

CONOCOPHILLIPS
Form 10-Q
August 04, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2009**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to

Commission file number: **001-32395**

ConocoPhillips

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

01-0562944

*(I.R.S. Employer
Identification No.)*

600 North Dairy Ashford, Houston, TX 77079

(Address of principal executive offices) (Zip Code)

281-293-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

ConocoPhillips had 1,482,903,059 shares of common stock, \$.01 par value, outstanding at June 30, 2009.

**CONOCOPHILLIPS
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| | Millions of Dollars | | | |
|--|-------------------------------|---------------|-----------------------------|----------------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenues and Other Income | | | | |
| Sales and other operating revenues* | \$ 35,448 | 71,411 | 66,189 | 126,294 |
| Equity in earnings of affiliates | 1,076 | 1,812 | 1,491 | 3,171 |
| Other income | 106 | 130 | 230 | 440 |
| Total Revenues and Other Income | 36,630 | 73,353 | 67,910 | 129,905 |
| Costs and Expenses | | | | |
| Purchased crude oil, natural gas and products | 24,609 | 51,214 | 44,368 | 89,034 |
| Production and operating expenses | 2,573 | 3,111 | 5,118 | 5,802 |
| Selling, general and administrative expenses | 476 | 629 | 951 | 1,155 |
| Exploration expenses | 243 | 288 | 468 | 597 |
| Depreciation, depletion and amortization | 2,347 | 2,178 | 4,577 | 4,387 |
| Impairments | | | | |
| Expropriated assets | 51 | - | 51 | - |
| Other | - | 19 | 3 | 25 |
| Taxes other than income taxes* | 3,715 | 5,796 | 7,179 | 10,951 |
| Accretion on discounted liabilities | 108 | 96 | 212 | 200 |
| Interest and debt expense | 268 | 210 | 578 | 417 |
| Foreign currency transaction (gains) losses | (142) | - | (11) | (43) |
| Total Costs and Expenses | 34,248 | 63,541 | 63,494 | 112,525 |
| Income before income taxes | 2,382 | 9,812 | 4,416 | 17,380 |
| Provision for income taxes | 1,068 | 4,356 | 2,246 | 7,766 |
| Net income | 1,314 | 5,456 | 2,170 | 9,614 |
| Less: net income attributable to noncontrolling interests | (16) | (17) | (32) | (36) |
| Net Income Attributable to ConocoPhillips | \$ 1,298 | 5,439 | 2,138 | 9,578 |
| Net Income Attributable to ConocoPhillips Per Share of Common Stock (dollars) | | | | |
| Basic | \$.87 | 3.54 | 1.44 | 6.18 |
| Diluted | .87 | 3.50 | 1.43 | 6.11 |

Dividends Paid Per Share of Common Stock

| | | | | | |
|------------------|----|-----|-----|-----|-----|
| <i>(dollars)</i> | \$ | .47 | .47 | .94 | .94 |
|------------------|----|-----|-----|-----|-----|

Average Common Shares Outstanding *(in**thousands)*

| | | | | |
|---------|------------------|-----------|------------------|-----------|
| Basic | 1,486,496 | 1,534,975 | 1,486,195 | 1,548,587 |
| Diluted | 1,495,700 | 1,555,447 | 1,495,474 | 1,568,867 |

**Includes excise taxes on petroleum products sales:*

| | | | | |
|----|--------------|-------|--------------|-------|
| \$ | 3,316 | 4,091 | 6,376 | 7,948 |
|----|--------------|-------|--------------|-------|

See Notes to Consolidated Financial Statements.

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Table of Contents**Consolidated Balance Sheet****ConocoPhillips**

| | Millions of Dollars | |
|--|---------------------|-------------|
| | June 30 | December 31 |
| | 2009 | 2008 |
| Assets | | |
| Cash and cash equivalents | \$ 888 | 755 |
| Accounts and notes receivable (net of allowance of \$70 million in 2009 and \$61 million in 2008) | 10,747 | 10,892 |
| Accounts and notes receivable related parties | 1,750 | 1,103 |
| Inventories | 6,181 | 5,095 |
| Prepaid expenses and other current assets | 3,508 | 2,998 |
| Total Current Assets | 23,074 | 20,843 |
| Investments and long-term receivables | 33,551 | 30,926 |
| Loans and advances related parties | 2,038 | 1,973 |
| Net properties, plants and equipment | 86,246 | 83,947 |
| Goodwill | 3,715 | 3,778 |
| Intangibles | 835 | 846 |
| Other assets | 614 | 552 |
| Total Assets | \$ 150,073 | 142,865 |
| Liabilities | | |
| Accounts payable | \$ 13,197 | 12,852 |
| Accounts payable related parties | 1,777 | 1,138 |
| Short-term debt | 1,438 | 370 |
| Accrued income and other taxes | 3,816 | 4,273 |
| Employee benefit obligations | 695 | 939 |
| Other accruals | 2,166 | 2,208 |
| Total Current Liabilities | 23,089 | 21,780 |
| Long-term debt | 28,926 | 27,085 |
| Asset retirement obligations and accrued environmental costs | 7,580 | 7,163 |
| Joint venture acquisition obligation related party | 5,343 | 5,669 |
| Deferred income taxes | 18,136 | 18,167 |
| Employee benefit obligations | 4,178 | 4,127 |
| Other liabilities and deferred credits | 2,814 | 2,609 |
| Total Liabilities | 90,066 | 86,600 |
| Equity | | |
| Common stock (2,500,000,000 shares authorized at \$.01 par value) Issued (2009 1,731,058,293 shares; 2008 1,729,264,859 shares) | | |
| Par value | 17 | 17 |

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| | | |
|--|-------------------|----------|
| Capital in excess of par | 43,514 | 43,396 |
| Grantor trusts (at cost: 2009 39,808,419 shares; 2008 40,739,129 shares) | (688) | (702) |
| Treasury stock (at cost: 2009 and 2008 208,346,815 shares) | (16,211) | (16,211) |
| Accumulated other comprehensive income (loss) | 998 | (1,875) |
| Unearned employee compensation | (89) | (102) |
| Retained earnings | 31,388 | 30,642 |
| | | |
| Total Common Stockholders' Equity | 58,929 | 55,165 |
| Noncontrolling interests | 1,078 | 1,100 |
| | | |
| Total Equity | 60,007 | 56,265 |
| | | |
| Total Liabilities and Equity | \$ 150,073 | 142,865 |

See Notes to Consolidated Financial Statements.

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| Consolidated Statement of Cash Flows | ConocoPhillips | |
|--|-----------------------|---------|
| | Millions of Dollars | |
| | Six Months Ended | |
| | June 30 | |
| | 2009 | 2008 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 2,170 | 9,614 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 4,577 | 4,387 |
| Impairments | 54 | 25 |
| Dry hole costs and leasehold impairments | 238 | 281 |
| Accretion on discounted liabilities | 212 | 200 |
| Deferred taxes | (596) | 11 |
| Undistributed equity earnings | (1,092) | (1,988) |
| Gain on asset dispositions | (36) | (213) |
| Other | 175 | (117) |
| Working capital adjustments | | |
| Decrease (increase) in accounts and notes receivable | 65 | (3,625) |
| Decrease (increase) in inventories | (973) | (2,537) |
| Decrease (increase) in prepaid expenses and other current assets | (435) | (2,349) |
| Increase (decrease) in accounts payable | 1,020 | 5,481 |
| Increase (decrease) in taxes and other accruals | (927) | 2,851 |
| Net Cash Provided by Operating Activities | 4,452 | 12,021 |
| Cash Flows From Investing Activities | | |
| Capital expenditures and investments | (5,578) | (6,720) |
| Proceeds from asset dispositions | 232 | 441 |
| Long-term advances/loans related parties | (121) | (154) |
| Collection of advances/loans related parties | 36 | 4 |
| Other | (77) | 7 |
| Net Cash Used in Investing Activities | (5,508) | (6,422) |
| Cash Flows From Financing Activities | | |
| Issuance of debt | 9,029 | 2,065 |
| Repayment of debt | (6,109) | (1,841) |
| Issuance of company common stock | (21) | 185 |
| Repurchase of company common stock | - | (5,008) |
| Dividends paid on company common stock | (1,393) | (1,449) |
| Other | (406) | (240) |
| Net Cash Provided by (Used in) Financing Activities | 1,100 | (6,288) |

| | | |
|---|---------------|-------|
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 89 | 20 |
| Net Change in Cash and Cash Equivalents | 133 | (669) |
| Cash and cash equivalents at beginning of period | 755 | 1,456 |
| Cash and Cash Equivalents at End of Period | \$ 888 | 787 |

See Notes to Consolidated Financial Statements.

Table of Contents**Notes to Consolidated Financial Statements****ConocoPhillips****Note 1 Interim Financial Information**

The interim-period financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated financial position of ConocoPhillips and its results of operations and cash flows for such periods. All such adjustments are of a normal and recurring nature. To enhance your understanding of these interim financial statements, see the consolidated financial statements and notes included in our 2008 Annual Report on Form 10-K.

Note 2 Changes in Accounting Principles**SFAS No. 165**

Effective April 1, 2009, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events. This Statement establishes the accounting for, and disclosure of, material events that occur after the balance sheet date, but before the financial statements are issued. In general, these events will be recognized if the condition existed at the date of the balance sheet, and will not be recognized if the condition did not exist at the balance sheet date. Disclosure is required for nonrecognized events if required to keep the financial statements from being misleading. The guidance in this Statement is very similar to current guidance provided in auditing literature and, therefore, will not result in significant changes in practice. Subsequent events have been evaluated through the date our interim financial statements were issued the filing time and date of our second-quarter 2009 Quarterly Report on Form 10-Q.

SFAS No. 141 (Revised)

In December 2007, the FASB issued SFAS No. 141 (Revised), Business Combinations (SFAS No. 141(R)), which was subsequently amended by FASB Staff Position (FSP) FAS 141(R)-1 in April 2009. This Statement applies prospectively to all transactions in which an entity obtains control of one or more other businesses on or after January 1, 2009. In general, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the fair value of all assets acquired and liabilities assumed in the transaction; establishes the acquisition date as the fair value measurement point; and modifies disclosure requirements. It also modifies the accounting treatment for transaction costs, in-process research and development, restructuring costs, changes in deferred tax asset valuation allowances as a result of a business combination, and changes in income tax uncertainties after the acquisition date. Additionally, effective January 1, 2009, accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations impact tax expense instead of goodwill.

SFAS No. 160

Effective January 1, 2009, we implemented SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which requires noncontrolling interests, previously called minority interests, to be presented as a separate item in the equity section of the consolidated balance sheet. It also requires the amount of consolidated net income attributable to noncontrolling interests to be clearly presented on the face of the consolidated income statement. Additionally, this Statement clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions, and that deconsolidation of a subsidiary requires gain or loss recognition in net income based on the fair value on the deconsolidation date. This Statement was applied prospectively with the exception of presentation and disclosure requirements, which were applied retrospectively for all periods presented, and did not significantly change the presentation of our consolidated financial statements. Equity attributable to noncontrolling interests did not change materially from year-end 2008 to June 30, 2009.

Table of Contents**SFAS No. 161**

Effective January 1, 2009, we implemented SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB No. 133. This Statement does not affect amounts reported in the financial statements; it only expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to provide greater transparency for derivative instruments within the scope of that Statement. Disclosures previously required only for the annual financial statements are now required in interim financial statements. In addition, we now must include an indication of the volume of derivative activity by category (e.g., interest rate, commodity and foreign currency); derivative gains and losses, by category, for the periods presented in the financial statements; and expanded disclosures about credit-risk-related contingent features. See Note 13 *Financial Instruments and Derivative Contracts*, for additional information.

SFAS No. 157

Effective January 1, 2008, we implemented SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. We elected to implement this Statement with the one-year deferral permitted by FSP FAS 157-2 for nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed on a recurring basis (at least annually). Following the one-year deferral permitted by FSP FAS 157-2, effective January 1, 2009, we implemented SFAS No. 157 for nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis. The implementation covers assets and liabilities measured at fair value in a business combination; impaired properties, plants and equipment, intangible assets and goodwill; initial recognition of asset retirement obligations; and restructuring costs for which we use fair value. In the first six months of 2009, we did not have a business combination, impairment of goodwill or intangible asset, or restructuring accrual requiring the use of fair value. Because there usually is a lack of quoted market prices for long-lived assets, the fair value of properties, plants and equipment is determined based on the present values of expected future cash flows using inputs reflecting our estimate of a number of variables used by industry participants when valuing similar assets, or based on a multiple of operating cash flow validated with historical market transactions of similar assets where possible. Fair value used in the initial recognition of asset retirement obligations is determined based on the present value of expected future dismantlement costs incorporating our estimate of inputs used by industry participants when valuing similar liabilities. There was no impact to our consolidated financial statements from the implementation of this Statement for nonfinancial assets and liabilities, and we do not expect any significant impact to our future consolidated financial statements, other than additional disclosures.

EITF No. 08-6

In November 2008, the FASB reached a consensus on Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6), which was issued to clarify how the application of equity method accounting is affected by SFAS No. 141(R) and SFAS No. 160. EITF 08-6 clarifies that an entity shall continue to use the cost accumulation model for its equity method investments. It also confirms past accounting practices related to the treatment of contingent consideration and the use of the impairment model under Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Additionally, it requires an equity method investor to account for a share issuance by an investee as if the investor had sold a proportionate share of the investment. This Issue was effective January 1, 2009, and applies prospectively.

Table of Contents**Note 3 Variable Interest Entities (VIEs)**

We hold significant variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. Information on these VIEs follows.

We own a 24 percent interest in West2East Pipeline LLC, a company holding a 100 percent interest in Rockies Express Pipeline LLC, operated by Kinder Morgan Energy Partners, L.P. Rockies Express is constructing a natural gas pipeline from Colorado to Ohio. West2East is a VIE because a third party has a 49 percent voting interest through the end of the construction of the pipeline, but has no ownership interest. This third party was originally involved in the project, but exited and retained its voting interest to ensure project completion. We have no voting interest during the construction phase, but once the pipeline has been completed, our ownership will increase to 25 percent with a voting interest of 25 percent. Additionally, we have contracted for approximately 22 percent of the pipeline capacity for a 10-year period once the pipeline becomes operational. Construction commenced on the pipeline in 2006. The operator anticipates construction completion in late 2009 and estimates total construction costs of approximately \$6.7 billion. Our portion is expected to be funded by a combination of equity contributions and a guarantee of debt incurred by Rockies Express. Given our 24 percent ownership and the fact expected returns are shared among the equity holders in proportion to ownership, we are not the primary beneficiary. We use the equity method of accounting for our investment. At June 30, 2009, the book value of our investment in West2East was \$437 million. Construction cost estimates have increased significantly from original projections, and additional increases or other changes related to the investment may impact whether an other-than-temporary impairment of our equity investment in West2East is required.

