

# **United States-Indonesia Energy Investment Roundtable**

***Natural Gas Pricing and Policy***

**February 6, 2012**

***Jim Taylor***

***President IPA / ConocoPhillips Indonesia***

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## **CAUTIONARY STATEMENT FOR THE PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The following presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. You can identify our forward-looking statements by words such as “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” and similar expressions. Forward-looking statements relating to ConocoPhillips’ operations are based on management’s expectations, estimates and projections about ConocoPhillips and the petroleum industry in general on the date these presentations were given. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements.

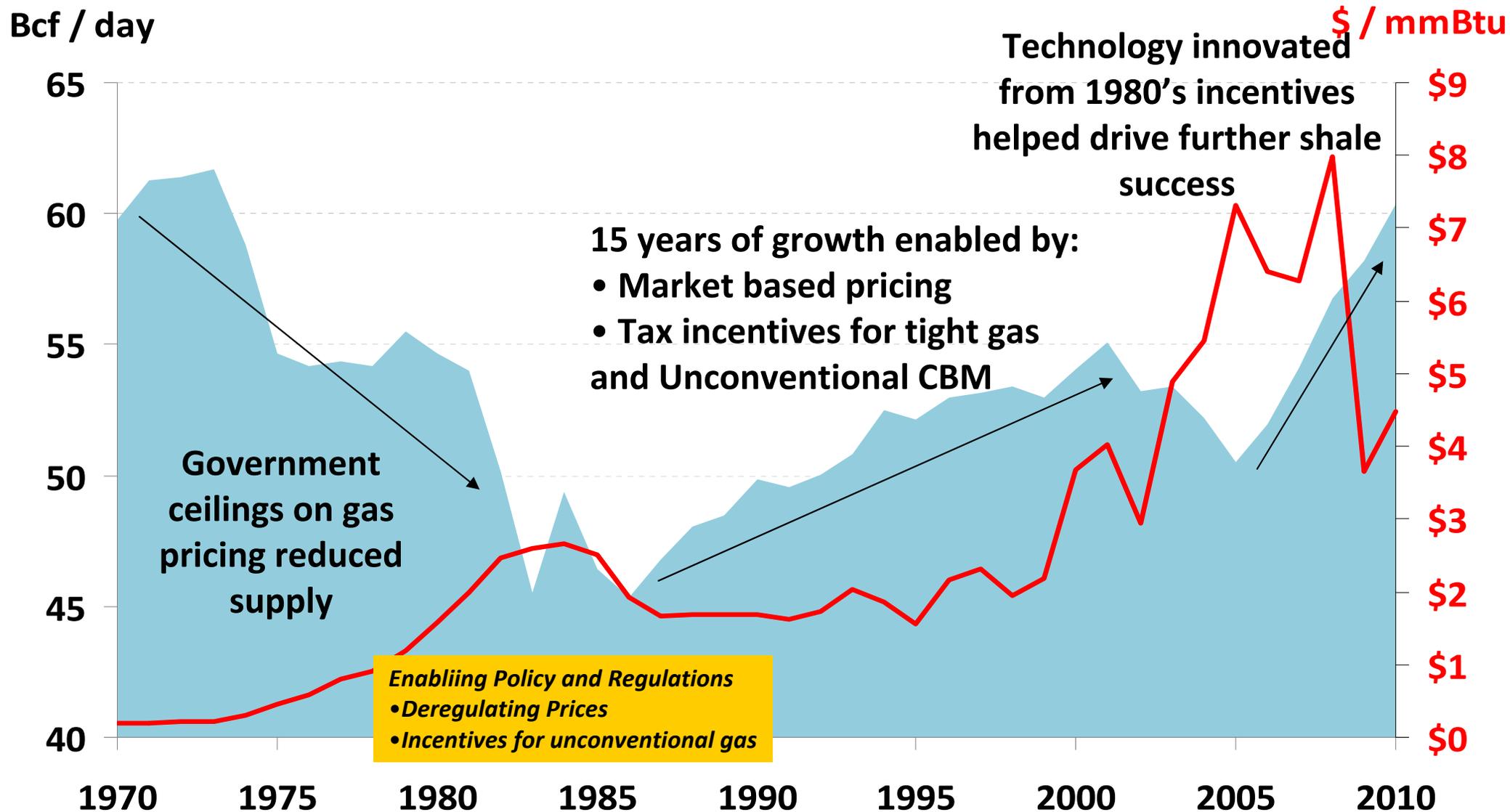
Factors that could cause actual results or events to differ materially include, but are not limited to, crude oil and natural gas prices; refining and marketing margins; potential failure to achieve, and potential delays in achieving expected reserves or production levels from existing and future oil and gas development projects due to operating hazards, drilling risks, and the inherent uncertainties in interpreting engineering data relating to underground accumulations of oil and gas; unsuccessful exploratory drilling activities; lack of exploration success; potential disruption or unexpected technical difficulties in developing new products and manufacturing processes; potential failure of new products to achieve acceptance in the market; unexpected cost increases or technical difficulties in constructing or modifying company manufacturing or refining facilities; unexpected difficulties in manufacturing, transporting or refining synthetic crude oil; international monetary conditions and exchange controls; potential liability for remedial actions under existing or future environmental regulations; potential liability resulting from pending or future litigation; general domestic and international economic and political conditions, as well as changes in tax and other laws applicable to ConocoPhillips’ business.

