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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

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

This is Bob Brackett, Bernstein's E&P analyst. I will, in 1 minute, introduce Ryan. Before I do that, we are not expecting any sort of fire drill. So if the fire alarms do go off, treat it seriously. The primary exit would be out these doors to the left on to the elevated Park Avenue. In the case that, that path is blocked, the second exit is right, then right down the staircase 2 floors, exit onto the street at 42nd and wait further instructions.

If you sat in on some of these forums already, you know the drill. This will be a modified fireside chat format. So what we'll do is we'll let Ryan come up, speak for perhaps 20 minutes. I will then ask him to join me in the 2 chairs. At that point, I'd love for you guys to drive the conversation. That means take those white cards in front of you, ask the questions that you want to ask. As those are being compiled, I'll start at the tip of the pyramid now, sort of high-level macro questions, and then progressively get deeper into the lead.

With that, we'll start the clock at the back of the room. I'll step aside and let Ryan lead -- Chairman and CEO of ConocoPhillips, present. Thanks, Ryan.

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

All right. Thank you. Thank you, Bob. I appreciate it. Really, I do want to thank Bernstein and Bob for inviting us back here. This is really a particularly valuable conference that I'd like to attend because it's not just for energy companies, although it's a much smaller room this time for energy companies. So I guess, that says a little bit about where investors are thinking about energy. Hopefully, we can convince you a little bit otherwise today. Certainly, energy has had a pretty good run this year. And at our company, we've kind of staked out I think a different strategy that hopefully will be appealing to more than just energy investors. I want to talk about that today why I believe it's a unique strategy and value proposition for the energy business, not just for E&P, but certainly for investors that want to own some of energy.

I'm obliged to do this by the lawyers. Just keep in mind that I'll be making some forward-looking statements. Actual results could differ materially from our expectations, and look at our SEC filings for that information.

So let me move on and just talk about -- for those that follow our company for ConocoPhillips, this slide hopefully looks pretty familiar to you. If you don't know ConocoPhillips, well, this is our value proposition on a page. And it kind of describes our discipline, the returns focus strategy that we believe will create value through the energy price cycles.

On the left, it starts with a commitment to maintain financial strength, grow our distributions, and pursue cash flow expansion on a disciplined per-share basis. Because we know this is a cyclical business, and we're not going to chase absolute growth, especially during periods of higher prices. Now we believe these principles plus that cash flow priorities listed in the middle are smart for this business, and they will deliver superior returns to shareholders.

Now many E&P companies are taking a bit out of this playbook here recently. Not everyone can do it. And on the right, we've listed the unique characteristics of our company that we believe are necessary to execute and win at the value proposition like ours.

We expected to gather these principles. The priorities and the characteristics position us to compete very well across a broad range of prices. So that was the basis for the strategy refresh that we did as a company back in 2016. We certainly want to be an energy company that can deliver consistent and predictable performance through the cycles. We think that's how we're going to track long-term investors to ConocoPhillips. But the ability to deliver that through cycle performance is a part of our unique diverse global portfolio that allows us to offer this kind of value proposition. And that's shown here.

Now we entered 2018 as the largest independent E&P Company based on production and reserves in the business today. We have a little bit over 1.2 million barrels a day of production that's heavily weighted to liquids or liquids priced gas like LNG. We're executing a $5.5 billion capital program that's allocated to a mix of supply investments across this portfolio, which you see here today. This portfolio contains 15 billion barrels of resources, with the cost of supply less than $50 per barrel. It's balanced between conventional property, unconventional LNG and low-declining oil sands. The portfolio there is described on the right-hand side of the slide. And you can see our cost of supply curve. It illustrates how that 15 billion barrels is broken up between each one of those asset types. And you can see the cost of supply, the number that is maybe a bit unique to our company, but it's a Brent price equivalent that it takes to deliver an after-tax rate of return, I believe, 10% or greater. That's what we mean by cost of supply. And as you can see, this portfolio on average has cost of supply that's less than $35 a barrel. And so we can compete even at those kinds of prices and deliver an after-tax 10% rate of return. And that 30 -- that 15 billion barrels, that represents 30 years of investments at our current production level. So it's got some longevity to it as well.

Now as I outlined, this diversified portfolio includes these different asset types, LNG and oilsands, conventional and unconventional production. And that diversity really allows us to have a low capital intensity especially relative to more pure play E&Ps in our business, and it drives a low sustaining price. And so what do I mean by that sustaining price? I think one of the most important numbers in the E&P business that if you're an investor, you'd ask every company, what is your sustaining price. And that's the price required to maintain at least flat production in your portfolio and pay the dividend that you're paying out to your shareholders. And for us, that's an industry-leading less than $40 a barrel.

Our capital program is also quite flexible. It allows us to adjust capital up and down to adjust to lower prices. And it's important because we're focused on free cash flow generation through the cycles, not just chasing it up or having you chase it back down. We can grow our cash flows at a 10% CAGR at a flat $50 price deck. And we're focused clearly on the fundamentals. Our investments drive improvements in both earnings and in cash return.

Now I've mentioned our strategy is designed to work through the cycles, and we think that's pretty important to investors today. We're advantaged versus other E&P companies offering the investors resilience to low prices while offering the full exposure to upside prices as they move up.