We have a 30 percent ownership interest with a 50 percent governance interest in the OOO Naryanmarneftegaz (NMNG) joint venture to develop resources in the Timan-Pechora province of Russia. The NMNG joint venture is a VIE because we and a related party, OAO LUKOIL, have disproportionate interests. When related parties are involved in a VIE, reasonable judgment should take into account the relevant facts and circumstances for the determination of the primary beneficiary. The activities of NMNG are more closely aligned with LUKOIL because they share Russia as a home country, and LUKOIL conducts extensive exploration activities in the same province. Additionally, there are no financial guarantees given by LUKOIL or us, and LUKOIL owns 70 percent, versus our 30 percent direct interest. As a result, we have determined we are not the primary beneficiary of NMNG, and we use the equity method of accounting for this investment. The funding of NMNG has been provided with equity contributions, primarily for the development of the Yuzhno Khylychuyu (YK) Field. Initial production from YK was achieved in June 2008. At June 30, 2009, the book value of our investment in the venture was \$2,061 million. Production from the NMNG joint venture fields is transported via pipeline to LUKOIL's terminal at Varandey Bay on the Barents Sea and then shipped via tanker to international markets. LUKOIL completed an expansion of the terminal's gross oil-throughput capacity from 30,000 barrels per day to 240,000 barrels per day, with us participating in the design and financing of the expansion. The terminal entity, Varandey Terminal Company, is a VIE because we and LUKOIL have disproportionate interests. We had an obligation to fund, through loans, 30 percent of the terminal's expansion costs, but have no governance or direct ownership interest in the terminal. Similar to NMNG, we determined we are not the primary beneficiary for Varandey because of LUKOIL's ownership, the activities are in LUKOIL's home country, and LUKOIL is the operator of Varandey. We account for our loan to Varandey as a financial asset. Terminal expansion was completed in June 2008, and the final loan amount was \$271 million at June 2009 exchange rates, excluding accrued interest. Although repayments are not required to start until May 2010, beginning in the second half of 2008 and through June 30, 2009, Varandey used available cash to pay \$40 million of interest. The outstanding accrued interest at June 30, 2009, was \$23 million at June 2009 exchange rates.

We have an agreement with Freeport LNG Development, L.P. (Freeport LNG) to participate in a liquefied natural gas (LNG) receiving terminal in Quintana, Texas. We have no ownership in Freeport LNG; however, we own a 50 percent interest in Freeport LNG GP, Inc. (Freeport GP), which serves as the general partner managing the venture. We entered into a credit agreement with Freeport LNG, whereby we agreed to provide loan financing for the construction of the terminal. We also entered into a long-term agreement with Freeport

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LNG to use 0.9 billion cubic feet per day of regasification capacity. The terminal became operational in June 2008, and we began making payments under the terminal use agreement. In August 2008, the loan was converted from a construction loan to a term loan and consisted of \$650 million in loan financing and \$124 million of accrued interest. Freeport LNG began making loan repayments in September 2008, and the loan balance outstanding as of June 30, 2009, was \$737 million. Freeport LNG is a VIE because Freeport GP holds no equity in Freeport LNG, and the limited partners of Freeport LNG do not have any substantive decision making ability. We performed an analysis of the expected losses and determined we are not the primary beneficiary. This expected loss analysis took into account that the credit support arrangement requires Freeport LNG to maintain sufficient commercial insurance to mitigate any loan losses. The loan to Freeport LNG is accounted for as a financial asset, and our investment in Freeport GP is accounted for as an equity investment.

In the case of Ashford Energy Capital S.A., we consolidate this entity in our financial statements because we are the primary beneficiary of this VIE based on an analysis of the variability of the expected losses and expected residual returns. In December 2001, in order to raise funds for general corporate purposes, ConocoPhillips and Cold Spring Finance S.a.r.l. formed Ashford through the contribution of a \$1 billion ConocoPhillips subsidiary promissory note and \$500 million cash by Cold Spring. Through its initial \$500 million investment, Cold Spring is entitled to a cumulative annual preferred return consisting of 1.32 percent plus a three-month LIBOR rate set at the beginning of each quarter. The preferred return at June 30, 2009, was 2.51 percent. Also on that date, Ashford held \$2.1 billion of ConocoPhillips subsidiary notes and \$28 million in investments unrelated to ConocoPhillips. We report Cold Spring's investment as a noncontrolling interest because it is not mandatorily redeemable, and the entity does not have a specified liquidation date. Other than the obligation to make payment on the subsidiary notes described above, Cold Spring does not have recourse to our general credit. On July 15, 2009, Ashford agreed to redeem the investment in Ashford held by Cold Spring. The difference between the redemption amount and the carrying value of the investment was not material.

Note 4 Inventories

Inventories consisted of the following:

| | Millions of Dollars | |
|----------------------------------|---------------------|------------|
| | June 30 | December |
| | 2009 | 31 2008 |
| Crude oil and petroleum products | \$ 5,231 | 4,232 |
| Materials, supplies and other | 950 | 863 |
| | \$ 6,181 | 5,095 |

Inventories valued on the last-in, first-out (LIFO) basis totaled \$5,042 million and \$3,939 million at June 30, 2009, and December 31, 2008, respectively. The remaining inventories are valued under various methods, including first-in, first-out and weighted average. The excess of current replacement cost over LIFO cost of inventories amounted to \$4,873 million and \$1,959 million at June 30, 2009, and December 31, 2008, respectively.

Note 5 Assets Held for Sale

In June 2009, we signed an agreement to sell our remaining interest in the Keystone Pipeline to TransCanada Corporation. Subject to final regulatory approvals, the transaction is expected to close in the third quarter of this year. As a result, at June 30, 2009, we reclassified \$505 million from Investments and long-term receivables to Prepaid expenses and other current assets on our consolidated balance sheet, and recorded a

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noncash impairment of \$59 million before-tax, including associated cumulative foreign currency translation losses of \$36 million and allocable goodwill of \$61 million. This impairment, which is based on a Level 1 measurement in the fair value hierarchy, was reflected in Equity in earnings of affiliates in our consolidated income statement.

Note 6 Investments, Loans and Long-Term Receivables**LUKOIL**

Our ownership interest in LUKOIL was 20 percent at June 30, 2009, based on 851 million shares authorized and issued. For financial reporting under U.S. generally accepted accounting principles (GAAP), treasury shares held by LUKOIL are not considered outstanding for determining our equity method ownership interest in LUKOIL. Our ownership interest, based on estimated shares outstanding, was 20.09 percent at June 30, 2009.

At June 30, 2009, the book value of our ordinary share investment in LUKOIL was \$5,913 million. Our 20 percent share of the net assets of LUKOIL was estimated to be \$10,471 million. A majority of this negative basis difference of \$4,558 million is being amortized on a straight-line basis over a 22-year useful life as an increase to equity earnings. On June 30, 2009, the closing price of LUKOIL shares on the London Stock Exchange was \$44.37 per share, making the total market value of our LUKOIL investment \$7,548 million.

Because LUKOIL's accounting cycle close and preparation of U.S. GAAP financial statements occur subsequent to our reporting deadline, our equity earnings are estimated based on current market indicators, publicly available LUKOIL information and other objective data. Once the difference between actual and estimated results is known, an adjustment is recorded. Net income attributable to ConocoPhillips for the second quarter of 2009 included a \$192 million positive alignment of our first-quarter estimate of LUKOIL's results to LUKOIL's reported results.

Loans to Related Parties

As part of our normal ongoing business operations and consistent with industry practice, we invest and enter into numerous agreements with other parties to pursue business opportunities, which share costs and apportion risks among the parties as governed by the agreements. Included in such activity are loans made to certain affiliated companies. Significant loans to affiliated companies at June 30, 2009, included the following:

\$737 million in loan financing to Freeport LNG Development, L.P. for the construction of an LNG receiving terminal, which became operational in June 2008. In August 2008, when the loan was converted from a construction loan to a term loan, it consisted of \$650 million in loan financing and \$124 million of accrued interest. Freeport began making repayments in September 2008.

\$271 million at June 2009 exchange rates, excluding accrued interest, in loan financing to Varandey Terminal Company associated with the costs of a terminal expansion. Terminal expansion was completed in June 2008, and although repayments are not required to start until May 2010, beginning in the second half of 2008 and through June 30, 2009, Varandey used available cash to pay \$40 million of interest. The outstanding accrued interest at June 30, 2009, was \$23 million at June 2009 exchange rates.

\$956 million of project financing and an additional \$82 million of accrued interest to Qatargas 3, an integrated project to produce and liquefy natural gas from Qatar's North Field. Our maximum exposure to this financing structure is \$1.2 billion.

\$150 million of loan financing to WRB Refining LLC to assist it in meeting its operating and capital spending requirements. Due to its expected short-term nature, this loan financing is included in the Other line in the investing activities section of the consolidated statement of cash flows for the six months ended June 30, 2009.

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The long-term portion of these loans are included in the Loans and advances related parties line on the consolidated balance sheet, while the short-term portion is in Accounts and notes receivable related parties.

Other Investments

We have investments remeasured at fair value on a recurring basis to support certain nonqualified deferred compensation plans. The fair value of these assets at June 30, 2009, was \$312 million, and substantially the entire value is categorized in Level 1 of the fair value hierarchy.

Note 7 Properties, Plants and Equipment

Our investment in properties, plants and equipment (PP&E), with accumulated depreciation, depletion and amortization (Accum. DD&A), was:

| | Millions of Dollars | | | | | |
|----------------------------------|---------------------|----------------|-------------|-------------------|----------------|-------------|
| | June 30, 2009 | | Net PP&E | December 31, 2008 | | Net PP&E |
| | Gross PP&E | Accum. DD&A | | Gross PP&E | Accum. DD&A | |
| Exploration and Production (E&P) | \$ 108,846 | 40,404 | 68,442 | 102,591 | 35,375 | 67,216 |
| Midstream | 122 | 71 | 51 | 120 | 70 | 50 |
| Refining and Marketing (R&M) | 22,514 | 6,410 | 16,104 | 21,116 | 5,962 | 15,154 |
| LUKOIL Investment | - | - | - | - | - | - |
| Chemicals | - | - | - | - | - | - |
| Emerging Businesses | 1,191 | 290 | 901 | 1,056 | 293 | 763 |
| Corporate and Other | 1,579 | 831 | 748 | 1,561 | 797 | 764 |
| | \$ 134,252 | 48,006 | 86,246 | 126,444 | 42,497 | 83,947 |

Suspended Wells

Our capitalized cost of suspended wells at June 30, 2009, was \$861 million, an increase of \$201 million from \$660 million at year-end 2008. For the category of exploratory well costs capitalized for a period greater than one year as of December 31, 2008, \$13 million was charged to dry hole expense during the first six months of 2009.

Note 8 Impairments**Expropriated Assets**

In April 2008, we initiated arbitration before the World Bank's International Centre for Settlement of Investment Disputes (ICSID) against The Republic of Ecuador and PetroEcuador (collectively, Respondents) as a result of the government's confiscatory fiscal measures enacted through the Windfall Profits Tax Law, implemented in 2006 and 2007, and the government-mandated renegotiation of our production sharing contracts into service agreements with inferior fiscal and legal terms. In February 2009, PetroEcuador issued notices to seize oil production from Blocks 7 and 21 as part of Ecuador's efforts to collect prior alleged unpaid taxes owed under the disputed Windfall Profits Tax Law. In March 2009, the ICSID Tribunal granted a temporary restraining order that commanded the Respondents to refrain from any conduct that aggravates the dispute between the parties or alters the status quo. However, the Respondents ignored the order, confiscated approximately 470,000 net barrels of crude oil and attempted to sell it through a public auction. In the second quarter of 2009, the ICSID Tribunal heard our motion for provisional measures and issued a second decision that ordered the Respondents to refrain from confiscating future production until a final decision has been rendered in the pending arbitration. The Respondents also ignored this decision by the Tribunal, continued to confiscate our crude oil production and sold the illegally seized crude oil to PetroEcuador at a 50 percent discount off the market value. As a result, our assets in Ecuador have been effectively expropriated.

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Accordingly, in the second quarter of 2009, we recorded a noncash charge of \$51 million before- and after-tax related to the full impairment of our exploration and production investments in Ecuador.

Note 9 Debt

In February 2009, we issued \$1.5 billion of 4.75% Notes due 2014, \$2.25 billion of 5.75% Notes due 2019, and \$2.25 billion of 6.50% Notes due 2039. In addition, in May 2009, we issued \$1.5 billion of 4.60% Notes due 2015, \$1.0 billion of 6.00% Notes due 2020 and \$500 million of 6.50% Notes due 2039. The proceeds from the notes were primarily used to reduce outstanding commercial paper balances and for general corporate purposes.

During the first six months of 2009, we used proceeds from the issuance of commercial paper to redeem \$284 million of 6.375% Notes and \$950 million of Floating Rate Notes upon their maturity.

At June 30, 2009, we had a \$7.35 billion revolving credit facility, which expires in September 2012. The facility may be used as direct bank borrowings, as support for the ConocoPhillips \$5.6 billion commercial paper program, as support for the ConocoPhillips Qatar Funding Ltd. \$1.5 billion commercial paper program, as support for issuances of letters of credit totaling up to \$750 million, or as support for up to \$250 million of commercial paper issued by TransCanada Keystone Pipeline LP, a Keystone Pipeline joint venture entity. At both June 30, 2009, and December 31, 2008, we had no outstanding borrowings under the credit facility, but \$40 million in letters of credit had been issued. Under both ConocoPhillips commercial paper programs, \$2,211 million of commercial paper was outstanding at June 30, 2009, compared with \$6,933 million at December 31, 2008.

Since we had \$2,211 million of commercial paper outstanding, had issued \$40 million of letters of credit and had up to a \$250 million guarantee on commercial paper issued by Keystone, we had access to \$4.8 billion in borrowing capacity under our revolving credit facility at June 30, 2009.

Also at June 30, 2009, we classified \$2,278 million of short-term debt as long-term debt, based on our ability and intent to refinance the obligation on a long-term basis under our revolving credit facility.

