

Supply Chain Management Sustainability:

Addressing Current Market Challenges

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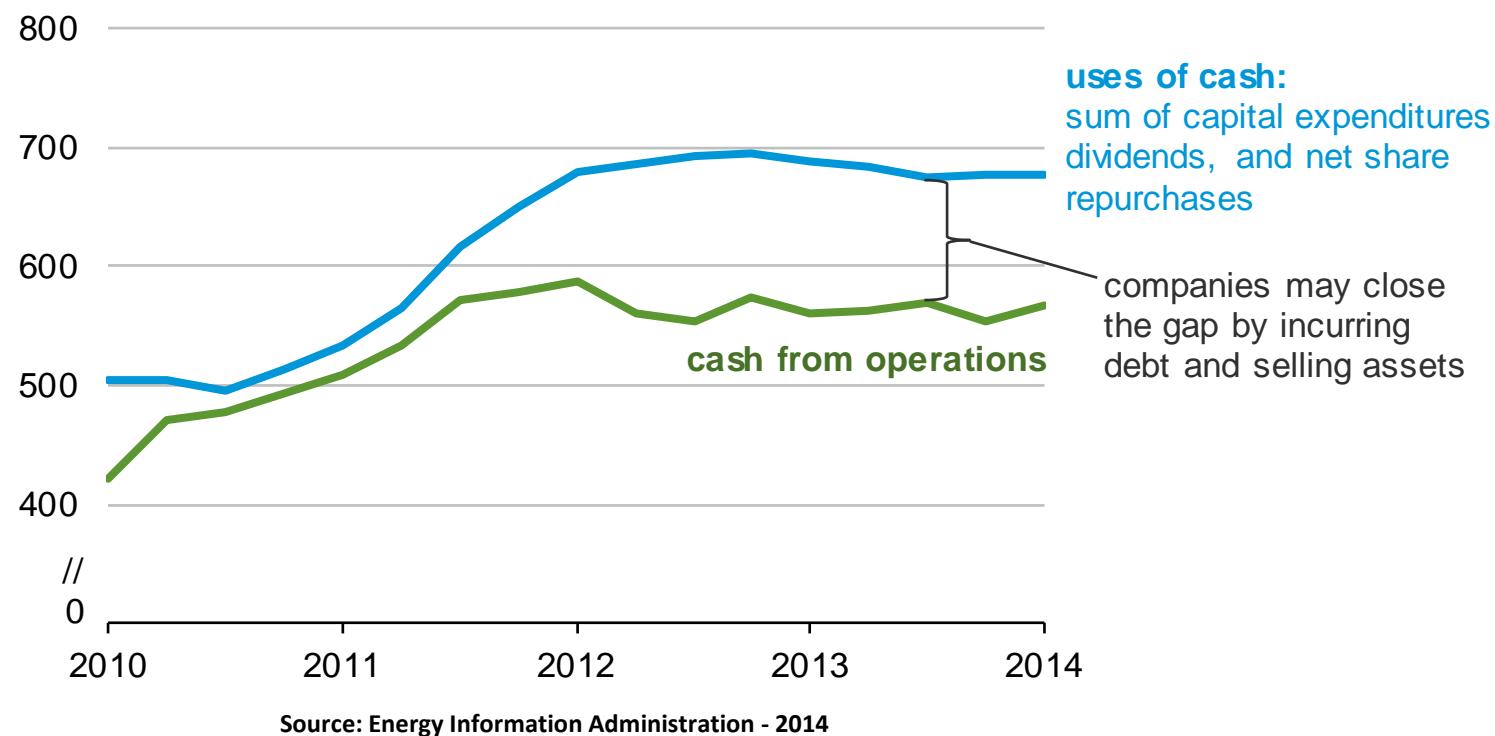
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Key Messages

- For the last few years, higher costs have been impacting returns
 - These impacts are exacerbated in the current market environment
- Industry is recalibrating to a “value over volume” mindset
- Owners and suppliers, together, are facing challenges to reduce supply chain costs
 - Cost reduction approach should consider “one size does not fit all”
- Real-time market intelligence and a data-driven approach to cost management is critical
- ConocoPhillips is leveraging its supplier relationships to capture deflation and efficiency opportunities whenever possible

Our Industry has an Issue

Major energy companies' cash from operations and uses of cash
billion 2014 dollars, annualized values from quarterly reports

