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COP - Q2 2015 ConocoPhillips Earnings Call

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OVERVIEW:

Co. reported 2Q15 adjusted earnings of $81m or $0.07 a share.

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PRESENTATION

Operator

Welcome to the second-quarter 2015 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, VP, Investor Relations and Communications ConocoPhillips.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thank you, Christine. And hello to all of our participants today. With me on the call are Ryan Lance, our Chairman and CEO; Jeff Sheets, our EVP of Finance and Chief Financial Officer; and Matt Fox, our EVP of E&P.

Ryan is going to open the call this morning with some comments about the general business environment and then we'll turn the call over to Jeff and Matt for their customary second-quarter comments. Q&A will follow that. And we are going to ask that people limit their questions to one plus one follow up.

We will make some forward-looking statements this morning and obviously our future performance could differ from our projections due to risks and uncertainties. Those are described on page 2 of this morning's material and in our periodic filings with the SEC. This information, as well as our GAAP to non-GAAP reconciliations and other supplemental information can be found on our website.

Now it's my pleasure to turn the call over to Ryan.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Thank you, Ellen. And thank you all for joining the call today. As Ellen said, before we dive into the second-quarter results, I want to take the opportunity to provide some broad comments about our approach to the business in the current price environment.

Let me give you the punch line of these comments. The dividend is safe. Let me repeat that. The dividend is safe. The business is running well. We have increasing flexibility and can achieve cash flow neutrality in 2017 and beyond at today's strip price, roughly $60 per barrel Brent. And we have a unique formula for sustainable performance and a portfolio that can deliver.

Now let me put a little bit of meat on the bones. Weak prices have certainly dealt us and the industry a significant headwind. But the reality is we don't control prices. That said, there are many things we do control, like how much capital we return to the shareholders, how much and where we spend the capital, and the cost of running the business. Rest assured ConocoPhillips is laser focused on the things we can control. We cut our capital early in the cycle, not just for this year but for three years. We took a $1 billion cost-cutting challenge. And we recently reduced spending for new deepwater opportunities. We did this while continuing to meet our operational targets, raising our dividend modestly to continue to meet our commitment to our shareholders. Our ability to make these decisions is not accidental. Over the past few years, we've built a sizable portfolio and resource base, flexibility, options, and choices. It's a huge advantage at times like these. Just as importantly, we're navigating this sharp downturn with a focus not just on the short-term measures but also a focus on the medium and the long-term horizons. This is really important, frankly, it's hard to do.

If you turn to Slide 4, let me provide some perspective on how we're simultaneously managing across these three time horizons. First, the short-term is all about safely executing the business. That means delivering on our current performance targets. As Jeff and Matt will cover, we're meeting or exceeding our short-term goals. And as you saw in this morning's announcement, we're lowering our guidance on operating costs and reducing our capital guidance for 2015. That represents a significant benefit to net cash flow for the year. We also recently increased our quarterly dividend. The increase was very modest, representing about $25 million impact in 2015. While every dollar matters, we believe this was an important message for our shareholders. At the same time we're also paying close attention to the medium term. And the medium term for us is all about managing the path to cash flow neutrality in 2017. In addition to the short-term items I just mentioned, we continue to focus on ways to increase our capital flexibility. If the current price environment persists, we have the flexibility to reduce our near-term capital spend below $11.5 billion and still achieve modest growth. Stay tuned for more on this as we see where the commodity prices head later in the year.

Also we're focused on maintaining our balance sheet strength. We have additional capacity and ample access to liquidity. And as we've continuously said, we expect a company of our size would generate about $1 billion of asset sales annually from pruning the portfolio. That's an additional source of cash and good business. Finally, we announced a $1 billion operating cost reduction challenge for 2016. We're on track to meet or exceed that target. These actions will help our medium-term performance but also drive sustainable improvements beyond 2017.

That brings me to the long-term. The actions we are taking to assure long-term success include maintaining our capital flexibility, lowering the cost of supply across the portfolio, and shortening the cycle time of our investments. These are criteria that are guiding our decisions. And these were the drivers behind the recent decision to reduce our deepwater spending, which Matt will discuss in more detail. So that's how we're managing the business through this period, by simultaneously focusing on the short-, medium- and long-term horizons. And we're doing it in a way that I believe meets our commitments to our shareholders and honors our priorities of a growing dividend, a strong balance sheet and growth we can afford.

Ultimately our goal is to position the company for sustainable performance and this point is demonstrated on the next slide. We know what's on everybody's mind. What if prices stay lower for longer? Well, the left side of this chart lays out our answer. We believe we can achieve cash flow neutrality in 2017 and beyond through exercising capital flexibility even at $60 barrel Brent. We can exercise additional capital flexibility from various sources: deflation capture, efficiency improvements, discretion in development programs, uncommitted major projects, deepwater reductions and additional program efficiencies. And we believe we can achieve our 2017 production target giving the ramp from our major projects between now and then, the majority of which is from capital we've already invested. And this is all before tactical asset sales.

Finally, the right side of the chart shows a graphic from our April Analyst Meeting. At that meeting we discussed the quality and cost of supply of our captured resource base. Today we have over 44 billion barrels of identified resource, over half of which has a very attractive cost of supply. 16 billion barrels is either proven reserves or has a cost of supply that's less than $60 per barrel. That's almost 30 years of resource at current production rates. So we have the opportunities to invest capital in captured economic programs with little resource risk. This should accelerate value for shareholders while increasing the predictability of our business. That's how we can sustain our success for the long-term.

I hope these comments provided some perspective on our approach to the business in this environment. The bottom line, we're very solid -- it's a very solid and disciplined plan. I'm going to come back with some closing comments, but let me turn it now over to Jeff.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Thanks, Ryan. So I'll walk through our results for the quarter and then provide some updates on our 2015 guidance. I'll start with our second-quarter financial performance. That's on slide 7.