Other factors that could cause actual results to differ materially from those described in the forward-looking statements include other economic, business, competitive and/or regulatory factors affecting ConocoPhillips’ business generally as set forth in ConocoPhillips’ filings with the Securities and Exchange Commission (SEC), including our Form 10-K for the year ending December 31, 2009. ConocoPhillips is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

Cautionary Note to U.S. Investors – The U.S. Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We may use certain terms in this presentation such as “oil/gas resources,” “oil in place,” “recoverable bitumen,” “exploitable bitumen in place,” and “bitumen in place” that the SEC’s guidelines strictly prohibit us from including in filings with the SEC. The term “reserves,” as used in this presentation, includes proved reserves from Syncrude oil sands operations in Canada which are currently reported separately as mining operations in our SEC reports. Under amendments to the SEC rules, mining oil sands reserves will no longer be reported separately. U.S. investors are urged to consider closely the oil and gas disclosures in our Form 10-K for the year ended December 31, 2009.

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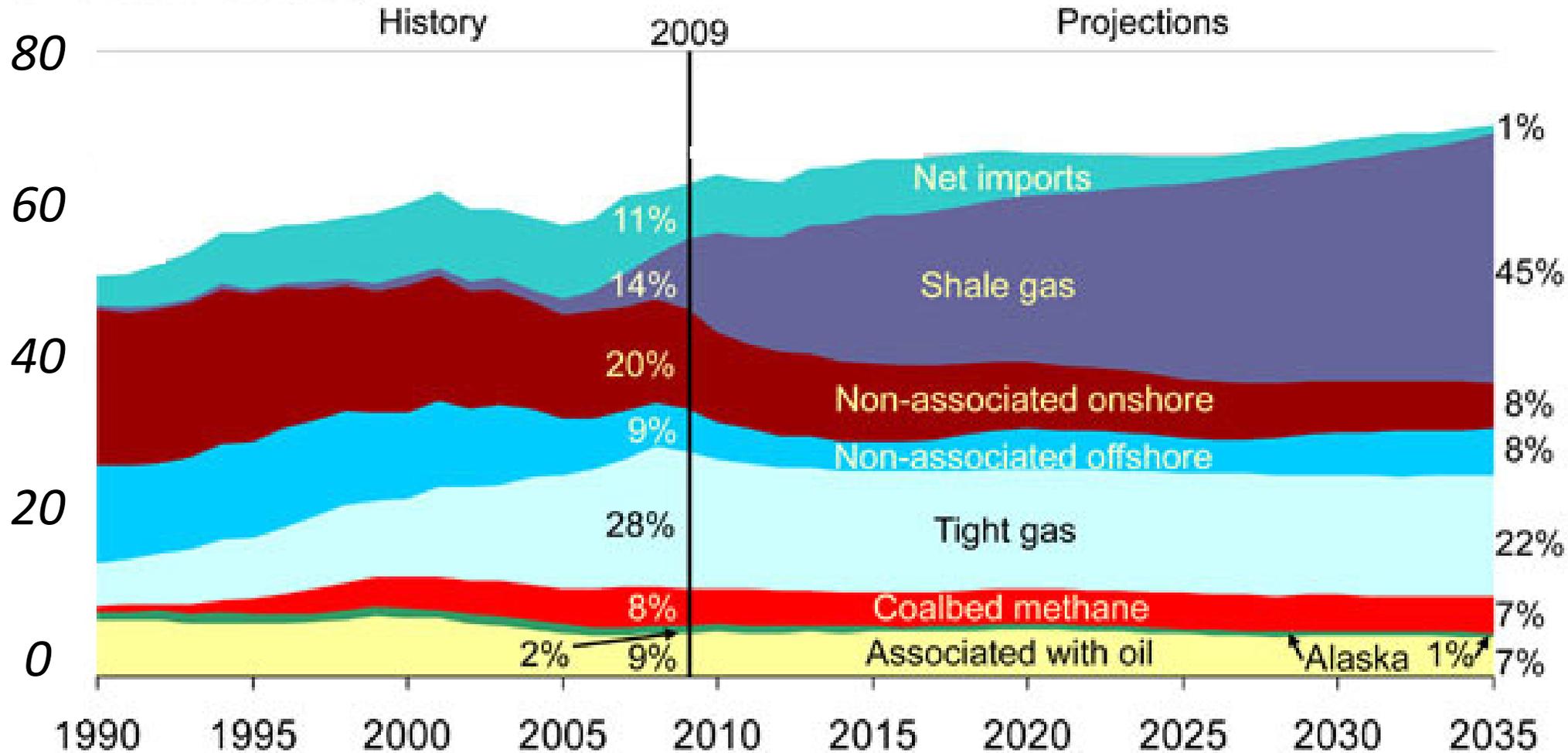
# US Lower 48 Natural Gas Production