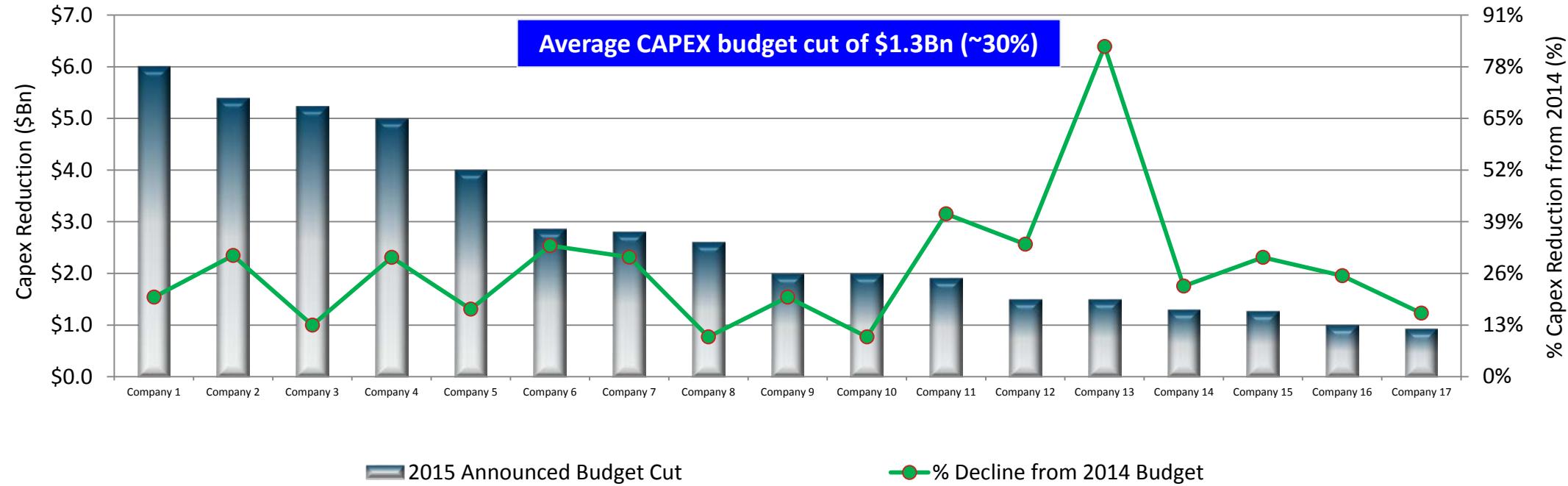


- **Contributing Factors:**

- Reduced production volume per dollar invested
- Insufficient supplier collaboration
- Lack of standardization
- Increasing labor costs – Productivity under pressure – grown too quickly?
- Favorable high-yield market enabled greater use of debt
- Poor execution on megaprojects

Debt among upstream firms has been rising as lower oil prices and high costs pressure margins.

Industrywide Capex Reduction in 2015



- Over 40 firms have announced capital reduction totaling ~\$60 Bn in 2015
 - Significant cutbacks among North American shale producers, especially independents and Canadian oil sands operators
- Deferral of exploration and megaproject FIDs have started among majors

Industry Levers to Address Cash Flow

- Capex reduction/deferral
- Cost reduction
- Waste elimination
- Productivity and production improvements
- Reduce or eliminate share buybacks
- Asset sales
- Raise debt levels
- Dividend reduction

Sustainable Cost Reductions Program

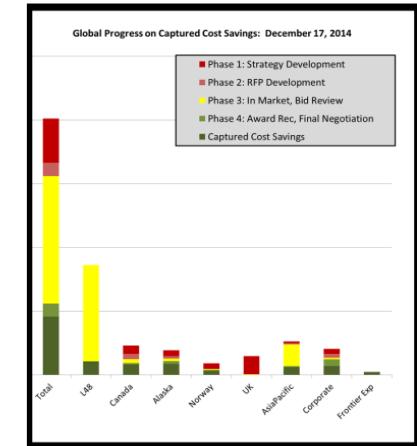
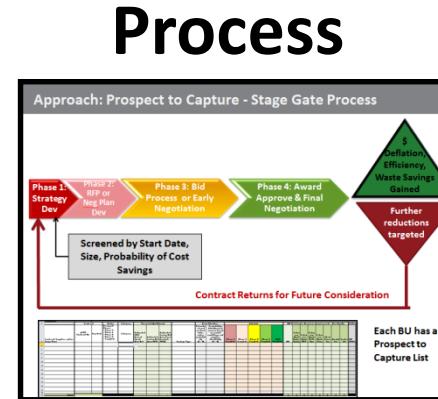
- **Goal:**