As Ryan mentioned, we operated well this quarter with production hitting the high end of guidance. We reported adjusted earnings of $81 million, or $0.07 a share. These results included 4% volume growth and 14% lower operating costs compared to this quarter last year after adjusting for special items. The story for the company and the sector this year continues to be low commodity prices. We did see a slight increase in total realized prices in the second quarter compared to the first quarter, which improved our sequential earnings, but year-over-year our realized price is down nearly 45%. Second-quarter adjusted earnings by segment are shown on the lower right side of this chart. Segment adjusted earnings are roughly in line with our sensitivities and the financial details for each segment can be found in the supplemental data on our website.

If you'll turn to slide 8, I'll review our production results. Our second-quarter production averaged nearly 1.6 million BOE per day compared to 1.56 million BOE per day in the second quarter of 2014. That's growth of 4%, or 69,000 BOE per day, which came primarily from liquids and from domestic gas sales at APLNG, which will turn to LNG over time. The waterfall also shows the difference between downtime and dispositions in the second quarter of this year versus the same period last year, which was 30,000 barrels per day. That reflects mostly downtime in Canada from forest fires near Foster Creek and in Malaysia as a result of the Gumusut turnaround.

Now if you'll turn to the next slide, I'll cover our cash flow waterfall for the first half of the year. This chart provides a summary of our sources and uses of cash through the first half of the year. We started the year with $5.1 billion in cash. Through the end of June we generated $4.4 billion from operating activities, excluding working capital. Total working capital in the first half of the year was a $1.1 billion use of cash with the largest impact related to lower payables associated with reductions in our capital spending. We do not expect to see significant additional working capital changes associated with investing activities through the remainder of 2015. In the first half of the year, we received $600 million from disposition proceeds. As we previously said, with a portfolio of our size you could see about a $1 billion of asset sales every year as we continually high-grade the portfolio. We increased debt by $2.4 billion. The debt included fixed and floating rate bond tranches with an average maturity of 5.6 years and an average interest rate of 1.9%. For the first half of the year, we spent $5.7 billion in capital and that was comprised of $3.3 billion in the first quarter, reducing down to $2.4 billion in the second quarter. As we'll point out on the next slide, we're lowering our capital guidance for 2015 from $11.5 billion to $11 billion. That puts us at $5.3 billion in capital for the second half of the year. After paying our dividend, we ended the quarter with $3.8 billion in cash on the balance sheet. So we remain in a strong balance sheet position with cash on hand, access to ample liquidity, as well as the potential for incremental cash from tactical asset sales.

I'll wrap up my comments on slide 10 with some guidance for the rest of the year. We are on track to achieve the high end of our 2% to 3% production growth for the year. Our third-quarter production guidance is 1.51 to 1.55 million BOE per day, which reflects significant turnaround activity in the quarter. We're also providing an update on several of our financial guidance items which, in the aggregate, will provide approximately $900 million in benefit to net cash flow in 2015. We now expect full-year 2015 capital expenditures of around $11 billion, compared to our previous guidance of $11.5 billion. This reflects lower capital that's roughly equal parts program efficiencies, deflation and FX, and some activity deferral. We're also making good progress on our operating cost targets, which are mostly coming from changes to the way we run our business. We still expect our operating costs to increase in the second half of the year as we continue our turnaround work and bring projects online. But given our run rate through the first half of the year, we are lowering our operating cost guidance for the year from $9.2 billion to $8.9 billion. That puts us ahead of schedule as we work towards our $1 billion cost reduction target in 2016. Our corporate segment benefited from LNG licensing revenues during the second quarter and we're changing our full-year guidance to a net expense of $900 million from $1 billion. And there's no change to our DD&A or exploration, dry hole and impairment guidance.

That concludes the review of the financial performance and guidance. I'm going to turn it over to Matt for an update on our operations.

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

Thanks, Jeff. As Jeff and Ryan mentioned, we've had another strong quarter operationally and the business is performing well. I'll quickly run through our segment results and then turn it back to Ryan for some closing thoughts.

In the Lower 48, second-quarter production averaged 556,000 BOE per day. That's a 3% increase from the same period last year and represents a 9% increase in crude oil production over the same period. We're now running 13 rigs, with 6 in the Eagle Ford, 4 in the Bakken and 3 in the Permian. That's down from 32 rigs at the end of 2014. We believe this is the right pace of activity in this environment. We'll re-assess these levels later in the year, taking into consideration market conditions, pilot test information and the price outlook. With the reduced capital program, our growth in this region has started to slow, and we expect production to see modest declines through the rest of the year consistent with the prior guidance.

Looking at the Gulf of Mexico, our appraisal work is continuing with activity in the quarter at Gila, Shenandoah and Tiber. Next I want to provide a quick update on the rest of our Gulf of Mexico program following our deepwater announcement earlier this month. As Ryan mentioned we recently announced the plan to reduce spending in deepwater, notably in the Gulf of Mexico. We've taken the step of terminating our agreement for a drill ship and we expect to take a charge of up to $400 million as a special item in the third quarter. The drill ship wasn't scheduled for delivery to the Gulf until later this year, so not a lot has changed for our 2015 drilling program. Two exploration wells are expected to spud in the third quarter at Melmar and Vernaccia. After Melmar, we will have two remaining slots on the Maersk Valiant drill ship. We expect to drill the Socorro prospect with one of these slots and we're currently evaluating and high-grading our drilling prospects to fill the final operated slot. We're going through our budgeting process for next year and will provide more detail on expected capital and operating cost savings for 2016 when we announce our capital budget later in the year.

Next I'll cover our Canada and Alaska segments on slide 13. We produced 306,000 BOE per day in the Canada segment, an 8% year-over-year increase. The growth came from our new wells in western Canada as well as strong performance from our oil sands assets. In May we achieved a major milestone with first steam at Surmont 2. We're on track to start producing in the third quarter and expect production to ramp up through 2017. Our other oil sands assets continue to perform well and we're seeing ongoing ramp up at Foster Creek Phase F. Despite the 11-day shutdown at the end of Maydue to forest fires.

