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COP - ConocoPhillips Market Update Conference Call

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OVERVIEW:

COP announced that it is taking several actions in response to recent oil market downturn.



MARCH 18, 2020 / 2:00PM, COP - ConocoPhillips Market Update Conference Call

CORPORATE PARTICIPANTS

Don Walette *ConocoPhillips - Executive VP & CFO*

Ellen DeSanctis *ConocoPhillips - SVP of Corporate Relations*

Matt Fox *ConocoPhillips - Executive VP & COO*

Ryan Lance *ConocoPhillips - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

David Heikkinen *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

Jason Gammel *Jefferies LLC, Research Division - MD & Senior Equity Research Analyst*

Jeanine Wai *Barclays Bank PLC, Research Division - Research Analyst*

Joe Allman *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Josh Silverstein *Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production*

Kalei Akamine *BofA Merrill Lynch, Research Division - Research Analyst*

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

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

Paul Cheng *Scotia Howard Weil, Research Division - Research Analyst*

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

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

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

Emily Chieng *Goldman Sachs & Co.*

PRESENTATION

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Good morning to our listeners. Thanks for joining us today. We're going to take some time to discuss this morning's press release, which describes some actions our company is taking in light of current market conditions. Our speakers today will be Ryan Lance, our Chairman and CEO; Don Walette, our CFO; and Matt Fox, our COO. By the way, just for logistical purposes, they are in different locations today or our team is in different locations today due to our COVID mitigation measures.

For today's call, Ryan will make some short opening comments, and then we're planning just to turn the call over to you for questions. We don't have any slides, but we will post a replay of today's call later in the afternoon.

A couple of other quick notes. This is not a guidance call, so we won't be addressing any specific outlook questions beyond what's in the release. We'll hold that for our upcoming first quarter call. However, of course, we may make some forward-looking statements. Please refer to our SEC filings for a description of the risks and uncertainties that could impact future performance. And then finally, we understand global conference call logistics have been strained lately, given the large work-from-home demand. So, if you do get disconnected, we apologize, but please just dial back in.

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



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Ryan Lance - ConocoPhillips - Chairman & CEO

Great. Thank you, Ellen, and good morning. Earlier today, we announced several actions that ConocoPhillips is taking in response to recent market conditions. The press release we issued was quite straightforward, but we thought it would be helpful to give you some perspective on our thinking behind those actions and to really have a dialogue and answer your questions. I want to first acknowledge that none of us have ever seen what's currently taking place in the energy markets. We know in our minds that this will pass, but it doesn't bring much comfort at the moment. So that's why we want to talk to our stakeholders to let them know how we're addressing the current circumstances.

As you know, we've been preaching volatility and scenario planning for a long time, but even we didn't anticipate the extreme simultaneous supply and demand events the world and our industry are seeing today. In our mind, this is at least a 2-Sigma event. So, the question is, how are we addressing it? It shouldn't surprise you that we're approaching this situation in the methodical, rational way you have come to expect from us. Make no mistake, we're taking this very seriously. We're also applying the lessons we learned from the last time our company faced a significant market shock. Coming out of that downturn, we intentionally restructured our portfolio and set a strategy for our company that would give us an advantage in times like these.

Today, we believe we are in a strong position to take this methodical approach because ConocoPhillips is in a relatively advantaged position compared to most industry. And why is that? Well, first, we ended 2019 with over \$14 billion of liquidity. Second, we have an advantaged portfolio with a diversified, low-cost of supply resource base, low base decline rate and low capital intensity. And third, we have significant flexibility in our capital program and in our buyback program. We can take some time to gather more information, develop scenarios and test our plans against these various scenarios. So, while we have a -- we have significantly more flexibility that we could deploy, we're choosing to exercise only a portion of it until we get more clarity on how and when prices recover. In other words, our longer-term actions will be price- path dependent. Still, we believe it's important to take some short-term actions, and that's what we announced today, and here's what we're doing.

We're reducing our 2020 capital program by approximately 10% or \$700 million. We'll source these reductions from decreases in operated and expected decreases in non-operated development activity in the Lower 48 and deferral of development drilling programs in Alaska. These reductions will impact 2020 production by about 20,000 barrels per day of oil equivalent. In addition to the CapEx reductions, we'll reduce our share repurchases from a run rate of \$750 million per quarter to \$250 million per quarter, starting in the second quarter. While we're cutting back, we're not stopping the program altogether at this stage because we have stated a preference to be able to buy our shares continuously through the cycles.