- Deliver savings from marketplace deflations while maintaining our SPIRIT values and strong supplier relationships

- **Approach:**

- Lead by the business
- Coordinated by Supply Chain
- Collaborative approach with our suppliers
- Prospects are prioritized by category, supplier and savings potential
- Opportunities leveraged across the business
- Value continually assessed against market intelligence

Performance Metrics



Market Intel

BI-MONTHLY MARKET UPDATE

Last Update: Jan 12th, 2015

This report provides key indicators of the economic strength of the Upstream markets in areas of importance to ConocoPhillips.

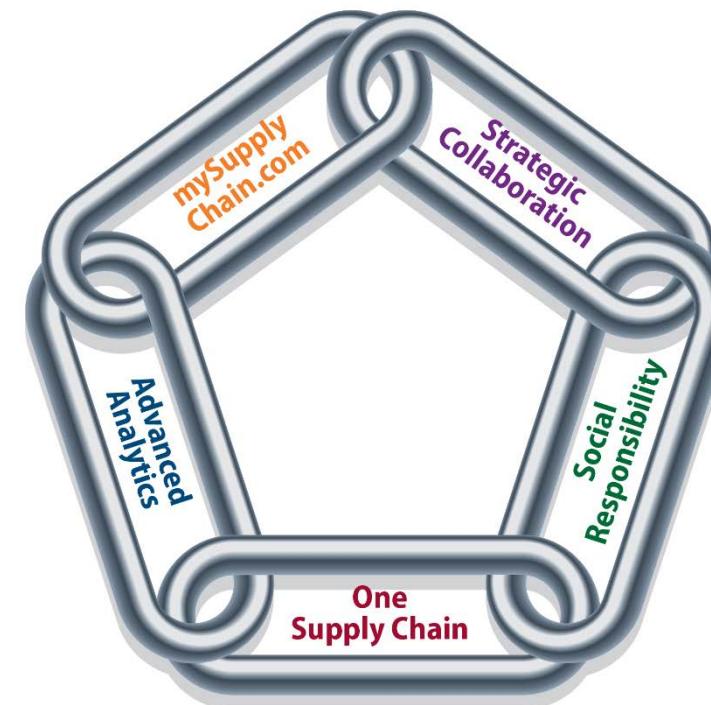
	Market Indicators												Annual Change				
	Positive Movement Effectively Stable (+/- < 0.5%)						Negative Movement Data Not Yet Reported			2014	2013	2014	2013-14				
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Movement	Avg.	Avg.	Δ	
OIL AND GAS PRICES																	
WTI (\$/bbl)	\$95	\$101	\$101	\$102	\$102	\$106	\$104	\$97	\$93	\$84	\$77	\$60		\$98	\$93	-5%	
Brent (\$/bbl)	\$108	\$109	\$107	\$108	\$110	\$112	\$107	\$102	\$97	\$87	\$80	\$63		\$109	\$99	-9%	
Canadian Heavy Crude Hardisty (\$/bbl)	\$66	\$82	\$80	\$79	\$83	\$87	\$83	\$74	\$76	\$71	\$68	\$44		\$77	\$74	-3%	
Henry Hub (\$/MMBtu)	\$4.7	\$6.0	\$4.9	\$4.7	\$4.6	\$4.6	\$4.1	\$3.9	\$3.9	\$3.8	\$4.1	\$3.5		\$3.7	\$4.4	18%	
RIG COUNT, WELL COUNT AND PERMITS																	
US Oil and Gas Rig Count	1,769	1,769	1,803	1,835	1,859	1,861	1,876	1,904	1,930	1,925	1,925	1,882		1,761	1,862	6%	
Oil	1,403	1,424	1,466	1,515	1,530	1,545	1,560	1,578	1,592	1,593	1,573	1,539		1,373	1,527	11%	
Gas	362	341	338	316	325	314	314	324	336	331	351	342		388	332	-13%	
US Horizontal Rig Count	1,164	1,181	1,208	1,229	1,246	1,253	1,281	1,319	1,341	1,351	1,369	1,360		1,102	1,275	16%	
UPSTREAM OIL & GAS INDUSTRY INDICES																	
L-48 D&C Cost				1.05			1.06			1.07			N/A		1.07	1.06	-1%
L-48 Stimulation Cost				1.00			1.00			1.01			N/A		1.04	1.00	-4%
Upstream Operating Cost				199			202			201			N/A		196	201	2%

