THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COP - Q1 2019 ConocoPhillips Earnings Call

EVENT DATE/TIME: APRIL 30, 2019 / 5:00PM GMT

OVERVIEW:

Co. reported 1Q19 results.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dominic Macklon *ConocoPhillips - President of Lower 48*

Don Wallette *ConocoPhillips - Executive VP & CFO*

Ellen DeSanctis *ConocoPhillips - SVP of Corporate Relations*

Matt Fox *ConocoPhillips - Executive VP & COO*

Ryan Lance *ConocoPhillips - Chairman & CEO*

Bill Bullock *ConocoPhillips - President of Asia Pacific & Middle East*

CONFERENCE CALL PARTICIPANTS

Alastair Syme *Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research*

Blake Fernandez *Simmons Energy | A Division of Piper Jaffray - MD & Sr. Research Analyst of Integrated Oils & Refiners*

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

Doug Terreson *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Energy Research*

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

Muhammed Ghulam *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Neil Mehta *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

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

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

Scott Hanold *RBC Capital Markets, LLC, Research Division - Analyst*

PRESENTATION

Operator

Welcome to the First Quarter 2019 ConocoPhillips Earnings Conference Call. My name is Christine, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Ellen DeSanctis, Senior Vice President, Corporate Relations. You may begin.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Thank you, Christine. Hello, everyone, and welcome to our first quarter earnings call. Joining me today from ConocoPhillips are Ryan Lance, our Chairman and CEO; Matt Fox, our EVP and Chief Operating Officer; and Don Wallette, EVP and Chief Financial Officer. Also we're pleased today to have our 3 region presidents on the call. They are Bill Bullock, Bill is the President of our Asia Pacific, Middle East region; Michael Hatfield, is the President of our Alaska, Canada and Europe region; and Dominic Macklon is the President of our Lower 48 region.

A couple of quick administrative notes before I turn the call over to Ryan. Our cautionary statement is shown on Page 2 of our presentation. We'll make some forward-looking statements during today's call that refer to estimates or plans. Actual results could differ due to the factors described on this slide as well as in our periodic filings with the SEC.

We'll also refer to some non-GAAP financial measures today and that's to help facilitate comparisons across periods and to facilitate comparisons with our peers. Reconciliations of non-GAAP measures to the nearest corresponding GAAP measure can be found in this morning's press release or on our website.

And with that, I'm going to turn the call over to Ryan.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Thanks, Ellen, and welcome, everyone, to today's call. My opening comments will be brief. I'll summarize our 1Q results, then address some ConocoPhillips-specific issues we're hearing from the market, which I'll take head-on. First, our one-quarter results shown on Slide 4. The punchline of this slide is essentially the same as the many quarterly slides before. We're successfully executing our plan. There's a lot of supplemental information in today's disclosures, so I won't cover every dot point on this slide, but I'll pick up some of the highlights across the page.

Earnings and cash flow were strong. We generated significant free cash flow to organically funded shareholder distributions of 37% of our CFO in excess of our target. We met or exceeded operational targets. Underlying production grew year-on-year by 5% on an absolute basis and 13% on a per debt-adjusted share basis. The business is running safely and efficiently. We received the ICSID ruling ordering Venezuela to pay $8.7 billion for unlawful expropriation of our assets. We recently announced completion or agreements of noncore asset sales, all part of building the best portfolio for winning our through-cycle return strategy.

We've summarized our first quarter results at the bottom of these columns: expand cash flows, maintain discipline, improve returns. That's the mantra.

Our cash flow reference point has improved at $65 WTI and current differentials, our cash flow reference point is now about $13 billion, that's more than $2 billion improvement over the past two years driven by our Brent-weighted pricing, our ongoing portfolio work and our focus on margin expansion. While prices have been stronger lately, our guidance items are unchanged. As we said last quarter, we expect capital to be front-end loaded this year. Production is expected to be back-end loaded as the turner unconventionals ramp and we come out of our usual 2Q and 3Q turnarounds.

