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Project Development

2010 DAAG Conference

ConocoPhillips' journey to full quantitative assessment of project cost and schedule

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Agenda and Messages

- Agenda
  - The Challenge
    - Embedding Quantitative Risk Assessments in an emerging Project Development Organization
  - The Path
    - The People, Processes, and Tools required to enact positive change
  - The Result
    - Impact on Cost and Schedule Predictability

- Take-away Messages
  - We have fundamentally restructured how risk is quantified and communicated to senior management
  - The central document is the Contingency Breakdown Report. It is a commitment between the Project Team and Senior Management

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The ConocoPhillips Way

SAFE

We will not compromise on our commitment to execute projects safely and deliver operating assets that are safe for people and for the environment.

TRANSPARENT

We will openly and frequently communicate project status, priority risks, and issues.

PREDICTABLE

We will consistently deliver on our promised AFD and AFE targets. We will consistently deliver operability at or above the AFE target.

COMPETITIVE

We will consistently deliver competitive projects from a safety, cost, schedule, and quality perspective that outperform our industry peers.

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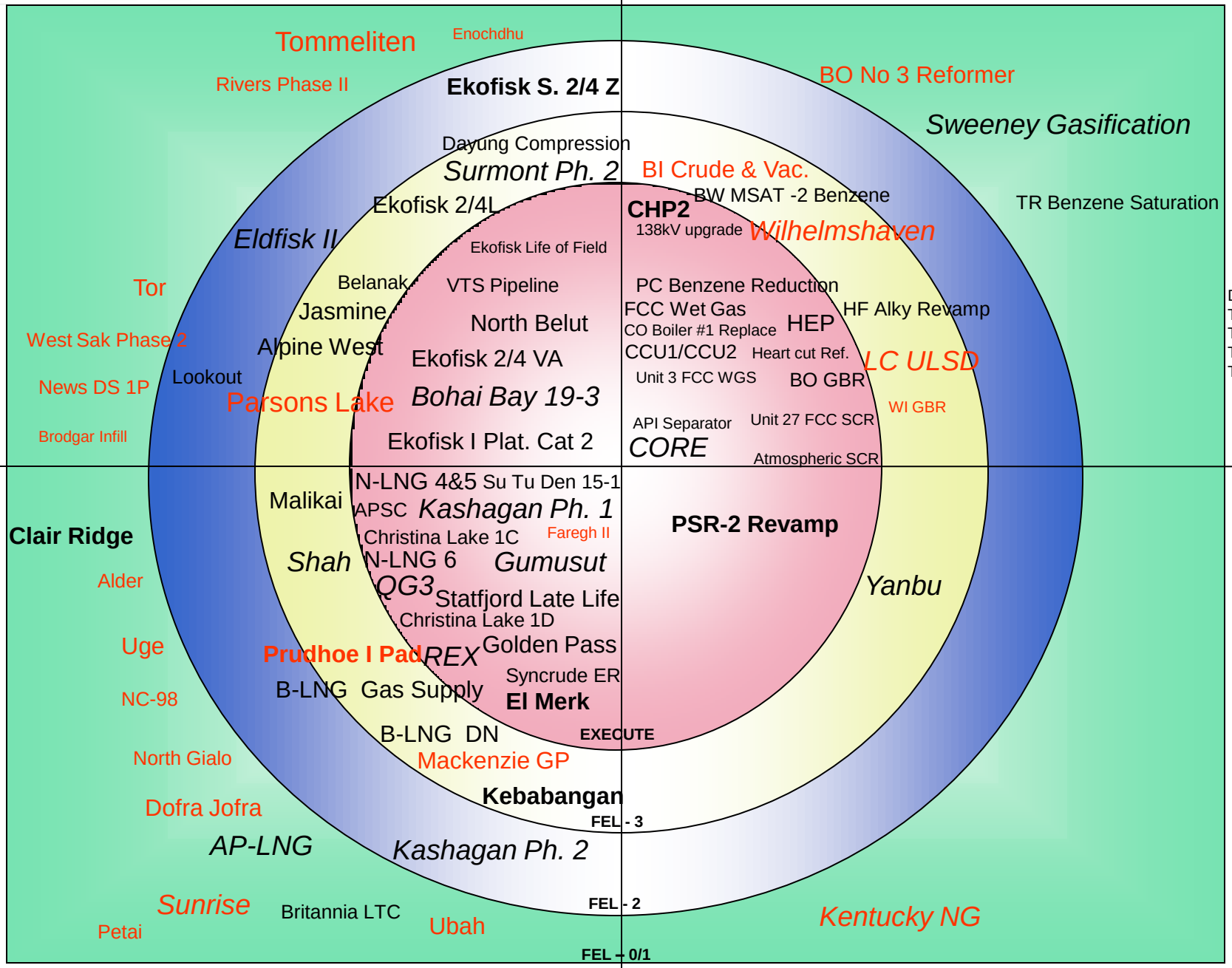
Project Portfolio Radar View Dec 2009