On the far left, you see our priority stays the same regardless of what the price. Then if prices drop, we can sustain our production at very low levels of capital investment. And these investments would be directed towards the lowest cost of supply projects that we have in that portfolio that I showed you on the last slide. And if other things necessitate a drop in prices, we can always use the balance sheet capacity and strength that we have as a company.

We're also unique to investors that you can participate in the upside in prices. Our portfolio is heavily oil weighted. Our assets are predominantly positioned in tax and royalty regimes that don't cap the upside as prices rise. We're unhedged so we can increase our distributions and/or our CapEx to create value in the upsides, but we will keep our discipline. But certainly, prices have been strengthening in 2018, so how are we doing? Are we keeping the discipline? That answer is yes.

Here's a quick summary of what we've already done and expect to do for the remainder of the year. We remain committed to our value proposition. We've already taken actions to further advance our strategic priorities for 2018. We're on pace to reduce our debt by nearly $5 billion and expect to exit this year with one of the lowest debt-to-CFO ratios in the sector.

In February, we increased the quarterly dividend by 7.5%, and we increased our planned 2018 share buybacks by over 30%. Now strong prices and cash flows persist, we have options for even doing more through the course of the year. Now ESG is an important issue, growing issue in the business today. Remains a top priority for our company. It's a core part of our culture, and we believe it's vital to delivering our plan. Your license to operate is a function of how you treat these ESG issues. So our success with this new strategy makes, I think, a compelling case for our investment.

Now let me wrap up, and we'll get to the better part, which is the Q&A part with Bob. Really just summarizing why we think ConocoPhillips remains a good investment in this environment, but also through the price cycles that we're inevitably going to have in this business. We're committed to delivering strong free cash flow at any price environment. And our cash flow yield that is now very competitive compared to the broader market, even the S&P 500. We're focused on disciplined production growth per debt adjusted share, which is in turn delivering improvement in our returns.

Like I said in the beginning, not everyone can do this. We've transformed our portfolio over the journey that we've been on over the last several years, and we offer I think several unique characteristics to our portfolio that aren't easily replicated in many of our competitors. We have a very low sustaining price, and we have a unique low cost of supply of 15 billion barrel portfolio. So we have flexible capital investments and all of which are underpinned by a very strong balance sheet. So we're just getting started. Certainly believe there's a bright future ahead as we continue to execute on this strategy in the face of what many say is a pretty volatile commodity price market. We think we've got the value proposition and the strategy that can withstand those cycles, and won't have to chase them up -- won't have to chase them down, and we can execute through the cycles and deliver premium returns.

So with that, Bob, maybe that's a little short of your 20 minutes, but leaves more time for Q&A.

QUESTIONS AND ANSWERS

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

Excellent. So I'll ask Ryan to sit down here again. I'll start asking kind of macro questions, and we'll get further and further into the portfolio, et cetera. But I'll start with a question that we've been asked to ask each CEO. Look out 5 years -- not 10, not 30, not 100, in 5 years, what's the sort of greatest disruptive force out there that keeps you awake at night?

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

For me, and it maybe sounds a little bit trite, but it is sort of the technology advancements that's happening in artificial intelligence, data analytics and all the things that are growing in all the businesses that clearly are having a big impact in our business. We're going to completely unmanned platforms. We're able to drill 2 miles down into the earth, 2 miles over in the earth and land a bit in the 6-gallon bucket, and that's getting faster. It's getting cheaper. And the ability of the instrument all the different things, use that data, the data analytics power, I think it's just going to continue to revolutionize our business like many other businesses in the world. And I think if you're not focused on that technology and innovation today, you better be because it's coming, both AI, AI analytics, all the things that we're doing. All our pumpers now that are high school-educated people, carry laptops and carry mobile devices in their phone, can interrogate any particular piece of equipment that they're up against today. And it's making a huge difference in terms of profitability, up time, efficiency and safety and environmental performance.

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

So that's almost positive disruptive threat, or is it a worry that there's a bit of a race to the bottom, that if everybody joins the technology arms race, we become like a semiconductor industry and we just have to keep working harder at a lower price?

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

So I think that's -- yes, I think our how to would be those things combined with other general endowment that's a well-supplied world for hydrocarbons. You have to worry about it declining in cycle price all the time. So I think the disruptor to the business is that it's a well-supplied world. Yes, demand growth is very strong this year, and continue to be quite strong, but the supply side is keeping up and the supply side is quite vast. So you have to ask yourself, with all these things, the disruptors that are going on, what do you do in a declining mid-cycle price over time? And I think that's where people have to get your sustaining price, your sustaining capital down real low. You have to have a low cost of supply portfolio to be able to deal with that. You will see swings around it. You will see swings above that mid-cycle well below that. And I think the cycles are getting shorter and they're doing that because of some of this technology and advancements that we've added as an industry.

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

Yes, we've never had this short cycle barrel. The other aspect. If I go back and look at the evolution of shale efficiency, shale productivity, I can explain the vast majority to date with a mix of find the right place to drill, drill a longer well and pump more sand down that well. Were you sort of implying that the next game is -- actually have something cool and fancy? Is that -- am I putting words in your mouth?