As for improving return on capital employed, our ROCE ticked up on a rolling four-quarter basis. Underneath all the current noise and energy, we believe the way our industry will bring investors back to our sector is to perform quarter in and quarter out, no excuses. Put up the numbers, improve returns, grow cash flows and distribute a significant portion to shareholders. That's our job one, period.

Now to Slide 5. Our value proposition on a page. Our priorities showed on the left haven't changed since we rolled them out in 2016, and we have no intention of changing them now. On the right side of the slide I'll address just some topical issues, starting with our future capital trajectory. As you know, we're hosting an Analyst and Investor Meeting in November. At a high level, here's what you can expect to see. First of all, we intend to show a decade-long plan that extends the successful new-order plan that we rolled out a few years ago. That plan worked and we're going to show you how it'll continue to work for many years.

Second are annual capital expenditures averaging under $7 billion. The plan can achieve steady organic growth on an absolute and a per-share basis with the captured opportunities within the portfolio today. Why can we maintain this capital discipline? Because we have numerous options at our discretion for exercising flexibility. For example, how we choose to phase projects where we have control on timing. And whether or not we choose to reduce ownership in projects where we currently hold a high working interest. These are details we expect to lay out in November. But our plan isn't about capital discipline for capital discipline's sake. It's about generating free cash flow, deploying that free cash flow in a prudent shareholder-friendly manner and growing returns.

In November, you'll see a plan that can generate free cash flow in less than $40 per barrel WTI throughout the plan period. And in a reference price of $50 per barrel, the plan continues to return at least 30% of our cash from operations to our shareholders.

For almost three years, we've been on a mission to bring investors back to this sector, but not just for a quarter or two. We want to bring investors back to energy for many years to come. Our strategy gives investors a clear path to compelling value creation. It's not anchored to a production target and it does not bet on higher prices.

So that frames up what you'll see from us in November. We'll maintain capital discipline, we'll fund the best combination of projects to maximize shareholder value and honor our priorities well into the next decade.

Now in the meantime, 2019 continues to be volatile, an environment in which ConocoPhillips thrives. That's what we're describing with the two lower boxes on this slide. We have significant leverage to higher prices. Our production base is 75% Brent-weighted. Our operations are primarily in tax and royalty regimes and we're unhedged. We don't chase higher prices with pro-cyclical investments and we'll build cash for inevitable price downturns. And in that part of the cycle, we offer distinctive resilience. We generate free cash flow at less than $40 a barrel WTI. Our balance sheet gives us flexibility to maintain consistent programs and we have a 16-billion-barrel resource base that averages less than $30 a barrel cost of supply. Just a few months ago, I'll remind you, WTI dipped into the low $40s per barrel and we didn't miss a beat. If you just look at our performance over the past few quarters, you can see our resilience and our torque in action.

So in case people have forgotten how well we work across prices, that's a reminder. We're actually built for price cycles.

Finally, it's not on the slide, but I'm going to take another issue head-on, and that's M&A. As you've heard from me many times, we think of M&A in three buckets. First, incremental fence-line transactions that add value such as additional working interest, royalty interest or coring up our acreage. We're going to do these things, under the radar day in day out. The second bucket consists of high-return bolt-on assets or acreage deals and they could be larger in size. They also make good sense. We're always on the lookout for these kinds of opportunities and we executed a few last year. But I'm sure the bucket people seem focused on now is the third one, bigger corporate transactions that require premiums.

Of course, we pay attention to what's out there. However, we've always said the bar is very high for these large transactions and that's still the case. We're focused on returns and we won't do transactions that are not in our shareholders' best interest.

So let me summarize my comments. The business is running well, execution is strong. No one needs to be worried about capital sticker shock in November. You can expect to see a decade-long plan that honors the successful value proposition that we believe is ideally suited for our sector. Our strategy works across a range of prices and through cycles, with strong upside to higher prices and distinctive resilience to lower prices. We have the short-term covered and we have the long-term covered. And the bar is high for corporate transactions.

That's all I have to say today and we'll be quick, and now I'll turn it over to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Phil Gresh of JPMorgan.