Our Supply Chain Vision

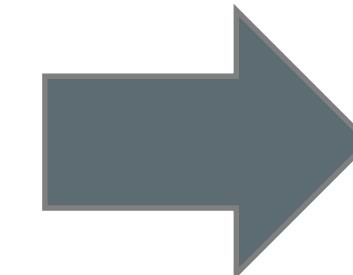
ConocoPhillips Strategic Priorities

- Smart Growth
- Superior Return
- SPIRIT Values

Vision Deployment



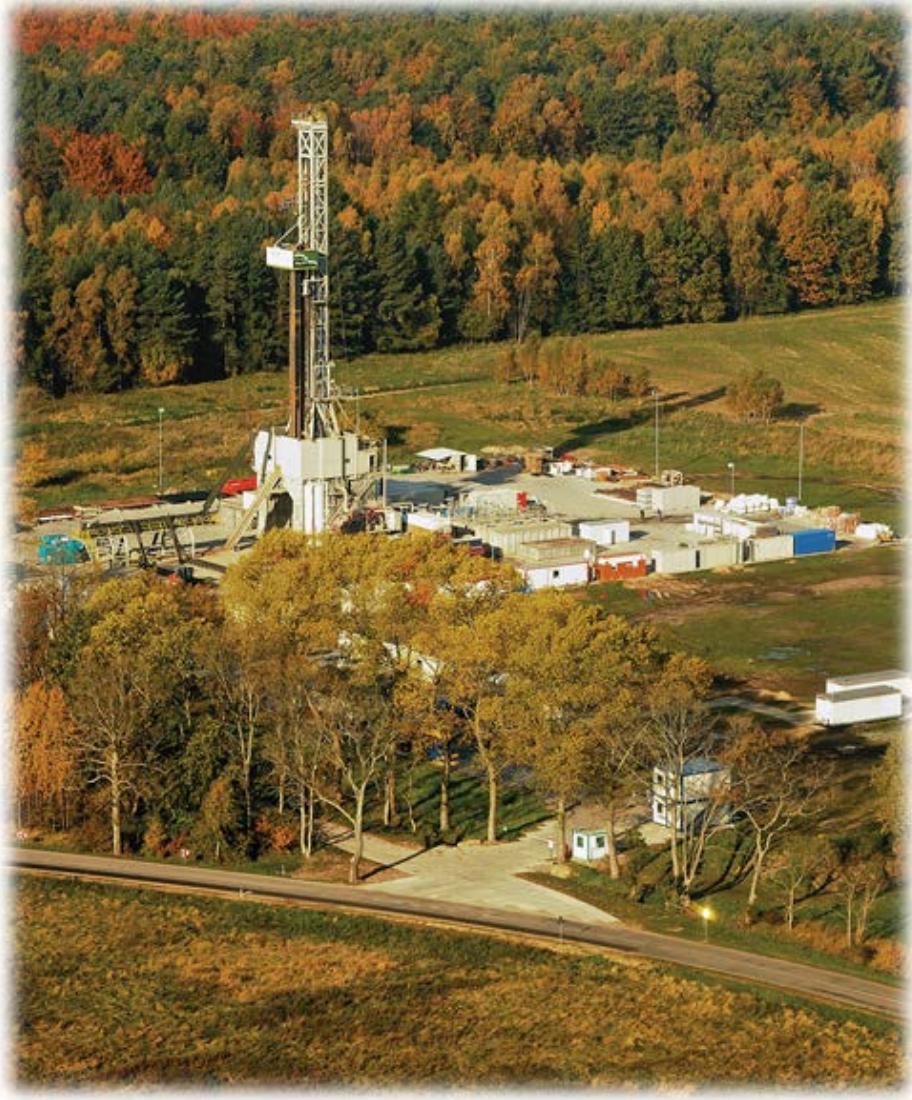
World-class Delivery



\$ Well Spent

Commercial Innovation  Value Delivered

Suppliers Who Manage Sustainability Are Key For Smart Growth



shared **focus and values** mitigate
risk and enhance community acceptance

bringing solutions to sustainably
develop resources supports growth

quality and consistency throughout
the supply chain
is key