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

No, no. I think that's right. And I think it's not just blindly pump a bunch of sand into a 100-, 200-foot interval. It's actually targeting the best part of the rock and getting the most bang out of your buck for completion. Now we've taken Eagle Ford wells, for instance, from 20 days down to 6 and 7 days. You can't drill it in 0 days. But now the drilling side, which used to be 50%, 60% of the total capital cost of the well is now 20%, and the completion is 80%. So now, we're going to work on the completion side instead. Now, how do you get more bang for the buck out of that? And I think there's a long running room to go there. Less sand more targeted penetration and better technology around what we're doing.

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

And that's very much focused on the CapEx side. What about is there innovation in the OpEx side of this business?

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

Yes, absolutely. It's -- what's interesting, in our company, you have these enterprise-wide systems, you have these data management systems, and you can never get the data down to an activity level or down to a well level. And we've -- but now, with some of the advancements in the technology, get it down to a well level. You can give your pumper the information in the morning that says, I've got a broke well over there and a broke well over there. This one produces 100 barrels a day. This one produces 50 barrels a day. Typically, I go right straight to the 100-barrel-a-day well. I got to get that up and running, right, because it's a bigger well. Well, we thought now, the 50-barrel-a-day well could cash flow more than the 100-barrel-a-day well, because now, we have the systems and the data to understand that. In fact, we're smart enough now to understand, maybe on that 100-barrel-a-day well, it's not cash flowing enough. Don't call out a crew at night. Don't call out a crew in the weekend. Just fix it with our own people on Monday when the people come back around. So what that does is that improves your DOE, your direct operating efficiency; lowers your absolute costs on the operating side of the business; and then it tells the pumper, who's got a bunch of windshield time (inaudible) here are the 10 wells I've got to go fix today. Don't worry about these other ones. And so yes, it's revolutionizing the whole business. And they've got that information every morning, 6 o'clock in the morning before they go out in their duty.

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

You're talking about the cycles getting shorter. Clearly, if we're moving to a 0-day well, that's a pretty short cycle investment. Has it gotten less volatile?

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

No. And we -- I mean, hell, you've seen that over the last -- this month, whether it's WTI or Brent, or whether it's differentials to various basins, or what's going on. I think with this coming supply, we're going to be met with all these kind of unique dislocations that are occurring across both the United States, and eventually, probably across other parts of the world as well.

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

If I think about -- you have a global footprint. You're watching lots of corners of the world. We'll talk about the Venezuelan corner of the world in a little bit. But is the world geopolitically more volatile now? And where is it on a scale of 1 to 10 across your career?

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

From a -- from all perspective, I think I've got to call it less volatile than what I've seen in the past. There's always 1 or 2 sort of hotspots, but I think the global economy and the global nature of the businesses has improved and foreign direct investment is occurring now in all 4 corners of the world which is helping. It's helping transparency. It's helping -- there's still rollout problems and we'll touch on Venezuela, I'm sure. But I actually view probably a bit better, a safer world today than it was maybe 5 or 10 years ago. And I think there's models with trade and some other things that are going on, but I think it's a better part of the world. And I think you're seeing that in the well supplied and the fact that even with Venezuela off, you're seeing OPEC trying to react to that. Nigeria has fixed their problem. Maybe it's coming back to pre- [Gaddafi] levels, so we're virtually close to that. And so I actually think it's running pretty well, which means in my mind, it's pretty thinly balanced on the supply-demand side. Yes, inventories have dropped off to 5-year levels, but it doesn't take much of a bobble on the supply side or the demand side to cause that volatility to spike one way or the other. So I think that's why our company, we just -- we set out a course 3, 4 years ago that said we can't, we cannot continue to do -- chase this volatility. We can't ramp a capital program -- our capital program in 2012 was $17.5 billion. Our capital program today is $5.5 billion. We just can't continue to do that. We were cash flowing $23 billion, $24 billion at that time. So you hit $100, $105, $110 prices. Now we don't see those prices going forward because we see them in cycle prices coming down, but we just can't afford to chase that volatility. I can't go to 50 rigs in the Lower 48, and then next year, ask them to run 10. It didn't -- we just didn't see that as sustainable and didn't see that as a quality way to improve the returns on the business. Yes, you can juice your growth and then not, and we just thought that was a failed strategy. So we've kind of level set our programs. We're executing a program today. I don't care what the price is this year. My team knows what program they're going to execute this year. They know the scope that Conoco will deliver. And regardless of what the price is this year, we've just got to resign ourselves to work through the cycles like that.

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

So if I draw your oil price forecast, it's a big fuzzy wide bar slowly down to the right. What's that for domestic and rehab natural gas?

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

Well, we think it's pretty flat. Supply curve at 2 80 to 3 50 of MMBTU. And it's -- and I think we worry about -- worry a little about we're doing the same thing to all that we've done in natural gas in the U.S. And there's a ton of supply at $3 an MMBTU. It's just 100 years. There's a century of supply in there as we can tell. So that's why manufacturing needs to come back. Cheap gas is going to be a long time. Just the associated gas with these unconventional plays combined with -- who would've thought rigs will be coming back to Haynesville as quickly as they did. So the technologies come. Marcellus is still huge. Utica is backing up. Look at what AECO prices have done. Just up in Canada, a ton of gas up in North America and Canada. So I think it looks flat -- a flat supply curve for a very long period of time.

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

And then last year, you had a couple of key portfolio divestitures, heavy oil asset sales, a bit of a stranded gas asset sale, well received by the market. How do you think about the portfolio today? Are there things that don't belong in the portfolio that might exit? Are there things you look around the world and say, "Hey, we could put that into the portfolio."