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

Thanks for all that color, Ryan, that was very helpful. A couple of follow-up questions here. One is just on the capital budget that you're talking about of $7 billion or less for the existing portfolio, you gave a little bit of color there, but if you could elaborate does the existing portfolio include Willow and Barossa and other things that are likely on the docket in the next, call it, three to five years? And if you could help us think through where the efficiencies come from to be able to maintain a sub-$7 billion number?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes, Phil, this is Matt here. Yes, the budget and the long-range plan reflects our plans for all of the assets, including the ones that you mentioned. We have the flexibility to fund those projects in multiple different ways, frankly, but we have -- we can certainly do all of that within the average of less than $7 billion and we can do that comfortably. And we're going to roll out more detail in November.

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

Okay. Great. And then, second question. As we look ahead later this year and into next year, you [factor in](corrected by the company after the call) the proceeds from the North Sea, factor in this Cenovus shares that you own, the net debt position is getting very close to zero, I think, if you just use the strip looking out. So I think the target has been $15 billion gross debt and certainly not this much cash. So maybe you could help us think through uses of cash moving forward, what it would take to increase the buyback considering the comments that are just made on M&A?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Yes, Phil, this is Don. I think it's probably useful to remind that currently we're sitting at about $6.5 billion of cash. And as you say, depending on how prices go, that can move up just organically as we go through the year. Certainly we're expecting closing the U.K. transaction, so cash balances could start to approach pretty high levels. We kind of think of somewhere in the 10% of total assets. And you need to be pretty clear about your strategic rationale, and I think that we have been. We view the balance sheet in general and cash balances in particular as strategic assets and the source of competitive advantage. In our strategy, we've been clear about, is to be competitive with the best capital returners in our industry and importantly, to be able to continue funding buybacks and maintaining our development programs, while prices are falling. So we're okay carrying more cash than the average E&P company. I don't think that we'll be comfortable taking net debt down to zero. So if you want to put a limit, it's going to be above that. But we also think we'll be in position to be able to be opportunistic, particularly, when prices are low and competition is weak, is something that we also place strategic value on. But I think if our cash continues to build as we approach the end of the year, of course, we've got our Analyst Day set for November and you'll see more definition around our capital allocation thoughts at that time.

Operator

Our next question is from Doug Terreson of Evercore ISI.

Doug Terreson - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Energy Research*

Ryan, during the past year or so, every major E&P peer has changed direction and has emphasized value creation and balance between spending and distributions, which is really the model that ConocoPhillips has been espousing with success since 2016. So my question is, with the value-based model becoming more the industry norm, number one, does this affect your ability to differentiate yourself in the future, that is, if you think some E&P peers can execute your model? And number two, on strategic activity, what are the financial metrics that you all consider to be most important and over what period of time would you need to see value creation before moving forward, if you did find something that was attractive?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Thanks, Doug. I think the design proposition is kind of easy to say, but it's difficult to do. And I think why we're able to do it and I think differentiate ourselves from our competitors, it starts with the portfolio and the low cost of supply sitting in the portfolio, the base decline that the portfolio has, the type of assets we have when you consider our long-dated, no-decline, low-sustaining capital kind of assets like LNG and oil sands combined with what we believe is an unmatched unconventional portfolio across all the basins in the Lower 48, so you put all that together, and we're running it to generate free cash flow. And we've gotten the cost structure of the company down to where we can free cash flow below $40 a barrel. And I don't think other companies can do that. Either they have to grow into that or they have to have much higher prices to go do that. So -- and we just don't believe these kinds of prices are going to persist. We think there's going to be volatility, which is why we carry cash on the balance sheet and remind people in December it was $42 a barrel WTI at the low point.

So we just think the way we've set up the company, the portfolio, the way we're managing the company, the way we're allocating capital and the way we are focused on returns in the business, full-cycle returns, not just forward-looking returns, but full-cycle returns to our kind of cost of supply mantra, that's why it's going to be difficult for people to be able to do what we're doing at the kind of price decks that we've demonstrated that we can do that at.