Alaska's average production was 174,000 BOE per day. We're continuing to make progress on our CD5 and Drill Site 2S projects, where the first wells were spudded at both projects during the quarter and both are on track for first oil during the fourth quarter. As we mentioned in the first-quarter call, we resumed exports from Kenai LNG in April. So far we've delivered two cargoes and expect to deliver four more by the end of the year. Our seasonal turnaround activity started at both Prudhoe and Kuparuk in June and will continue into the third quarter.

Let's review our Europe and Asia Pacific and Middle East segments on slide 14. In Europe, second quarter production averaged 206,000 BOE per day. We achieved startup of our Enochdhu project, slightly ahead of schedule. We're also making progress on our Alder project, which is expected to come on line in late 2016. Eldfisk II and Ekofisk South production is continuing to ramp up as we bring additional wells online. And we've safely completed our turnaround activity in the J-Area and the Ekofisk A ahead of schedule. However, we still have a significant amount of turnaround activity planned in the region during the third quarter.

In the APME segment, we produced 349,000 BOE per day in the second quarter. That's an 8% increase compared to the second quarter of last year, primarily as a result of new production from major project startups in Malaysia. APLNG Train One is nearing completion. We achieved another milestone this week when we started loading refrigerants to the LNG facility and we remain on track for first cargo in the fourth quarter. In China, we completed our Bohai appraisal program with encouraging results. In Malaysia, Gumusut began a major turnaround in June, which was just completed in the past few days.

So to wrap up my comments, the business is continuing to perform well. We're hitting our production targets, lowering our costs and maintaining our focus on safety. We have a few more major projects and turnarounds to complete this year, but we're on track to deliver on our commitments.

Now I'll turn the call back to Ryan for his closing remarks.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Thanks, Matt. That wraps up our second-quarter review. So here's the summary. The dividend is safe. The business is running extremely well. We can achieve cash flow neutrality in 2017 and beyond at today's strip of roughly $60 per barrel Brent, and we have a unique formula for sustainable performance and a portfolio that can deliver. Clearly the environment today is challenging for the industry. But we believe we're entering a new reality for the business. The winners will be those companies with a rational vision, high-quality asset base, and a strong workforce and a commitment to shareholders. The winners will be those companies who can manage short-, medium-, and long-term goals simultaneously and we're setting plans and delivering on the things we can control in the short-term, paying close attention to the drivers of medium- and long-term performance. We believe this broad perspective will serve us well and make us an even stronger company in the future.

So thank you for listening to the opening remarks, and I'd be happy to turn it back over to the operator for your questions and our answers.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions)

Guy Baber, Simmons & Company.

Guy Baber - *Simmons & Company International - Analyst*

Thanks very much for taking my question. I had a couple. First, I was just hoping to discuss the decision-making progress around determining whether to increase or decrease unconventional activity levels later this year and into 2016. You mentioned the development program discretion. So just wanted to dive a bit deeper in to that.

I think the prior view was to begin increasing the rig count the back half of this year, but oil prices have obviously weakened and you obviously have a lot of flexibility next year with $2 billion in major projects rolling off. So could you help us understand the framework for determining unconventional activity spending levels as we go into next year?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Yes, Guy, thanks. As we laid out in April, we saw some modest increases in the prices over the next couple of years in our path to working the medium term in 2017. In that plan we had some ramping up of our unconventional activity assumed in that plan. As our capital flexibility increased and our project capital was rolling off Surmont and APLNG, we're going to direct that to the unconventionals, which are shorter cycle time, higher returns, and better opportunities for the company.

I would say if prices that we're seeing today, sub $60 Brent, high $40s and low $50s, we don't have plans to increase the capital and ramp up in the unconventionals if these kind of prices persist. We're watching this space pretty closely. As Matt said, we'll announce our capital later this year. That's going to be informed by where we think the commodity prices are and where we think they'll be in 2016 and that's going to then dictate how much we ramp up in the unconventionals.

Guy Baber - *Simmons & Company International - Analyst*

Thanks, Ryan. And then my follow up was, could you discuss a little bit more some of the assumptions implicit in the comment you could achieve cash flow neutrality by 2017, at $60 a barrel Brent. So more specifically, could you perhaps elaborate on what deflation capture would be implicit in those assumptions? And any more detail you could give there I think would be helpful as I think that's a pretty important assertion.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

I think what we're saying right now is that -- when we came out in April, we talked about the capital required to generate a flat production profile for a long period of time for the company. We thought that was about $9 billion. I think the deflation we've seen to date and the additional deflation that would happen in a lower price world that you're describing, our flat capital goes down something closer to $8 billion.

If this price were to persist for a period of time we'd expect additional deflation and more efficiencies going forward. We haven't factored that into the analysis necessarily, but it is a recognition we can achieve flat production for a long period of time at an $8 billion capital level.

Operator

Doug Terreson, Evercore.

Doug Terreson - *Evercore ISI - Analyst*

Good morning, everybody.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Good morning.

Doug Terreson - *Evercore ISI - Analyst*

Ryan, I wanted to continue on Guy's question about the downward revisions to operating and capital costs and specifically you highlighted on slide 5 four different categories and you just touched on deflation capture. Also wanted to see if you could comment on or give a little bit more insight on what you mean by discretion in development programs, deepwater reductions, program efficiencies, just a few more specifics there if you have any.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Yes, Doug, I'd be happy to. We described the deflation capture and efficiency we're seeing in the portfolio to lower the capital required to keep flat production over time and that's clearly something we'd dial in if we saw these kinds of prices persist. Something we don't talk about is asset sales. We think in the portfolio of our size we have an ongoing rationalization program that keeps eliminating the bottom end of the portfolio and that's certainly there.

We've got a lot of flexibility. The unconventionals are shorter cycle time and we can ramp those up at different speeds, responding to the commodity price environment that we find ourselves in. As we try to describe the actions, the levers, and the tools, those are some of them.