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

I think we're pretty comfortable where we're at today. It's taken us about 3 years to get to this place. We felt like after we spun the company in 2012, we lost our refining capacity. We've lost integrated benefits associated with some of the heavy oil. We felt like we were overweight heavy -- Canadian heavy. So we had some time, and we're able to consummate a deal last year with one of our partners in Canada, which was really a game changer for our company because it really accelerated many of the things that we wanted to do on the value proposition side, what I reviewed there today. I will tell you today, we're always -- we have a very large portfolio. We're always cleaning up the bottom end of it. If it's not competitive for capital, if you can't get your cost of supply below $50 a barrel, you don't get into the capital allocation game in our company. And in fact, you're not getting really fully funded unless you're down around $40. So if we have assets today that don't compete for capital, we're more than happy to put them on the market and market them. On the acquisition side, yes we're trying -- we're looking for things that makes sense to our company. And we did a couple of acreage deals in the Austin Chalk, Louisiana. We cored up our Montney position at the end of last year. And we took out a partner in Alaska because we see some opportunity out there. So we're in that business all the time. Some of the big M&A is tough. Certainly, the last deal kind of shocked a lot of us. And it's -- that's a pretty high price to pay. I don't see us doing -- we don't need to do any of those big deals. And in fact, those kinds of deals aren't substituted in our portfolio. So we're not competitive.

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

So the price of Brent today chasing 80 was there. Price of WTI today, $10 less than that. The price of WTI in the Midland's, $10 less than that. The Permian Basin is the fastest-growing shale play right now in the U.S. Talk about how it fits in your portfolio, how you think about Permian takeaway, and how you respond to pressures in that basin?

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

Well, we took -- we've been accused, I guess, of a couple of things. Is your Permian position big enough? Well, clearly we'd love -- we've bid on a bunch of deals over the course of the last 3 years. We looked at every one of them. We thought they were too high-priced and didn't compete in the portfolio. Because we look at things -- our cost of supply is a fully loaded number. It includes acquisition costs, exploration costs, infrastructure, FX inflation, efficiencies, learning curve. It's a full all-in number. So you go spend $40,000 to $70,000 an acre. You're adding $10 to $15 as much as $25 to $35 to your cost of supply. And again, you don't compete for capital at our company unless you blow out 50. And if you're going to start with 25 right off the bat, the base development has to only be 25 you can get funded for capital in our company right now. So that stuff doesn't kind of compete. And -- but we look at it. And we're in the market every day and understand where things go. We know what we like, know what we don't like. Specifically, when we set our plan back a year ago, we said, well, what about the Permian? We saw this coming. Most everybody did. We didn't see it coming as maybe as fast or as hard is it came this year, which is why we've gone slower in the Permian. I wanted to give my team to be able to understand the spacing and the stacking requirements. And then we don't have firm transportation today, but we've got signed up from transportation in a couple of years. So our -- that was consistent with our ramp-up plan that we're coming in the Delaware. But I'll tell you today, the conversation in the company is should we stop? Why should we keep spending capital there and be subjected to $10, $15 diffs, when we can reallocate that to something else? So we're looking at it. There's minimum economic sizes that you need. In other words, frac crew can support 2.5 to 3 rigs. So you kind of want to -- there's other things to factor into these. This isn't something you change on a monthly basis. But our view is, help is coming, but it doesn't come until 2020. And we're -- we've got some FTE on some of the pipes that are coming. And that was part of our base plan all along. So we were never in this to be trying to ramp-up. Today, Permian production is 2% of our global production. It's just not a big number. And that was part of our plan. That ramps up, and we're quite happy with our position, and it will ramp-up considerably over the course of the next decade.

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

In terms of -- what's the speed with which you can reallocate capital and put a frac spread in the Eagle Ford or the Bakken or put that incremental capital into the international portfolio?

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

Pretty quick. Monthly, quarterly. I mean, we only do it if we think this is going to be something persistent for a period of time. I'm not trying to manage it on a quarter-by-quarter basis. That's just -- operationally, you can't do that. You don't want to swing your operations like that. You can't do it. But if these dislocations persist for a year or 2, then I think that those are absolutely things that we need to be looking at as a company.

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

So one of the mantras you hear from value investors for our space is the space is overspent cash flow forever. People have gotten incredibly tired of that lack of discipline. They want to see return of cash, just not necessarily return on cash. How do you feel about the fact that the rig count -- horizontal rig count in the U.S. is responding to this price rise? With that comes pressure. The old joke is the price of a steak in Houston is the price of a barrel of WTI. So are you eating $70 steaks as a management team now? Are you still...

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

No, we're not. We're eating $50 steaks. So it's kind of still our plan.

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

It's not bad.

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

Yes. A bottle of wine comes with that.

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

How do you keep the organization from giving up the discipline that you've sort of built into the down cycle?