To your second question, Doug, on strategic activities, we said -- we tried to get that on the larger corporate transactions. It's about cost of supply and it's about opportunities that can come in the portfolio at a competitive cost to supply, and that's a pretty big hurdle with the kinds of premiums that are being paid for assets today. And we don't really have a time frame that we look at --- the short, medium and long term -- we've got to convince ourselves that it's in the best interest of the shareholder long term, but it's accretive in the short term and it's competitive for capital on an all-in full-cycle basis relative to our $16 billion barrel portfolio that's captured and in hand right today. So it remains a really, really high hurdle. Anybody can lever up their balance sheet and do a free cash flow yield-positive kind of play today, that's what you need to do. Full-cycle returns are tough.

Operator

Our next question is from Roger Read of Wells Fargo.

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

Just, Ryan, maybe just to come at the CapEx question, kind of another way of thinking about it. So first off, should we think about that, including all forms of spending, all forms of M&A, including the three you listed there? And is another component of that question, would asset sales be part of funding CapEx, in other words, CapEx in a given year could well exceed $7 billion if it's being funded by an asset sale of kind of like the U.K. deal here, where you've got $2.3 billion? So just kind of want to understand maybe the bumpers on the $7 billion or below $7 billion average?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, let me -- I'll let Matt chime in there, Roger, but the bucket-one CapEx -- the knife-fighting CapEx that we give the guys, we just do that year in and year out. That's just a part of our normal operating business. But I can let Matt probably elaborate on all these proceeds.

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes, Roger, I would say that we haven't included any assumptions about buying any significant asset transactions in the long-range plan. So, if we were to do that, that would be additive to the $7 billion. So really what we've done is designed the plan around the existing portfolio and so we're not assuming any additional transactions when we do that. In terms of, would we fund our capital through dispositions? We don't think of it quite that way. We see the $7 billion or below-$7 billion average as being funded out of cash flow. But maybe we do some additional dispositions; we may over the coming years, but that's not how we think about funding. We want to fund it from cash flow.

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

Okay. And then, Ryan, maybe another question along the lines of the CapEx. You have been obviously pretty solid and pretty consistent on the asset disposition side. As we think about the $7 billion in spending, I presume part of this is transitioning into the new projects that I think Phil listed earlier, but also it's -- as you hive off other things, it's not that production has to grow at some exceptional rate and I assume that's one of the reasons you can keep CapEx more modest. It's what metric should we think about? Is it the debt-adjusted cash flow? Is it just per-unit cash margin that you're able to grow? Maybe just a little bit of a framework of how to think about a company that CapEx is relatively stable, but ultimately, you're trying to grow returns and grow cash flow here.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. I think you're right. Well, you're right, Roger, we're not -- as I said in my comments, we're not chasing a production target or something like that. We're chasing returns and we look at the metrics, debt-adjusted cash flow per share is we think the right way to be thinking about the business. We're not -- as Matt said, we will do dispositions when they make sense. When they aren't competitive in the portfolio for future investments, or like in the U.K. example, we have a large abandonment liability and asset retirement obligation that we're dealing with, with that particular asset, we'll do those things if they make sense and smart. But like Matt said, the plan that we'll show you in November in great detail will be organically growing the company with the portfolio that we have today. But you should think about, we will make adjustments to the portfolio over time as things need to leave the portfolio and things need to come into the portfolio.

Operator

Our next question is from Neil Mehta of Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Congrats on a good quarter here. I want to pivot over to the asset level and want to start on Qatar. We're still awaiting the RFP on North Field. Just the latest there in terms of timing and then temperature from you guys in terms of interest in that asset.

Matt Fox - *ConocoPhillips - Executive VP & COO*

Neil, it's Matt. Yes, it's moving a little bit slower than we originally anticipated. We now expect to receive their RFP around the middle of the year. And we think that's going to include the request for proposals to -- as to where we would place LNG volumes and we suspect some elements of the fiscal regime. We expect Qatar is going to sign on participants in the fourth quarter, and the plan is to take FID before the end of the year. And we think we're well- positioned to compete. But in the meanwhile, we've (inaudible) in Qatargas and Qatar Petroleum, the project,s progressing through FID. They're also progressing their offshore, onshore and shipping construction contracts and they're on track for first gas in 2024. So if we're offered the opportunity to participate and we think it's a good use of the shareholders' capital, we'll be very happy to do that.