These capital and buyback reductions represent about \$2.2 billion of planned 2020 cash uses that we will not deploy. And importantly, this \$2.2 billion pullback will have limited impact on the company's productive capacity in the year. And finally, as you would expect, we're looking closely at operating expenses and identifying areas where we can make reductions in light of the current environment. In fact, we're scrubbing all our numbers, and as Ellen said, we'll provide a full guidance update when we report our first quarter earnings on April 30.

So those are the actions we announced today. We are choosing to take an approach that strikes a balance between the obvious urgency of the moment, and uncertainty about how this situation plays out. We believe today's actions are the right actions at the right time for us. We'll run our scenarios, test our plans and determine what future actions we might take, depending on the expected timing and shape of a recovery. As we go through the process, I can assure you, we'll be guided by our principles, our priorities and our commitment to long-term value creation. Certainly, long-term value creation may seem like an abstract concept at the moment for some, but we believe ConocoPhillips continues to be well-positioned to deliver exactly that especially through the cycles.

So, I'll turn it over to Q&A, but before I do that, I did want to take a moment to say thank you for all your support. I know these are tough times. We're probably all working from various locations in response to the coronavirus outbreak. But I really want to thank you all and reiterate that we're all in this together. So, thanks for your support. And operator, I'll turn it over to questions.



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QUESTIONS AND ANSWERS

Operator

[Operator Instruction] And our first question comes from Phil Gresh from JPMorgan.

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

Yes. Ryan, thanks for hosting the call today and taking questions. My first question is, you mentioned that you would have potential additional flexibility from here. This is just a first step in response to the macro environment. So maybe you could touch on how you think about that additional flexibility from here? And in particular, with respect to the changes that you've chosen to make, would you say that the areas that you have not cut the -- basically the international pieces, is that because those businesses are already operating near sustaining capital levels or just maybe you could just walk through how you think about the different assets and what you chose to do?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes. Thank you, Phil. No, we're looking, obviously, across the whole portfolio. As you can imagine, there's quite a little amount of capital really in our Asia Pacific, Middle East regions. So, most of that is kind of maintenance and supporting and sustaining capital that's going there. The flexible capital that we have currently rests in the Lower 48, as you might expect, which is just development drilling activity -- up in Alaska, where we have some development activity. We're looking -- certainly, in Canada, mostly of that is centered around the Montney, which is kind of slowly ramping up capital. So, we're looking at all sources of that. And I'd say the flexibility that we could exercise going forward rests around those kinds of programs. And then we've chosen not to exercise all our flexibility on the buybacks. So we continue to understand that you want to buy some shares even during the down cycle, but that represents some additional flexibility we could exercise if our view of the market stays a lot lower for quite a bit longer time, and we'll exercise both those channels of flexibility as we go forward.

Operator

And our next question comes from Emily Chieng from Goldman Sachs.

Emily Chieng - *Goldman Sachs & Co.*

Maybe just on the Lower 48 production trajectory. In light of the revised capital spend that you guys announced today. How should we be thinking about the shape of the quarterly production path throughout 2020 and maybe into 2021? Just based on today's initial cuts and maybe you can talk about what that looks like if we were to go even lower than that?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, I'll let -- Emily, I'll let Matt take that question.

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes, Emily, with these cuts just now, the trajectory we'd expect for the Lower 48 for the Big 3 would be relatively flat from the first quarter of this year through the end of the year. So, we will see some growth in the first quarter from last year -- last year's average and so flat from this year's first quarter, and that will represent about a 7% increase in average production from the Big 3 compared to last year. Whereas our initial trajectory was more like an 11% increase.



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Operator

And our next question comes from Josh Silverstein from Wolfe Research.

Josh Silverstein - Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production

Back in November, you outlined a 10-year plan that was based on \$50 and had some flexibility that went down to \$40, but generally stayed on track. Now that we're in a \$30, potentially lower environment, just less a month into this, how much does the long-term outlook shift relative to what you provided for us? Or should we already be thinking about kind of a new long-term plan starting to come together?