Source: US Department of Energy, Energy Information Administration

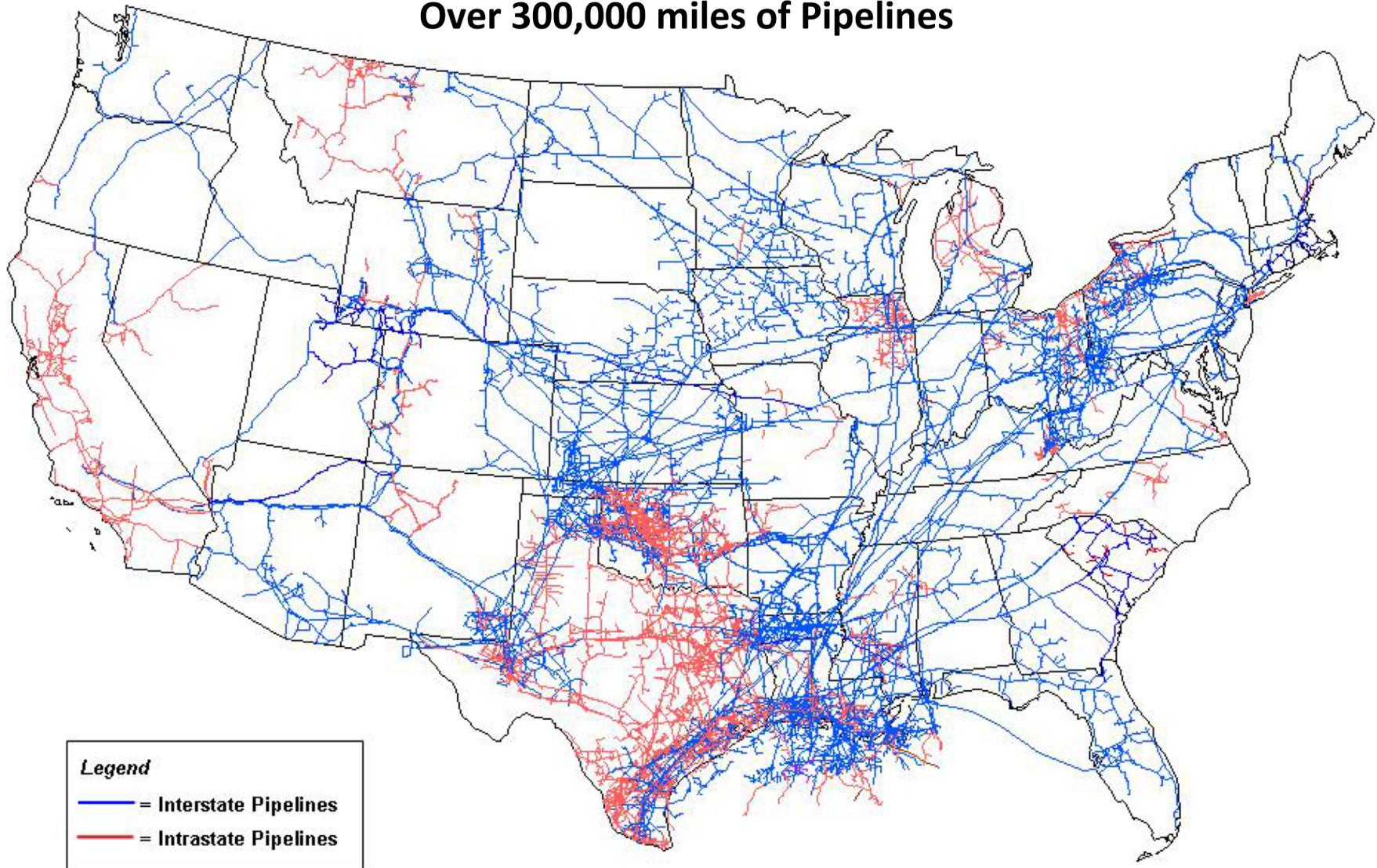
# US Natural Gas Supply Sources

*Billion cubic feet per day*



# U.S Natural Gas Pipeline Infrastructure

Over 300,000 miles of Pipelines

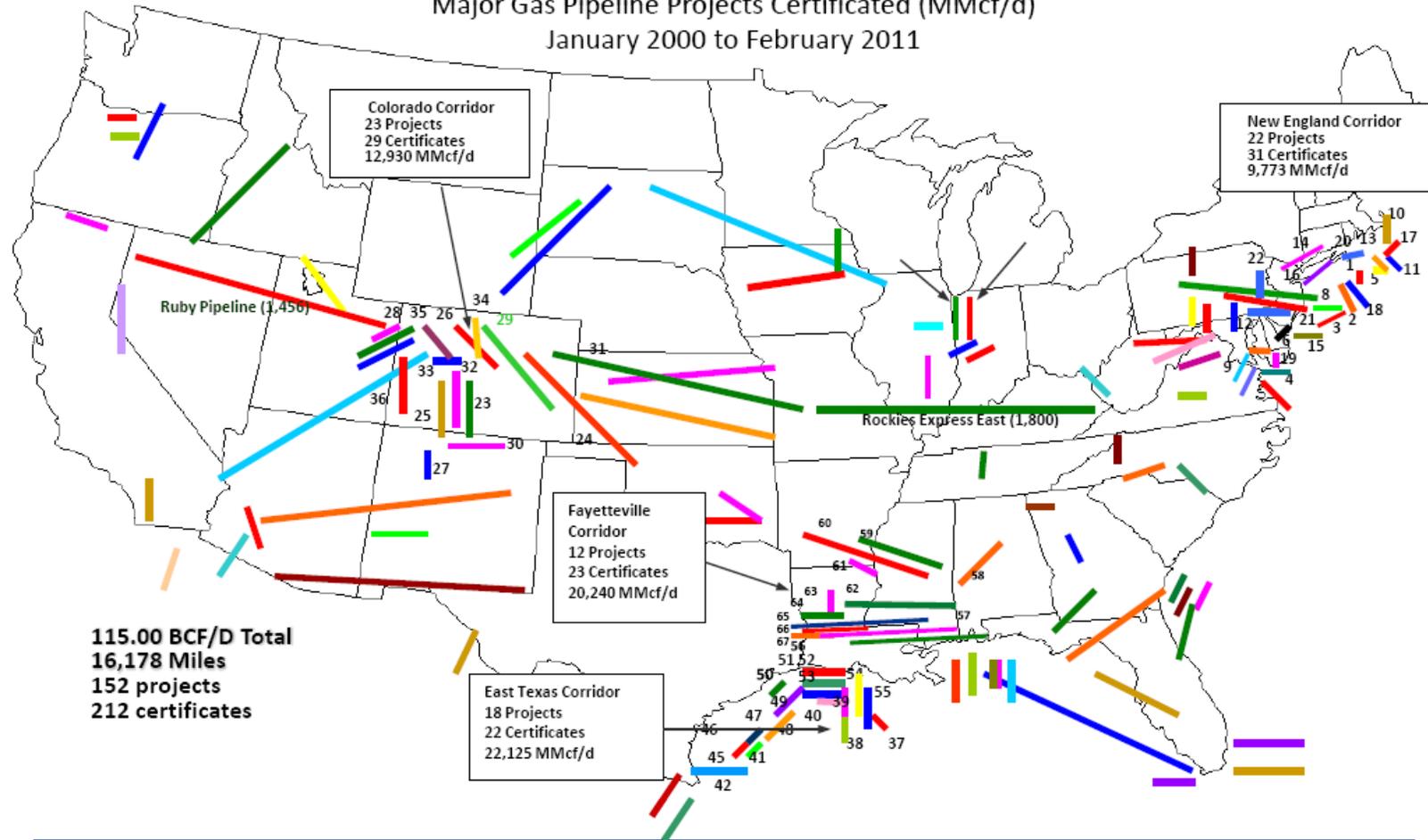