Neil Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Great. Plus a follow-up question in the Lower 48. Can you talk a little bit about the cadence of growth in 2019? It looks a little bit more back-half loaded. Just want to better understand the drivers there. And just how you think about the incremental dollar, whether to allocate it to the Bakken and Eagle Ford versus the Permian? You guys have been smart to wait on the Permian, just given some of the differential issues, but as that narrows, does it make it a more compelling place to put the dollar?

Dominic Macklon - *ConocoPhillips - President of Lower 48*

Thanks, Neil. It's Dominic here. Yes, so we said in our last call, just to talk to the Big 3 growth trajectory, we said in our last call, really after outperforming in 2018 with 37% growth, the trajectory of the Big Three would be relatively flat for the first half of this year and then growth ramping in the second half. So we're still on that track. First-quarter production was actually very much in line with our expectations. And as we've explained previously, the primary driver for that lumpiness in the growth profile is the timing of multi-well pads coming online, and how those sync up across the different assets. And actually, Q1 is a good example of that. So over half of our new wells were brought online towards the end of the quarter during March. And in fact, we had record rates in the last week of March, the Eagle Ford and Delaware. So we're coming into Q2 pretty strong. We did have some minor production impact in Q1 from extended winter weather in Bakken and some gas injection phases at our enhanced oil recovery pilots at Eagle Ford. But the important points, Q1 was very much in line with our expectations and we do remain confident by execution of our plan and delivering our Big Three production guidance of 350,000 and full-year growth of 19%.

On your second question, we're always looking at where the next best dollar would be. Our teams fight pretty hard over that. But the fact is, we've got good opportunities in the Bakken, Eagle Ford and Delaware. And we'll talk more about our long-term view on that in November.

Operator

Our next question is from Douglas Leggate of Bank of America.

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

I wonder if I could start with a kind of a housekeeping question in the U.K., and I don't know if Don will be prepared to give these numbers. But if the sale is backdated 1/1/2018, I'm just wondering if you can give us an idea what you expect the net proceeds to be -- I realize the timing's still a little bit in flux, so maybe a better way to ask about is what the associated cash flow was in 2018 and year-to-date?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Yes, Doug, I think I can help you on that. Maybe first with a bit of an explanation for why the 1/18 effective date, cause it can appear a little bit unusual. But just to remind you, we began marketing those assets during 2018 and so the beginning of the year was selected as the valuation point. And then as the marketing extended into 2019, it was the various parties -- counterparties that we were dealing with -- it was their preference that we maintain the 1/18 effective date mainly for financing reasons because lenders typically require audits and financial statements in the periods immediately preceding the effective date and those would not have been available. And we moved the date to 1/19 until midyear and we didn't want to hold up the transaction for that reason.

So as you would guess, the U.K. has been net-cash-flow-positive since that 1/18 date. And so there will be a downward price adjustment at closing. Now I can give you an estimate and it's kind of based on end-of-year closing and kind of current prices. So if the timing changes or pricing, cash flows from this point forward changed, and obviously those estimates would change. But we think that adjustment will be negative around $600 million. So taking that off the headline price, we would be -- expect cash proceeds at closing at the end of the year under current conditions, I've got enough disclaimers in there, would be something around $2.1 billion to $2.2 billion.