Ryan Lance - ConocoPhillips - Chairman & CEO

No. I think, if anything, Josh, we probably have greater conviction around our 10-year plan because it really is a philosophy for how to run an E&P business in a volatile market environment. So, it is one that's focused on returns, not necessarily on growth. We think you ought to be investing 70% of your cash to grow and develop your company and returning 30% back to the investor. So, we want to keep a strong balance sheet, which we've done. We want to keep some cash on hand, which we've done to handle the volatility. So generally, in terms of a philosophy for running a business, we're -- we've got more conviction around that relative to the plan that we laid out in November. So, I would say exactly the opposite now. Maybe there's some short-term things that have to change in response to the market environment we find ourselves in, yes, but we believe the demand will come back and the price will equilibrate back to sort of a long-term equilibrium similar to what our reference price was in November. So, we've got more conviction to our plan, and frankly, if more people would do this, we may not find ourselves in this kind of a situation as much as we have today.

Operator

Our next question comes from Bob Brackett from Bernstein.

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

The elephant in the room in November's analyst meeting was the idea of acquisitions, and at the time you laid out the rationale. You ended 2019 with \$8 billion of cash and cash equivalents. Is it too early to think about being sort of on the offensive at the bottom of the cycle? Or where does that fit in your thinking right now?

Ryan Lance - ConocoPhillips - Chairman & CEO

No -- thanks, Bob. No, it's not too early. I think the rationale for consolidation in this business only got stronger with this downturn. It's a way to take fixed cost out of the system that ultimately lowers the cost of supply across the whole industry. So, I think the industrial logic is stronger than ever when you have these kinds of dislocations that we're currently experiencing today. So, we're watching it. We're paying attention. And -- but it's got to fit the financial framework that we laid out, based on our long-term view of mid-cycle pricing, so as long as it fits that financial framework and is additive and accretive to our value proposition, that's what we're looking at, and we're kind of sticking to that framework that we laid out in November.

Operator

Our next question comes from Jeanine Wai from Barclays.



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Jeanine Wai - Barclays Bank PLC, Research Division - Research Analyst

In terms of the new plan and the current environment, can you talk a little bit about what exactly you're solving for? We know that you have a lot of leverage. We know this is kind of your first cut on things, but can you discuss what your financial framework is for the Lower 48? For example, do you have a certain hurdle rate that activity needs to pass right now? And if so, what is that hurdle rate? And what are the returns roughly on -- in the Lower 48 at \$30 oil, say, or maybe \$25 now?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I can let Matt take maybe some of the more details right now. And obviously, we're -- long term, we have a reference price, and we test our programs against that long-term reference price. And right now, it's a cash flow situation that we're in right now, and I don't think everybody recognizes that, and you're trying to manage liquidity as best you possibly can with an outlook for what the shape of this recovery is going to look like. So that's the current mode we're thinking. And maybe I can let Matt weigh in on some of the specifics around the Lower 48.

Matt Fox - ConocoPhillips - Executive VP & COO

Yes. Yes, Jeanine. And the -- in terms of the returns in the Lower 48 at \$30 a barrel. And the -- our average cost of supply in the Lower 48 is below \$30 a barrel. So, the returns are above 10% even in the high 20s. So, if you're looking for sort of economic criterion, of course, now that assumes that for the life of that well, prices are at that level. And we don't really expect that to be the case. We certainly expect that prices will dip down. We're not sure how long that will be for. But we're pretty confident that assets are -- that have a cost of supply in the 20s are still going to deliver returns above the cost of capital.

Operator

Our next question comes from Paul Cheng from Scotiabank.

Paul Cheng - Scotia Howard Weil, Research Division - Research Analyst

Ryan, earlier that you say this is your first reaction and you have more flexibility. So, can you give us some framework that what is the parameter or the timeline you're looking at to see whether you release the remaining of -- or the second wave of your reaction or remaining of your flexibility? We were a little bit surprised that you decide to maintain the buyback even though that you have cut it, given the current market environment. It looked like it could easily be an 18 months or a two years downturn long U. So, wondering that when you're coming up with your current first reaction, what kind of environment or framework that you are based on?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Thanks, Paul. Yes, so we kind of have what you might call a base case for what we think the recovery might look like. And then we have a stress case and we're developing probably four or five different scenarios to try to describe what this recovery in downturn might look like. You're not -- you probably wouldn't be surprised with some of what we're doing in that regard. So, it's everything from Russia and Saudi, get back together quickly and get back to some curtailment agreement all the way to a longer sort of U-shaped recovery and certain various themes in between. I would describe sort of our base case maybe as kind of a mid-30s average price over the course of this year.