In July 2009, we arranged a new \$500 million credit facility, which expires in July 2012, bringing our total borrowing capacity under our revolving credit facilities to \$7.85 billion.

Note 10 Joint Venture Acquisition Obligation

We are obligated to contribute \$7.5 billion, plus interest, over a 10-year period, beginning in 2007, to FCCL Partnership. Quarterly principal and interest payments of \$237 million began in the second quarter of 2007 and will continue until the balance is paid. Of the principal obligation amount, approximately \$642 million was short-term and was included in the Accounts payable related parties line on our June 30, 2009, consolidated balance sheet. The principal portion of these payments, which totaled \$309 million in the first six months of 2009, are included in the Other line in the financing activities section of our consolidated statement of cash flows. Interest accrues at a fixed annual rate of 5.3 percent on the unpaid principal balance. Fifty percent of the quarterly interest payment is reflected as a capital contribution and is included in the Capital expenditures and investments line on our consolidated statement of cash flows.

Table of Contents**Note 11 Guarantees**

At June 30, 2009, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial. In addition, unless otherwise stated we are not currently performing with any significance under the guarantee and expect future performance to be either immaterial or have only a remote chance of occurrence.

Construction Completion Guarantees

In December 2005, we issued a construction completion guarantee for 30 percent of the \$4 billion in loan facilities of Qatargas 3, which will be used to construct an LNG train in Qatar. Of the \$4 billion in loan facilities, we committed to provide \$1.2 billion. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be \$850 million, which could become payable if the full debt financing is utilized and completion of the Qatargas 3 project is not achieved. The project financing will be nonrecourse to ConocoPhillips upon certified completion, expected in 2011. At June 30, 2009, the carrying value of the guarantee to third-party lenders was \$11 million.

Guarantees of Joint Venture Debt

In June 2006, we issued a guarantee for 24 percent of \$2 billion in credit facilities of Rockies Express Pipeline LLC, operated by Kinder Morgan Energy Partners, L.P. At June 30, 2009, Rockies Express had \$1,883 million outstanding under the credit facilities, with our 24 percent guarantee equaling \$452 million. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be \$480 million, which could become payable if the credit facilities are fully utilized and Rockies Express fails to meet its obligations under the credit agreement. In addition, we also have a guarantee for 24 percent of \$600 million of Floating Rate Notes due in August 2009 issued by Rockies Express. The operator anticipates construction completion in late 2009. Refinancing of the \$2 billion credit facility is expected to take place at that time, making the debt nonrecourse to ConocoPhillips. At June 30, 2009, the total carrying value of these guarantees to third-party lenders was \$12 million.

In December 2007, we acquired a 50 percent equity interest in four Keystone Pipeline entities (Keystone) to create a joint venture with TransCanada Corporation. Keystone is constructing a crude oil pipeline originating in Alberta with delivery points in Illinois and Oklahoma. In December 2008, we provided a guarantee of up to \$250 million of balances outstanding under a commercial paper program. This program was established by Keystone to provide funding for a portion of its construction costs attributable to our ownership interest in the project. Payment under the guarantee would be due in the event Keystone failed to repay principal and interest, when due, to short-term noteholders. Keystone's other owner will guarantee a similar, but separate, funding vehicle. At June 30, 2009, \$197 million was outstanding under the Keystone commercial paper program guaranteed by us.

At June 30, 2009, we had guarantees outstanding for our portion of joint venture debt obligations, which have terms of up to 16 years. The maximum potential amount of future payments under the guarantees is approximately \$100 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

In connection with certain planning and construction activities of the Keystone Pipeline, we agreed to reimburse TransCanada with respect to a portion of guarantees issued by TransCanada for certain of Keystone's obligations to third parties. Our maximum potential amount of future payments associated with these guarantees is based on our ultimate ownership percentage in Keystone and is estimated to be

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\$90 million at June 30, 2009, which could become payable if Keystone fails to meet its obligations and the obligations cannot otherwise be mitigated. Payments under the guarantees are contingent upon the partners not making necessary equity contributions into Keystone; therefore, it is considered unlikely payments would be required. All but \$8 million of the guarantees will terminate after construction is completed, currently estimated to occur in 2010.

In addition to the above guarantee, in order to obtain long-term shipping commitments that would enable a pipeline expansion starting at Hardisty, Alberta, and extending to near Port Arthur, Texas, the Keystone owners executed an agreement in July 2008 to guarantee Keystone's obligations under its agreement to provide transportation at a specified price for certain shippers to the Gulf Coast. Although our guarantee is for 50 percent of these obligations, TransCanada has agreed to reimburse us for amounts we pay in excess of our current ownership percentage in Keystone. Our maximum potential amount of future payments, or cost of volume delivery, under this guarantee, after such reimbursement, is estimated to be \$220 million (\$550 million before reimbursement) at June 30, 2009, which could become payable if Keystone fails to meet its obligations under the agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, are contingent upon Keystone defaulting on its obligation to construct the pipeline in accordance with the terms of the agreement.

In October 2008, we elected to exercise an option to reduce our equity interest in Keystone from 50 percent to 20.01 percent through a dilution mechanism. At June 30, 2009, our ownership interest was approximately 23 percent. In June 2009, we signed an agreement to sell our remaining ownership interest in Keystone to TransCanada. Upon the closing of this transaction, currently expected in the third quarter, all our guarantees related to Keystone will cease.

In conjunction with our purchase of a 50 percent ownership interest in Australia Pacific LNG (APLNG) from Origin Energy in October 2008, we agreed to participate, if and when requested, in any parent company guarantees that were outstanding at the time we purchased our interest in APLNG. These parent company guarantees cover the obligation of APLNG to deliver natural gas under several sales agreements with remaining terms of eight to 22 years. Our maximum potential amount of future payments, or cost of volume delivery, under these guarantees is estimated to be \$930 million (\$1,940 million in the event of intentional or reckless breach) based on our 50 percent share of the remaining contracted volumes, which could become payable if APLNG fails to meet its obligations under these agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, would only be triggered if APLNG does not have enough natural gas to meet these sales commitments and if the partners do not make necessary equity contributions into APLNG.

We have other guarantees with maximum future potential payment amounts totaling \$550 million, which consist primarily of dealer and jobber loan guarantees to support our marketing business, guarantees to fund the short-term cash liquidity deficits of certain joint ventures, a guarantee of minimum charter revenue for two LNG vessels, one small construction completion guarantee, guarantees relating to the startup of a refining joint venture, guarantees of the lease payment obligations of a joint venture, and guarantees of the residual value of leased corporate aircraft. These guarantees generally extend up to 15 years or life of the venture.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to qualifying indemnifications. Agreements associated with these sales include indemnifications for taxes, environmental liabilities, permits and licenses, employee claims, real estate indemnity against tenant defaults, and litigation. The terms of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, the term is generally indefinite and the maximum amount of future payments is generally unlimited. The carrying amount recorded for these indemnifications at June 30, 2009, was \$464 million. We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity.

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In cases where the indemnification term is indefinite, we will reverse the liability when we have information the liability is essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. Included in the recorded carrying amount were \$260 million of environmental accruals for known contamination that are included in asset retirement obligations and accrued environmental costs at June 30, 2009. For additional information about environmental liabilities, see Note 12 Contingencies and Commitments.

Note 12 Contingencies and Commitments

In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Environmental

We are subject to federal, state and local environmental laws and regulations. These may result in obligations to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various sites. When we prepare our consolidated financial statements, we record accruals for environmental liabilities based on management's best estimates, using all information available at the time. We measure estimates and base liabilities on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies' cleanup experience, and data released by the U.S. Environmental Protection Agency (EPA) or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable.

Although liability of those potentially responsible for environmental remediation costs is generally joint and several for federal sites and frequently so for state sites, we are usually only one of many companies cited at a particular site. Due to the joint and several liabilities, we could be responsible for all cleanup costs related to any site at which we have been designated a potentially responsible party. If we were solely responsible, the costs, in some cases, could be material to our results of operations, capital resources or liquidity, or to those of one of our segments. However, settlements and costs incurred in matters that previously have been resolved have not been material to our results of operations or financial condition. We have been successful to date in sharing cleanup costs with other financially sound companies. Many of the sites at which we are potentially responsible are still under investigation by the EPA or the state agencies concerned. Prior to actual cleanup, those potentially responsible normally assess site conditions, apportion responsibility and determine the appropriate remediation. In some instances, we may have no liability or may attain a settlement of liability.

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Where it appears other potentially responsible parties may be financially unable to bear their proportional share, we consider this inability in estimating our potential liability, and we adjust our accruals accordingly.

As a result of various acquisitions in the past, we assumed certain environmental obligations. Some of these environmental obligations are mitigated by indemnifications made by others for our benefit, and some of the indemnifications are subject to dollar limits and time limits. We have not recorded accruals for any potential contingent liabilities that we expect to be funded by the prior owners under these indemnifications.

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except for those acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. At June 30, 2009, our consolidated balance sheet included a total environmental accrual of \$972 million, compared with \$979 million at December 31, 2008. We expect to incur the majority of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings

Our legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. Our process facilitates the early evaluation and quantification of potential exposures in individual cases. This process also enables us to track those cases which have been scheduled for trial, as well as the pace of settlement discussions in individual matters. Based on professional judgment and experience in using these litigation management tools and available information about current developments in our cases, our legal organization believes there is a remote likelihood future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements.

Other Contingencies

We have contingent liabilities resulting from throughput agreements with pipeline and processing companies not associated with financing arrangements. Under these agreements, we may be required to provide any such company with additional funds through advances and penalties for fees related to throughput capacity not utilized. In addition, at June 30, 2009, we had performance obligations secured by letters of credit of \$1,689 million (of which \$40 million was issued under the provisions of our revolving credit facility, and the remainder was issued as direct bank letters of credit) related to various purchase commitments for materials, supplies, services and items of permanent investment incident to the ordinary conduct of business.

Note 13 Financial Instruments and Derivative Contracts

Derivative Instruments

We use financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices and interest rates, or to exploit market opportunities. Since we are not currently using hedge accounting, all gains and losses, realized or unrealized, from derivative contracts have been recognized in the consolidated income statement. Gains and losses from derivative contracts held for trading not directly related to our physical business, whether realized or unrealized, have been reported net in other income.

Purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) are recorded on the balance sheet as derivatives unless the contracts are for quantities we expect to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). We record most of our contracts to buy or sell natural gas as derivatives, but we do apply the normal purchases and normal sales exception to certain long-term contracts to sell our natural gas production. We generally apply this normal purchases and normal sales exception to

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eligible crude oil and refined product commodity purchase and sales contracts; however, we may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of the purchase or sale contract but hedge accounting will not be applied, in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

We value our exchange-cleared derivatives using closing prices provided by the exchange as of the balance sheet date, and these are classified as Level 1 in the fair value hierarchy. Over-the-counter (OTC) financial swaps and physical commodity forward purchase and sale contracts are generally valued using quotations provided by brokers and price index developers such as Platts and Oil Price Information Service. These quotes are corroborated with market data and are classified as Level 2. In certain less liquid markets or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC swaps and physical commodity purchase and sale contracts are valued using internally developed methodologies that consider historical relationships among various commodities that result in management's best estimate of fair value. These contracts are classified as Level 3.

Exchange-cleared financial options are valued using exchange closing prices and are classified as Level 1. Financial OTC and physical commodity options are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. The degree to which these inputs are observable in the forward markets determines whether the options are classified as Level 2 or 3.

We use a mid-market pricing convention (the mid-point between bid and ask prices). When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

The fair value hierarchy for our derivative assets and liabilities accounted for at fair value on a recurring basis was:

| | Millions of Dollars | | | | | | | |
|------------------------------|---------------------|---------|---------|---------|-------------------|---------|---------|---------|
| | June 30, 2009 | | | | December 31, 2008 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Commodity derivatives | \$ 3,720 | 2,418 | 87 | 6,225 | 4,994 | 2,874 | 112 | 7,980 |
| Foreign exchange derivatives | - | 82 | - | 82 | - | 97 | - | 97 |
| Total assets | 3,720 | 2,500 | 87 | 6,307 | 4,994 | 2,971 | 112 | 8,077 |
| Liabilities | | | | | | | | |
| Commodity derivatives | (4,060) | (2,155) | (13) | (6,228) | (5,221) | (2,497) | (72) | (7,790) |
| Foreign exchange derivatives | - | (20) | - | (20) | - | (93) | - | (93) |
| Total liabilities | (4,060) | (2,175) | (13) | (6,248) | (5,221) | (2,590) | (72) | (7,883) |
| Net assets (liabilities) | \$ (340) | 325 | 74 | 59 | (227) | 381 | 40 | 194 |

The derivative values above are based on analysis of each contract as the fundamental unit of account; therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

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The fair value of net commodity derivatives classified as Level 3 in the fair value hierarchy changed as follows:

| | Millions of Dollars | | | |
|--|-------------------------------|------|-----------------------------|------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | |
| Beginning balance | \$ 96 | (53) | 40 | (34) |
| Total net gains (losses), realized and unrealized, included in earnings | (8) | (11) | 18 | (53) |
| Net purchases, issuances and settlements | (17) | - | (27) | 24 |
| Net transfers in (out) of Level 3 | 3 | 8 | 43 | 7 |
| Ending balance | \$ 74 | (56) | 74 | (56) |

The amounts of Level 3 gains (losses) included in earnings were:

| | Millions of Dollars | | | | | |
|---|--------------------------------|--|--------------------------------------|--|-------|-------|
| | 2009 | | 2008 | | | |
| | Other Operating Revenues | Purchased Crude Oil, Natural Gas and Products | Other Operating Total Revenues | Purchased Crude Oil, Natural Gas and Products | Total | Total |
| Three Months Ended June 30 | | | | | | |
| Total gains (losses) included in earnings | \$ (8) | - | (8) | (14) | 3 | (11) |
| Change in unrealized gains (losses) relating to assets held at June 30 | \$ 3 | - | 3 | 10 | 4 | 14 |
| Change in unrealized gains (losses) relating to liabilities held at June 30 | \$ (9) | - | (9) | (25) | - | (25) |
| Six Months Ended June 30 | | | | | | |
| Total gains (losses) included in earnings | \$ 19 | (1) | 18 | (57) | 4 | (53) |
| | \$ 21 | - | 21 | 13 | 4 | 17 |

Change in unrealized gains
(losses) relating to assets held at
June 30

Change in unrealized gains
(losses) relating to liabilities held at
June 30

| | | | | | | |
|----|------|---|------|------|---|------|
| \$ | (10) | - | (10) | (61) | - | (61) |
|----|------|---|------|------|---|------|

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Commodity Derivative Contracts We operate in the worldwide crude oil, refined product, natural gas, natural gas liquids and electric power markets and are exposed to fluctuations in the prices for these commodities. These fluctuations can affect our revenues as well as the cost of our operating, investing and financing activities. Generally, our policy is to remain exposed to the market prices of commodities. However, we use futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited, immaterial amount of trading not directly related to our physical business. These activities may move our risk profile away from market average prices.