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

Well, what we've done as companies, we set our scope. We said we'll go deliver that scope. So we rightsized the organization for the scope that we see of executing over the course of the next 3 to 5 years. So what comfort that gives you is you're able to have different conversations, one with the employees, and one with the service providers as well. Because I'm willing to trade term for price. And we did that on many of our service providers over the last couple of years. Because I know that I'm going to be running these number of rigs. And I'm going to be running these rigs the next 2 to 3 years. I'm not going to ask you to get rid of a rig in a month. I'm not going to ask you to add a rig in a month. You've got this. And if I gave you 50% of my activity, what do I get for price? So you can go optimize your supply chain as much as you want, your logging support, your drilling support, your sand support and all that kind of stuff, because you know you've got 5 of my rigs or 10 of my rigs. And that's kind of what we've done both externally and internally in the organization. And I've asked them, you shouldn't be -- don't be concerned about keeping a bunch of optionality and flexibility building a program because you worry that I'm going to come to you and ask you to cut your program in half next month. And so we've just really locked in our plans and said regardless of what the cycle is, and we've locked in a plan that says we can do this in a sub-$50 world. We can breakeven in a $40 world. With the cost structure we have as a company, the cost of supplies that we're developing. And we can do that and get a low sustaining price so we can fund that program at $40 and a capital program, and we can fund the dividend to our shareholders. So we've just taken a different view of the world. And some will call it slower, some will say it's more deliberate, some will say you could grow faster. Yes, we could. But I also believe it dilutes returns at the end of the day. And I need to see each one capital dollar that I'm spending show up in ROCE for the company, and that's what we're doing because it needs to show up in return on capital employed.

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

The other frustration from value investors is this notion of the 100%, 1,000% rate of return well and corporate level economics kind of being single digits. You've set a path to -- 1% to 2% of growth in real corporate level return. Talk about why that doesn't reset to 50% in the year? What are the moving parts that don't -- that creates a journey towards double-digit corporate returns as opposed to instant snap?

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

Well, we are on a -- so our commitment to the marketplace is we're going to grow 1% and 2%. This has been a $50 flat world. We're going to grow our ROCE and our cash return on capital employed by 1% and 2%, respectively, in a $50 flat world. And that's the journey we're on. So what we've done in our company by going to cost of supply fully loaded is then, I can be assured if I'm in a $50 world, if I'm only investing in $50 cost-of-supply projects, I'm going to see that incremental return in my ROCE. And it is a journey to double digits. Absolutely, we need to be competitive. We want to be competitive to other industries in our business. When you look at our TSR curve on our external material, you'll always see the S&P 500, because we're trying to compete against that. It's not just the other energy indexes, it's also the S&P 500, because we think we have a bit of a unique portfolio and a different way of thinking about the business that ought to attract those value investors back into the business. Then it's built and hung on cash return and full return on capital employed.

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

In terms of incentives, will you be paid more if you hit that return on capital metric, or you hit a better growth metric?

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

I have 2 metrics in my -- my comp and my -- our [NEOs], and that's TSR and return on capital employed.

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

I've got 2 questions that are more on the acquisition portfolio side. I'm going to read them both. You talked about it a little bit. What parts of your business have you/are you divesting, and why? And what parts are you expanding through acquisitions? And the other is, what is -- which plays into that, what is the stance of a bid-ask-spreads for mid- to large scale acquisitions? And do you think you can create value over time as an acquirer? Do you expect the industry consolidation broadly?

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

So let me take the first one. What -- so in our divestiture investor plan, we started when we spun the company in 2012, we got out of all the (inaudible) and the sands. (inaudible) Algeria, Nigeria Kazahkstan, Uzbekistan, Turkmenistan. So...

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

Australia. You stayed in Australia.

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

We stayed in Australia, that's right. So it didn't -- wasn't ubiquitous. But no seriously, what we noticed in the portfolio is we were overweight North American natural gas, and we felt like we're overweight heavy oil in Canada. And that was the basis of a lot of our disposition activity. And then we looked, as we reconfigured the company and got the cost structure of the company down, got the cost supply of the company down, then we started looking at assets that didn't compete for capital on a go-forward basis based on the cost of supply competitiveness within the portfolio. So I'd say there's 3 dimensions to what we did on the divestiture side. We have been active on the acquisition side. I put that in kind of 3 buckets. Smaller acreage acquisition. I give my teams nice fighting dollars every year to go core up, take out their fence line neighbor. We'll spend $100 million, $200 million a year doing that kind of activities. We know what we like. We know where we're liked. Those asset-level acquisition, and we know what we like there as well. We did a $400 million deal in Alaska. We took out a partner. It was clear that it was non-core to them. It was core to us. We had some exploration success. And we wanted to build our position up there, so we did that. And that's kind of asset level. And we've done that around the whole goal around assets that we want to core up. I'm now getting to the last one, which is sort of the multibillion dollar. I think it's really hard to transact when you -- your price deck's drawing up like this. I mean, the conversations in the seller and the buyer boardrooms are dramatically different. Seller sitting there, saying, "Hey, I'm $80 to $90". It's kind of an oh, the backward part of the curve is coming up. And the buyer's sitting there saying, "Look at the backwardation in the forward curve. I'm not going to buy an $80." So I think it's really hard to transact up and down. You can transact at the top when people are moneyed up, and at the bottom when it's distressed, and I think you got to be really, really careful when you do that. And our key is it has to be competitive inside the portfolio. It has to be substituted and not additive to the top, and that's a big hurdle on our company today. Does that rule it out? No. Because I do think consolidation has to happen in this business. You all have too many names out there that you can be investing it, right? And then the advent of private equity has been just an explosion in our space. And you don't really know how those guys are going to react because they don't have to report, and you don't know kind of what they're doing. But absolutely, this business is ripe for consolidation. And if the time is right and the opportunity presents it, we'll be a player in that.