LEGEND

Black – Active

Red – On Hold

TIER 1

TIER 2

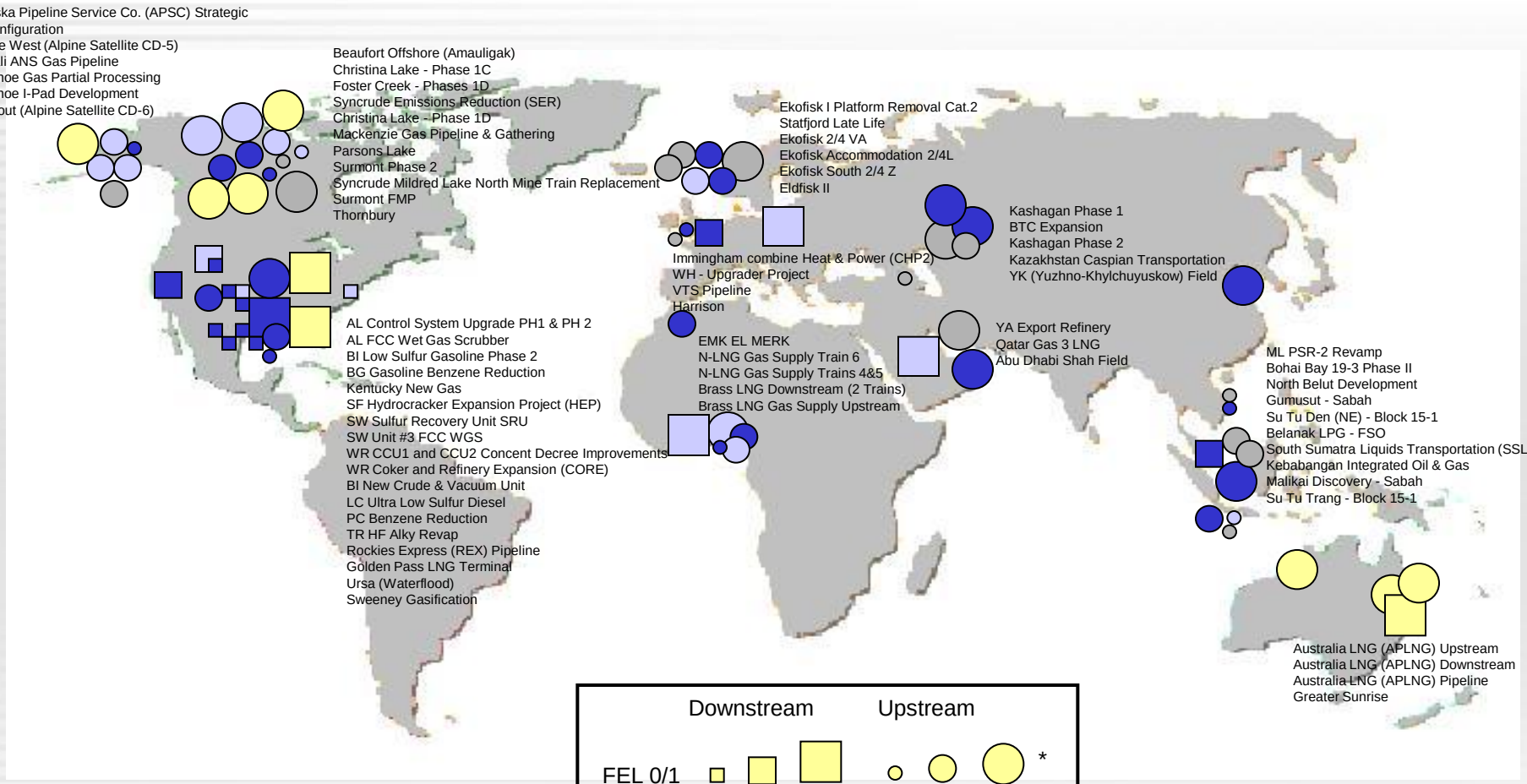
TIER 3

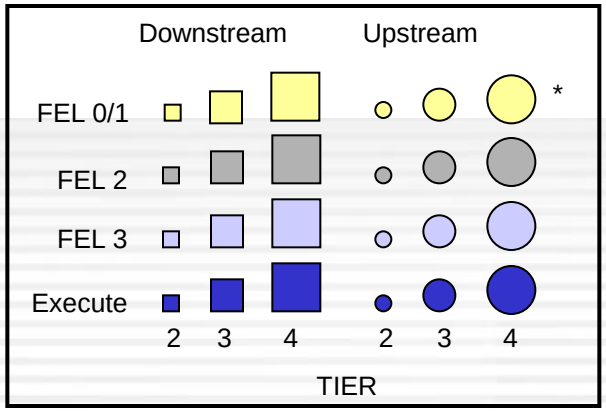
TIER 4

Define (Net $):
Tier 1: <75M
Tier 2: >75M – 250M
Tier 3: >250M – 1B
Tier 4: >1B

Data Date: Dec 09 Print Date: Jan 10

Project Presence Across the World





Data from eReport Sep/09

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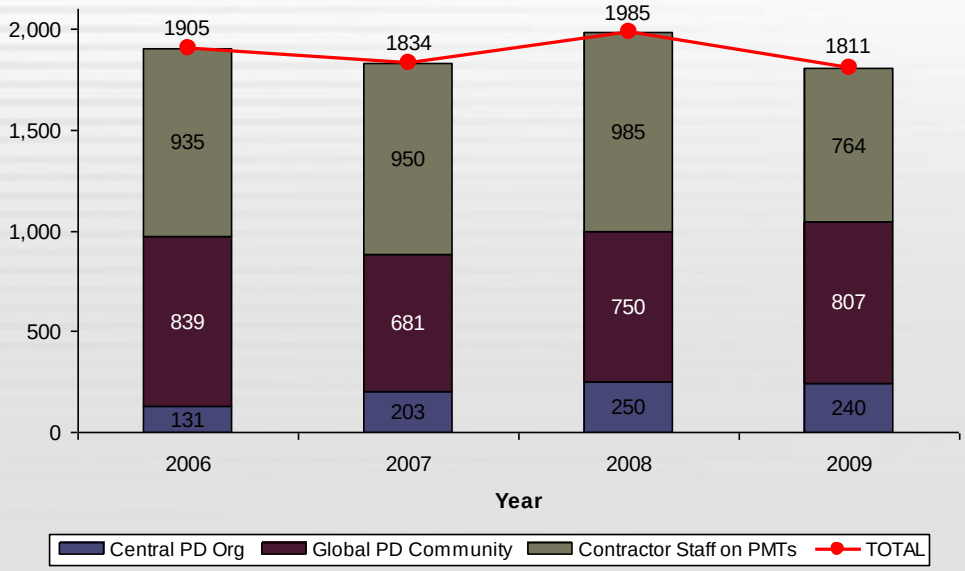
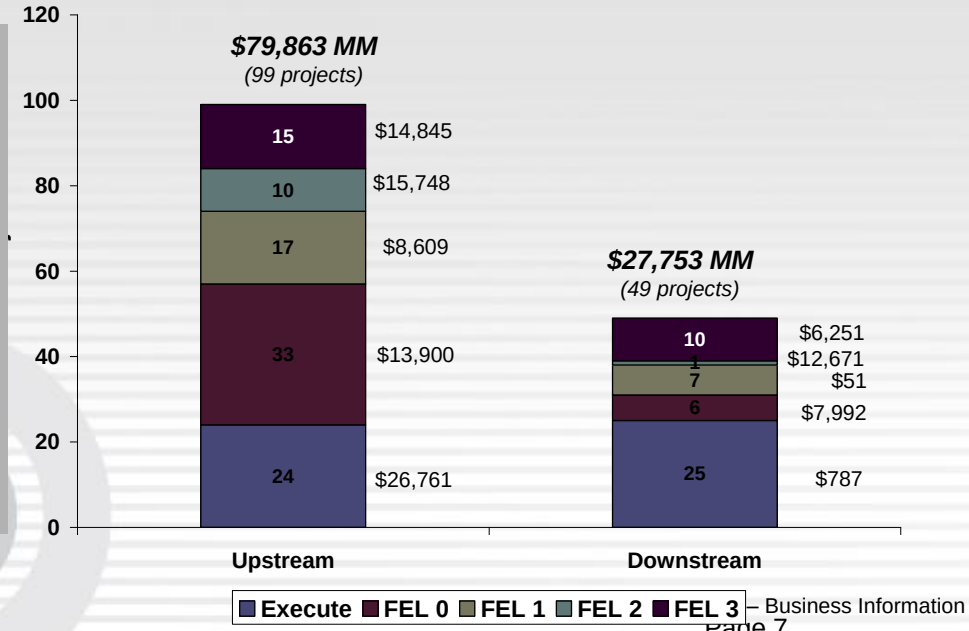
Project Development People and Portfolio Direction

Global Project Development Headcount



Global Project Portfolio by Phase



We are ~1800 people managing a $108 B net portfolio with an annual capital spend of $4-8 B net

<u>Trends for 2010-2012 include:</u>

-Replacing contractors with employees
  - -Enhance the COP-way
  - -Gain transparency and predictability

-Central organization at steady state
  - -The toolkit largely built, limit changes
  - -Focus on quality implementation
  - -Charles Rivers validated pathforward

-New and challenging opportunities
  - -Average project size is increasing
  - -New country entry (Abu Dhabi, KSA)
  - -Largest ever operated in existing BUs (Surmont 2, APLNG)

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Project Risk and Reviews enable transparent communication and improve project predictability

2007 to 2009

Risk Management

- Risk Register 1.0 then 2.0
- Contingency Breakdown Report established 2008
- Contingency Drawdown 2009

Engagements & Reviews

- Engagement Process and Planning established 2008
- AFF review dropped and fit-for-purpose reviews emphasized
- Legends Program started

People and Training

- Central team of 4 risk specialists and 4 Upstream BU specialists established
- Central engagement manager team of 6 established, roles defined and codified

2010

Risk Management

- Emphasize execution risk management with coordinators
- Introduce management reserve and stretch targets

Engagements & Reviews

- Enhance Engagement Plan quality, depth, and coverage
- Formalize review framework
- Expand Legends and define role versus consultant

People and Training

- Expand training to teams through Capstone (PDC), online aids, and thorough Standards and Procedures
- Enable risk coordinators on projects

2011+

Risk Management

- Thorough post audits complete the cycle on projects risked in FEED
- Expansion to project drilling and portfolio-level risking

Engagements & Reviews

- Reviews are inclusive of partners
- Seamless integration with PAG and other corporate functions

People and Training

- Best project engineers are rotating through coordinator and specialist roles
- Best project managers are rotating through as engagement managers