Obviously, oil prices in the first quarter were in the 50s, and they're going to bottom -- who knows where they'll bottom, but in the 20s or even lower and maybe some recovery later this year. And if we see a stress case, to your point, that is flatter and longer, then that would signal to us that we may have to think about taking -- using some more of the flexibility that we've described earlier, either through the capital program or through our share buyback program. The move we made today that we talked about today is -- frees up \$2.2 billion of cash flow that we had delegated or designated somewhere else. So that's pretty significant, and we've got, equally as much more we could do if we chose to do that.



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Paul Cheng - Scotia Howard Weil, Research Division - Research Analyst

And that -- I think earlier that people ask about the M&A. When we're looking at the market today, why do you -- I mean, given the stock in general probably dropped that for a lot of the E&P company, that's somewhere between 60% to 80% already. So, if we base on the previous framework and the long-term commodity prices that you guys have, the valuation seems like it had become much better. So, on naphtha, we have changed the long-term commodity price deck, but I don't think you have done so, right?

Ryan Lance - ConocoPhillips - Chairman & CEO

Not at this point in time.

Paul Cheng - Scotia Howard Weil, Research Division - Research Analyst

And so if we're looking at the M&A market, is that really that -- the bid-ask price or that it's the valuation is still not attractive? It seems like today's valuation is better to buy than to drill.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I don't dispute that at all. Right now, at the current valuations of some of the companies, I think the question is, who wants to transact these kinds of distressed prices when people have a view of what it's going to recover to. So, I think that's the dilemma, Paul, right now is the whole market's got to stabilize a little bit, and then you can probably entertain some of those kinds of activities.

Operator

And our next question comes from Kalei Akamine from Bank of America.

Kalei Akamine - BofA Merrill Lynch, Research Division - Research Analyst

This is Kalei on for Doug. I've got two questions, and I apologize if these have already been asked. I dialed in a little bit late. But I wanted some clarity on the sustaining capital number, which I believe was somewhere around \$4 billion. We noticed that production was impacted by 20,000 barrels per day this year, and you guys are spending \$6 billion. So, there is some disconnect there. Wondering if you can help me frame that up?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, I'll let Matt address that, Kalei.

Matt Fox - ConocoPhillips - Executive VP & COO

Yes. So the -- yes, just under \$4 billion is our sustaining capital. The -- so what that refers to is in our 10-year plan, if we wanted to sustain our production at 2019 levels for 10 more years, on average, what capital would that require and it's about \$3.8 billion. That moves around from year-to-year depending on the status of major projects, but that's the average, and that's still the case.

Kalei Akamine - BofA Merrill Lynch, Research Division - Research Analyst

Got it. So how would you characterize the production impact?



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Matt Fox - ConocoPhillips - Executive VP & COO

Sorry. Say that again, Kalei?

Kalei Akamine - BofA Merrill Lynch, Research Division - Research Analyst

So production is falling about 20,000 barrels. How do you connect the two?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, Kalei, that 20,000 barrels a day was part of our growth that we were going to experience. We're taking off some of the growth in 2020 with capital reductions we've we made that's disconnected from a sustaining capital conversation.

Kalei Akamine - BofA Merrill Lynch, Research Division - Research Analyst

Got it. Thanks for the clarification. My second question is just on the buybacks. Why sustain them when this weak oil price could last for quite a while? And I'll leave there.

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I mean, we've chosen to exercise some of our flexibility on buybacks. So, we've taken them down from \$750 million a quarter to \$250 million a quarter. And that's informed by kind of the base case we have with what a recovery might look like. Certainly, if -- to the earlier comments, if this is more of a sustained lower type of recovery, then we would have to look at exercising additional flexibility in that channel as well. But for now, we prefer to buy some shares at this kind of a price because that's informed by a view of the recovery, but we're watching that daily, weekly and monthly right now.

