

# Supply Chain Management Sustainability:

## Addressing Current Market Challenges

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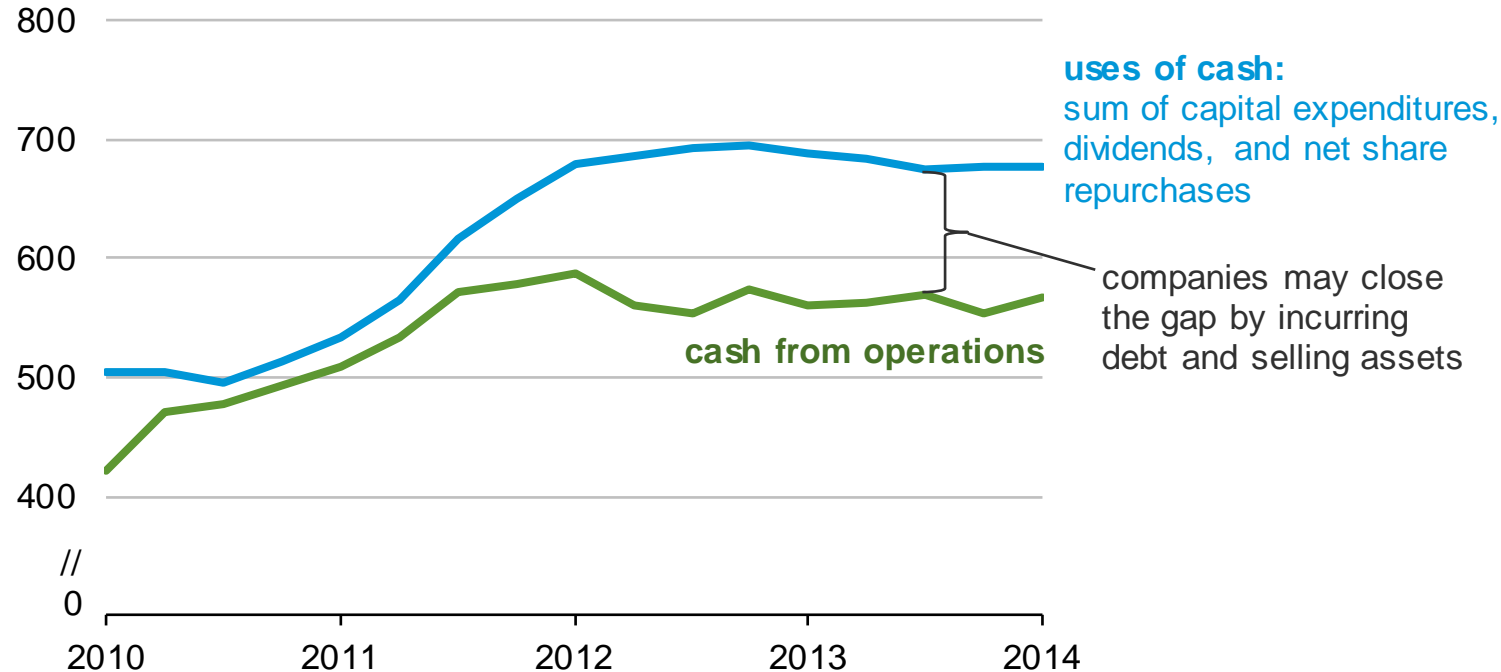
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# Key Messages