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

That's very helpful, Don. I wasn't sure if you'd give me an answer to that. My second -- my follow-up question is really, Ryan, I hate to do this, but it's kind of more of philosophical question. And I'll see if I can rumble through this without tripping myself up, but you've obviously set a very, very high bar for the industry with a very transparent strategy and a very transparent downside, I guess, that's a very transparent valuation, which is the DCF of your free cash flow, if you want to put it that way in simple terms. Buying back your shares doesn't change that valuation, reinvest in capital value projects whatever, which -- we all know you can keep your capital discipline, I guess, but buying back stock is not really a route to enhancing your valuation, I guess, what I'm saying. So when I think about the ConocoPhillips investment case today, I think about management as taking a great set of assets and high-graded that and basically transformed the business model. Why is putting good assets in the hands of good managements with a balance sheet as strong as yours, not a catalyst for you to be more aggressive and animated in this part of the cycle?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, yes, I think it's a good construct, Doug. I think we have transformed the company, and I think we've put out a value proposition that is -- we think is the right one for a cyclical, mature market like this that gives money back to the shareholders and prudently invests your money to improve your free cash flow or the discounted value of the free cash flow that you're generating. We think that's the right model to be taken. What does that mean for M&A and consolidation and putting more assets under our management? Under this kind of value proposition, I think there's something to be said about that and we look at them. We look at everything that's going on. It's tough to compete inside the portfolio. When you put a premium on that we see that we've been doing -- that the market's been putting on these assets that adds $10 to $15 cost of supply to the all-in returns. And if you're focused on all-in returns and you're sitting with a portfolio, it's got 30 years of life and there's three ConocoPhillips sitting inside our resource base. It's just a very high bar to jump over. Maybe there will be a deal come along. Maybe something will make sense down the road. We've got the balance sheet, we've got the capability, we've got the ability to go do something. But we're not going to do something that's not in the best interest of our shareholders and consistent with the value proposition that we think is the right one for this business.

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

Ryan, I know I've taken my time here, but can I just add a comment to this because what I'm really getting at is you're throwing off an enormous amount of free cash now. Is there a risk if you don't do something that someone will see your cash flow as attractive?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Well, I mean...

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

In other words, you become an acquisition target.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

The best defense is a good offense, but we're executing our plan and we think it's the right plan to go forward. I can't comment on what others might be thinking of our plan.

Operator

Our next question is from Blake Fernandez of Simmons Energy.

Blake Fernandez - *Simmons Energy | A Division of Piper Jaffray - MD & Sr. Research Analyst of Integrated Oils & Refiners*

I understand we're probably going to get a lot more detail at the Analyst Day in November, but just on the CapEx piece, obviously, a decade is a long period of time and a lot can change. Historically, we've seen some inflationary trends move up and down. And I'm just wondering how you're thinking about the inflationary environment? And how that could impact a commitment for such a long period of time?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Blake, this is Matt. So we've built our plan around a base-case pricing deck that's $50 WTI. And we've included the level of escalation that we would expect to be associated with that. And if we see much higher prices then we would expect to see some more escalation, then typically that shows up initially in the Lower 48 and then elsewhere. But the $7 billion and average below that is based on a $50 WTI outlook.

Blake Fernandez - *Simmons Energy | A Division of Piper Jaffray - MD & Sr. Research Analyst of Integrated Oils & Refiners*

Got it, okay. The second piece, Don, this is maybe for you, but just on Venezuela, obviously, we've got a couple of different components now. Can you just give us an update on your thoughts on receiving payments? And how potential regime change could impact that? Just any help on the way to think about, I guess, the payments.

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Hi, Blake. Well, I guess, first of all, probably worth noting that PDVSA continues to fully comply with the settlement agreement that we entered into last year. We received the first-quarter scheduled payment and that was after the latest round of U.S. sanctions had been announced. So they're fully compliant. We also, during the quarter, completed the sale of the crude oil inventories that we had in the Dutch Caribbean, so I think that was between the inventory sales and the scheduled payment. I think we've booked around close to $150 million there. We're in constant communication with PDVSA, they continue to tell us that their intention is to continue with their obligations and so that's our expectation. Regardless of the situation in Venezuela, our expectations are unchanged. Our agreement is with PDVSA. The ICSID award is against the Republic of Venezuela and we expect to collect what is owed to us.

Operator

Our next question is from of Alastair Syme of Citi.