Source: Energy Information Administration, Office of Oil & Gas, Natural Gas Division, Gas Transportation Information System

# US Infrastructure Growth

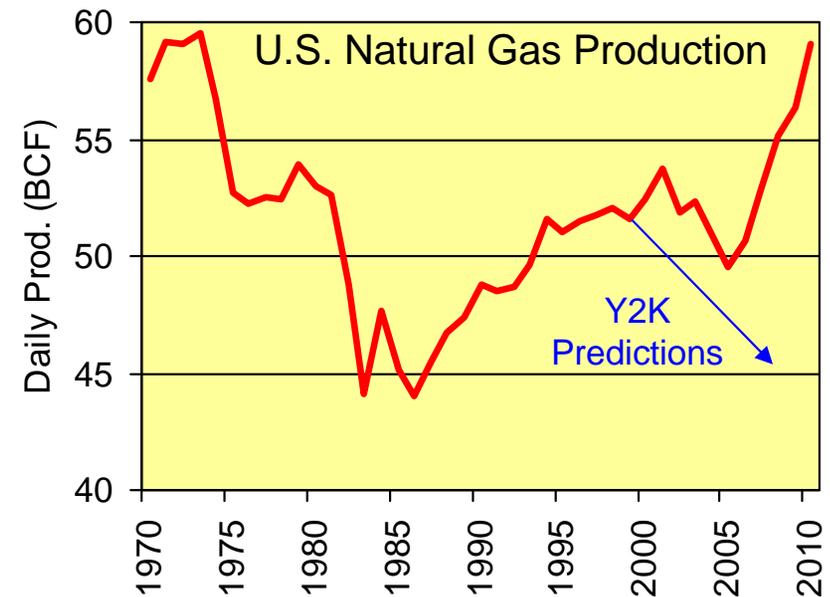


## Market Responsive Infrastructure Additions Major Gas Pipeline Projects Certificated (MMcf/d) January 2000 to February 2011

