balances rise because we don't think they are going to last that long.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And again, our targets are through the cycles. So we want to make sure we're willing to let cash rise on the balance sheet a little bit. Because we have a view of volatility, and we want to make sure that our distributions to shareholders, we don't want to super flex our capital program. We've locked our scope, we know we want to deliver. But if we have to flex the capital program, we're willing to go do that. But if you keep a little balance sheet capacity on hand, we can flex that as we see what the market gives us. Our fear is if things go to $65, $70, $75 per barrel, the supply is going to come. Then what happens to price in the next downturn? We think the cycles are getting shorter, and the volatility is going to be there. And we have to manage through this volatility and make sure that we are being consistent in terms of our returns, distributions back to shareholders, and how we're running the company in a period of a lot of volatility. We think that's here to stay. That's our view, and that's how we're trying to manage the company.

Michael Hall - *Heikkinen Energy Advisors, LLC - Partner and Senior Exploration and Production Research Analyst*

So the clear bias recently has been returning that cash to shareholders. But as you move through the plan in future, let's say, weak periods of the cycle, would you use that to be more proactive in terms of building on the portfolio again?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

We have that opportunity. We have that option. And again, you asked the question about M&A, and certainly, the place we come to, it just has to be accretive and a better return picture over the long haul relative to what we're executing today. That's a real high hurdle, but we look at it, we look at all the options. We understand what we like, we know what we like, we know what fits with the strategy of the company, we know what fits with value proposition of the company. We are not -- we won't be blind to that. So we're looking at it and it's just a really high hurdle.

Andy Stein

What's striking about this presentation is despite the dispositions and the cash returns to shareholders, you managed to significantly increase the resource with a cost to supply of $40 or less. Could you just give us from the top of the house just a couple of reasons, a couple of drivers of the increased resource at that really low cost of supply? And is this something that could be repeated over time? I mean, clearly, 30%, you can't grow that 30% ad infinitum, but what's really driving that?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, I'll give you a couple of high-level remarks. I'll let Al get into maybe some of the details. But the technology, the innovation that we've seen in the unconventionals, are not just happening in the unconventionals. When we look at our Alaskan business, Al described a little bit of the reductions in the cost of supply there and our conventional assets. You look at Norway, you look at the U.K., you look at what's happening in China and what's happening in Indonesia, other places, all that's going on efficiency, that technology, that innovation is driving cost of supply down and that's what we see.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

There is a bunch of great examples in the appendix, of actual examples of all these different things around the world where we've been doing. But I think part of why -- frankly part of why the $40 and less has grown so much over the past year is, you may remember that when we introduced this corporate cost of supply curve last year at the same meeting, and we said then that in our company, everybody knew that you weren't even invited to the capital allocation meeting if you weren't below $50. Really what's happened over the last year, as we've sort of seen the way the macroenvironment has developed and sharpened our own view of the future that Ryan was just talking about. You really don't get into the meeting at $50 anymore; it's really $40 now. Everybody in the company now knows that if you expect to get -- unless you've got some really exceptional special story that if we don't do it right now we are going to lose it kind of thing, you really got to be below $40 to get capital in the company, today, everybody knows that. And so I think that's really driven a lot of special efforts using today's technology, data analytics, et cetera, but also the work we're doing with our contractors and the supply-chain side, et cetera. There are so many different micro decisions and forces pushing down that cost supply so they can get into the capital allocation meeting at ConocoPhillips. Really you got to have a (inaudible).

Ryan Lance - *ConocoPhillips - Chairman & CEO*

You might get in the door but you don't get a seat at the table.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

Standing-room only if you are in your 40s.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

And it really has created a competitive tension in the company. Because everybody sees, and we share that pretty widely. We just got together with the top 25 people across the company and all our regional presidents around the world. They see what other regions are doing. They see what the cost managers are doing. They go back and say if you want to fund this new development, this next platform, for example, you want to get money for this platform in Norway, we got to figure out how to make it an unmanned platform because we can't afford to man it. That example's in the appendix as well. Those are just some examples of how the conversation has progressed inside our company because of those competitive forces. We'll go back, take one more look.

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

I apologize Ryan, it seems like we might be recycling some of these questions. So I just want to make sure we are not missing out on small -- what might be a small contradiction in the messaging this morning. So Don talked about $7 billion of cash flow at $50 oil, and the CapEx budget is $5.5 billion and the emphasis is growth per share with buybacks. It would seem then the buybacks are only really coming from asset sales and that the residual cash flow is really covering the dividend. So why again is $5.5 billion the right number because it would seem there is no room for buybacks in the plan that you have laid out assuming $50 oil?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, I think we -- Don showed that we are cash flow neutral with respect to what we are doing in 2018. He showed the margin expansion and the production expansion that's going to happen. It's going to drive that free cash flow above and beyond where we're at in 2018 with the plans that we set aside. The $5.5 billion's an average capital over that three-year plan. So we expect free cash flow to grow, and we will expect -- I think you should expect the distributions will grow along with that as well.

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

(inaudible) So just in terms of the order of magnitude, I think you said in the presentation that categories 4 and 5 would equally compete for capital, buybacks and investment, but unless we're looking at material cash flow growth in a flat $50 oil price, it would seem that the space for buybacks is significantly less than the growth capital if you see what I mean.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

The key as we talked about today, with this plan at $50 and spending $5.5 billion, we have greater than 10% double-digit compound annual growth rate in our cash flow. That's not a per-share metric, that's an absolute cash flow. So if you do that math, in the early years of this time, we're covering our capital, our dividends plus some, from the cash flow at $50. As you move through time, and we're buying back shares with sales proceeds. But as you move across that three-year period, by the time you get to the back end, you can organically fund all of that from cash flow due to the growth.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

With additional distributions, if we choose to do that. That's where the $4.5 billion of incremental cash that Matt described in his waterfall slide, that's the really penultimate slide. That's the slide that describes our strategy for the next 3 years in a nutshell. That sources and uses slide, that shows what kind of free cash is generated above and beyond the plan that we have available.

Al Hirshberg - *ConocoPhillips - EVP of Production, Drilling and Projects*

And that's what's spinning that $1.2 billion to drive that 5% absolute growth in the 10% -- greater than 10% cash flow growth does for us, gets us into that mode in the back part of that period.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

So let me wrap it up there. Just again, thank you all for your participation today. Hopefully you have seen what the plan that we're rolling out, the plan that we are going to execute over the next three years, it delivers superior returns to our shareholders. We do that through reducing the debt, growing the dividend, reducing our shares and growing our cash flows. And all that's in service to growing our returns, is growing our cash return on capital employed, growing our return on capital employed. We saw clear metrics, we think it's a measurable plan -- it's really -- you can hold our feet to fire on this plan and we intend to deliver it and then some. So thank you all for sharing with us today. I think we have some lunch, hopefully not too early, but we did want to get through crisply today and not drone on, death by PowerPoint. Hopefully we've delivered on that a little bit better today than maybe in years past. I think we have a good story, and we appreciate your attention.

Editor

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