Operator

And our next question comes from David Heikkinen from Heikkinen Energy.

David Heikkinen - Heikkinen Energy Advisors, LLC - Founding Partner and CEO

Really, just thinking about the Alaskan tour and like your business continuity. You bring people from all over the U.S. and you have people traveling and flying up to the North Slope. Like how do you handle and think about business continuity of Alaskan production and operations amidst the coronavirus?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, David, I can -- we're taking that very seriously. We -- I'll let Matt maybe address the specifics around Alaska, but we stood up the crisis management team quite a while ago with their total focus to kind of support this activity around our whole global operations to make sure we're managing it appropriately to keep the continuity of our operations going to date. We've had -- we've been unimpacted by the coronavirus in terms of production, but I can let Matt talk to the specifics we're doing in Alaska to safeguard our workforce and our operations.



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Matt Fox - ConocoPhillips - Executive VP & COO

Yes, David, it's -- yes, it's not just Alaska. Of course, there's places like Norway and China and other places where we have remote work sites and a relatively tight density of people.

So -- and those are cases where we have helicopter flights and in fact, in Alaska, where we operate the flights to the North Slope or Shelf. We can do prechecking with people. For example, we'd take the temperature to see if there's any evidence of fever. We ask the travelers to fill out the questionnaire considering where they've been recently. Have they been in contact with anyone that's had a fever and so on. We have reduced the number of people working in these locations down to the minimum manning level so that we are minimizing exposure offshore or on the North Slope. That allows us to clear more space -- bed space so that if necessary, we can have quarantine available in these locations. And we haven't had any COVID cases on any of these locations yet, but you're absolutely right to ask the question. How are we thinking this through? And how are we preparing for the possibility if that could occur in these highly populated areas and -- or high-density population, and we are very much aware of that and on top of it.

David Heikkinen - Heikkinen Energy Advisors, LLC - Founding Partner and CEO

Good luck, and I hope that you don't have any cases.

Operator

And our next question comes from Phil Gresh from JPMorgan.

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

Yes. Sorry. I just had one quick follow-up. With respect to the activity levels in North America now versus what you were thinking at the end of the year. Matt, maybe you could just give us the new thought around rig counts and in terms of the flexibility that you have. Like how low would you say you'd be able to go? And also, just on the Montney as well?

Matt Fox - ConocoPhillips - Executive VP & COO

Yes. So what we've done in this cut is -- the \$700 million is roughly \$400 million in the Lower 48. And the rationale here was to defer any further production ramp from Q1 just to see how the outlook develops. So, as I answered to an earlier question, we're keeping production flat from Q1's levels.

That \$400 million is made up of -- about half of it is coming from lower frac activity. Looking down from four, but we'll go down from four to three crews in Eagle Ford. And we'll release the crew that we have in the Permian unconventional. About \$50 million is deferral of a third break that we were planning to add in the Delaware later this year. We expect to see about \$100 million reduction in our partner-operated activity. That's predominantly in the Bakken. And we can see about \$50 million of deflation. So that's the \$400 million that we -- that we expect to see in the Lower 48 that brings our growth from 2019 to 2020, down from 11% to 7%.

In Alaska, it's about \$200 million there, reduced drilling in Kuparuk in the western North Slope. Just laying down a couple of rigs there for some time in the Kuparuk and Alpine area. That's going to be about a 2,000 barrel a day impact on production. And the remaining \$100 million is coming sourced elsewhere across the portfolio. The aggregate effect is 20,000 barrels a day.

So that's what's going on specifically within the \$700 million reduction.



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I think Ryan answered the question to some extent on if we were to cut further, where would we look -- I mean, most of the flexibility is in North America and more flexibility exists in the Lower 48 and Alaska and in Canada. But we'll make that call once we -- we're a little bit of time past and get a better sense of how the price is likely to behave, and then we'll make a call for that.

Operator

And our next question comes from Muhammed Ghulam from Raymond James.

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

So given your status as a global player in the oil markets, have you guys seen coronavirus impact demand for your customer specifically? Can you provide any insight into where you've seen the greatest impacts?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

The greatest impacts on -- did you say on customers, Muhammed?