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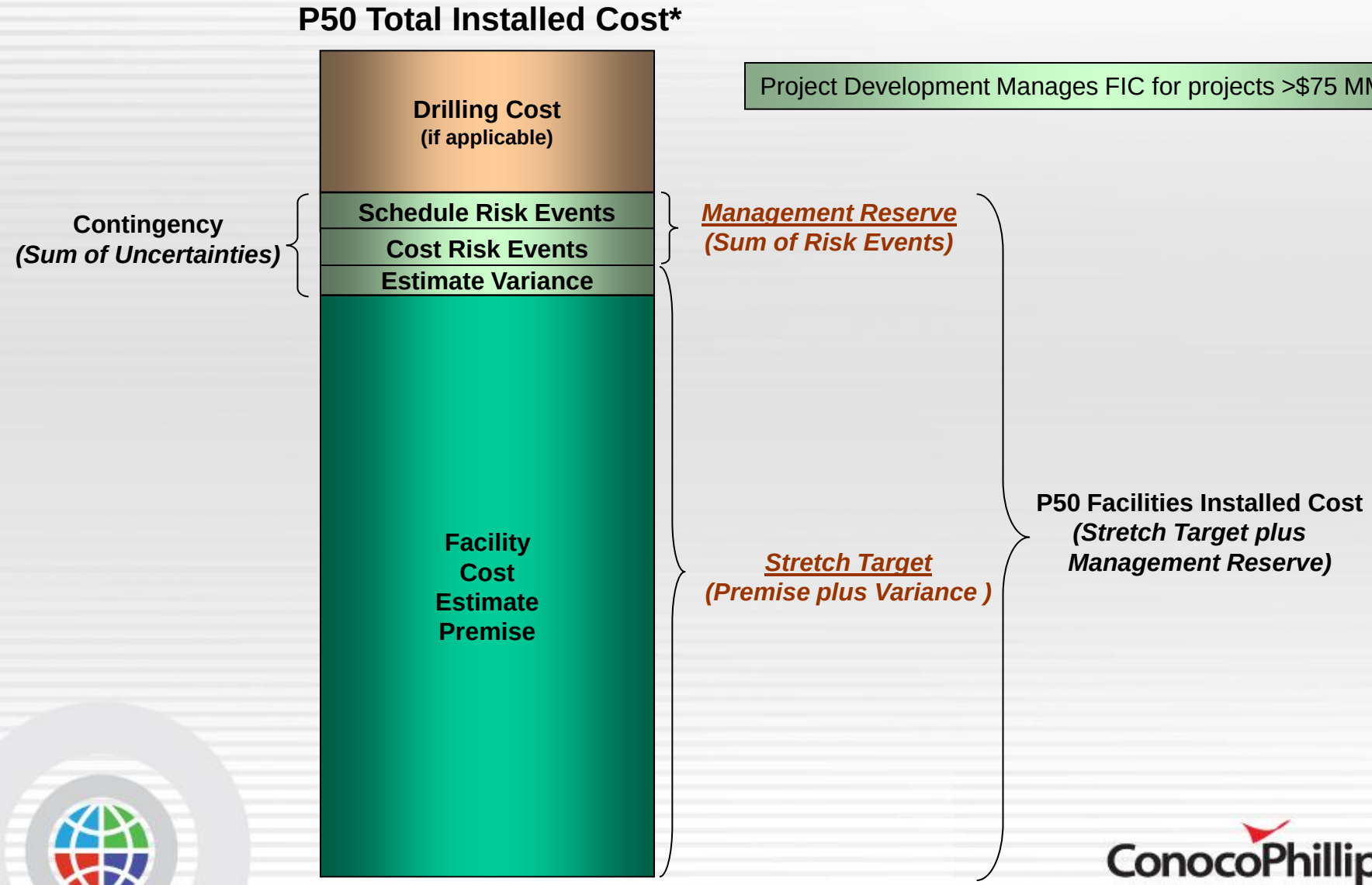
Cost build-up illustration and definitions



*All cost elements include associated escalation

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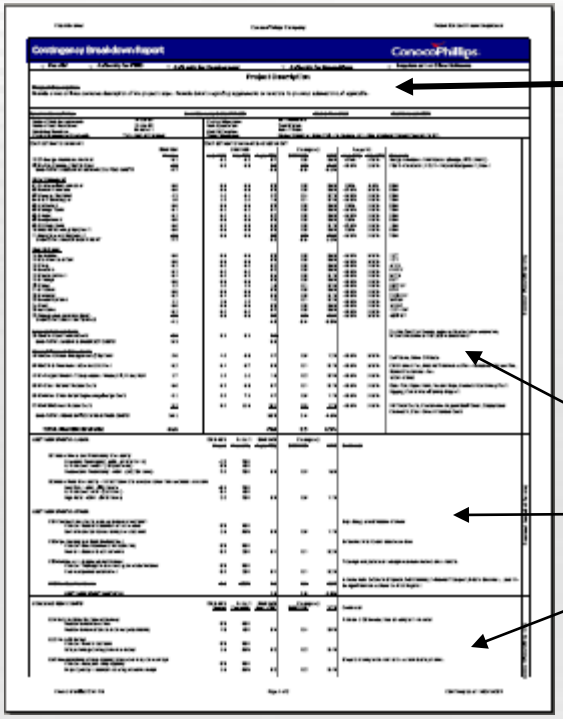
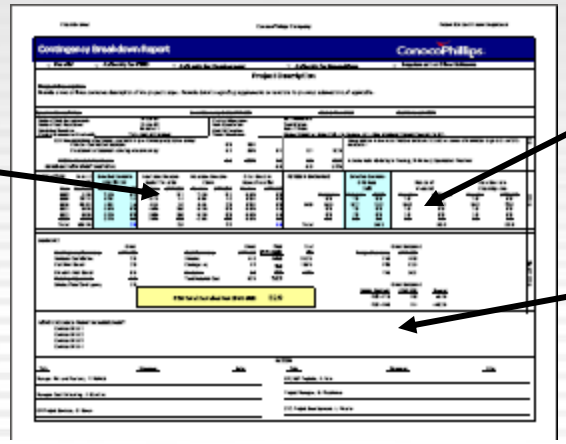
Contingency Breakdown Report (CBR) is the transparent "contract"





Project Description

Estimate Breakdown and Cost Variance

Cost Risk Events

Schedule Variance and Risk Events

Explanatory Notes

Foreign Exchange Sensitivity

Escalation Scenarios

Summary

Excluded Risks

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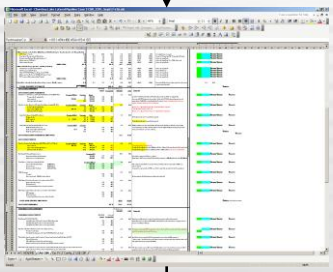
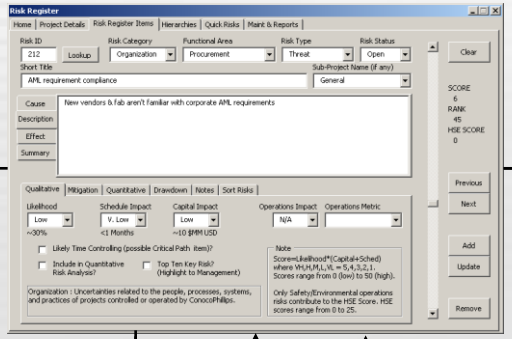
Risk Management Interfaces