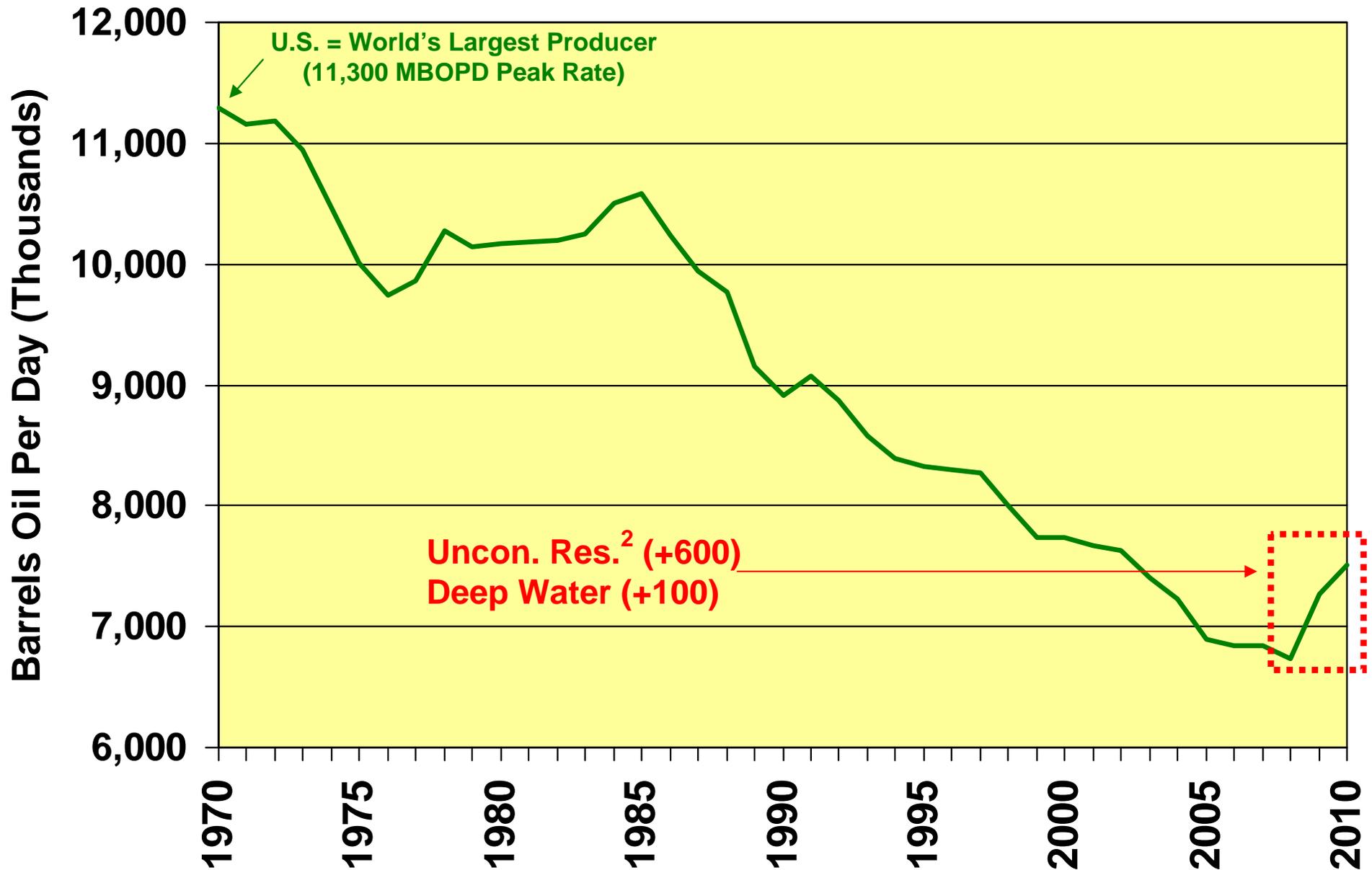


# The "Unconventional Reservoir" Revolution: Impact on the North American Natural Gas Market

- Rapid supply growth
- Supply greater than demand
- Natural gas price collapse
- LNG imports no longer needed
- Arctic pipelines no longer needed
- Increase in exports to Mexico
- LNG exports being considered
- >> share of electric gen. market
- Chemical industry rejuvenation



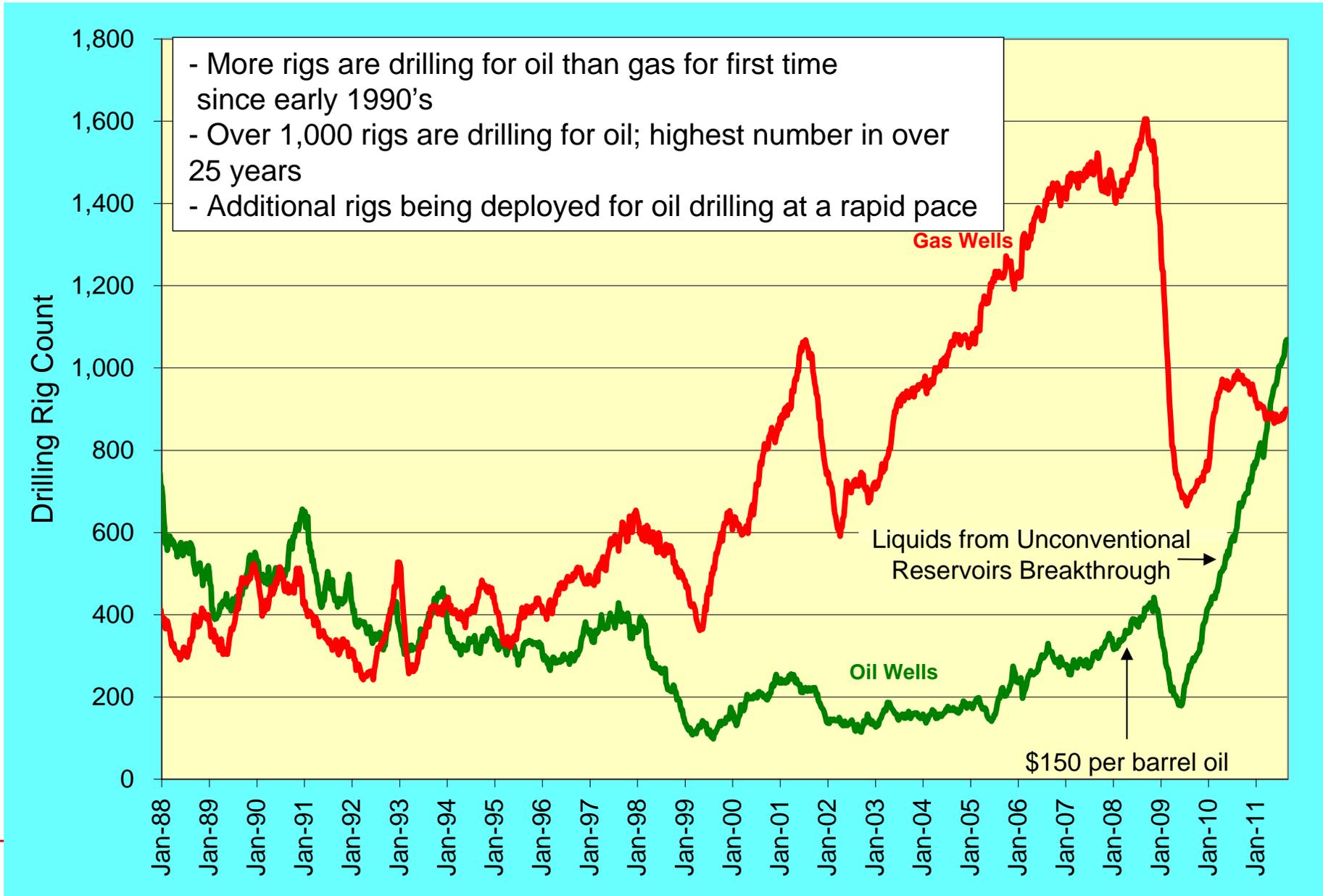
# Unconventional Reservoirs Produce Liquids Also