Alastair Syme - *Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research*

Maybe this first question is for Matt. I wonder if you could talk a little bit about the LNG market as you look to place the cargo -- well, place the contracts with Barossa and potentially Qatar. I guess specifically on Barossa, is there a timetable that you have in mind to get the marketing completed? And do you think there's an oil link to the right pricing construct?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Alastair, this is Don. Maybe I'll take the LNG marketing side of the question. I mean as far as Barossa, our intention is to go to FID late this year or maybe early next year. So typically, when we look back over our 50-year history of LNG projects, we would almost always go into these investment decisions with most, if not all of the LNG committed -- fully committed termed-out multiyear contracts -- long-term contracts. The LNG market has changed a lot over recent years and you know at Barossa, we're not constructing an LNG plant, we're back-filling the existing one. So it's really an offshore development project, not the same nature of the typical LNG. So when you think about the nature of that project and the development -- the rapid development of the spot market, which is quite liquid today compared to where it was even a few years ago, we don't feel compelled to have to place all of the LNG under long-term contracts. That's an option that we can choose to do and we are marketing the LNG today on that basis. We'd be happy to do it. But if we don't get the price that we expect, then we're willing to go into the project with -- without all or a majority of the LNG committed in the long term. Right now, the spot market is very soft in Asia, but that's not to be unexpected given the type of year that it is. Maybe Bill would like to -- I'll turn it over to Bill to give you an update on where we are on the project on Barossa.

Bill Bullock - *ConocoPhillips - President of Asia Pacific & Middle East*

Sure, Don, I'd be happy to. Alastair, we're making really good progress on Barossa. As Don mentioned, it's a subsea development tied back into an FPSO with the gas going to the existing DLNG plant. Front engineering and design is progressing very, very well. We're a little over midway through that process and a couple of key points on that. Our offshore project proposal, that's the Australian Regulatory Overarching Environmental approval by NOPSEMA, that's National Offshore Petroleum Safety Environmental Authority, was approved in 2018. So we have our overarching environmental approval and all the major packages are out for the project for tender. So we're on schedule with FEED. We expect, as Don said, to be in a position to take FID by latter part of the year. And Barossa, from a cost of supply perspective, we believe continues to be very well placed with an attractive cost to supply for LNG into Asia and competitive with the market that Don has talked about.

Alastair Syme - *Citigroup Inc, Research Division - MD and Global Head of Oil and Gas Research*

It's my second question. I just wonder if you can elaborate a little bit more on the U.K. asset sale around the issue of abandonment liabilities that was mentioned on the call? Probably just to be clear, if they're going to buy in their entirety, or will there be some residuals that you'll inherit?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Alastair, yes, this is Don again. All of our asset retirement obligations are being transferred to the buyer in full. We're not -- there's no residual that remains with ConocoPhillips. And as far as the quantum there, we have -- on our books, we have $2 billion of ARO liability that will be coming off. And third, let me while we're on the U.K. again, because we might not circle back to it. I did want to speak to one aspect that wasn't addressed in our original release when we notified the market about our pending sale there, and that's the tax efficiency. This is an extremely tax-efficient transaction. We don't expect any U.K. taxes at all.

And on the U.S. side, even though we're going to generate a very large financial gain at closing on this sale, we're also generating a very large U.S. capital loss. And we're going to be able to take that loss and apply it back to the San Juan transaction, for example, which was in 2017 and we're going to be able to offset the capital gain that we had on that transaction. We'll be able to carry forward those tax losses to any future applicable sale that we have for the next five years as well. So what you'll see in the second quarter is that we're going to generate earnings related to these tax benefits of about $200 million.

Operator

Our next question is from Michael Hall of Heikkinen Energy.

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

Congrats on a good quarter. Yes. I just wanted to get a little bit more into the commentary on absolute growth in the 10-year plan. How should we think about that in terms of the components of that? Is that -- how much of that would be volume growth relative to kind of cost improvements that are driving cash flow growth? Just any additional granularity on that would be appreciated.

Matt Fox - *ConocoPhillips - Executive VP & COO*

Michael, this is Matt. Yes. So the plan delivers production and cash flow growth similar to what we've had over the last few years. So the -- but we left that out of the release really because we're not -- these investment decisions are not driven by production growth, they're driven by capital returns and return on capital to shareholders and that isn't changing. But what you should expect to see in November is consistent absolute growth and very healthy growth on cash flow per debt-adjusted share basis.