The fair value of commodity derivative assets and liabilities at June 30, 2009, and the line items where they appear on our consolidated balance sheet were:

| | Millions of Dollars |
|---|------------------------|
| Assets | |
| Prepaid expenses and other current assets | \$ 5,794 |
| Other assets | 450 |
| Liabilities | |
| Other accruals | 5,854 |
| Other liabilities and deferred credits | 393 |

Hedge accounting has not been used for any items in the table unless specified otherwise.

The amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist).

The gains (losses) from commodity derivatives incurred during the three- and six-month periods ended June 30, 2009, and the line items where they appear on our consolidated income statement were:

| | Millions of Dollars | |
|---|--|--------------------------------|
| | Three Months Ended June 30 | Six Months Ended June 30 |
| Sales and other operating revenues | \$ (182) | 391 |
| Other income | 14 | 22 |
| Purchased crude oil, natural gas and products | (443) | (955) |

Hedge accounting has not been used for any items in the table unless specified otherwise.

As of June 30, 2009, we had the following net position of outstanding commodity derivative contracts, primarily to manage price exposure on our underlying operations. This exposure may be from other derivative contracts, such as forward sales contracts, or may be from non-derivative positions such as inventory volumes or firm natural gas transport contracts.

| | Open Position Long / (Short) |
|---|------------------------------------|
| Commodity | |
| Crude oil, refined products and natural gas liquids (millions of barrels) | (30) |
| Natural gas, power and carbon dioxide emissions (billions of cubic feet) | |
| Flat price | (10) |

Basis

(250)

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Currency Exchange Rate Derivative Contracts We have foreign currency exchange rate risk resulting from international operations. We do not comprehensively hedge the exposure to movements in currency exchange rates, although we may choose to selectively hedge certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivative assets and liabilities open at June 30, 2009, and the line items where they appear on our consolidated balance sheet were:

| | Millions of Dollars |
|---|------------------------|
| Assets | |
| Prepaid expenses and other current assets | \$ 77 |
| Other assets | 5 |
| Liabilities | |
| Other accruals | 20 |

Hedge accounting has not been used for any items in the table unless specified otherwise.

The amounts shown in the preceding table are presented gross.

The impacts from foreign currency derivatives during the three- and six-month periods ended June 30, 2009, and the line item where they appear on our consolidated income statement were:

| | Millions of Dollars | |
|---|--|--------------------------------|
| | Three Months Ended June 30 | Six Months Ended June 30 |
| Foreign currency transaction (gains) losses | \$ (166) | (172) |

Hedge accounting has not been used for any items in the table unless specified otherwise.

As of June 30, 2009, we had the following net position of outstanding foreign currency swap contracts, entered into primarily to hedge price exposure in our international operations.

| | In Millions Notional* | |
|---|--------------------------|-------|
| Foreign Currency Swaps | | |
| Sell U.S. dollar, buy other currencies (primarily euro and British pound) | USD | 2,339 |
| Buy British pound, sell euro | GBP | 21 |

**Denominated in U.S. dollars (USD) and British pounds (GBP).*

Credit Risk

Our financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Our cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

The credit risk from our over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant nonperformance. We also use futures contracts, but futures have a negligible credit risk

because they are traded on the New York Mercantile Exchange or the ICE Futures.

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Certain of our derivative instruments contain provisions that require us to post collateral if the derivative exposure exceeds a threshold amount. We have contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on our credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if we fall below investment grade. Cash is the primary collateral in all contracts; however, many also permit us to post letters of credit as collateral.

The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position on June 30, 2009, was \$406 million, for which we posted \$15 million in collateral in the normal course of business. If our credit rating were lowered one level from its A rating (per Standard and Poors) on June 30, 2009, we would be required to post no additional collateral to our counterparties. If we were downgraded below investment grade, we would be required to post \$391 million of additional collateral, either in the form of cash or letters of credit.

Fair Values of Financial Instruments

We used the following methods and assumptions to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount reported on the balance sheet approximates fair value.

Accounts and notes receivable: The carrying amount reported on the balance sheet approximates fair value.

Investment in LUKOIL shares: See Note 6 Investments, Loans and Long-Term Receivables, for a discussion of the carrying value and fair value of our investment in LUKOIL shares.

Debt: The carrying amount of our floating-rate debt approximates fair value. The fair value of the fixed-rate debt is estimated based on quoted market prices.

Fixed-rate 5.3 percent joint venture acquisition obligation: Fair value is estimated based on the net present value of the future cash flows, discounted at a June 30, 2009, effective yield rate of 3.54 percent, based on yields of U.S. Treasury securities of similar average duration adjusted for our average credit risk spread and the amortizing nature of the obligation principal. See Note 10 Joint Venture Acquisition Obligation, for additional information.

Swaps: Fair value is estimated based on forward market prices and approximates the exit price at period end. When forward market prices are not available, they are estimated using the forward prices of a similar commodity with adjustments for differences in quality or location.

Futures: Fair values are based on quoted market prices obtained from the New York Mercantile Exchange, the ICE Futures, or other traded exchanges.

Forward-exchange contracts: Fair value is estimated by comparing the contract rate to the forward rate in effect on June 30, 2009, and approximates the exit price at that date.

Certain of our commodity derivative and financial instruments at June 30, 2009, were:

| | Millions of Dollars | |
|--------------------------------------|---------------------|------------|
| | Carrying Amount | Fair Value |
| Financial assets | | |
| Foreign currency derivatives | \$ 82 | 82 |
| Commodity derivatives | 1,264 | 1,264 |
| Financial liabilities | | |
| Total debt, excluding capital leases | 30,339 | 31,374 |
| Joint venture acquisition obligation | 5,985 | 6,457 |
| Foreign currency derivatives | 20 | 20 |
| Commodity derivatives | 797 | 797 |

The amounts shown for derivatives in the preceding table are presented net (i.e., assets and liabilities with the same counterparty are netted where the right of offset and intent to net exist). In addition, the commodity

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derivative assets appear net of \$56 million of obligations to return cash collateral, while the commodity derivative liabilities appear net of \$526 million of rights to reclaim cash collateral. No collateral was deposited or held for the foreign currency derivatives.

Note 14 Comprehensive Income

ConocoPhillips comprehensive income was as follows:

| | Millions of Dollars | | | |
|---|---------------------|-------|------------------|-------|
| | Three Months Ended | | Six Months Ended | |
| | June 30 2009 | 2008 | June 30 2009 | 2008 |
| Net income | \$ 1,314 | 5,456 | 2,170 | 9,614 |
| After-tax changes in: | | | | |
| Defined benefit pension plans | | | | |
| Net prior service cost | 3 | (14) | 6 | (10) |
| Net actuarial loss | 33 | (2) | 67 | 7 |
| Nonsponsored plans | (1) | 2 | (2) | 4 |
| Foreign currency translation adjustments | 3,079 | 178 | 2,801 | (257) |
| Hedging activities | 2 | 2 | 1 | - |
| Comprehensive income | 4,430 | 5,622 | 5,043 | 9,358 |
| Less: comprehensive income attributable to noncontrolling interests | (16) | (17) | (32) | (36) |
| Comprehensive income attributable to ConocoPhillips | \$ 4,414 | 5,605 | 5,011 | 9,322 |

Accumulated other comprehensive income (loss) in the equity section of the balance sheet included:

| | Millions of Dollars | |
|---|---------------------|---------------------|
| | June 30 2009 | December 31 2008 |
| Defined benefit pension plans | \$ (1,363) | (1,434) |
| Foreign currency translation adjustments | 2,370 | (431) |
| Deferred net hedging loss | (9) | (10) |
| Accumulated other comprehensive income (loss) | \$ 998 | (1,875) |

None of the items within accumulated other comprehensive income (loss) relate to noncontrolling interests.

Note 15 Cash Flow Information

| | Millions of Dollars | |
|----------------------|-----------------------------|-------|
| | Six Months Ended June 30 | |
| | 2009 | 2008 |
| Cash Payments | | |
| Interest | \$ 416 | 398 |
| Income taxes | 3,271 | 6,405 |

Table of Contents**Note 16 Employee Benefit Plans
Pension and Postretirement Plans**

| Components of Net Periodic Benefit Cost | Millions of Dollars | | | | | |
|---|---------------------|--------|-------|--------|----------------|------|
| | Pension Benefits | | | | Other Benefits | |
| | 2009 | | 2008 | | 2009 | 2008 |
| | U.S. | Int 1. | U.S. | Int 1. | | |
| Three Months Ended June 30 | | | | | | |
| Service cost | \$ 49 | 18 | 47 | 24 | 2 | 4 |
| Interest cost | 70 | 35 | 62 | 46 | 11 | 16 |
| Expected return on plan assets | (46) | (30) | (56) | (45) | - | - |
| Amortization of prior service cost | 2 | - | 2 | - | 2 | 2 |
| Recognized net actuarial (gain) loss | 46 | 9 | 17 | 3 | (3) | (6) |
| Net periodic benefit costs | \$ 121 | 32 | 72 | 28 | 12 | 16 |
| Six Months Ended June 30 | | | | | | |
| Service cost | \$ 97 | 38 | 94 | 47 | 4 | 7 |
| Interest cost | 139 | 68 | 124 | 90 | 23 | 28 |
| Expected return on plan assets | (92) | (59) | (112) | (89) | - | - |
| Amortization of prior service cost | 5 | - | 4 | - | 4 | 5 |
| Recognized net actuarial (gain) loss | 93 | 17 | 33 | 6 | (7) | (10) |
| Net periodic benefit costs | \$ 242 | 64 | 143 | 54 | 24 | 30 |

During the first six months of 2009, we contributed \$160 million to our domestic benefit plans and \$70 million to our international benefit plans. We currently expect to make additional contributions of approximately \$590 million to our domestic benefit plans and \$70 million to our international benefit plans for totals of \$750 million and \$140 million, respectively, in 2009.

Severance Accrual

As a result of the current business environment's impact on our operating and capital plans, a reduction in our overall employee work force is occurring during 2009. Various business units and staff groups recorded accruals in the fourth quarter of 2008 for severance and related employee benefits totaling \$162 million. The following table summarizes our severance accrual activity:

| | Millions of Dollars | |
|-------------------|---------------------|---------------------|
| | June 30 2009 | December 31 2008 |
| Beginning balance | \$ 162 | - |
| Accruals | 5 | 162 |
| Benefit payments | (66) | - |
| Ending balance | \$ 101 | 162 |

The remaining balance at June 30, 2009, of \$101 million is classified as short-term.

Table of Contents**Note 17 Related Party Transactions**

Significant transactions with related parties were:

| | Millions of Dollars | | | |
|---|---------------------|-------|------------------|--------|
| | Three Months | | Six Months Ended | |
| | Ended | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Operating revenues (a) | \$ 1,892 | 4,001 | 3,365 | 7,172 |
| Purchases (b) | 3,168 | 5,693 | 5,650 | 10,092 |
| Operating expenses and selling, general and administrative expenses (c) | 71 | 127 | 157 | 243 |
| Net interest expense (d) | 20 | 19 | 39 | 40 |

(a) We sold natural gas to DCP Midstream, LLC and crude oil to the Malaysian Refining Company Sdn. Bhd. (MRC), among others, for processing and marketing. Natural gas liquids, solvents and petrochemical feedstocks were sold to Chevron Phillips Chemical Company LLC (CPChem), gas oil and hydrogen feedstocks were sold to Excel Paralubes and refined products were sold primarily to CFJ Properties and LUKOIL. Natural gas, crude oil,

blendstock and other intermediate products were sold to WRB Refining LLC. In addition, we charged several of our affiliates including CPChem and Merey Sweeny, L.P. (MSLP) for the use of common facilities, such as steam generators, waste and water treaters, and warehouse facilities.

- (b) We purchased refined products from WRB Refining. We purchased natural gas and natural gas liquids from DCP Midstream and CPChem for use in our refinery processes and other feedstocks from various affiliates. We purchased crude oil from LUKOIL and refined products from MRC. We also paid fees to various pipeline equity companies for transporting finished refined products and

natural gas, as well as a price upgrade to MSLP for heavy crude processing. We purchased base oils and fuel products from Excel Paralubes for use in our refinery and specialty businesses.

- (c) We paid processing fees to various affiliates. Additionally, we paid crude oil transportation fees to pipeline equity companies.
- (d) We paid and/or received interest to/from various affiliates, including FCCL Partnership. See Note 6 Investments, Loans and Long-Term Receivables, for additional information on loans to affiliated companies.

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Note 18 Segment Disclosures and Related Information

We have organized our reporting structure based on the grouping of similar products and services, resulting in six operating segments:

- 1) **E&P** This segment primarily explores for, produces, transports and markets crude oil, natural gas and natural gas liquids on a worldwide basis.
- 2) **Midstream** This segment gathers, processes and markets natural gas produced by ConocoPhillips and others, and fractionates and markets natural gas liquids, predominantly in the United States and Trinidad. The Midstream segment primarily consists of our 50 percent equity investment in DCP Midstream, LLC.
- 3) **R&M** This segment purchases, refines, markets and transports crude oil and petroleum products, mainly in the United States, Europe and Asia.
- 4) **LUKOIL Investment** This segment represents our investment in the ordinary shares of OAO LUKOIL, an international, integrated oil and gas company headquartered in Russia. At June 30, 2009, our ownership interest was 20 percent based on issued shares, and 20.09 percent based on estimated shares outstanding.
- 5) **Chemicals** This segment manufactures and markets petrochemicals and plastics on a worldwide basis. The Chemicals segment consists of our 50 percent equity investment in Chevron Phillips Chemical Company LLC.
- 6) **Emerging Businesses** This segment represents our investment in new technologies or businesses outside our normal scope of operations.

Corporate and Other includes general corporate overhead, most interest expense and various other corporate activities. Corporate assets include all cash and cash equivalents. We evaluate performance and allocate resources based on net income attributable to ConocoPhillips. Intersegment sales are at prices that approximate market.