- 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



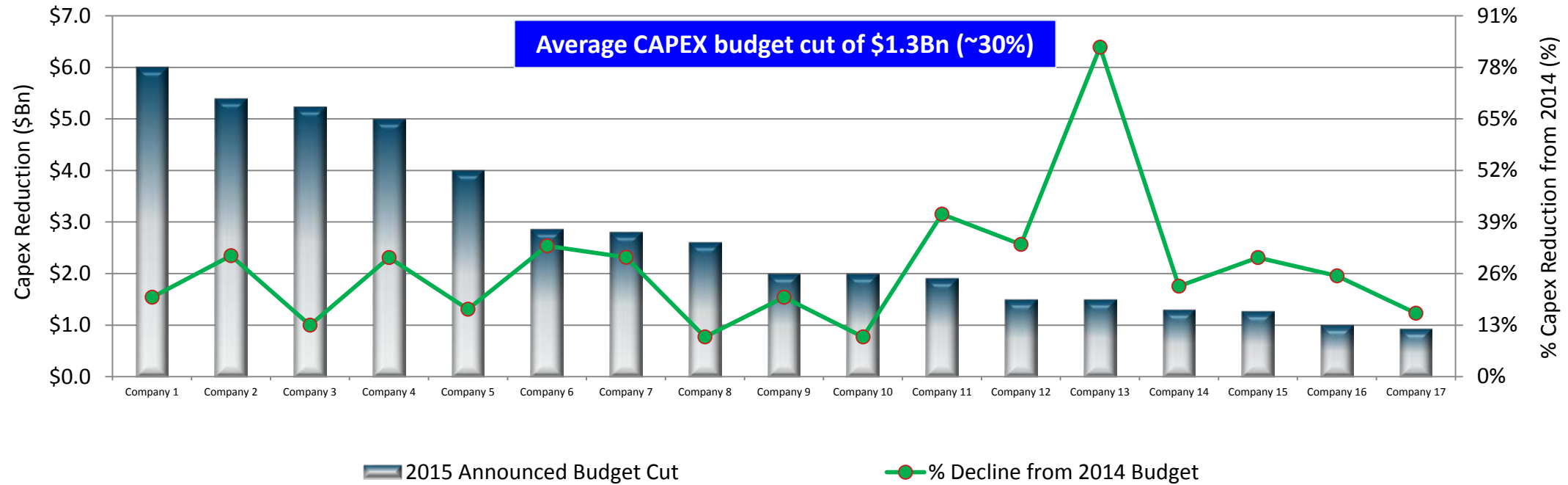
Source: Energy Information Administration - 2014

## • 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

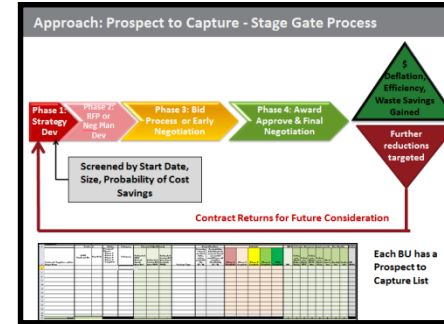
# Industry Levers to Address Cash Flow

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

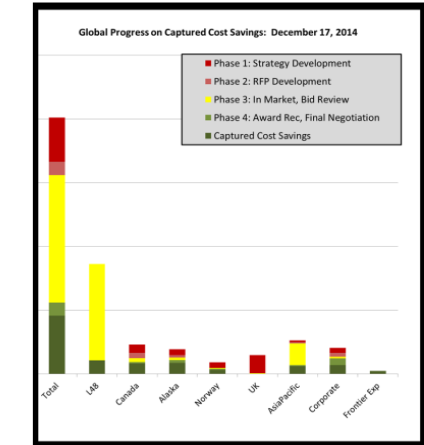
# Sustainable Cost Reductions Program

- **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

## Process



## Performance Metrics



## Market Intel

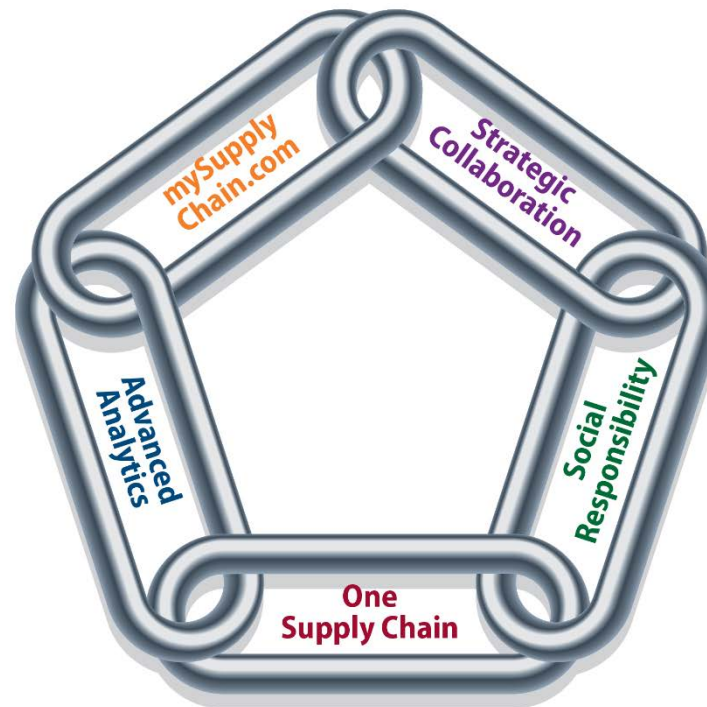
BI-MONTHLY MARKET UPDATE														Annual Change																	
Last Update: Jan 12th, 2015														This report provides key indicators of the economic strength of the Upstream markets in areas of importance to ConocoPhillips.																	
All prices in US dollars, except Canadian Land Rig Dayrates and labor earnings.														2014		2013		2014		2013-14											
														Movement		Avg.		Avg.		Δ											
<b>OIL AND GAS PRICES</b>																															
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	\$63	\$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%															
<b>RIG COUNT, WELL COUNT AND PERMITS</b>																															
<b>US Oil and Gas Rig Count</b>																															
Oil	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%															
Gas	362	341	333	316	325	314	314	324	336	331	351	342		1,373	1,527	11%															
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%															
<b>UPSTREAM OIL &amp; GAS INDUSTRY INDICES</b>																															
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