You mentioned the deepwater exploration. We're working through that as well, but would expect that to be incremental in terms of capital savings and operating cost savings as we look forward at this kind of price level.

Doug Terreson - *Evercore ISI - Analyst*

Okay. And then finally on cash flow, when using consensus estimates, divestitures and borrowings in the quarter, it seems like your dividend is covered for 2015. On this point, I wanted to see where your after-tax borrowing costs were on the recent borrowings in the period. And then also the status of any other funding sources such as a revolver, commercial paper or whatever you deem relevant. So maybe a question for Jeff.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Sure, Doug. As we mentioned in our brief remarks there, we were out in the debt markets in the second quarter and we issued $2.5 billion worth of debt. That was a mix of fixed and floating and, on average, that a 1.8%, 1.9% interest rate on a pre-tax basis.

So you could tax-affect that. So we ended the second quarter at $3.8 billion in cash on the balance sheet. Probably takes $800 million to $1 billion to operate our business. In addition to that we have about a $6 billion liquidity line that's undrawn currently.

Doug Terreson - *Evercore ISI - Analyst*

Okay, great. Thanks a lot.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thanks, Doug.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Good afternoon, everybody. I guess, Ryan, first of all, thank you for your remarks at the beginning of the call with the dividend. I think that's pretty clear. But I've got a couple questions around the strategy how that changes in the low oil price environment. First one really is on exploration. So you've cut a rig. Obviously this year you had a fairly large commitment.

What does it say about the exploration strategy going forward given the resource depth that you have and given that that's a key area of discretionary spending? Are you backing away from exploration post 2015? And then I've got a follow up, please.

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

Doug, I'll take that. So the specific announcement we made earlier this month is only related to canceling the Ensco drillship. That by itself is going to result in a decrease in our deepwater exploration capital by $300 million to $500 million a year for the next three years as a function of what the spread rate and the equity position would be.

We're still going to be conducting deepwater exploration, though, through 2015 and into 2016. We have been appraising our existing discoveries in the Gulf of Mexico and West Africa, and high-grading the portfolio to fulfill the remaining rig commitments we have. But more to the strategic question you're asking, we are looking more broadly at our deepwater portfolio and considering alternatives for that portfolio, but anything that we do is going to have to preserve value from the discoveries we've made in the portfolio we've built up over the last few years.

So there's still a strategic question on the long-term position of deepwater. We have a very strong position in the unconventionals. And as you mentioned, a very strong position across the resource base as a whole. So the strategic emphasis would be moving more towards developing the existing resource base but there's still a significant role for exploration to play in bringing new resources into the portfolio. So there will be more to come in this over time, Doug, as we firm up those longer-term strategic implications of the deepwater decision.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Appreciate the answer. I guess the follow up is probably for you as well, I'm guessing because there has been -- I think when you and I had some time together earlier this year, there was some talk about 80,000 barrels a day of potential noncore production. With your comments about -- one has to imagine that there is disposal potential in some of your existing undeveloped discoveries.

How should we think about the scale of what you've envisaged to be your disposal backlog, if that's the right way to ask the question, and how would that capital be redeployed? Would it buy back stock? Would it show up in balance sheet? How would you use the spending? I'll leave it there. Thank you.

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

Jeff and Ryan both mentioned, we expect to be some form of dispositions going on continuously in the portfolio just to trim up areas that are nonstrategic. So, for example, you may have seen yesterday or the day before that we're going to market our Cook Inletposition in Alaska. I think it's quite well known that we've had a package out there in Canada for nonstrategic assets, gas assets. We have some assets in the Lower 48 that fit the same criteria.

So we do have some tactical dispositions that we're currently marketing at the moment. So the use of that cash would be to fund our dividend and ongoing capital programs.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

I'd jump in there a little bit. The priorities are the dividend to the shareholder, the balance sheet, and then a growth we can afford.

Operator

Paul Sankey, Wolfe.

Paul Sankey - *Wolfe Research - Analyst*

Hi, everyone. You've talked about the 2017 cash flow neutrality, and an $8 billion hold for that number. Are you implying that you're actually going to outspend cash flow between now and then? Or are you essentially going as fast as you can to get the cash flow neutrality?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

I think largely, Paul, depends on our outlook on the commodity prices, which we're watching pretty closely right now. We would have some slight outspend in 2016 if we continue to ramp up and hold the capital at $11.5 billion, but that's something we're looking at it dropping down at the current price and continuing to exercise the flexibility.

What people tend to forget about, though, starting in 2016 and going into 2017 is we have pretty significant ramp in production from Surmont Phase 2 and from APLNG and that's capital and cost we spent the last four to five years. So we've got production coming on in 2016 and 2017 that people tend to forget about that's right in front of us. Surmont 2 just -- first steam earlier this year, we'll have first oil here imminently and first cargoes coming out of APLNG.

So the intention is to get to cash flow neutrality as quick as we can. We're just trying to demonstrate we've got a lot of flexibility, even at the current lower prices we're seeing today.

Paul Sankey - *Wolfe Research - Analyst*

I understand. I probably should have prefaced it by saying if we had seen the strip, which is something around what you're talking about here, a $60 outlook is what we see on the futures market.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

That's why we tried to put that into our slide at that kind of a price level to give you some sense of how we would manage the business at that kind of a deck.

Paul Sankey - *Wolfe Research - Analyst*

I think you've been asked this and you've tried to answer it, forgive me if I slightly missed what was being said, but can you run over again the deflation element here? The lower service costs. I know you've done some excellent work in your presentations showing how costs are changing.

When I was with Mr. Hirshberg, he said this is actually lagging. This is last year's data. Would you mind going back over how we get from $11.5 billion, $11 billion run rate this year all the way down as low as $8 billion, seemingly simply if oil stays at $60?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Yes. In April we talked about deflation of $700 million that we're trying to capture. We now see that probably closer to $900 million. And obviously if the kind of strip prices you're talking about persist, we'd expect that to continue down as well, so as we look out of that, the $8 billion is really to stay flat. The $9 or $10 or $11.5 billion grows our production based on the amounts we laid out in April.