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

You've exited as a company Deepwater exploration. You've exited the oilsands we talked about. Will you ever put billions of dollars against the project that takes you 3 to 5 years to start to see cash flow?

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

No. Yes, so we still do medium- and longer-cycle projects. That's still a part of -- our learning from this last downturn, I remind people in 2012, we were executing 7 multibillion dollar projects in parallel; huge projects, zero capital flexibility. So unfortunately, it hit us. It was really hard to take down the capital program very quickly, so we had to add debt. So we borrowed money to get through that period. But we were fortunate we're an A credit-rated company so we had a lot of capacity on the balance sheet to do that. Our learning from that is, let's not make sure that our capital program gets inflexible such that more than 50% of our capital is tied up in these medium- and longer-range cycle price. It doesn't mean we won't do them. We will. We're just very careful to phase them in such that we don't wake up in a year and notice that 100% of our capital is inflexible. We want to keep that sense of having some gas -- foot on the gas pedal. We can take it off if we choose to do that with some flexible capital spend in any given year to react to the commodity price. So no, we're doing them. We're just very careful about how we slot them into our plans.

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

Got you. And then just in the interest. From the geopolitical side, can you talk through the goings-on in Venezuela? From my perspective, it's fascinating that, clearly, Venezuela is the biggest surprise to downtime volume terms of global supply. You can almost give Venezuela credit for rebalancing the global market. They were in a bad situation already, under-investing and commercially strapped. And arbitration counsel decided that, rightfully, assets from Venezuela belong to you. Talk about that process and how you're moving forward with that?

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

Yes. So we got -- we were expropriated in '04, '05. So we had 2 very large heavy oil projects in the Orinoco Belt called Petrozuata and Hamaca. And we had an offshore project called Corocoro. So we actually have -- when the royalty rates were increased and the take was dramatically increased sort of arbitrarily by then President Chavez, we elected not to participate. Some companies took the deal. We said no, we'll see you in court. We've been in court. We have 3 active arbitrations going on against the Venezuelans, and you saw the result of the first one that came due here a couple of months ago. That was in International Chamber of Commerce. It was an important one because that was against PDVSA, the company, not Venezuela the country. So we pierced the corporate veil. That allowed us to go after assets. We know every asset Venezuela has around the whole world, and we're very aggressive, because they expropriated our assets and they were real -- they did it illegally. They did it unlawfully. And the courts have ruled. So we took the very aggressive stance to go after the assets. That's the first arbitration. There's 2 more coming. We were -- the ICSID arbitration, which is against Venezuela, the country. We were ruled a year ago that they unlawfully and illegally expropriated our assets. And now, they're working through the damages phase. So we hope to hear probably later this year what those damages have deemed to be, and that will be another ruling against the Venezuelans, because they've already ruled that they've illegally expropriated the assets. Now when can we collect? We'll see. I mean, we know what the country is doing. We know what the cash reserves are. We know what the bond position looks like. But I think we will be very aggressive in trying to get compensation for what we believe is owed to us. Now that said, certainly, the press has been -- what's going on in the Caribbean. That's a Dutch jurisdiction, which is a little bit different than U.S. and some of the other jurisdictions, allowed us to attach assets very quickly. We had a game plan. We knew what we would do immediately upon winning. But we're also cognizant of what's going on in Caribbean. So we're not -- if they need some of the oil for fuel oil and power generation or some of the gas and diesel for vehicular -- certainly we're doing that. We're sensitive to what's happening in the Caribbean as well. This is an issue between us and PDVSA, and we don't mean to put the Caribbean in the middle of it. So you see some of that press, but we're working with Caribbean governments to make sure that, that's done right. Our dispute is with PDVSA It's not against the Caribbean.

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

I mean, Venezuela having lost that terminal, they've now moved to ship-to-ship transfers for crude export, which is messier and tiring and cost leering and whatnot. So from a geopolitical perspective, this is a straw in a camel's back where that camel's pretty weighted down. So it would be interesting to see how this all plays out.

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

Yes. We took the ships all back to Porto Cruz. And there, [if I have to count] we were 14 backed up. And the Caribbean was their transshipping spot and their spot where they can mix and blend the crude. And so they've lost that capability.

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

So to the extent if those ships appear in international water in a jurisdiction where you could seize them, you'll seize them.

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

So we go back to the portfolio. Talk about the -- effectively what parts of the portfolio do you think investors don't spend enough time on and that we should be spending time on?