<sup>1</sup> Data from BP 2011 Statistical Review of World Energy; Oil includes condensate & NGLs; split between Unconv. Res. and Deep Water is approximate

<sup>2</sup> "Uncon. Res." = Unconventional Reservoirs, which include shale and carbonate source rocks, CBM and ultra-tight sandstones and carbonates

# U.S. Drilling Fleet Deployment in Response to the "Liquids from Unconventional Reservoirs"



# Gas Infrastructure in Indonesia



# PRINCIPAL INDUSTRY ISSUES TO BE ADDRESSED

- **GR NO. 79/2010 ON COST RECOVERY AND INCOME TAX**
  - Opposes existing PSCs and creates uncertainty of future PSCs
- **AMENDMENT TO LAW NO.22/2011 ON OIL AND GAS**
  - Minimal changes required
- **APPROVAL AND REGULATORY ENVIRONMENT**
  - Move from managing costs to managing production
- **MARKET BASED GAS PRICING NEEDED TO BE COMPETITIVE**
  - To ensure investment is made to explore for and develop gas the price needs to be competitive
- **LICENSE EXTENSIONS NEED TO BE TRANSPARENT AND EARLY**
  - Delays in extension process put investment and production
- **BANK INDONESIA REGULATION OF FOREIGN EXCHANGE PROCEEDS**
  - PSC rights should be preserved



# CONCLUSIONS

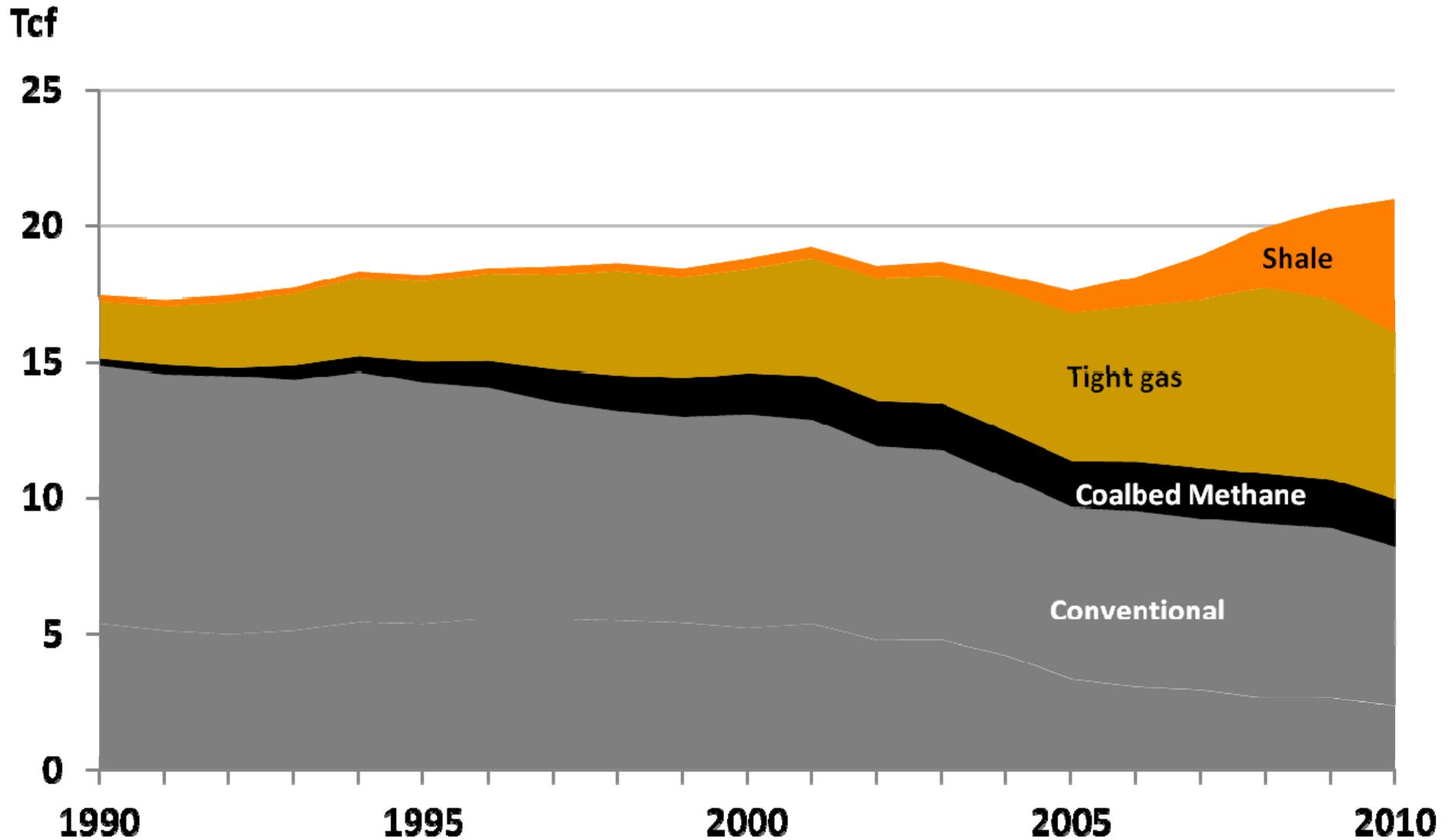
- **INDONESIA HAS STRONG ECONOMIC GROWTH OF 6.5% in 2011**
  - Economy's energy needs are growing and more oil and gas are needed
  - Transitioning from revenue generator to economic enabler will take time
- **HYDROCARBON PRODUCTION HAS BECOME MORE DIFFICULT**
  - Mature fields are declining
  - New opportunities are in more challenging areas (remote, offshore, East)
  - Unconventional developments are untested and require a lot of wells, technology and infrastructure
- **EXPLORATION INVESTMENT AND PRODUCTION HAS DECLINED**
  - Fiscal policies need to be competitive to attract necessary investment
- **MANAGING COST RECOVERY IS NOT SUPPORTING PRODUCTION INCREASES**
- **MARKET BASED PRICING, SUPPORTING REGULATIONS AND INCENTIVES HAS GENERATED SIGNIFICANT INVESTMENT AND NEW SUPPLIES OF NATURAL GAS AND LIQUIDS PRODUCTION IN THE US**
- **THE CREATION OF NEW SUPPLIES OF OIL AND GAS CAN BENEFIT ECONOMIC GROWTH & THE PEOPLE OF INDONESIA**