Table of Contents**Analysis of Results by Operating Segment**

| | Millions of Dollars | | | |
|---|-------------------------------|---------|-----------------------------|---------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Sales and Other Operating Revenues | | | | |
| E&P | | | | |
| United States | \$ 5,397 | 15,964 | 11,493 | 27,511 |
| International | 5,048 | 8,471 | 11,699 | 16,912 |
| Intersegment eliminations U.S. | (1,187) | (2,525) | (2,046) | (4,637) |
| Intersegment eliminations international | (1,397) | (3,550) | (2,785) | (5,847) |
| E&P | 7,861 | 18,360 | 18,361 | 33,939 |
| Midstream | | | | |
| Total sales | 973 | 2,100 | 1,895 | 3,742 |
| Intersegment eliminations | (53) | (30) | (101) | (119) |
| Midstream | 920 | 2,070 | 1,794 | 3,623 |
| R&M | | | | |
| United States | 18,415 | 37,250 | 31,416 | 64,211 |
| International | 8,368 | 13,969 | 14,832 | 24,895 |
| Intersegment eliminations U.S. | (140) | (285) | (257) | (504) |
| Intersegment eliminations international | (12) | (13) | (21) | (20) |
| R&M | 26,631 | 50,921 | 45,970 | 88,582 |
| LUKOIL Investment | - | - | - | - |
| Chemicals | 3 | 3 | 6 | 6 |
| Emerging Businesses | | | | |
| Total sales | 133 | 230 | 287 | 488 |
| Intersegment eliminations | (104) | (179) | (241) | (356) |
| Emerging Businesses | 29 | 51 | 46 | 132 |
| Corporate and Other | 4 | 6 | 12 | 12 |
| Consolidated sales and other operating revenues | \$ 35,448 | 71,411 | 66,189 | 126,294 |
| Net Income (Loss) Attributable to ConocoPhillips | | | | |
| E&P | | | | |
| United States | \$ 336 | 1,852 | 509 | 3,201 |
| International | 389 | 2,147 | 916 | 3,685 |

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| | | | | |
|--|-----------------|-------|--------------|-------|
| Total E&P | 725 | 3,999 | 1,425 | 6,886 |
| Midstream | 31 | 162 | 154 | 299 |
| R&M | | | | |
| United States | (38) | 587 | 60 | 1,022 |
| International | (14) | 77 | 93 | 162 |
| Total R&M | (52) | 664 | 153 | 1,184 |
| LUKOIL Investment | 682 | 774 | 730 | 1,484 |
| Chemicals | 67 | 18 | 90 | 70 |
| Emerging Businesses | 2 | 8 | 2 | 20 |
| Corporate and Other | (157) | (186) | (416) | (365) |
| Consolidated net income attributable to ConocoPhillips | \$ 1,298 | 5,439 | 2,138 | 9,578 |

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| | Millions of Dollars | |
|---------------------------|---------------------|---------------------|
| | June 30 2009 | December 31 2008 |
| Total Assets | | |
| E&P | | |
| United States | \$ 36,198 | 36,962 |
| International | 61,349 | 58,912 |
| Total E&P | 97,547 | 95,874 |
| Midstream | 1,775 | 1,455 |
| R&M | | |
| United States | 25,414 | 22,554 |
| International | 9,497 | 7,942 |
| Goodwill | 3,715 | 3,778 |
| Total R&M | 38,626 | 34,274 |
| LUKOIL Investment | 6,186 | 5,455 |
| Chemicals | 2,294 | 2,217 |
| Emerging Businesses | 1,081 | 924 |
| Corporate and Other | 2,564 | 2,666 |
| Consolidated total assets | \$ 150,073 | 142,865 |

Note 19 Income Taxes

Our effective tax rate for the second quarter and first six months of 2009 was 45 percent and 51 percent, respectively, compared with 44 percent and 45 percent for the same two periods of 2008. The change in the effective tax rate for the first six months of 2009, compared with the same period of 2008, was primarily due to a higher proportion of income in higher tax jurisdictions in 2009. The effective tax rate in excess of the domestic federal statutory rate of 35 percent was primarily due to foreign taxes.

Note 20 New Accounting Standards

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This Statement removes the concept of a qualifying special purpose entity (SPE) from SFAS No. 140 and the exception for qualifying SPEs from the consolidation guidance of FASB Interpretation No. 46(R),

Consolidation of Variable Interest Entities (FIN 46(R)). Additionally, the Statement clarifies the requirements for financial asset transfers eligible for sale accounting. This Statement is effective January 1, 2010, and we do not expect any significant impact to our consolidated financial statements.

Also in June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which amends FIN 46(R) to address the effects of the elimination of the qualifying SPE concept in SFAS No. 166, and other concerns about the application of key provisions of

FIN 46(R). More specifically, SFAS No. 167 requires a qualitative rather than a quantitative approach to determine the primary beneficiary of a VIE, it amends certain guidance pertaining to the determination of the primary beneficiary when related parties are involved, and it amends certain guidance for determining whether an entity is a VIE. Additionally, this Statement requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE. This Statement is effective January 1, 2010. We are currently evaluating the impact on our consolidated financial statements.

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The FASB issued SFAS No. 168, The FASB Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement 162, in late June 2009. The FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) and will supersede all then-existing non-SEC accounting and reporting standards on the effective date, September 15, 2009. The Codification will not change GAAP, but consolidates it into a logical and consistent structure. We will be required to revise our references to GAAP in our financial statements beginning with the third quarter of 2009. In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, to improve the transparency associated with disclosures about the plan assets of a defined benefit pension or other postretirement plan. This FSP requires the disclosure of each major asset category at fair value using the fair value hierarchy in SFAS No. 157, Fair Value Measurements. This FSP is effective for annual financial statements beginning with the 2009 fiscal year, but will not impact our consolidated financial statements, other than requiring additional disclosures.

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Supplementary Information Condensed Consolidating Financial Information

We have various cross guarantees among ConocoPhillips, ConocoPhillips Company, ConocoPhillips Australia Funding Company, ConocoPhillips Canada Funding Company I, and ConocoPhillips Canada Funding Company II, with respect to publicly held debt securities. ConocoPhillips Company is wholly owned by ConocoPhillips. ConocoPhillips Australia Funding Company is an indirect, wholly owned subsidiary of ConocoPhillips Company. ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II are indirect, wholly owned subsidiaries of ConocoPhillips. ConocoPhillips and ConocoPhillips Company have fully and unconditionally guaranteed the payment obligations of ConocoPhillips Australia Funding Company, ConocoPhillips Canada Funding Company I, and ConocoPhillips Canada Funding Company II, with respect to their publicly held debt securities. Similarly, ConocoPhillips has fully and unconditionally guaranteed the payment obligations of ConocoPhillips Company with respect to its publicly held debt securities. In addition, ConocoPhillips Company has fully and unconditionally guaranteed the payment obligations of ConocoPhillips with respect to its publicly held debt securities. All guarantees are joint and several. The following condensed consolidating financial information presents the results of operations, financial position and cash flows for:

ConocoPhillips, ConocoPhillips Company, ConocoPhillips Australia Funding Company, ConocoPhillips Canada Funding Company I, and ConocoPhillips Canada Funding Company II (in each case, reflecting investments in subsidiaries utilizing the equity method of accounting).

All other nonguarantor subsidiaries of ConocoPhillips.

The consolidating adjustments necessary to present ConocoPhillips results on a consolidated basis. This condensed consolidating financial information should be read in conjunction with the accompanying consolidated financial statements and notes.

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Millions of Dollars

Three Months Ended June 30, 2009

| | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | All Other | Consolidating | Total |
|---|----------------|----------------|----------------|----------------|----------------|---------------|----------------|---------------|
| | Company | Australia | Canada | Canada | Canada | Subsidiaries | Adjustment | Consolidated |
| | Company | Funding | Funding | Funding | Funding | I | II | |
| | Company | Company | Company | Company | Company | | | |
| | Company | Company | Company | Company | Company | | | |
| Income Statement | ConocoPhillips | Company | Company | I | II | Subsidiaries | Adjustment | Consolidated |
| Revenues and Other Income | | | | | | | | |
| Sales and other operating revenues | \$ - | 21,922 | - | - | - | 13,526 | - | 35,448 |
| Equity in earnings of affiliates | 1,387 | 1,555 | - | - | - | 733 | (2,599) | 1,076 |
| Other income (loss) | 1 | 116 | - | - | - | (11) | - | 106 |
| Intercompany revenues | 15 | 220 | 12 | 19 | 12 | 3,969 | (4,247) | - |
| Total Revenues and Other Income | 1,403 | 23,813 | 12 | 19 | 12 | 18,217 | (6,846) | 36,630 |
| Costs and Expenses | | | | | | | | |
| Purchased crude oil, natural gas and products | - | 19,297 | - | - | - | 9,349 | (4,037) | 24,609 |
| Production and operating expenses | - | 1,120 | - | - | - | 1,478 | (25) | 2,573 |
| Selling, general and administrative expenses | 5 | 309 | - | (1) | (1) | 167 | (3) | 476 |
| Exploration expenses | - | 51 | - | - | - | 192 | - | 243 |
| Depreciation, depletion and amortization | - | 415 | - | - | - | 1,932 | - | 2,347 |
| Impairments | - | - | - | - | - | 51 | - | 51 |
| Taxes other than income taxes | - | 1,212 | - | - | - | 2,504 | (1) | 3,715 |
| Accretion on discounted liabilities | - | 19 | - | - | - | 89 | - | 108 |
| Interest and debt expense | 149 | 16 | 11 | 20 | 14 | 239 | (181) | 268 |
| Foreign currency transaction (gains) losses | - | (50) | - | 93 | 116 | (301) | - | (142) |
| Total Costs and Expenses | 154 | 22,389 | 11 | 112 | 129 | 15,700 | (4,247) | 34,248 |
| Income (loss) before income taxes | 1,249 | 1,424 | 1 | (93) | (117) | 2,517 | (2,599) | 2,382 |
| | (49) | 37 | - | 1 | (13) | 1,092 | - | 1,068 |

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Provision for income taxes

| | | | | | | | | |
|---|-----------------|--------------|----------|-------------|--------------|--------------|----------------|--------------|
| Net income (loss) | 1,298 | 1,387 | 1 | (94) | (104) | 1,425 | (2,599) | 1,314 |
| Less: net income attributable to noncontrolling interests | - | - | - | - | - | (16) | - | (16) |
| Net Income (Loss) Attributable to ConocoPhillips | \$ 1,298 | 1,387 | 1 | (94) | (104) | 1,409 | (2,599) | 1,298 |

Income Statement

Three Months Ended June 30, 2008

Revenues and Other Income

| | | | | | | | | |
|--|--------------|---------------|-----------|-----------|-----------|---------------|-----------------|---------------|
| Sales and other operating revenues | \$ - | 47,793 | - | - | - | 23,618 | - | 71,411 |
| Equity in earnings of affiliates | 5,466 | 3,796 | - | - | - | 1,446 | (8,896) | 1,812 |
| Other income (loss) | (1) | 182 | - | - | - | (51) | - | 130 |
| Intercompany revenues | 15 | 915 | 19 | 22 | 13 | 9,693 | (10,677) | - |
| Total Revenues and Other Income | 5,480 | 52,686 | 19 | 22 | 13 | 34,706 | (19,573) | 73,353 |

Costs and Expenses

| | | | | | | | | |
|---|-----------|---------------|-----------|-----------|-----------|---------------|-----------------|---------------|
| Purchased crude oil, natural gas and products | - | 44,038 | - | - | - | 17,540 | (10,364) | 51,214 |
| Production and operating expenses | - | 1,337 | - | - | - | 1,807 | (33) | 3,111 |
| Selling, general and administrative expenses | 5 | 466 | - | - | - | 171 | (13) | 629 |
| Exploration expenses | - | 45 | - | - | - | 243 | - | 288 |
| Depreciation, depletion and amortization | - | 379 | - | - | - | 1,799 | - | 2,178 |
| Impairments | - | 17 | - | - | - | 2 | - | 19 |
| Taxes other than income taxes | - | 1,285 | - | - | - | 4,569 | (58) | 5,796 |
| Accretion on discounted liabilities | - | 14 | - | - | - | 82 | - | 96 |
| Interest and debt expense | 51 | 104 | 18 | 20 | 13 | 213 | (209) | 210 |
| Foreign currency transaction (gains) losses | - | 2 | - | 58 | 66 | (126) | - | - |
| Total Costs and Expenses | 56 | 47,687 | 18 | 78 | 79 | 26,300 | (10,677) | 63,541 |

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| | | | | | | | | |
|---|-----------------|--------------|----------|-------------|-------------|--------------|----------------|--------------|
| Income (loss) before income taxes | 5,424 | 4,999 | 1 | (56) | (66) | 8,406 | (8,896) | 9,812 |
| Provision for income taxes | (15) | 550 | - | (17) | (21) | 3,859 | - | 4,356 |
| Net income (loss) | 5,439 | 4,449 | 1 | (39) | (45) | 4,547 | (8,896) | 5,456 |
| Less: net income attributable to noncontrolling interests | - | - | - | - | - | (17) | - | (17) |
| Net Income (Loss) Attributable to ConocoPhillips | \$ 5,439 | 4,449 | 1 | (39) | (45) | 4,530 | (8,896) | 5,439 |