So we've got a lot of flexibility between the $11.5 billion we laid out to the marketplace in April versus what we're calling $8 billion to stay flat production. What we're trying to describe to folks is with the capital flexibility, the deflation and the efficiencies that we're creating in the business is just adding to the flexibility on the capital side of the program and gives us a lot of choice as we go into the back half of this year in deciding what kind of program we want to execute in 2016 and 2017 on our pathway to get to cash flow neutrality as quickly as we can.

Paul Sankey - *Wolfe Research - Analyst*

That's great, Ryan. Thanks. And if I could add in, we've had the idea that you would IPO the exploration business and have it as a standalone business. I assume you'd want to retain some access to that business as opposed to, for example, disposing of it altogether. At the moment, it feels like the potential for you to spend in that business is going to be undervaluing it essentially.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Yes, I think that's right, but we're looking at all the alternatives right now, Paul, about that business. We'll have more to come on that as we progress later in the year and into next year.

Operator

Ryan Todd, Deutsche Bank.

Ryan Todd - *Deutsche Bank - Analyst*

Great. Thanks. Maybe one more follow up on the cost issues. The incremental $300 million cut to OpEx we saw on this, is that -- were you saying -- was that just incremental capital deflation? Is this more of an issue of pace, or to be clear, are you trending toward much larger levels of cost reductions on a two-year basis than you would have expected earlier?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

I can take that one, Ryan. We're definitely running ahead of schedule on where we thought we were going to be on reducing costs. As we mentioned, it's a combination of deflation in the business, some minor amount of FX benefits, but it's really mostly related to us figuring out ways we can drive costs out of our business. We talked in terms of having this $1 billion cost reduction target; we're feeling really good about our ability to achieve that or go beyond that.

Ryan Todd - *Deutsche Bank - Analyst*

Great. Thanks. Then maybe on the -- at APLNG you talked about hopefully a cargo during the fourth quarter. Can you maybe talk about what are the remaining steps you have to achieve there at APLNG between now and the fourth quarter to get that first cargo?

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

We're at the stage where we're beginning to load refrigerants. We have to process -- that's called going through the mechanical runs, getting all their crinks, so the compressors are running and everything is running well. And that whole process of that integrated completion and then hookup, the commissioning of the plant is all in hand and the gas is there in the upstream site to feed the plant. We're feeling good about the ability to get that initial cargo sometime in the fourth quarter.

Ryan Todd - *Deutsche Bank - Analyst*

Great. Thanks a lot.

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Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thanks, Ryan.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Folks, good morning. Thanks for taking the question. I'm sorry, I'm going to go back on cost structure as well. Just curious about maybe the sustainability of some of the cost deflation you're witnessing. Obviously industry in general sees costs coming down, but I'm curious what steps are being taken to ensure these are more structural so they don't simply reinflate once the commodity finally does recover?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Blake, we're taking a pretty hard look at kind of top to bottom in terms of how we run the company and we're considering -- where we came from as an integrated company and the size, scale and capability we have as that company. Looking at taking the opportunity now to a bit right size relative to how an independent company like ConocoPhillips finds itself today. So there's things that we do in our company that were sort of a remnant of the integrated company in terms of how much functional expertise to have in the center, how much oversight versus that accountability that goes out to the BU.

We've done a pretty good job building that model in our Lower 48 unconventional business. We're going to extend that across the whole company with less of a one size fits all, and more of a fit-for-purpose design, recognizing that an asset in the Lower 48 is different than an asset in the North Sea or up in Alaska or offshore Australia. So really our employees get it. They understand it. They understand where we're seeing and we're already seeing the benefits of that shift.

We've been working on that over the last two to three years as we've tried to build the culture of an independent company. Now certainly with the downturn, it puts more of a laser focus on the need to accelerate that and make it more prominent throughout the whole organization and the whole company, and then I think that will make it much more sustainable.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Thanks, Ryan. The follow up is on the strategic shift toward shorter cycle type of projects. I guess when I think of deepwater, definitely longer term, highly capital intensive but they do contribute well to earnings.

When I look at the Lower 48 contribution for earnings, it seems to be one of the areas that's the weakest. As you kind of shift more toward the shorter cycle projects, do you anticipate that to have a negative impact on your actual earnings profile or is that a concern?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

I think I'll take that one. When you look at Lower 48 earnings, currently a driving factor there is really the level of depreciation that's being charged currently as we develop the unconventionals. We are probably having depreciation charges, which are a third larger than they'll be longer term because of the reserve-booking schedule and relative conservatism that's forced upon us as we book according to the rules that are out there.

So as we go through time you're going to see depreciation rates come down in the Lower 48. That's going to have a significant improvement in the earnings from that segment.

The other thing, of course, as you've heard us talk about and you've heard the industry talk about is just the cost levels that it's taking to develop reserves in the unconventionals have come down dramatically and that will reflect itself in lower depreciation rates going forward over time. So yes, where we do have fairly weak earnings coming out of our Lower 48 segment over time, currently you will see those improve as we go forward.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Two very quick questions on the $60 breakeven again. Sorry. That would be what 2017 production? The same that you've laid out in the past or you're changing that production growth?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

No, it's the same, Ed.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

I mentioned a lot of the production growth is coming from things that we've already invested in.

Ed Westlake - *Credit Suisse - Analyst*

Okay. And then presumably, even on that stay flat, there would still be some positive cash margin shifts as you still back out some of the older gas production that is still in that mix as you get out to 2017 even on flat CapEx?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Absolutely, when you look at the Surmont 2 addition and the APLNG that's coming on at a higher margin than a large part of our portfolio with the North American gas piece that you described, Ed.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

(Multiple speakers) talk about margins in terms of flat price cash margins, one of the things we're seeing as we've talked about it as well, as costs are coming out of the business as well which improves margins across the board.