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

Okay. Understood. Makes sense. Yes. I was just curious on the turnarounds in the second quarter. If you could maybe break those down in terms of how much is off where and how we should think about those coming back over the course of the remaining quarters of the year?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes. I'll take that one as well, Michael. Actually 2019 is quite a big year for turnarounds. We had a big turnaround in Qatar in the first quarter. It's unusual to do them so early in the year in Qatar and now it's about 15,000 barrels a day on the quarter in Qatar alone. We'll get the first large-scale turnaround to the Surmont 2 facility. And first one we've done since Surmont 2 came on production and that started last week. And that will actually be down for about 45 days, so that's a significant amount that will affect the second quarter. We also have triennial turnarounds going on at Ekofisk and Block G in Europe this year. And there's a large-scale turnaround at Prudhoe Bay. So if we put all those together, the turnaround activity this year is actually about 10,000 barrels a day more than it was last year. So that's a big year. So that's enough color on the turnarounds.

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

That's helpful. And would most of all those be back online for third quarter as we think about?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Well, that will be during the second and third quarter. They'll all be back on again by the fourth quarter. And that's one of the reasons, along with what Dominic described, as the trajectory in the Lower 48 production. That's one of the reasons that our production is back-end loaded this year.

Operator

Our next question is from Scott Hanold of RBC.

Scott Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

You all received the distribution this quarter from APLNG. Could you talk about the current prices, what to expect for the rest of the year? And where those distributions coming from the upstream versus, say, the downstream part of the business?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Scott, this is Don. We received in the first quarter, I think, $73 million distribution from APLNG and that's really prior to this year. This quarter, we had been receiving distributions only in the second and fourth quarters. I think now APLNG is most likely in a position to be paying quarterly dividends, but I need to let you know that those -- you should not expect those to be ratable. And the reason for that is we have kind of lumpy income tax payments that happened in the first and third quarters and project financing payments that are also lumpy. So what you'll see are first- and third-quarter distributions that are relatively light and second- and fourth-quarter distributions that are relatively heavy. At current prices, we would expect APLNG distributions for 2019 to range somewhere between $550 million and $600 million.

Scott Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

That's excellent. Great. And my follow-up is on the Permian Basin. With Conoco going to be growing there a little bit more in the back half of the year and presumably over the next few years, could you give us some color on what's your infrastructure situation there is like and what kind of contracts do you have with your oil and gas, in places obviously it's pretty tight, especially in gas right now? And just curious if you signed up for some long-term takeaway agreements also out of the basin for oil?

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Yes, this is Don again. On the oil, currently we're selling all of our oil, conventional, unconventional, right into the local markets there. So we don't really have any significant takeaway capacity. We have participated in some of the open seasons that have -- that took place last year, the projects under construction this year. So as time goes on, probably beginning in the third or fourth quarter this year, we'll begin exporting Permian crude oil to the Gulf. And we have options to expand our capacity rights on these pipelines. So I think our situation will improve over time, that's what we would expect.

On the gas side, it's a little bit different because I've talked about this a little bit before, but we currently produce about 100 million cubic feet a day in the Permian and we have a lot more takeaway capacity than that out of the Permian by virtue of our gas marketing arrangements. We're one of the larger gas marketers in the southwest area from Texas to California and into Mexico. And so we have a lot of firm takeaway -- long-term firm takeaway capacity that allows us to move not only our equity gas but third-party gas outside of the basin. So we're not seeing the same levels of pressure. We're generally -- I'd say, in the first quarter, most of our gas was sold into Arizona and California markets. So we didn't see Waha-type pricing. On the other hand, other side of that on the gas marketing side, we did benefit a good bit from Waha pricing as we were in the market some days with producers paying us as much as $6 or $7 Mcf.

Operator

Our next question is from Muhammed Ghulam of Raymond James.

Muhammed Ghulam - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Just a quick one on my (inaudible). After the sale of the recent U.K. assets, the companies you guys (inaudible) in Norwegian assets, should we look at the U.K. sale as a partial step to full exit from North Sea?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

No.

Muhammed Ghulam OK, that's clear, understood.

Operator

I will now turn the call back over to Ellen DeSanctis, Senior Vice President, Corporate Relations, for closing remarks.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Thank you, Christine, and thank you to all of our participants today. We certainly appreciate your interest in ConocoPhillips. We're available for any additional questions, and have a great rest of the week. Thank you.

14 | Page