***TERIMA KASIH***

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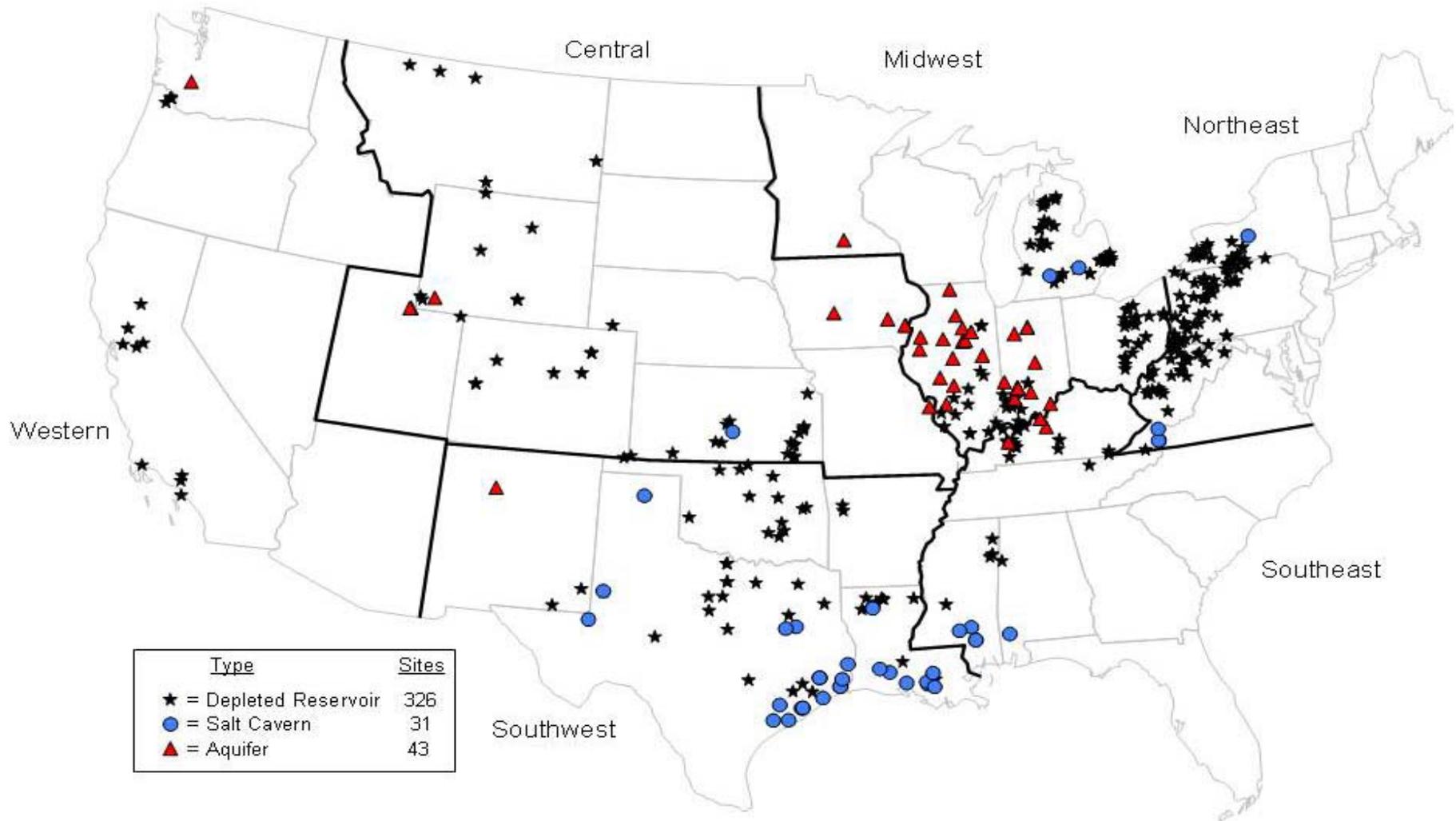
# Lower-48 Natural Gas Production