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

Well, I think we've tried to -- I'd say 2 broad areas. One is our unconventional portfolio. I think the uniqueness is probably not well understood in our unconventional portfolio. People focus maybe on a bit smaller position in the Delaware. But when you look at our Eagle Ford, our Delaware, Niobrara, Bakken and Montney position, we're one of the few operators that has a significant position in all of them. And when you -- in part of our investor deck, you'll see that where we've isolated our unconventional position, it's growing 20% compound annual growth. So it's very competitive in terms of growth rate. The difference is it's free cash flowing today. Our unconventional position, while growing, generates free cash flows a day, and I don't think there's many that are in the pure play, with just that position in their portfolio, can replicate that. So I think there's generally under-appreciation for our unconventional position, what we're doing. And I think the fight back to the Eagle Ford are just showing, we took a more deliberate approach again in the Eagle Ford when we did that, and I think it's bearing the fruit today that vindicates us a little bit with what we're doing. And I think we're taking that approach in the Delaware as well. It's just the NPV of a learning curve trumps by far the NPV of the acceleration. So you got to get these things right the first time because you can't go back and fix it if you messed it up the first time. So I think that's 1 general area. Then some of our legacy assets, Alaska for one, it's kind of a rejuvenation of something there. We -- a couple of years ago, we discovered a Willow discovery that we've gone back and appraised. But the most important thing is that it was a new play opening discovery for us that surprised us. We found something new. And we shot some proprietary seismic technology that we have, and we correlated that well, and we had a lot of brightening up of a lot of other opportunity. So that's why we took out our partner, and that's why we did the things. This year, we were 6 for 6 in our exploration program. So I think that's an area that's maybe underappreciated because it's a 40-year-old basin. It was producing over 2 million barrels a day 40 years ago. Everybody's talking, with the decline going on, how do you possibly replace it? Now the basin's down to 500,000, 600,000 barrels a day. There's spare facility capacity across a little more slope. We own it all well. And so now, any new opportunities that can come in there create a lot of upside value for us. And the inherent investments are very competitive in the portfolio. And I remind people, the underappreciated part of our portfolio they don't understand is that we're almost virtually Brent linked. So 200,000 barrels a day of Alaska crude is sold on the West Coast at a Brent plus price. So when you look at our realized oil price today, we capture 95-plus percent of Brent. And people understand. So people see the Midland blow outs. They see all these WTI trading below Brent. Virtually all of our liquid production is Brent price. It's either LNG linked to Brent or the US is mostly Brent linked. Our Eagle Ford is LLS, which is trading today at Brent minus, sometimes Brent plus. So I think that's the other underappreciated part of our portfolio, is we're not subject to these problems that we're seeing into this we traded to Brent. That's where we sell our crude at.

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

You mentioned your unconventionals are free cash flow positive. What asset from the portfolio are not free cash flow positive right now? Where are you investing for now?

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

Yes. For now, Australia was that way, until this year when we had both trains up and running at our APLNG projects in Queensland. Now it's starting to return dividends back to the corporation. That just started kind of in the first quarter of this year. So that had been a cash thing for the company. So that's one area that was -- the other area where we've been making more investments is in China right now. We're going through a third and fourth development phase and Bohai Bay. So the capital going into that is exceeding some of the cash that's generated there. But that turns around pretty quickly.

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

And then if we think about the high-level metrics, your targeted $15 billion in debt, that's achievable by the end of the year. Then you're happy with debt on the balance sheet. You laid out effectively the story about the dividend -- maintaining the base, funding that dividend, getting debt to work. If prices hold where they are now, you're left with your last couple of objectives, which is share repurchases against the incremental acceleration of growth. How do you make that decision? Does it depend on where your shares are trading? Does it depend on what's in the portfolio?

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

Yes, a little bit of all that. I mean, we look at our longer-term plans. What new things are we bringing into the portfolio, like coring up Alaska, like the Austin Chalk acquisition that we made on the unconventional. That will take on some incremental capital, but it's not for quite a period of time. We're interested in the expansion in Qatar. So there are some incremental things that potentially come into the portfolio that have some minor impact on capital. But in our scope, like I said, is pretty set. So we do look at sort of -- I think, if you look at our past history in terms of what we shared back with the shareholder, we target 20% to 30% of our cash going to the shareholder right off the top. We used to do that through the full dividend channel. Now we do that through a more variable dividend plus share repurchase. But we've also demonstrated in sort of times where we're a lot of cash flow, we've been willing to give more of that back. Certainly, in the transaction we did in Canada, that year, we gave 60-some-percent of our cash back to the shareholder via the dividend and the share buybacks. But we'll look at intrinsic value. We'll look at the NAV of the company. We'll look at where we're trading. And we'll look where we think the share price would be. So we look at all those things when we're trying to make those judgments. More importantly, I think we're looking at the long-term staying power. Is the back end of the curve coming up? What does the cash flow profile look like? And I'll tell you, I'm willing to carry some cash on the balance sheet, because again, we have this inherent view of volatility. So we're going to be -- our company will be in a different position the next time the cycle's down. I don't know when that's going to happen, how deep it's going to be, but we're going to be in a completely different position relative to where we were in 2014.

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

When you say cash on the balance sheet, should I read that as a sort of dry powder where not that you're scared of the down cycle, but you're actually kind of greedy in the down cycle?

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

Well, absolutely. And we like the dollar cost average of our share repurchase. And you can actually increase it in the down cycle because you're carrying more cash on the balance sheet. So if we trade down in direct correlation to some price, it just gives you a lot more opportunity to do your own shares or do -- think about inorganic opportunities. And we have plenty of organic things in the portfolio to invest in as well, and we could make that choice.

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

And then coming back to this mantra of discipline. Every -- you can read a lot a buyer that talks about, now we're disciplined, now we're disciplined. Is that going to stick? Do you think the U.S. E&P complex will behave more like you all, and less like they have in the past? Or is that just the right words people use at this time of the cycle?