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| | Millions of Dollars | | | | | | | |
|---|--------------------------------|----------------|----------------|----------------|----------------|---------------|-----------------|---------------|
| | Six Months Ended June 30, 2009 | | | | | | | |
| | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | All Other | Consolidating | Total |
| | ConocoPhillips | Australia | Canada | Canada | Funding | Subsidiaries | Adjustments | Consolidated |
| Income Statement | Company | Company | Company | Company | Company | II | | |
| Revenues and Other Income | | | | | | | | |
| Sales and other operating revenues | \$ - | 39,456 | - | - | - | 26,733 | - | 66,189 |
| Equity in earnings of affiliates | 2,316 | 2,510 | - | - | - | 1,014 | (4,349) | 1,491 |
| Other income (loss) | (1) | 319 | - | - | - | (88) | - | 230 |
| Intercompany revenues | 16 | 602 | 29 | 37 | 23 | 7,473 | (8,180) | - |
| Total Revenues and Other Income | 2,331 | 42,887 | 29 | 37 | 23 | 35,132 | (12,529) | 67,910 |
| Costs and Expenses | | | | | | | | |
| Purchased crude oil, natural gas and products | - | 34,138 | - | - | - | 17,936 | (7,706) | 44,368 |
| Production and operating expenses | 2 | 2,214 | - | - | - | 2,953 | (51) | 5,118 |
| Selling, general and administrative expenses | 8 | 632 | - | - | - | 324 | (13) | 951 |
| Exploration expenses | - | 116 | - | - | - | 352 | - | 468 |
| Depreciation, depletion and amortization | - | 840 | - | - | - | 3,737 | - | 4,577 |
| Impairments | - | (5) | - | - | - | 59 | - | 54 |
| Taxes other than income taxes | - | 2,367 | - | - | - | 4,831 | (19) | 7,179 |
| Accretion on discounted liabilities | - | 37 | - | - | - | 175 | - | 212 |
| Interest and debt expense | 279 | 85 | 26 | 39 | 27 | 513 | (391) | 578 |
| Foreign currency transaction (gains) losses | - | (43) | - | 55 | 109 | (132) | - | (11) |
| Total Costs and Expenses | 289 | 40,381 | 26 | 94 | 136 | 30,748 | (8,180) | 63,494 |
| Income (loss) before income taxes | 2,042 | 2,506 | 3 | (57) | (113) | 4,384 | (4,349) | 4,416 |
| | (96) | 190 | 1 | 2 | (17) | 2,166 | - | 2,246 |

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Provision for income taxes

| | | | | | | | | |
|---|-----------------|--------------|----------|-------------|-------------|--------------|----------------|--------------|
| Net income (loss) | 2,138 | 2,316 | 2 | (59) | (96) | 2,218 | (4,349) | 2,170 |
| Less: net income attributable to noncontrolling interests | - | - | - | - | - | (32) | - | (32) |
| Net Income (Loss) Attributable to ConocoPhillips | \$ 2,138 | 2,316 | 2 | (59) | (96) | 2,186 | (4,349) | 2,138 |

Income Statement

Six Months Ended June 30, 2008

Revenues and Other Income

| | | | | | | | | |
|--|--------------|---------------|-----------|-----------|-----------|---------------|-----------------|----------------|
| Sales and other operating revenues | \$ - | 82,596 | - | - | - | 43,698 | - | 126,294 |
| Equity in earnings of affiliates | 9,651 | 6,857 | - | - | - | 2,754 | (16,091) | 3,171 |
| Other income (loss) | (1) | 487 | - | - | - | (46) | - | 440 |
| Intercompany revenues | 24 | 1,632 | 43 | 45 | 27 | 15,743 | (17,514) | - |
| Total Revenues and Other Income | 9,674 | 91,572 | 43 | 45 | 27 | 62,149 | (33,605) | 129,905 |

Costs and Expenses

| | | | | | | | | |
|---|------------|---------------|-----------|-----------|-----------|---------------|-----------------|----------------|
| Purchased crude oil, natural gas and products | - | 75,530 | - | - | - | 30,183 | (16,679) | 89,034 |
| Production and operating expenses | - | 2,447 | - | - | - | 3,425 | (70) | 5,802 |
| Selling, general and administrative expenses | 7 | 785 | - | - | - | 396 | (33) | 1,155 |
| Exploration expenses | - | 100 | - | - | - | 497 | - | 597 |
| Depreciation, depletion and amortization | - | 751 | - | - | - | 3,636 | - | 4,387 |
| Impairments | - | 21 | - | - | - | 4 | - | 25 |
| Taxes other than income taxes | - | 2,539 | - | - | - | 8,531 | (119) | 10,951 |
| Accretion on discounted liabilities | - | 29 | - | - | - | 171 | - | 200 |
| Interest and debt expense | 128 | 325 | 40 | 39 | 26 | 472 | (613) | 417 |
| Foreign currency transaction (gains) losses | - | (2) | - | (14) | (7) | (20) | - | (43) |
| Total Costs and Expenses | 135 | 82,525 | 40 | 25 | 19 | 47,295 | (17,514) | 112,525 |

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| | | | | | | | | |
|---|-----------------|--------------|----------|-----------|-----------|--------------|-----------------|--------------|
| Income before income taxes | 9,539 | 9,047 | 3 | 20 | 8 | 14,854 | (16,091) | 17,380 |
| Provision for income taxes | (39) | 987 | 1 | (13) | (13) | 6,843 | - | 7,766 |
| Net income | 9,578 | 8,060 | 2 | 33 | 21 | 8,011 | (16,091) | 9,614 |
| Less: net income attributable to noncontrolling interests | - | - | - | - | - | (36) | - | (36) |
| Net Income Attributable to ConocoPhillips | \$ 9,578 | 8,060 | 2 | 33 | 21 | 7,975 | (16,091) | 9,578 |

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| | Millions of Dollars | | | | | | | |
|---|---------------------|----------------|----------------|----------------|----------------|----------------|------------------|----------------|
| | June 30, 2009 | | | | | | | |
| | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | ConocoPhillips | All Other | Consolidating | Total |
| | ConocoPhillips | Company | Company | Company | Company | Subsidiaries | Adjustments | Consolidated |
| Balance Sheet | ConocoPhillips | Company | Company | I | II | Subsidiaries | Adjustments | Consolidated |
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ - | 132 | - | 14 | 1 | 741 | - | 888 |
| Accounts and notes receivable | 20 | 9,473 | - | - | - | 20,353 | (17,349) | 12,497 |
| Inventories | - | 3,657 | - | - | - | 2,524 | - | 6,181 |
| Prepaid expenses and other current assets | 9 | 1,468 | - | 11 | 7 | 2,030 | (17) | 3,508 |
| Total Current Assets | 29 | 14,730 | - | 25 | 8 | 25,648 | (17,366) | 23,074 |
| Investments, loans and long-term receivables* | 66,933 | 83,214 | 757 | 1,250 | 847 | 45,577 | (162,989) | 35,589 |
| Net properties, plants and equipment | - | 19,710 | - | - | - | 66,536 | - | 86,246 |
| Goodwill | - | 3,715 | - | - | - | - | - | 3,715 |
| Intangibles | - | 777 | - | - | - | 58 | - | 835 |
| Other assets | 53 | 255 | 2 | 50 | 72 | 296 | (114) | 614 |
| Total Assets | \$ 67,015 | 122,401 | 759 | 1,325 | 927 | 138,115 | (180,469) | 150,073 |
| Liabilities and Equity | | | | | | | | |
| Accounts payable | \$ - | 13,702 | - | 2 | 1 | 18,618 | (17,349) | 14,974 |
| Short-term debt | 1,202 | 18 | - | - | - | 218 | - | 1,438 |
| Accrued income and other taxes | - | 348 | - | (2) | (1) | 3,471 | - | 3,816 |
| Employee benefit obligations | - | 491 | - | - | - | 204 | - | 695 |
| Other accruals | 183 | 742 | 9 | 15 | 10 | 1,224 | (17) | 2,166 |
| Total Current Liabilities | 1,385 | 15,301 | 9 | 15 | 10 | 23,735 | (17,366) | 23,089 |
| Long-term debt | 13,309 | 5,338 | 749 | 1,250 | 849 | 7,431 | - | 28,926 |
| Asset retirement obligations and accrued | - | 1,112 | - | - | - | 6,468 | - | 7,580 |

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| | | | | | | | | |
|---|------------------|----------------|------------|--------------|------------|----------------|------------------|----------------|
| environmental costs | | | | | | | | |
| Joint venture acquisition obligation | - | - | - | - | - | 5,343 | - | 5,343 |
| Deferred income taxes | (4) | 3,000 | - | 11 | 16 | 15,113 | - | 18,136 |
| Employee benefit obligations | - | 3,362 | - | - | - | 816 | - | 4,178 |
| Other liabilities and deferred credits* | 68 | 23,696 | - | - | - | 16,459 | (37,409) | 2,814 |
| Total Liabilities | 14,758 | 51,809 | 758 | 1,276 | 875 | 75,365 | (54,775) | 90,066 |
| Retained earnings | 24,875 | 7,108 | (1) | 66 | 71 | 7,549 | (8,280) | 31,388 |
| Other common stockholders equity | 27,382 | 63,484 | 2 | (17) | (19) | 54,123 | (117,414) | 27,541 |
| Noncontrolling interests | - | - | - | - | - | 1,078 | - | 1,078 |
| Total Liabilities and Equity | \$ 67,015 | 122,401 | 759 | 1,325 | 927 | 138,115 | (180,469) | 150,073 |

*Includes intercompany loans.

Balance Sheet

December 31, 2008

Assets

| | | | | | | | | |
|---|------------------|----------------|--------------|--------------|------------|----------------|------------------|----------------|
| Cash and cash equivalents | \$ - | 8 | - | 10 | 1 | 750 | (14) | 755 |
| Accounts and notes receivable | 13 | 10,541 | 15 | - | - | 21,314 | (19,888) | 11,995 |
| Inventories | - | 2,909 | - | - | - | 2,287 | (101) | 5,095 |
| Prepaid expenses and other current assets | 10 | 1,170 | - | 14 | 10 | 1,794 | - | 2,998 |
| Total Current Assets | 23 | 14,628 | 15 | 24 | 11 | 26,145 | (20,003) | 20,843 |
| Investments, loans and long-term receivables* | 61,144 | 83,645 | 1,699 | 1,183 | 802 | 44,629 | (160,203) | 32,899 |
| Net properties, plants and equipment | - | 19,017 | - | - | - | 64,928 | 2 | 83,947 |
| Goodwill | - | 3,778 | - | - | - | - | - | 3,778 |
| Intangibles | - | 784 | - | - | - | 62 | - | 846 |
| Other assets | 13 | 243 | 2 | 109 | 183 | 286 | (284) | 552 |
| Total Assets | \$ 61,180 | 122,095 | 1,716 | 1,316 | 996 | 136,050 | (180,488) | 142,865 |

Liabilities and Equity

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| | | | | | | | | | |
|--|----|-----------|---------|-------|-------|------|---------|-----------|---------|
| Accounts payable | \$ | - | 17,566 | - | 2 | 1 | 16,309 | (19,888) | 13,990 |
| Short-term debt | | - | 301 | 950 | - | - | 68 | (949) | 370 |
| Accrued income and other taxes | | - | 233 | - | (1) | (1) | 4,042 | - | 4,273 |
| Employee benefit obligations | | - | 702 | - | - | - | 237 | - | 939 |
| Other accruals | | 25 | 883 | 18 | 15 | 10 | 1,280 | (23) | 2,208 |
| Total Current Liabilities | | 25 | 19,685 | 968 | 16 | 10 | 21,936 | (20,860) | 21,780 |
| Long-term debt | | 7,703 | 5,364 | 749 | 1,250 | 848 | 10,221 | 950 | 27,085 |
| Asset retirement obligations and accrued environmental costs | | - | 1,101 | - | - | - | 6,062 | - | 7,163 |
| Joint venture acquisition obligation | | - | - | - | - | - | 5,669 | - | 5,669 |
| Deferred income taxes | | (4) | 2,882 | - | 9 | 34 | 15,258 | (12) | 18,167 |
| Employee benefit obligations | | - | 3,367 | - | - | - | 760 | - | 4,127 |
| Other liabilities and deferred credits* | | 4,954 | 24,609 | - | - | - | 16,976 | (43,930) | 2,609 |
| Total Liabilities | | 12,678 | 57,008 | 1,717 | 1,275 | 892 | 76,882 | (63,852) | 86,600 |
| Retained earnings | | 24,130 | 4,792 | (3) | 125 | 167 | 7,234 | (5,803) | 30,642 |
| Other common stockholders equity | | 24,372 | 60,295 | 2 | (84) | (63) | 50,834 | (110,833) | 24,523 |
| Noncontrolling interests | | - | - | - | - | - | 1,100 | - | 1,100 |
| Total Liabilities and Equity | | \$ 61,180 | 122,095 | 1,716 | 1,316 | 996 | 136,050 | (180,488) | 142,865 |

*Includes intercompany loans.

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| Millions of Dollars | | | | | | | | |
|---|----------------|----------|----------|----------|----------|--------------|---------------|--------------|
| Six Months Ended June 30, 2009 | | | | | | | | |
| | ConocoPhillips | Phillips | Phillips | Phillips | Phillips | Other | Consolidating | Total |
| | Company | Company | Company | Company | Company | Subsidiaries | Adjustment | Consolidated |
| | Company | Company | Company | Company | Company | Subsidiaries | Adjustment | Consolidated |
| Statement of Cash Flows | ConocoPhillips | Company | Company | Company | Company | Subsidiaries | Adjustment | Consolidated |
| Cash Flows From Operating Activities | | | | | | | | |
| Net Cash Provided by (Used in) Operating Activities | \$ (5,340) | 5,976 | - | 4 | - | 5,669 | (1,857) | 4,452 |
| Cash Flows From Investing Activities | | | | | | | | |
| Capital expenditures and investments | - | (1,779) | - | - | - | (4,035) | 236 | (5,578) |
| Proceeds from asset dispositions | - | 5 | - | - | - | 227 | - | 232 |
| Long-term advances/loans related parties | - | 11 | - | - | - | (136) | 4 | (121) |
| Collection of advances/loans related parties | - | 97 | 950 | - | - | 3,783 | (4,794) | 36 |
| Other | - | (107) | - | - | - | 30 | - | (77) |
| Net Cash Provided by (Used in) Investing Activities | - | (1,773) | 950 | - | - | (131) | (4,554) | (5,508) |
| Cash Flows From Financing Activities | | | | | | | | |
| Issuance of debt | 8,910 | - | - | - | - | 123 | (4) | 9,029 |
| Repayment of debt | (2,109) | (4,081) | (950) | - | - | (3,763) | 4,794 | (6,109) |
| Issuance of company common stock | (21) | - | - | - | - | - | - | (21) |
| Dividends paid on company common stock | (1,393) | - | - | - | - | (1,871) | 1,871 | (1,393) |
| Other | (47) | 2 | - | - | - | (125) | (236) | (406) |
| Net Cash Provided by (Used in) Financing Activities | 5,340 | (4,079) | (950) | - | - | (5,636) | 6,425 | 1,100 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | | | | | | | | |
| | - | - | - | - | - | 89 | - | 89 |

| | | | | | | | | |
|--|------|-----|---|----|---|-----|------|-----|
| Net Change in Cash and Cash Equivalents | - | 124 | - | 4 | - | (9) | 14 | 133 |
| Cash and cash equivalents at beginning of period | - | 8 | - | 10 | 1 | 750 | (14) | 755 |
| Cash and Cash Equivalents at End of Period | \$ - | 132 | - | 14 | 1 | 741 | - | 888 |