Quantified Risk Details

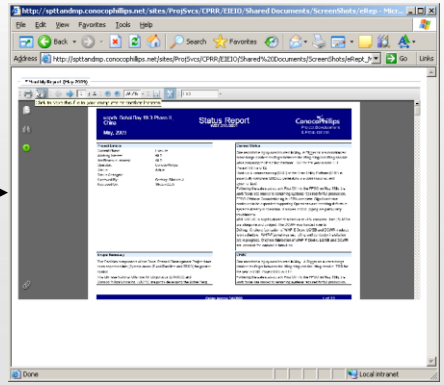
Risk Model



Risk Register

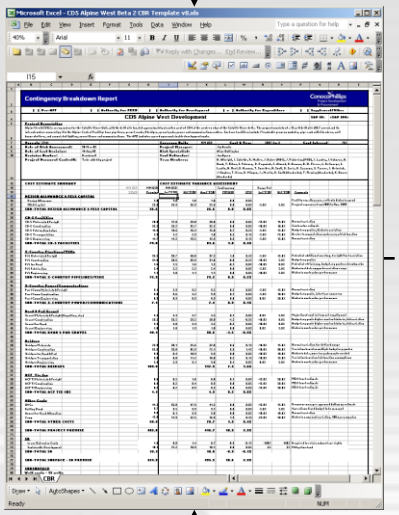


eReporting



Modeling Results

CBR



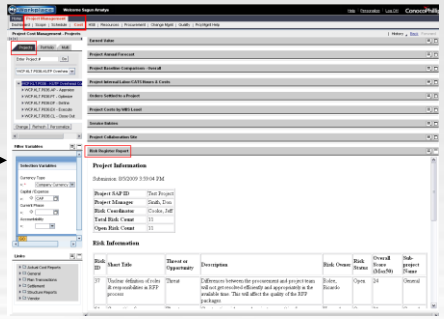
Risk Register

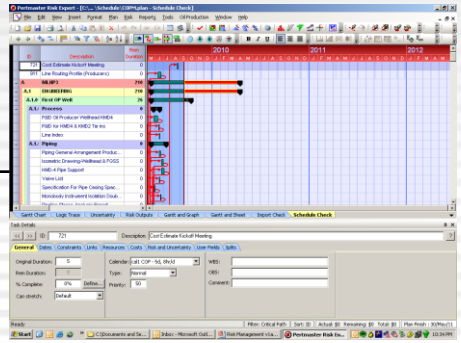
Modeling Results

Drawdown Chart
Risk Register
Progress Curve

Contingency

EPMS





Modeling Results

PertMaster

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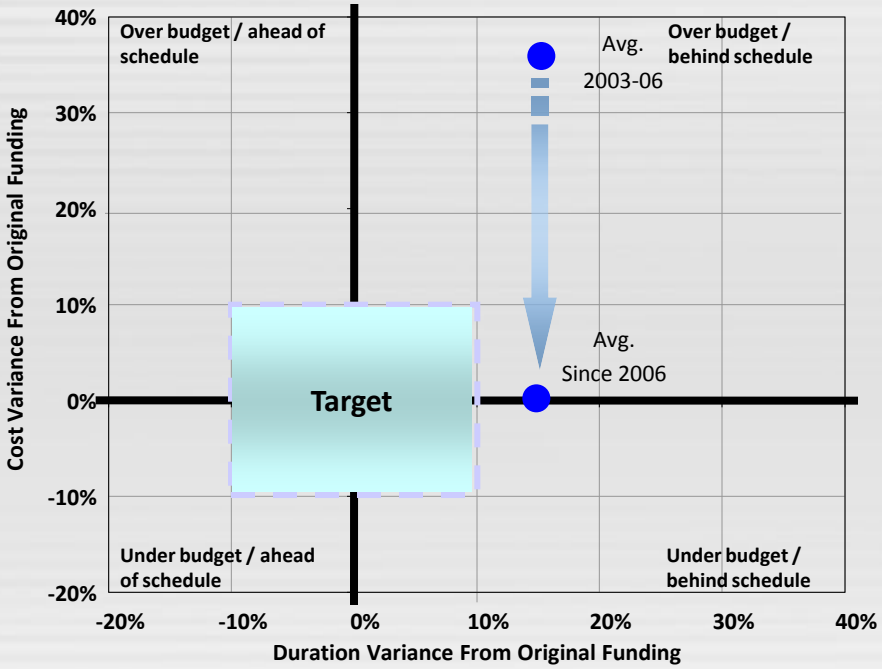
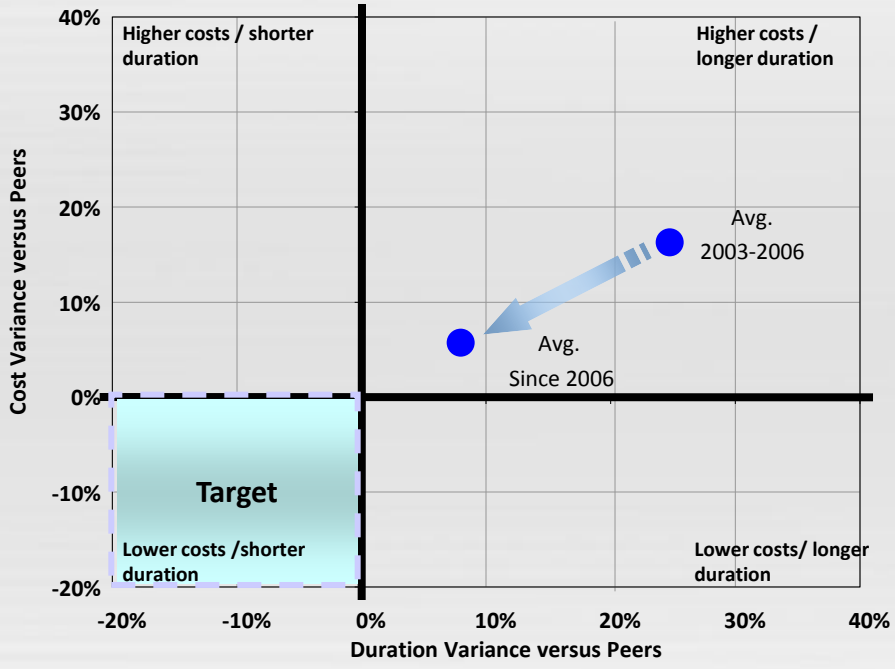
The result of changes to date is that project performance is improving significantly