Source: US Department of Energy, Energy Information Administration

# U.S Natural Gas Storage Infrastructure

Over 4 Trillion Cubic Feet of Working Gas Storage Capability

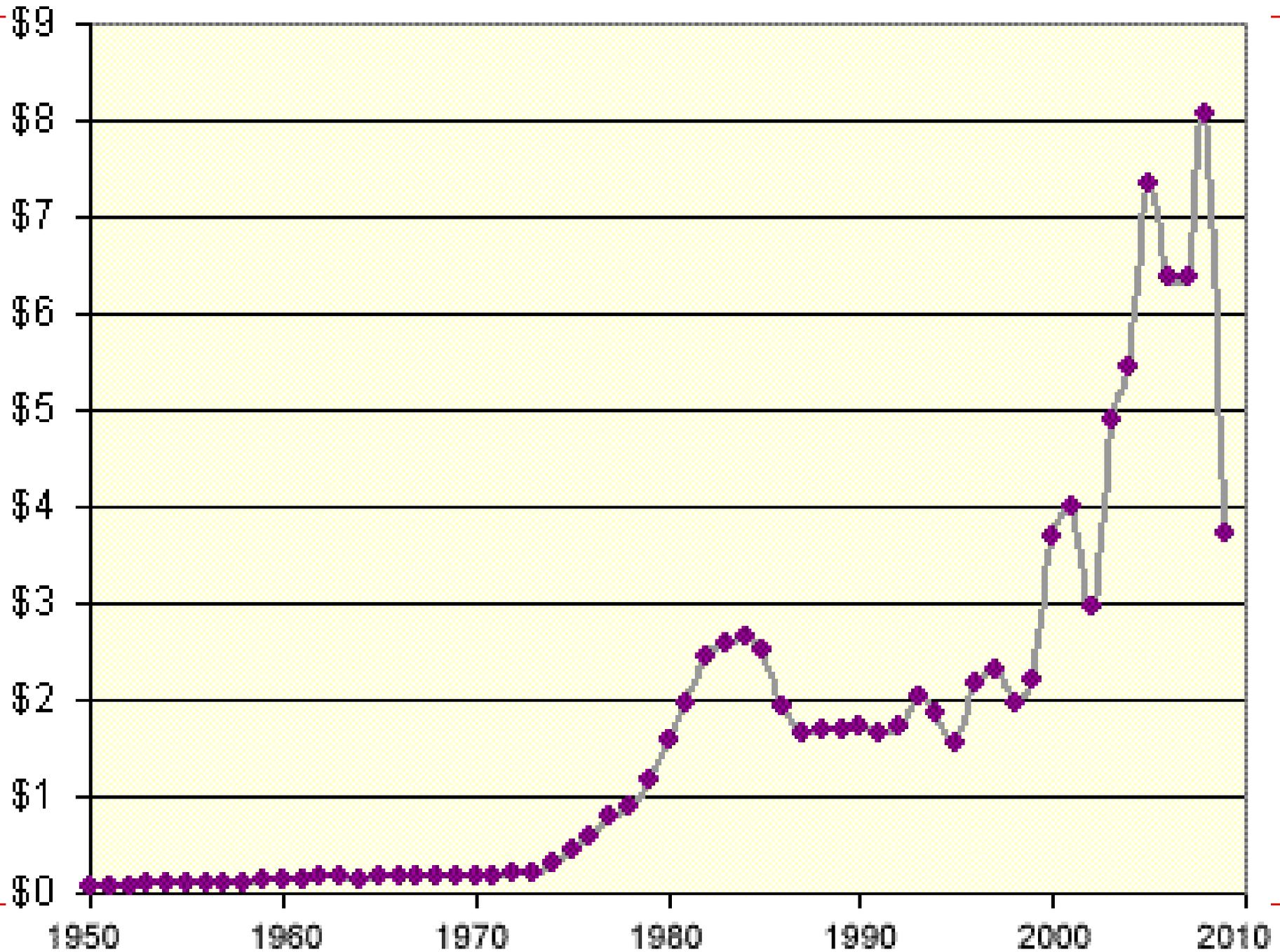


Source: Energy Information Administration, Office of Oil & Gas, Natural Gas Division Gas, Gas Transportation Information System, December 2008.

# LNG Indonesia



# Long-Term History: Average Annual Wellhead Price Phillips



# Utilization of the U.S. Rig Fleet: Gas versus Oil