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

It's a really good question, Bob. I don't know. My hope is that there will be more discipline in the business today. Will the E&Ps spend 100% of their cash flow? Yes. Will they spend 120%? I hope not. And build debt or float equity again that will really kind of put a black eye on the industry, I don't know. And I'm seeing, if you asked me today, I'm seeing more discipline today than we saw back in 2010 through 2013 and 2014. One of the wildcards is the private equity guys. I see less discipline with the private equity guys today. And they've got a 2- to 4-, 5-year window to dress it up, take it out and do something with it. And so we are getting -- we're getting balloted by partners that we don't operate, we don't have an interest in their stuff, and we see them doing a lot of things that we wouldn't do on our own. And I do see some evidence that some of these guys are starting to ramp-up, and it's mostly in that private equity space.

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

And then will it -- so if you see some private equity guy [AFE OL] and sends you the requirement for your 30%, what's your approach?

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

Well, we're not going to -- if it's economic and it meets our criteria, we'll fund. And we won't non-consent it. Won't go through a penalty situation or something like that, because if it's an economic well, we're going to do it. And we're not going to lose the opportunity by doing that. And we see a bit more of that happening. And so that's why I say I think some of that probably a little bit cloudy on how the discipline thing is working in the industry today. I think the bigger public companies are doing that. I don't think they're going to raise to add debt or float equity. Some of the smaller guys, I think we've already seen a couple attempts to float equity, and met with mixed results. And then the private equity guys, we'll see how they work out.

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

You threw out 2 scenarios. 120% of cash flow or 100%? You left off anything below 100%.

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

Yes. I don't think they'll do less than 100%, which is why I'm concerned about sort of the volatility in the business. Permian probably grows 700,000; 800,000 barrels a day this year. If I could throttle back next year just due to the takeaway constraints, the inherent -- but the docks are probably building. So I do worry a bit even within the improvements that we've made, the efficiencies and the optimization gets -- just brings a lot of -- even at 100% brings a lot of supply with it.

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

And so as that -- there's an OPEC meeting coming up in 2 or 3 weeks. You've attended in the past and advised and counseled them with messages that they ignored to their peril. And -- they're not necessarily going there. To give them more advice. But if you did, what advice would you give OPEC? What should their strategy be in terms of kind of balancing the market through this pivotal window where there's supply risk geopolitically and where the Permian might not save the day in the quarter that -- or the couple of quarters we need it? What would you tell them?

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

Yes. Well, I think -- so you're referring -- if went back in 2013, I was on a panel with Saudi, Iranian, Venezuelan and Angolan energy ministers. And I stood up and I told them, the U.S. will surpass Saudi Arabia in the next 5 years in production. And I got laughed off the stage... this was in 2013. We were seeing what was happening in our unconventional portfolio. And if you just gross that up to the macro, it was kind of astonishing. And of course, they said no. No way. It's a flash in the pans. It won't work. It will decline really quickly. I guess what I would tell them today is that not only is it not a flash in the pants and it's working, is that it's got running room and staying power, and it's got staying power even at $50 a barrel. So it's going to be a major supply source that you're going to have to factor into your balancing equations and one that you cannot control. You can control sort of obliquely as you stretch the prices and stuff to the extent you want to go do that. But that's what I've been telling them today. This is not -- and it's going to be around for another 20 years. I mean, this unconventional revolution is every bit as important our industry as when we went offshore in the '60s, and this one's bigger. So I think that's kind of the message, that they have to take it seriously, they have to think about it. And to your point, it's not a swing supply like Saudi can swing a million barrels per day over a quarter period of time. But over a 1 year kind of time period, it can swing and make a material difference. And that's what they don't appreciate. They still don't get it. They still don't understand it.

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

So you said that the U.S. would get bigger than Saudi or Russia. Will you say now that the U.S. will get bigger than Saudi and Russia?

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

That probably would be a bit of a stretch. But I think we'd make a long way. We'll make a big dent into that. I don't think 15 million barrels is outside the realm of possibility in the U.S., so...

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

We've got a little less than a minute.

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

There's a question.

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

Yes, please.

Unidentified Analyst

(inaudible) through the notion that Tier 1 acreage (inaudible)

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

I think there's some Tier 1 that's been exploited. They called the Tier 1 is gone. And I think the technology is going to make Tier 2 look like Tier 1 overtime. So I wouldn't -- the best -- the one way I'd describe it, looking at the Bakken, everybody's got a position on the Nesson anticline, for both big position on the Nesson anticline. That rock was up thrown, uplifted and bent and it was naturally fractured. But there's a ton of that source rock that's sits often at the Nesson anticline. It was never uplifted and naturally fractured to go along with it. No one's been playing with that source rock. People intend to bag a couple holes into it. And clearly, that's Tier 2 acreage relative to the acreage that's sitting on the Nesson Anticline. Will we get to that acreage? Yes, we will as an industry. We'll figure it out if it will cut. That won't be as productive as what the Tier 1 acreage is, but it will be a supply source over time. We will drill it. We will figure out how to make it work. I'm convinced we are. We will.

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

Yes, we're doing better in terms of barrels per dollars spent with the stuff we're drilling today than we had back when it was...

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

4 years ago.

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

The rocks were better.

Well, with that, we've run out of time. I appreciate you certainly, Ryan, for coming out. And I appreciate you all in the audience.

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

Thank you, Rob. Yes, thank you for your interest.