Ed Westlake - *Credit Suisse - Analyst*

So it's kind of dividend plus a little bit. And then on APLNG, obviously everyone has observed the Asia LNG market has certainly faced a sort of dramatic drop in demand and there is obviously a lot of cargoes coming on to compete for that gas demand. Clearly first cargo is an important milestone and the CapEx will fall for the project, and therefore the cash contribution from the APLNG associates will improve, which we'll see next year. Can you talk a little bit how you're placing that product into the market for Train One and Train Two, given weak demand?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Right now we're working through that, Ed, and I know there's been a lot of speculation in the marketplace around the contract and the SPA we have with the buyers. We have two buyers. We have a Japanese buyer for Train Two and Train One is going to China to Sinopec. We have an SPA. We have a contract with them. They've got diversionary rights within China.

With our approval, which we've provided, they've got diversionary rights outside of China as well.

We're working with them to understand the volume they can take into the country in 2016 and as we go forward in 2017, and I just remind people our contract is a take-or-pay contract. We expect they're going to live to the terms of that contract.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Hey, guys. Several quick questions. First one is probably for Jeff. Jeff, on the second quarter, what is your cost saving run rate and what do you expect those run rates going to look like in the third and the fourth quarter?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Not sure how to interpret your question, Paul. When you say cost savings --

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Paul Cheng - *Barclays Capital - Analyst*

You have a program that reduce costs and I'm trying to understand how much of that cost saving is already reflected in your second quarter result and what is the incremental improvement we could expect in the remainder of the year into next year?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

I'll take you back to the analyst presentation. We talked about 2014 cost levels of $9.7 billion. We were going to take that down to $8.7 billion. That was the $1 billion we were taking out. We said we thought we'd get halfway there in 2015. So we gave cost guidance of $9.2 billion.

We're well along that path is what we're pointing out today and we've actually revised that $9.2 billion down to $8.9 billion. So we're going to continue to see that as we go through the year. You can see we've had some really pretty low cost levels in the first part of the year.

The difficulty I have with your question is there is variability from quarter to quarter as we go through the year. But if you look at the whole year, we're running well ahead of where we thought we were going to be for the year.

Paul Cheng - *Barclays Capital - Analyst*

Do you have a number you can share in the second quarter, what is the cash operating cost?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

You can look at our (multiple speakers) balance sheet is $2.1 billion essentially in what we call cash operating cost, which is production cost, G&A costs, and the G&A associated with exploration was $2.1 billion.

Paul Cheng - *Barclays Capital - Analyst*

$2.1 billion. So annualized it is $8.4 billion, but you talk for the whole year is $8.9 billion.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Again, that's why I point out we have seasonality in our costs related to turnaround activities and we'll have some costs that will increase as we go through the year and as production ramps up in some of the new projects.

Paul Cheng - *Barclays Capital - Analyst*

And maybe the second question is for Ryan. Ryan, I presume that now you have reset this year the CapEx at $11 billion, so the next several years the base case at $11 billion also? Under what commodity price -- let's assume if the commodity price stay where we are, what is the CapEx going to look like? Is it going to stick at $11 billion or end up that you're going to reduce it?

Trying to understand that what's the criteria you're going to go for? Because clearly you're not going to reach the cash flow neutrality this year. So what criteria we should be looking at that reset your CapEx program?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

As I said, Paul, we'll set a capital budget later in the year as we look at what the commodity price and what we can afford. When we laid out a plan at $11.5 billion that assumes some slight modest recovery in prices. If we see prices aren't recovering and they remain at today's level going forward into 2016, you shouldn't expect us to be spending the $11 billion, $11.5 billion, $11.5 billion we laid out in April or the $11 billion we're talking about today.

We're going to manage the whole system to make sure we reach cash flow neutrality. We're doing the right things to grow the business and fund the maintenance capital but you should expect it to become lower and we'll provide more clarity around that as we go through the course of the year and we watch where commodity prices end up.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Thank you. Good morning.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Good morning, Roger.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

I guess maybe to get back to some of the internal cost cutting and the commentary about structuring the company more like an E&P as opposed to a large integrated. Given where you are on the operating cost savings, what more should we expect to see from a streamlining or the headcount reductions, that sort of structure?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

As Jeff said, we're well on our way to the $1 billion cost challenge. We think we're certainly going to hit that, probably exceed that. The exploration decision we made and announced earlier, as I said, that's going to be incremental, both on a capital and operating cost side. We'll have some impact on the organization as we think about that going forward. We think there's running room beyond where we're at, but it's something we're spending a lot of time looking at.

With respect to re-looking at how we run the company, that's going to deliver sustainable reductions for the longer term. So it's not just about taking $1 billion or more out of the cost system in the short-term deflation. It is about making that a sustainable cut over time. And that's where our focus is at right now.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Okay, great. Thanks. And for Jeff, looking at the cash flow statement or the cash flow waterfall, working capital was a negative to this point. If you think about latter part of this year, or 2016, is there an opportunity to pull out of working capital as well as cash flow from the business as well as potentially more debt? What are some of the things we should think about maybe as some of these large projects start to come on line as to whether they consume or free up capital in addition to the CapEx changes?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

I think from a working capital perspective what we've seen in the first half of the year is really just the effect of a couple things. Accounts payable coming down because of the lower activities on the capital side. This was really -- as we moved our capital program down from the $16, $17 level last year to this $11 this year. You've got this lag effect on working capital.

Now that we're down at the level we're going to be at on capital, we wouldn't expect that effect to continue in subsequent quarters. As prices come down, you've see changes in our taxes payable as well come off and be a use of cash for working capital. That's pretty well out of the system now also. So we wouldn't anticipate that being a significant change in use of cash going forward for us.

As I mentioned on the call, we still have really solid access to the capital markets to the extent that it's necessary to go beyond our cash balances to fund our capital and our dividend in the period before 2016 when we get to cash flow neutrality. We certainly have the ability to do that in a very effective way.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good afternoon, guys.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Hey, Evan.