Cost and Schedule Performance versus Funding (Predictability)



Cost and Schedule Performance versus Peers (Competitiveness)



According to Charles Rivers Associates:

"ConocoPhillips' Project Development Organization is on the right path to effectively support world class project delivery"

Data is averaged on a cost-weighted basis for projects greater than $75 MM net

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Back-up Slides

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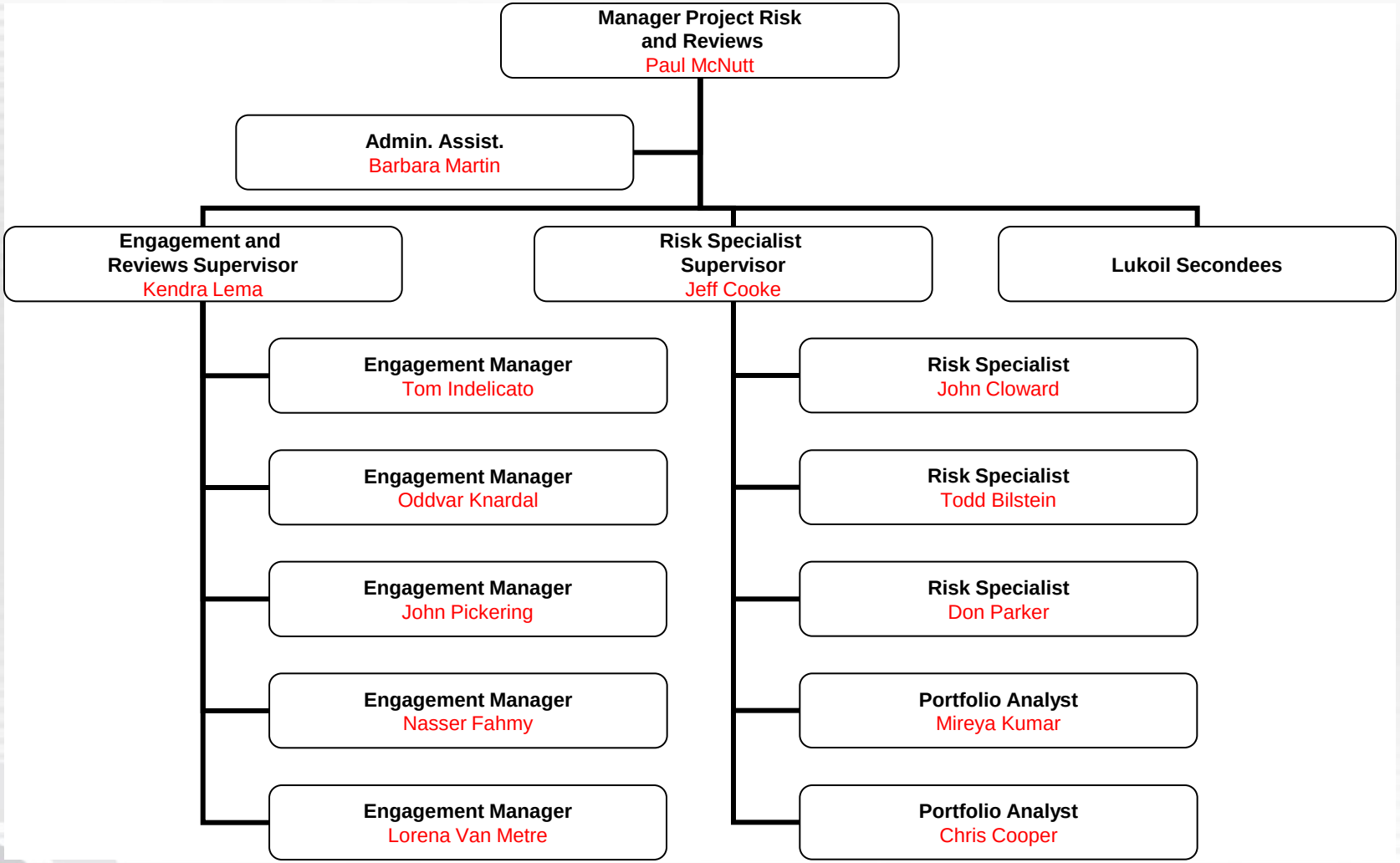
PRR Organizational Chart