Statement of Cash Flows

Six Months Ended June 30, 2008

Cash Flows From Operating Activities

| | | | | | | | | |
|---|----------|-----|---|---|---|-------|-------|--------|
| Net Cash Provided by (Used in) Operating Activities | \$ 5,815 | 189 | 4 | 5 | - | 6,830 | (822) | 12,021 |
|---|----------|-----|---|---|---|-------|-------|--------|

Cash Flows From Investing Activities

| | | | | | | | | |
|---|---|---------|---|---|---|---------|-------|---------|
| Capital expenditures and investments | - | (2,462) | - | - | - | (4,611) | 353 | (6,720) |
| Proceeds from asset dispositions | - | 73 | - | - | - | 372 | (4) | 441 |
| Long-term advances/loans related parties | - | (53) | - | - | - | (2,523) | 2,422 | (154) |
| Collection of advances/loans related parties | - | 212 | - | - | - | 9 | (217) | 4 |
| Other | - | 10 | - | - | - | (3) | - | 7 |
| Net Cash Provided by (Used in) Investing Activities | - | (2,220) | - | - | - | (6,756) | 2,554 | (6,422) |

Cash Flows From Financing Activities

| | | | | | | | | |
|---|---------|-------|-----|---|---|---------|---------|---------|
| Issuance of debt | 1,967 | 2,412 | - | - | - | 108 | (2,422) | 2,065 |
| Repayment of debt | (1,500) | (338) | - | - | - | (220) | 217 | (1,841) |
| Issuance of company common stock | 185 | - | - | - | - | - | - | 185 |
| Repurchase of company common stock | (5,008) | - | - | - | - | - | - | (5,008) |
| Dividends paid on company common stock | (1,449) | - | (4) | - | - | (1,191) | 1,195 | (1,449) |
| Other | (10) | 128 | - | - | - | (9) | (349) | (240) |
| Net Cash Provided by (Used in) Financing Activities | (5,815) | 2,202 | (4) | - | - | (1,312) | (1,359) | (6,288) |

**Effect of Exchange Rate
Changes on Cash and Cash
Equivalents**

| | | | | | | | |
|---|---|---|---|---|----|---|----|
| - | - | - | - | - | 20 | - | 20 |
|---|---|---|---|---|----|---|----|

**Net Change in Cash and
Cash Equivalents**

| | | | | | | | |
|---|-----|---|---|---|---------|-----|-------|
| - | 171 | - | 5 | - | (1,218) | 373 | (669) |
|---|-----|---|---|---|---------|-----|-------|

Cash and cash equivalents at
beginning of period

| | | | | | | | |
|---|-----|---|---|---|-------|-------|-------|
| - | 195 | - | 7 | 1 | 1,626 | (373) | 1,456 |
|---|-----|---|---|---|-------|-------|-------|

Cash and Cash Equivalents
at End of Period

| | | | | | | | | |
|----|---|-----|---|----|---|-----|---|-----|
| \$ | - | 366 | - | 12 | 1 | 408 | - | 787 |
|----|---|-----|---|----|---|-----|---|-----|

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis contains forward-looking statements including, without limitation, statements relating to our plans, strategies, objectives, expectations, and intentions, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words intends, believes, expects, plans, scheduled, should, anticipates, estimates, and similar expressions identify forward-looking statements. We do not undertake to update, revise or correct any of the forward-looking information. Readers are cautioned that such forward-looking statements should be read in conjunction with the disclosures under the heading CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 beginning on page 50.

The terms earnings and loss as used in Management's Discussion and Analysis refer to net income (loss) attributable to ConocoPhillips.

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

ConocoPhillips is an international, integrated energy company. We are the third-largest integrated energy company in the United States, based on market capitalization. At June 30, 2009, we had approximately 30,000 employees and total assets of \$150 billion.

The energy industry continued to be characterized by economic volatility during the second quarter and first six months of 2009. The price of West Texas Intermediate (WTI) benchmark crude oil peaked during mid-2008 at almost \$150 per barrel, and fell sharply throughout the remainder of the year to the low-\$30-per-barrel range. Since the end of 2008, crude oil prices have trended upward, with WTI averaging \$59.54 per barrel in the second quarter of 2009, or \$16.57 higher than the first quarter of 2009. The improvement in crude oil prices during 2009 was influenced by expectations of stabilization and eventual recovery of the world economy.

Industry natural gas prices for Henry Hub decreased during the second quarter of 2009, averaging \$3.51 per million British thermal units, down \$1.40 compared with the first quarter of 2009, and down \$7.43 compared with the second quarter of 2008. Domestic natural gas prices trended downward mostly due to higher unconventional (shale) production in the Lower 48 and lower demand in all sectors due to the U.S. recession. As a result of the changes in supply and demand, natural gas storage levels are higher than both the five-year average and the levels at the end of the second quarter of 2008.

Against this economic backdrop, our Exploration and Production (E&P) segment had earnings of \$725 million in the second quarter of 2009. This compares with E&P earnings of \$700 million in the first quarter of 2009 and \$3,999 million in the second quarter of 2008.

Global refining margins remained weak in the second quarter of 2009, as demand, particularly for distillates, continued to be suppressed by the global economic slowdown. In addition, the compressed differential in prices for high-quality crude oil compared with those of lower-quality crude oil reduced margins for those refineries configured to capitalize on the ability to process lower-quality crudes. Weak refining margins significantly impacted our Refining and Marketing (R&M) segment, which reported a loss of \$52 million in the second quarter of 2009, compared with earnings of \$205 million in the first quarter of 2009 and earnings of \$664 million in the second quarter of 2008. Our LUKOIL Investment segment had earnings of \$682 million in the second quarter of 2009, compared with \$48 million in the first quarter of 2009, and \$774 million in the second quarter of 2008. For the six-month periods, our equity earnings from LUKOIL were \$730 million in 2009, compared with \$1,484 million in 2008. These results indicate LUKOIL was also negatively impacted by lower commodity prices and refining margins.

Table of Contents**RESULTS OF OPERATIONS**

Unless otherwise indicated, discussion of results for the three- and six-month periods ended June 30, 2009, is based on a comparison with the corresponding periods of 2008.

Consolidated Results

A summary of earnings (loss) by business segment follows:

| | Millions of Dollars | | | |
|---|---------------------|-------|------------------|-------|
| | Three Months Ended | | Six Months Ended | |
| | June 30 | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Exploration and Production (E&P) | \$ 725 | 3,999 | 1,425 | 6,886 |
| Midstream | 31 | 162 | 154 | 299 |
| Refining and Marketing (R&M) | (52) | 664 | 153 | 1,184 |
| LUKOIL Investment | 682 | 774 | 730 | 1,484 |
| Chemicals | 67 | 18 | 90 | 70 |
| Emerging Businesses | 2 | 8 | 2 | 20 |
| Corporate and Other | (157) | (186) | (416) | (365) |
| Net income attributable to ConocoPhillips | \$ 1,298 | 5,439 | 2,138 | 9,578 |

Earnings were \$1,298 million in the second quarter of 2009, compared with \$5,439 million in the second quarter of 2008. For the six-month periods ended June 30, 2009 and 2008, earnings were \$2,138 million and \$9,578 million, respectively. The decrease from both 2008 periods was primarily the result of:

Substantially lower prices for crude oil, natural gas and natural gas liquids in our E&P segment.

Lower results from our R&M segment, reflecting lower refining margins.

See the Segment Results section for additional information on our segment results.

Income Statement Analysis

Sales and other operating revenues decreased 50 percent in the second quarter of 2009 and 48 percent in the six-month period, while purchased crude oil, natural gas and products decreased 52 percent and 50 percent, respectively. These decreases were mainly the result of significantly lower petroleum product prices, and lower prices for crude oil, natural gas and natural gas liquids.

Equity in earnings of affiliates decreased 41 percent in the second quarter of 2009 and 53 percent in the six-month period, reflecting reduced earnings from LUKOIL; DCP Midstream, LLC; Malaysian Refining Company Sdn. Bhd.; Mery Sweeny, L.P. (MSLP); and WRB Refining LLC.

Other income decreased 48 percent during the first six months of 2009. The decrease was primarily due to 2008 gains related to asset rationalization efforts in our R&M segment.

Production and operating expenses decreased 17 percent in the second quarter of 2009 and 12 percent in the six-month period. Contributing to these decreases were lower utilities expense, favorable foreign exchange impacts, and our emphasis on cost reduction.

Selling, general and administrative expenses decreased 24 percent in the second quarter of 2009 and 18 percent in the six-month period mostly due to reduced expenses as a result of disposition of U.S. and international marketing assets.

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Exploration expenses decreased 22 percent during the first six months of 2009, predominantly due to decreases in geological and geophysical expenses, leasehold impairments and dry hole costs.

Taxes other than income taxes decreased 36 percent in the second quarter of 2009 and 34 percent in the six-month period, primarily due to lower production taxes resulting from lower crude oil prices, as well as reduced excise taxes on petroleum product sales.

Interest and debt expense increased 28 percent and 39 percent in the second quarter and first six months of 2009 as a result of a higher average debt level and lower amounts of interest being capitalized, partially offset by lower interest rates.

Segment Results**E&P**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------|-------|------------------|-------|
| | June 30 | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| | Millions of Dollars | | | |
| Net Income (Loss) Attributable to ConocoPhillips | | | | |
| Alaska | \$ 404 | 700 | 648 | 1,303 |
| Lower 48 | (68) | 1,152 | (139) | 1,898 |
| United States | 336 | 1,852 | 509 | 3,201 |
| International | 389 | 2,147 | 916 | 3,685 |
| | \$ 725 | 3,999 | 1,425 | 6,886 |

| | Dollars Per Unit | | | |
|---------------------------------------|------------------|--------|-------|--------|
| Average Sales Prices | | | | |
| Crude oil (per barrel) | | | | |
| United States | \$ 55.13 | 118.66 | 47.82 | 106.51 |
| International | 56.93 | 119.75 | 49.94 | 107.94 |
| Total consolidated | 56.11 | 119.24 | 49.00 | 107.27 |
| Equity affiliates* | 51.89 | 93.20 | 43.48 | 76.86 |
| Worldwide E&P | 55.63 | 118.01 | 48.43 | 105.68 |
| Natural gas (per thousand cubic feet) | | | | |
| United States | 3.00 | 9.69 | 3.41 | 8.67 |
| International | 4.27 | 10.02 | 5.07 | 9.15 |
| Total consolidated | 3.72 | 9.87 | 4.35 | 8.94 |
| Equity affiliates* | 2.10 | - | 2.10 | - |
| Worldwide E&P | 3.69 | 9.87 | 4.31 | 8.94 |
| Natural gas liquids (per barrel) | | | | |
| United States | 27.73 | 65.96 | 26.17 | 62.31 |
| International | 30.04 | 71.40 | 30.80 | 66.86 |
| Total consolidated | 28.73 | 68.42 | 28.15 | 64.40 |
| Worldwide E&P | 28.73 | 68.42 | 28.15 | 64.40 |

| | Millions of Dollars | | | |
|---|---------------------|-----|-----|-----|
| Worldwide Exploration Expenses | | | | |
| General administrative; geological and geophysical; and lease rentals | \$ 128 | 161 | 230 | 316 |

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| | | | | |
|----------------------|---------------|-----|------------|-----|
| Leasehold impairment | 49 | 59 | 92 | 119 |
| Dry holes | 66 | 68 | 146 | 162 |
| | \$ 243 | 288 | 468 | 597 |

* Excludes our equity share of LUKOIL, which is reported in the LUKOIL Investment segment.

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------------|----------------------------------|-------|-----------------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| | Thousands of Barrels Daily | | | |
| Operating Statistics | | | | |
| Crude oil produced | | | | |
| Alaska | 236 | 244 | 245 | 249 |
| Lower 48 | 92 | 95 | 92 | 96 |
| United States | 328 | 339 | 337 | 345 |
| Europe | 223 | 194 | 232 | 198 |
| Asia Pacific | 109 | 86 | 115 | 88 |
| Canada | 23 | 24 | 24 | 23 |
| Middle East and Africa | 73 | 78 | 74 | 80 |
| Other areas | 7 | 10 | 8 | 10 |
| Total consolidated | 763 | 731 | 790 | 744 |
| Equity affiliates* | | | | |
| Canada | 41 | 25 | 38 | 27 |
| Russia and Caspian | 55 | 16 | 52 | 16 |
| | 859 | 772 | 880 | 787 |
| Natural gas liquids produced | | | | |
| Alaska | 16 | 17 | 18 | 18 |
| Lower 48 | 78 | 76 | 74 | 73 |
| United States | 94 | 93 | 92 | 91 |
| Europe | 17 | 19 | 19 | 21 |
| Asia Pacific | 17 | 17 | 17 | 15 |
| Canada | 24 | 25 | 24 | 26 |
| Middle East and Africa | 3 | 2 | 2 | 2 |
| | 155 | 156 | 154 | 155 |
| Millions of Cubic Feet Daily | | | | |
| Natural gas produced** | | | | |
| Alaska | 83 | 98 | 88 | 99 |
| Lower 48 | 2,012 | 2,034 | 2,020 | 1,998 |
| United States | 2,095 | 2,132 | 2,108 | 2,097 |
| Europe | 849 | 880 | 924 | 952 |
| Asia Pacific | 721 | 616 | 717 | 602 |
| Canada | 1,174 | 1,055 | 1,120 | 1,078 |
| Middle East and Africa | 118 | 116 | 115 | 110 |

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| | | | | |
|--------------------|--------------|-------|--------------|-------|
| Other areas | - | 19 | - | 20 |
| Total consolidated | 4,957 | 4,818 | 4,984 | 4,859 |
| Equity affiliates* | | | | |
| Asia Pacific | 94 | - | 85 | - |
| | 5,051 | 4,818 | 5,069 | 4,859 |

Thousands of Barrels Daily

| | | | | |
|-------------------|-----------|----|-----------|----|
| Mining operations | | | | |
| Syncrude produced | 16 | 19 | 20 | 20 |

**Excludes our equity share of LUKOIL, which is reported in the LUKOIL Investment segment.*

***Represents quantities available for sale. Excludes gas equivalent of natural gas liquids shown above.*

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The E&P segment explores for, produces, transports and markets crude oil, natural gas and natural gas liquids on a worldwide basis. It also mines deposits of oil sands in Canada to extract bitumen and upgrade it into a synthetic crude oil. At June 30, 2009, our E&P operations were producing in the United States, Norway, the United Kingdom, Canada, Australia, offshore Timor-Leste in the Timor Sea, Indonesia, China, Vietnam, Libya, Nigeria, Algeria, and Russia.