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

Yes. Have you guys been -- have your customers been -- have there been any impact delivering crude or them being able to take the crude, given how much demand has fallen in some regions?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Okay. Thank you. I'll -- Don can handle that. He runs our commercial organization.

Don Wallette - *ConocoPhillips - Executive VP & CFO*

Yes. So far, we haven't seen any impacts on the marketing side. We've got LNG sales into Japan and China, and we haven't had any force majeure notices or request to reduce deliveries yet.

Operator

Our next question comes from Roger Read from Wells Fargo.

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

And I think as you all mentioned at the start of the call, although I've missed most of it in between, we're all working from homes. So, apologies for any noise in the background.

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Roger, can you speak up, please?



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

Can you hear me?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, go ahead.

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

Okay. Sorry about that. Anyway, quick questions for you (inaudible) in the market. I guess, Don, probably the question for you. Any things coming up in terms of just timing of CapEx, timing of cash flows and we should be thinking about unique stress levels for Conoco as you look across your portfolio?

Don Walleto - ConocoPhillips - Executive VP & CFO

Roger, I had a little bit of difficulty understanding your question. Can you try it one more time?

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

Yes. Sorry about that. So, the question is, are there any unique issues of financial requirements or stress across Conoco's portfolio we should be thinking about in the near term?

Don Walleto - ConocoPhillips - Executive VP & CFO

Not that I can think of, Roger. We're sitting on -- at the end of the year, we had \$8.5 billion of cash and a \$6 billion credit facility that we haven't drawn on. I can't think of anything unusual out there that would be sort of a call on that liquidity. We don't have any debt maturities coming up of any significance over the next few years. So, we're really in really good shape to contend with the environment that we find ourselves in.

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

Okay. And then, I guess, I'm sure some of these questions have been asked. I'm a little late to joining here. But Ryan, the question for you strategically, periods of stress also tend to create opportunities. And how are you, from a strategic standpoint, really looking at this and thinking about oil price downturns tend to last somewhere between about six and maybe 15 to 18 months on the longer term. Do we expect you to at least wait and see how this plays out before any major changes are made, both internally and externally?

Ryan Lance - ConocoPhillips - Chairman & CEO

Well, I think as we tried to lay out, Roger, this is kind of a first round of exercising some of the flexibility we have in the company. We're going to continue to watch the markets, to your point, is this six- to eight-month thing. Is this 15- to 24-month kind of thing? We have additional flexibility we can exercise that we described both on the capital side and on the share buyback side that would be roughly equivalent to what flexibility we're exercising today. So we continue to have a lot of flexibility inside the company and thinking about that. And we'll exercise it if we see a price path that indicates stress for a further and a longer period of time.



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Operator

Our next question comes from Jason Gammel from Jefferies.

Jason Gammel - *Jefferies LLC, Research Division - MD & Senior Equity Research Analyst*

I appreciate you doing the call today.

A lot of questions on the buy side of transactions and assets. I wanted to ask more on the sell-side. Do you -- I believe you already completed the Niobrara divestiture. But do you anticipate you're going to have any problems completing the Australia-West divestiture as a result of the downturn? And then further to that, the expectation is that you would potentially be selling down equity in Alaska on the essentially 100% assets. Is that something that you think probably now needs to get pushed out by a fair period of time because of the downturn? Do you just have any thoughts around that Alaska sell-down?

Don Walette - *ConocoPhillips - Executive VP & CFO*

Jason, this is Don. I guess, first on Alaska. Back in November, we talked about our timing on Alaska that we didn't expect that to happen in 2020, and so it's not been part of our plans. We felt like we would probably go-to-market some time very late in 2020 and maybe have a transaction in 2021. So, our view hasn't changed. I think we'll go through the summer and the fall and see how the markets are and how we feel about taking it to market in 2021. But that's been our plan all along.

And on Australia-West, we continue to -- we and both the buyer continue to progress to closing there. And we believe we're pretty close to satisfying the last few remaining conditions present there. So, I would say the -- we had said that we would close -- expected to close by the end of the first quarter. We've only got a few weeks left in the first quarter. And I would say that clearly, the pace has not been as we would expect, probably mostly due to some of the travel restrictions. We've got a number of partners involved here that come from multiple countries. We've got multiple jurisdictions involved. And so the hindrance around traveling right now has slowed the pace somewhat. But we're still optimistic that we'll will close before too long.