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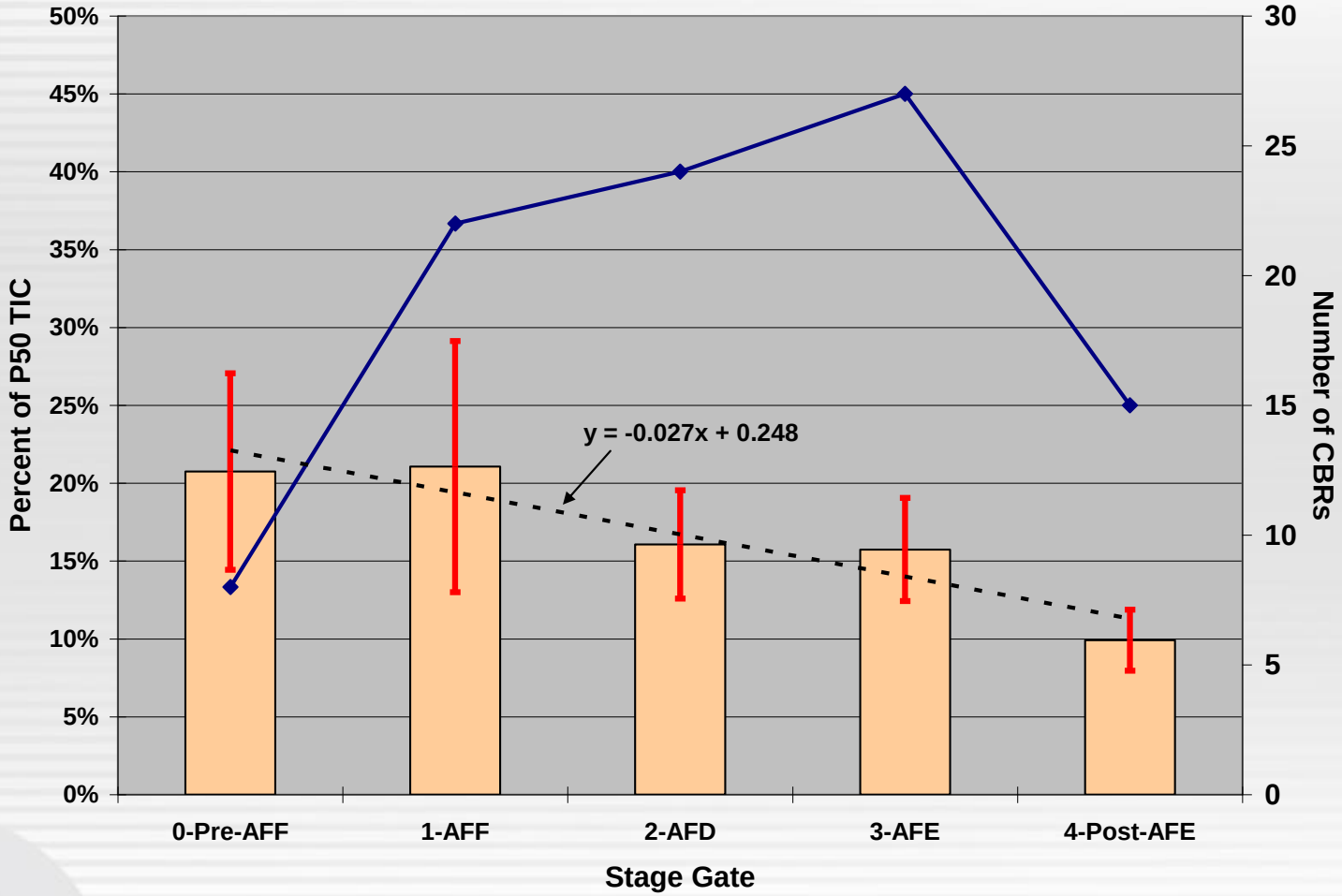
As expected, the data show a tendency for contingency to decline over stage gates



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Risk Category Definitions

Strategic
less tangible
Harder to quantify

Tactical
tangible
Easier to quantify

	Internal	External
Strategic	**Organizational** "Degree of complexity" *What people, processes, or tools do we lack to successfully execute the project?* ***Examples:*** *Team selection, change management, processes and procedures*	**Stakeholder** "Degree of control" *Who influences our project outcomes?* ***Examples:*** *Partner misalignment, permit delays*
Tactical	**Definition** "Degree of readiness" *What are we building? How ready are we?* ***Examples:*** *Scope defined, contracts, onshore/offshore*	**Technical** "Degree of difficulty" *How difficult is it to complete the project?* ***Examples:*** *Arctic conditions, pipe corrosion*

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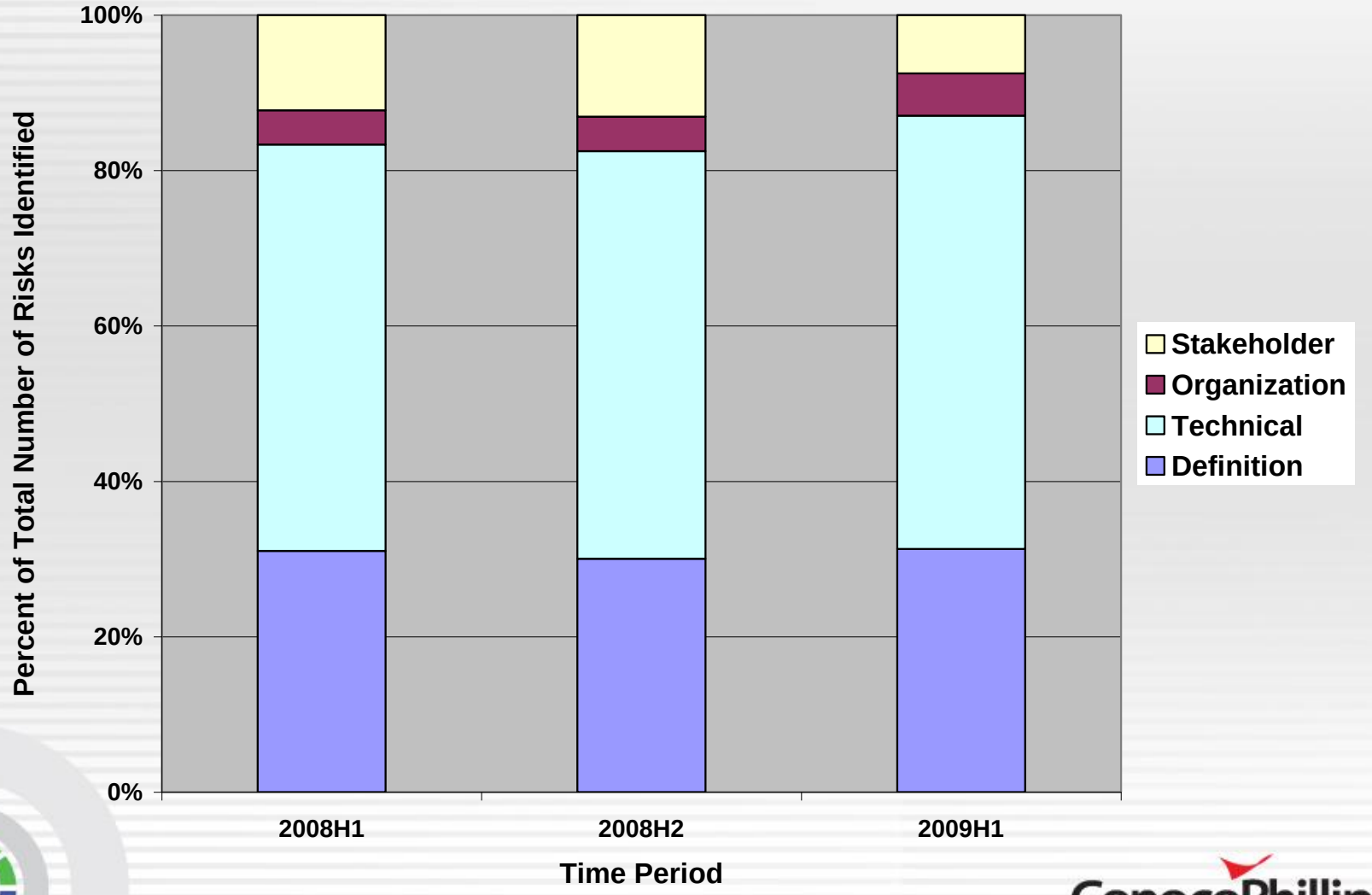
The percent of total number of uncertainties identified by type has remained quite stable across time periods