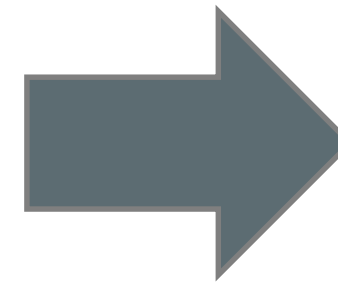
## ConocoPhillips Strategic Priorities

- Smart Growth
- Superior Return
- SPIRIT Values

## Vision Deployment



## World-class Delivery

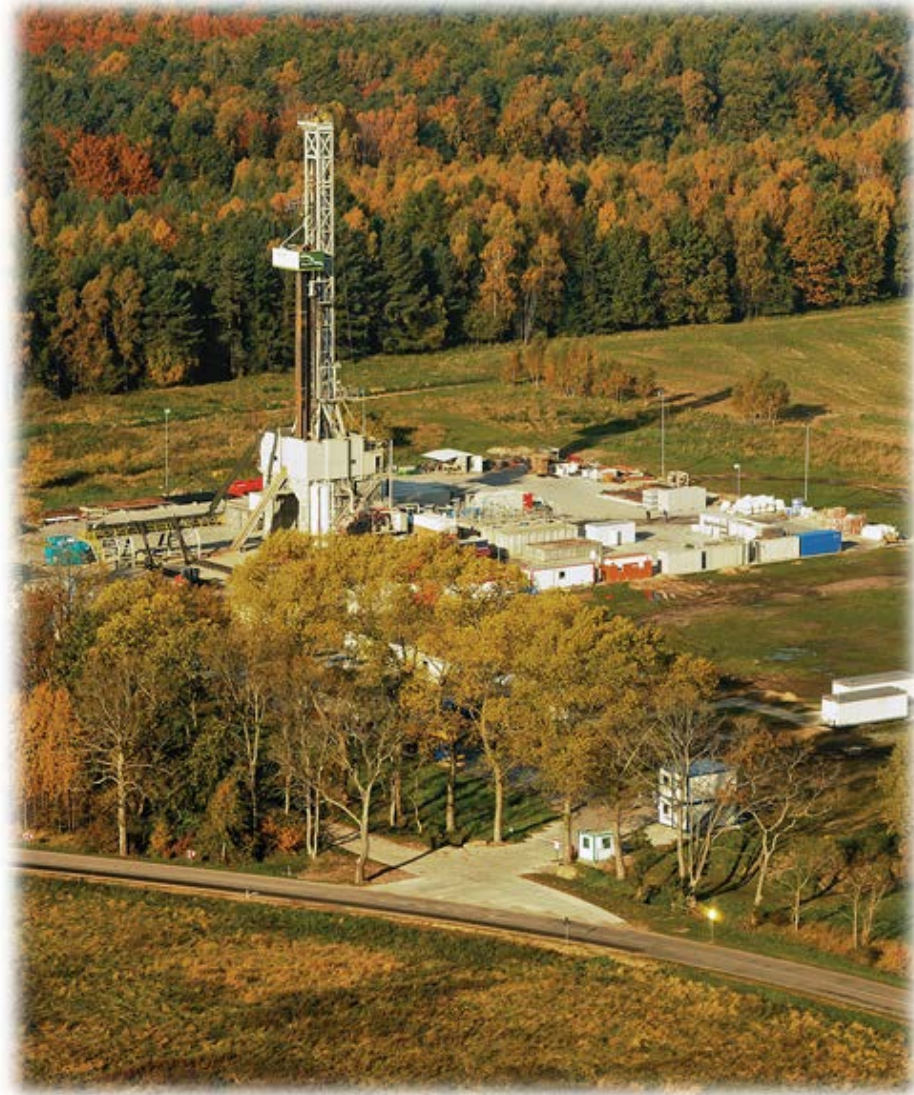


\$ Well Spent

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