Evan Calio - *Morgan Stanley - Analyst*

Maybe my question is related to the US earnings power comment and offshore exploration reduction, maybe for Matt. I know you look at resource upstream globally and the savings and efficiencies onshore US unconventional have been most notable to date. Do you see the scope for international to significantly move down the cost curve to compete for greenfield capital or in this strip environment do you see the US in your US unconventional position as economically superior and effectively taking market share?

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

I think coming from a deflation perspective, more than half of the deflation we've seen has been in North America so far. Historically the international business has been slower to respond from a deflation perspective, so we still expect to see more of that come in over the next months and into 2016 in the international side. As we see that emerge then we can understand what implications it has for capital cost and that has implications for the viability of projects across the portfolio as a whole. So if what we're seeing emerge from a deflation perspective will influence how we think about capital allocation in the years ahead.

Evan Calio - *Morgan Stanley - Analyst*

Right. And efficiencies here as well. At current strip pricing, what's the breakeven period on one of your $8 million to $9 million Eagle Ford wells? Are we a little over a year? What's --

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

I think we're still in the 12- to 18-month sort of level for breakeven on an individual well.

Evan Calio - *Morgan Stanley - Analyst*

That's pretty powerful. If I could slip in one other, just a question on if you can discuss the changes to working capital associated with investing activities in the quarter that was sequentially higher. What drove that reclassification, the working capital change from investing activity?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Yes, I think you're noticing that on the cash flow statement. This time we broke working capital out related to operating activities and investing activities. We did that to provide more clarity on what was really driving the changes in working capital. Again, as I've mentioned a couple times now, the real driver has been the slow down in the capital investing activities.

Operator

Alastair Syme, Citi.

Alastair Syme - *Citigroup - Analyst*

Hi, everyone. Jeff, I think you noted a few times about the bond offerings in the quarter. But I think I'm right in saying you're still on negative credit watch. I was wondering where those discussions sit in the current environment with the various rating agencies and how vociferously you would feel you need to defend a Single-A rating.

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

Where we're currently rated is A-1 with Moody's which is the highest Single-A. We're at a middle Single-A with Standard & Poors and Fitch. All of them, as you mentioned, have us on a negative outlook. All three of the agencies confirmed our rating in conjunction with the $2.5 billion bond offering we did in the second quarter.

I think the position they're in is they're waiting to see how commodity prices play out and what levels of incremental borrowing we might do before we get to cash flow neutrality in 2017. But as we've said before, as we look at different scenarios of what borrowings we might do and before we get to neutrality in 2017, we're still very comfortable that that level of borrowing is not going to take us out of the Single-A range. It could knock us down a notch within that range, but wouldn't take us out of that range.

Alastair Syme - *Citigroup - Analyst*

And defending Single-A would be paramount, would it?

Jeff Sheets - *ConocoPhillips - EVP of Finance and CFO*

We think that's the right place for a company like ours to be. Just fits strategically with the direction we're heading as a company to be one that has a priority on shareholder distributions, like we've talked about with the dividend that is pursuing modest growth and wants to have the capability to do that through all kinds of different commodity price cycles. We do feel like that's the appropriate credit space for us to be in.

Operator

John Herrlin, Sociate Generale.

John Herrlin - *Societe Generale - Analyst*

Thank you. With the Cook Inlet sale, does that include the Kenai plant?

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

No, it doesn't.

John Herrlin - *Societe Generale - Analyst*

Okay. Thanks, Matt. Next one. You've talked a lot, obviously, about efficiencies and cost savings and optimizations, and deflation, and all that. You're a big company, as Ryan talked about earlier, you have the ability technically to run your fields differently than, say, smaller companies. So how much of your overall performance is related to that type of self-help from, say, field automization so you can minimize unplanned downtime and enhance recoveries?

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

As part of our cost reduction process we're looking at our operating costs, our lifting costs across the company as a whole. We have had -- for years I've had the very strong operations excellence program we've applied across the organization. Frankly, for the past few years we've been focusing that on increasing production.

That's what you do when oil prices are $100 a barrel. But the same --the tools exist within that capability to focus that more on cost reduction, so we're refocusing our operations excellence on making sure that we're getting the right balance of the right operating efficiency and the right costs in this price environment. So having that capability, that's our integrated view across the whole organization is really good.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

And I would add, John, to that, as we talk about the independent, some of the capability we have as a company, our functional excellence around integrated operation centers and the ops excellence plans that Matt talked about, the reservoir understanding and characterization, the EUR, the stimulated rock volume work that we're doing, we need to -- we're going to maintain that and expand that capability because we think it's differential in leveraging in the independent world.

John Herrlin - *Societe Generale - Analyst*

Thank you.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thanks, John.

Operator

Jason Gammel, Jefferies.

Jason Gammel - *Macquarie Research Equities - Analyst*

Thanks very much. I had another question on long cycle time versus short cycle time investments. You're clearly at a point where you're hitting an inflection point and capital is dropping away and production ramp is coming in. But I suppose long cycle time, by definition, means if you're not investing today, then you don't have those big step changes in production in, let's say the 2019, 2020 timeframe.

My question is twofold. First of all, do you expect to move towards FID on any major capital projects this year and next year, given the capital constrained environment? And the second part of the question is, over the cycle, how much CapEx above the $8 billion maintenance CapEx would you want to be putting into these longer cycle time projects relative to your short cycle time investment opportunities?

Matt Fox - *ConocoPhillips - EVP of Exploration and Production*

On the FID question, we will be making final investment decisions on a few relatively small projects as we go through this year and into next year. We're in the fortunate position that most of our major projects that are in the portfolio now are not mega projects and they're the projects we've executed before, like adding drill sites in Alaska or adding platforms in the North Sea or in China. So they're all relatively small scale things. So we do have the scope within the capital program to continue to invest in those longer cycle but smaller scale projects and we will do that.