Jason Gammel - *Jefferies LLC, Research Division - MD & Senior Equity Research Analyst*

I appreciate that. And then just maybe as a quick follow-up, Don, you pointed out in that presentation that you made in November that your operating cash requirements were about \$1 billion. So kind of looking at where the balance was at the end of the year and the changes that you made to plan here. The flexibility would seem to be pretty significant that you currently have. Can you just kind of confirm that \$1 billion of operating cash and \$2 billion to \$3 billion of reserve cash is still a good number given the price downturn?

Don Walette - *ConocoPhillips - Executive VP & CFO*

Yes, I think those are -- I mean, not to put too fine a point on it, but our operating cash is actually somewhat less than \$1 billion, reserve cash still running \$2 billion to \$3 billion. So, I think those are good numbers.

Operator

Our next question comes from Emily Chieng from Goldman Sachs.



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Emily Chieng - *Goldman Sachs & Co.*

I just wanted to talk a little bit about APLNG distribution. Can you perhaps remind us how we should be thinking about these in the current oil price environment that we're seeing? Two, is there any sort of capital injection required for the project at current crude prices? And then maybe when can we start to see this distribution recognize at what sort of all price levels?

Don Wallete - *ConocoPhillips - Executive VP & CFO*

Well, first of all, we're not expecting to be required to make cash infusions into APLNG this year even under the current price environment. And as far as distribution levels, we'll give you an update on that and some guidance at the first quarter call at the end of April.

Operator

Our next question comes from Joe Allman from Baird Equity Research.

Joe Allman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

two-part question. One is, is first quarter production intact versus prior expectations? And so therefore, the reduction you're talking about for full year '20 is mainly second quarter, third quarter, fourth quarter, mostly the second half. And then the second part is for 2021 production, are the decisions that you're making today more impactful to 2021 production, all things -- all else being equal versus 2020 production?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Yes, I'll let Matt describe that to you, Joe.

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes. We -- the action that we're taking, Joe, on the capital program, shouldn't have any significant effect on first quarter production. The -- in terms of 2021 production, the -- if we were to go back in 2021 to the same capital level as we had assumed before the downturn, then the 20,000 barrels a day of reduction that we see this year would be close to about 30,000 barrels a day next year. But just to clarify because I know that that some people may be confused. That's just a reduction in the growth. There will be going X growth. But 2021 production will be affected by about 30,000 barrels a day by the cutback that we have in capital in 2020.

Joe Allman - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And again, just a follow-up, that assumes that you'd go back to the prior spending that you planned before this downturn?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Correct.

Operator

And our next question comes from Michael Hall from Heikkinen Energy.



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

Appreciate the time. I just kind of wanted to follow-up a little bit on the CapEx reductions and the cost side of the equation. Are you guys contemplating any service cost reductions in the capital cost productions that you outlined today? And then on the operating cost side of things, do you expect any movement there that would impact the previously provided sensitivities to cash flow that you guys have outlined?

Ryan Lance - *ConocoPhillips - Chairman & CEO*

Go ahead, Matt. Ellen, did we lose, Matt?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Sorry. Sorry, Ryan, I forgot to come off mute. Yes, on the deflation front, we should expect to see some deflation on the -- as said earlier on the Lower 48 of this \$400 million that we're expecting. We're expecting about \$50 million of that to be sourced from deflation. And we could see more than that, but that's our current expectation as is baked into the \$400 million. The -- in terms of the operating cost, we should expect to see some operating cost reductions, I mean, a minimum of lower energy costs and lower transportation costs, and there should be operating cost deflation across the portfolio to some extent. So we'd expect to see some OpEx savings, but we haven't quantified those yet. We'll get a better sense of that as we go through the year.

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

Okay. So, for now you're using the cash flow sensitivities you guys have previously provided. Is it still reasonable?

Matt Fox - *ConocoPhillips - Executive VP & COO*

Yes, I would say so, yes.

Ellen DeSanctis - *ConocoPhillips - SVP of Corporate Relations*

Jenny, this is Ellen. I'm going to interrupt here and suggest that we wrap this up. We appreciate everybody's time and interest this morning and look forward to staying in touch with you as this plays out. Thank you, everybody.

Operator

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

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