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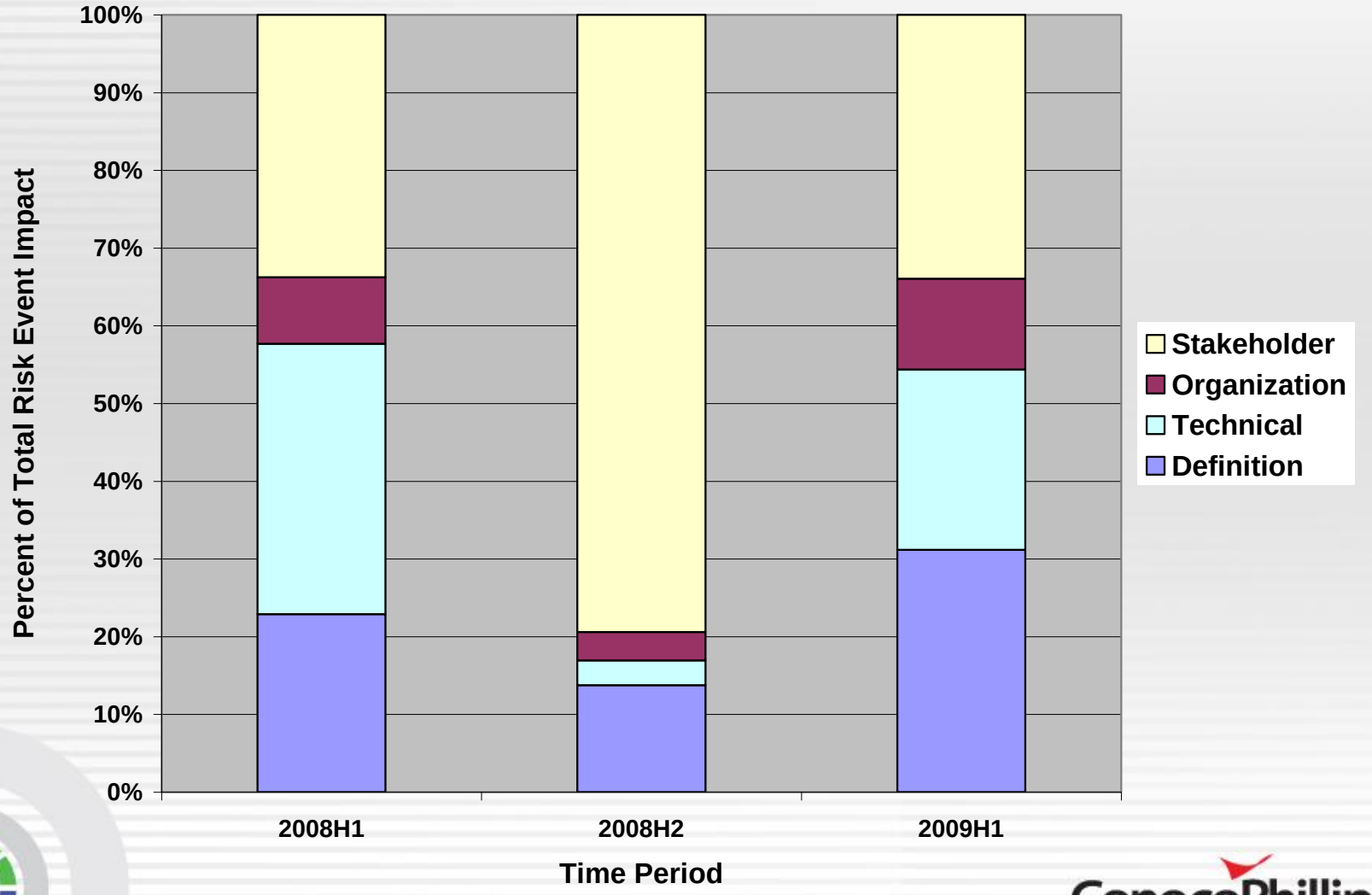
The percent of total risk event impact has changed, but changes in the project slates and small sample sizes make drawing conclusions difficult



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