One of the strategic questions, which I think is what you're getting at, Jason, is for the long-term, what's the right balance for a company like us between the more flexible short cycle investment opportunities of which we have a lot within our development programs, and in particular in unconventional business, and then these longer cycle projects of the characteristics we just spoke about. And we have flexibility to decide exactly what that ratio should be and that's one of the lenses that we look at our strategy through.

Jason Gammel - *Macquarie Research Equities - Analyst*

Okay, thanks, Matt. Appreciate the thoughts.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Good afternoon.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Hi, Neil.

Neil Mehta - *Goldman Sachs - Analyst*

Appreciate that incremental disclosure on cash flow neutrality in 2017. Definitely been top of mind for investors. Two more industry-focused questions. I guess the first one, Ryan, Speaker Boehner yesterday came out in favor of crude exports. I think as we speak he's at least discussing it. Flip side is we're going into an election year. Just want to get your thoughts on the latest temperature on this issue as you've really been leading the charge on behalf of the industry.

Ryan Lance - *ConocoPhillips - Chairman and CEO*

Thanks, Neil. We're glad to see -- we've been working with the Speaker's office to get them to support the repeal of the ban and get it up for a vote later this year and I think we made some significant progress both in the House and the Senate. And of course the Speaker's comments yesterday were well-received by the industry and everybody. It's still going to be a little bit of a tough uphill climb. We're getting bipartisan support both in the House and Senate. We could use a little bit more of the Democratic support for it. So we're working on that.

But what chances do I give it of passing this year? I haven't climbed to 50% but it's encouraging to see we may get a vote, at least an up-down vote, at least in one of the chambers to go forward. I think the question everybody is asking is is there enough bipartisan support, particularly in both Houses and then to clear the Administration? That's what we're spending most of our time on right now.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, Ryan. The second question is views on industry consolidation. This is less a Conoco-specific point, but more an industry point. If you expect an acceleration in activity with the double dip in the commodity and the capital markets tightening, less so as you guys pointed out for yourselves, but for companies less attractively positioned from a capital structure than you, your thoughts on M&A going forward for the industry?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

If we saw some modest increasing in the commodity prices maybe that we would have envisioned a little bit more earlier in the year, I would have told you that I think the stocks are pretty fully valued and expecting prices to come back to that $70, mid $70, $80 level. Certainly with this recorrection over the last few months, it's putting a lot of the spotlight on some of the companies, as you say, that may not have the financial capacity that ConocoPhillips does.

If these lower prices persist for a longer period of time, that's certainly an area that probably would start to ramp up. I still don't personally believe the floodgates are opening on that, but I think it's something that industry will be watching pretty closely if these kinds of prices persist for a longer period of time.

Neil Mehta - *Goldman Sachs - Analyst*

Thank you.

Operator

James Sullivan, Alembic Global Advisors.

James Sullivan - *Alembic Global Advisors - Analyst*

Hey, guys. Thanks for fitting me in. Just wanted to be very crystal clear on one point. Obviously you guys had highlighted a '14 '16 operating cost to go back to that issue, reduction of a $1 billion, of which I think you had said roughly 70% was supposed to be structural savings.

Am I right in thinking that that was really before you guys had envisioned a strategic review of the kind that has been talked about a couple times regarding streamlining some of your -- let's call them major-like execution capacities which would -- is it right to think of those as incremental -- potential incremental structural cost savings outside of that original first $1 billion?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

No, James, when we laid out the $1 billion, we had a vision that we were going to go through this process and make some structural changes to the company, so I would say that some, not all, but many of those structural changes are built into the $1 billion trajectory that we're on as -- as Jeff described, I think we're ahead of plan and our expectation is that we'll generate more savings beyond the $1 billion.

And then the exploration decision we made not to continue pursuing some of the deepwater, that is incremental to the $1 billion decision. And we're working through what the implications of that -- given that we have some portfolio and discovered portfolio that we're going to continue to invest in or monetize in other ways.

James Sullivan - *Alembic Global Advisors - Analyst*

Okay, that makes sense. So downshifting in that way would be the incremental piece. Okay. Just a separate thing, following up on the quarterly discussion regarding long cycle, short cycle, and correct me if there's been a change in this. But looking at AKLNG, as I understood it, there was the potential for that to proceed in to pre-FEED in 2016 or at least graduate to the next step in the development process, which would probably require a material capital contribution from stakeholders.

It may be that that's getting pushed to the right but could you describe your thinking on that project, your participation in it and then how it fits into your portfolio given that obviously we're trying to skew toward shorter cycle projects at the moment?

Ryan Lance - *ConocoPhillips - Chairman and CEO*

I think we are making some progress on that with the partners in alliance with the state. There's still a lot of work to go do to get an aligned view around the fiscals and the state's participation and what that's going to look like. There's a lot of work to do even before we take that next step that you described in the pre-FEED. I think the companies are looking at kind of the end of this year into 2016 to make that decision, but a lot of that is dependent on how we see the alignment working with the state of Alaska and their participation in the project. It's a very, very long project. No resource risk for us.

Kind of goes back to Matt's comment, how much of this longer cycle time is very flat production with very low resource risks do you want in the portfolio? And we're going through those thoughts and analysis right now. It doesn't mean that there's zero of that in the portfolio. I think a healthy portfolio has some of that. We've got some LNG properties. We've got our Qatar property. We've got APLNG coming online. We have a large resource potential in the oil sands. We're trying to figure out how to break those projects into shorter cycle time projects.

Still there are long-dated resource barrels that are attractive and should be a part of the portfolio. That's going to be the challenge for us as we think about AKLNG going forward.

James Sullivan - *Alembic Global Advisors - Analyst*

Great. That's all I had. Thanks, guys.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thanks, James.

Operator

Thank you. I will now turn the call back over to Ellen DeSanctis, VP, Investor Relations and Communications ConocoPhillips.

Ellen DeSanctis - *ConocoPhillips - VP of IR and Communications*

Thanks, Christine, and thanks to all our participants. Obviously feel free to call us back for any follow up questions. We really appreciate your time and interest. Thank you.

Operator

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

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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