Earnings from the E&P segment decreased 82 percent and 79 percent in the second quarter and first six months of 2009, primarily due to substantially lower crude oil, natural gas and natural gas liquids prices. This decrease was partially offset by lower Alaska and Lower 48 production taxes due to lower prices, higher international volumes and improved operating costs. See the *Business Environment and Executive Overview* section for additional information on industry crude oil and natural gas prices.

U.S. E&P

Earnings from our U.S. E&P operations decreased 82 percent in the second quarter and 84 percent in the first six months of 2009 due to significantly lower crude oil, natural gas and natural gas liquids prices, partially offset by lower production taxes. As a result of an order issued by the Federal Energy Regulatory Commission (FERC) in April 2009, we re-evaluated the transportation tariff-rate component of our Alaska production tax accrual, which resulted in a downward adjustment of the accrual in the second quarter of 2009.

U.S. E&P production on a barrel-of-oil-equivalent (BOE) basis averaged 771,000 BOE per day in the second quarter of 2009; this compares with 787,000 in the second quarter of 2008. The decrease was primarily due to field decline, partially offset by improved well performance and less unplanned downtime.

International E&P

Earnings from our international E&P operations decreased 82 percent in the second quarter and 75 percent in the first six months of 2009, primarily as a result of significantly lower crude oil, natural gas and natural gas liquids prices, partially offset by higher volumes and lower operating costs.

International E&P production averaged 1,085,000 BOE per day in the second quarter of 2009, an increase of 15 percent from 944,000 in the second quarter of 2008. The increase was predominantly due to production from new developments in the United Kingdom, Russia, Canada, Norway, China and Vietnam, which was partially offset by field decline. In addition, production increased due to impacts from the royalty framework in Alberta, Canada, and from production sharing contracts. Our Syncrude mining operations produced 16,000 barrels per day in the second quarter of 2009, a decrease from 19,000 barrels per day in the second quarter of 2008, due to unplanned downtime. In the second quarter of 2009, we recorded a noncash charge of \$51 million before- and after-tax related to the full impairment of our exploration and production investments in Ecuador. For more information see the *Expropriated Assets* section of Note 8 *Impairments*, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Table of Contents**Midstream**

| | Three Months | | Six Months Ended | |
|---|---------------------------------|------------|------------------|------------|
| | Ended June 30 2009 | 2008 | 2009 | 2008 |
| | Millions of Dollars | | | |
| Net Income Attributable to ConocoPhillips* | \$ 31 | 162 | 154 | 299 |
| <i>* Includes DCP Midstream-related earnings:</i> | <i>\$ 12</i> | <i>137</i> | <i>102</i> | <i>255</i> |
| | Dollars Per Barrel | | | |
| Average Sales Prices | | | | |
| U.S. natural gas liquids* | | | | |
| Consolidated | \$ 29.99 | 68.21 | 28.01 | 64.15 |
| Equity affiliates | 26.02 | 62.53 | 24.94 | 59.51 |

** Based on index prices from the Mont Belvieu and Conway market hubs that are weighted by natural gas liquids component and location mix.*

| | Thousands of Barrels Daily | | | |
|------------------------------------|----------------------------|-----|------------|-----|
| Operating Statistics* | | | | |
| Natural gas liquids extracted | 188 | 196 | 180 | 197 |
| Natural gas liquids fractionated** | 174 | 162 | 167 | 158 |

**Includes our share of equity affiliates, except LUKOIL, which is reported in the LUKOIL Investment segment.*

****Excludes DCP Midstream.**

The Midstream segment purchases raw natural gas from producers and gathers natural gas through an extensive network of pipeline gathering systems. The natural gas is then processed to extract natural gas liquids from the raw gas stream. The remaining residue gas is marketed to electrical utilities, industrial users and gas marketing companies. Most of the natural gas liquids are fractionated separated into individual components like ethane, butane and propane and marketed as chemical feedstock, fuel or blendstock. The Midstream segment consists of our 50 percent equity investment in DCP Midstream, LLC, as well as our other natural gas gathering and processing operations, and natural gas liquids fractionation and marketing businesses, primarily in the United States and Trinidad. Earnings from the Midstream segment decreased 81 percent and 48 percent in the second quarter and first six months of 2009. The decrease in both periods was primarily due to lower prices and volumes experienced by equity affiliates DCP Midstream and Phoenix Park Gas Processors Limited. In addition, as a result of a DCP Midstream subsidiary converting subordinated units to common units, we recognized an \$88 million after-tax benefit in the first quarter of 2009.

Table of Contents**R&M**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------|------|------------------|-------|
| | June 30 | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| | Millions of Dollars | | | |
| Net Income (Loss) Attributable to ConocoPhillips | | | | |
| United States | \$ (38) | 587 | 60 | 1,022 |
| International | (14) | 77 | 93 | 162 |
| | \$ (52) | 664 | 153 | 1,184 |

| | Dollars Per Gallon | | | |
|-----------------------------------|--------------------|------|------|------|
| U.S. Average Sales Prices* | | | | |
| Gasoline | | | | |
| Wholesale | \$ 1.84 | 3.23 | 1.62 | 2.89 |
| Retail | 1.80 | 3.36 | 1.39 | 3.01 |
| Distillates wholesale | 1.67 | 3.73 | 1.54 | 3.33 |

* Excludes excise taxes.

| | Thousands of Barrels Daily | | | |
|--------------------------------|----------------------------|-------|-------|-------|
| Operating Statistics | | | | |
| Refining operations* | | | | |
| United States | | | | |
| Crude oil capacity | 1,986 | 2,008 | 1,986 | 2,008 |
| Crude oil processed | 1,852 | 1,891 | 1,721 | 1,848 |
| Capacity utilization (percent) | 93% | 94 | 87 | 92 |
| Refinery production | 2,018 | 2,095 | 1,868 | 2,043 |
| International | | | | |
| Crude oil capacity | 671 | 670 | 671 | 670 |
| Crude oil processed | 485 | 589 | 526 | 583 |
| Capacity utilization (percent) | 72% | 88 | 78 | 87 |
| Refinery production | 499 | 592 | 537 | 583 |
| Worldwide | | | | |
| Crude oil capacity | 2,657 | 2,678 | 2,657 | 2,678 |
| Crude oil processed | 2,337 | 2,480 | 2,247 | 2,431 |
| Capacity utilization (percent) | 88% | 93 | 85 | 91 |
| Refinery production | 2,517 | 2,687 | 2,405 | 2,626 |

* Includes our share of equity affiliates, except LUKOIL, which is reported in the LUKOIL Investment segment.

| | | | | |
|----------------------------------|-------|-------|-------|-------|
| Petroleum products sales volumes | | | | |
| United States | | | | |
| Gasoline | 1,180 | 1,127 | 1,109 | 1,098 |
| Distillates | 924 | 912 | 837 | 890 |
| Other products | 378 | 404 | 353 | 394 |

| | | | | |
|---------------|--------------|-------|--------------|-------|
| | 2,482 | 2,443 | 2,299 | 2,382 |
| International | 630 | 683 | 619 | 650 |
| | 3,112 | 3,126 | 2,918 | 3,032 |

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The R&M segment's operations encompass refining crude oil and other feedstocks into petroleum products (such as gasoline, distillates and aviation fuel); buying, selling and transporting crude oil; and buying, transporting, distributing and marketing petroleum products. R&M has operations mainly in the United States, Europe and the Asia Pacific Region.

R&M reported a loss of \$52 million during the second quarter of 2009, compared with earnings of \$664 million in the same period of 2008. R&M's earnings for the first six months of 2009 and 2008 were \$153 million and \$1,184 million, respectively. U.S. and International R&M earnings decreased in both periods primarily due to lower refining margins and lower volumes, partially offset by lower operating expenses. Other factors influencing U.S. R&M results in both periods included a second-quarter 2009 \$72 million noncash after-tax impairment primarily related to goodwill allocated to the planned sale of our investment in the Keystone Pipeline. U.S. results for the six-month period were also impacted by the absence of 2008 gains on asset sales.

U.S. R&M

In the second quarter of 2009, our U.S. R&M operations reported a loss of \$38 million, compared with earnings of \$587 million in the same period of 2008. Earnings for the first six months of 2009 and 2008 were \$60 million and \$1,022 million, respectively.

Our U.S. refining capacity utilization rate was 93 percent in the second quarter of 2009, compared with 94 percent in the same quarter of 2008. The current-year rate was mainly affected by run reductions due to market impacts.

International R&M

International R&M reported a loss of \$14 million in the second quarter of 2009 and earnings of \$93 million in the first six months of 2009. This compares with earnings of \$77 million and \$162 million for the corresponding periods of 2008.

Our international refining capacity utilization rate was 72 percent in the second quarter of 2009, compared with 88 percent in the same quarter of 2008. The current-year rate reflects increased turnaround activity in Europe and run reductions at the Wilhelmshaven, Germany, refinery in response to current market conditions.

Table of Contents**LUKOIL Investment**

| | Millions of Dollars | | | |
|--|---------------------|------|------------------|-------|
| | Three Months | | Six Months Ended | |
| | Ended | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Net Income Attributable to ConocoPhillips | \$ 682 | 774 | 730 | 1,484 |

Operating Statistics*

| | | | | |
|---|------------|-----|------------|-----|
| Net crude oil produced (thousands of barrels daily) | 396 | 387 | 391 | 390 |
| Net natural gas produced (millions of cubic feet daily) | 274 | 363 | 295 | 383 |
| Net refinery crude oil processed (thousands of barrels daily) | 281 | 215 | 242 | 218 |

* Represents our net share of our estimate of LUKOIL's production and processing.

This segment represents our investment in the ordinary shares of OAO LUKOIL, an international, integrated oil and gas company headquartered in Russia, which we account for under the equity method. As of June 30, 2009, our ownership interest in LUKOIL was 20 percent based on authorized and issued shares. Our ownership interest based on estimated shares outstanding, used for equity method accounting, was 20.09 percent at that date.

Because LUKOIL's accounting cycle close and preparation of U.S. generally accepted accounting principles financial statements occur subsequent to our reporting deadline, our equity earnings and statistics for our LUKOIL investment are estimated, based on current market indicators, publicly available LUKOIL information, and other objective data. Once the difference between actual and estimated results is known, an adjustment is recorded. This estimate-to-actual adjustment will be a recurring component of future period results. In addition to our estimated equity share of LUKOIL's earnings, this segment reflects the amortization of the basis difference between our equity interest in the net assets of LUKOIL and the book value of our investment, and also includes the costs associated with our employees seconded to LUKOIL.

Earnings from the LUKOIL Investment segment decreased 12 percent in the second quarter of 2009 and 51 percent in the first six months of 2009. The segment's results were impacted by substantially lower refined product and crude oil prices, somewhat offset by lower extraction tax and export tariff rates. Results for both periods included a second-quarter 2009 \$192 million positive alignment of first-quarter estimated earnings to LUKOIL's reported results, compared with a \$120 million negative alignment in the second quarter of 2008.

Chemicals

| | Millions of Dollars | | | |
|--|---------------------|------|------------------|------|
| | Three Months | | Six Months Ended | |
| | Ended | | June 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| Net Income Attributable to ConocoPhillips | \$ 67 | 18 | 90 | 70 |

The Chemicals segment consists of our 50 percent interest in Chevron Phillips Chemical Company LLC (CPChem), which we account for under the equity method. CPChem uses natural gas liquids and other feedstocks to produce petrochemicals. These products are then marketed and sold, or used as feedstocks to produce plastics and commodity chemicals.

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Earnings from the Chemicals segment were \$67 million in the second quarter of 2009, compared with \$18 million in the second quarter of 2008. Chemicals earnings were \$90 million in the first half of 2009, compared with \$70 million in 2008. The increase in both periods reflects lower utility and turnaround expenses, which were partially offset by lower margins.

Emerging Businesses

| | Millions of Dollars | | | |
|---|---------------------|------|------------------|---------|
| | Three Months | | Six Months Ended | |
| | Ended | | June 30 | June 30 |
| | 2009 | 2008 | 2009 | 2008 |
| Net Income (Loss) Attributable to ConocoPhillips | | | | |
| Power | \$ 27 | 26 | 51 | 53 |
| Other | (25) | (18) | (49) | (33) |
| | \$ 2 | 8 | 2 | 20 |

The Emerging Businesses segment represents our investment in new technologies or businesses outside our normal scope of operations. Activities within this segment are currently focused on power generation and innovation of new technologies, such as those related to conventional and nonconventional hydrocarbon recovery (including heavy oil), refining, alternative energy, biofuels and the environment.

Emerging Businesses segment earnings were \$2 million in the second quarter of 2009, compared with \$8 million in the same quarter of 2008. Earnings for the first six months of 2009 were \$2 million, compared with \$20 million in the six-month period of 2008. The decline in both periods was affected by higher technology development expenses. The six-month period was also impacted by lower domestic power results.

Corporate and Other

| | Millions of Dollars | | | |
|---|---------------------|-------|------------------|---------|
| | Three Months | | Six Months Ended | |
| | Ended | | June 30 | June 30 |
| | 2009 | 2008 | 2009 | 2008 |
| Net Income (Loss) Attributable to ConocoPhillips | | | | |
| Net interest | \$ (175) | (119) | (365) | (227) |
| Corporate general and administrative expenses | (31) | (68) | (72) | (112) |
| Other | 49 | 1 | 21 | (26) |
| | \$ (157) | (186) | (416) | (365) |

Net interest consists of interest and financing expense, net of interest income and capitalized interest, as well as premiums incurred on the early retirement of debt. Net interest increased 47 percent in the second quarter of 2009 and 61 percent in the first six months of 2009. The increase in both periods was primarily due to higher average debt levels and lower amounts of interest being capitalized, partially offset by lower interest rates. Corporate general and administrative expenses decreased 54 percent in the second quarter of 2009 and 36 percent in the first six months of 2009 due to decreased costs related to compensation plans and overhead. The category Other includes certain foreign currency transaction gains and losses, environmental costs associated with sites no longer in operation, and other costs not directly associated with an operating segment. The Other category reflects higher foreign currency transaction gains in both 2009 periods.

Table of Contents**CAPITAL RESOURCES AND LIQUIDITY****Financial Indicators**

| | Millions of Dollars | |
|---|---------------------|-------------|
| | June 30 | December 31 |
| | 2009 | 2008 |
| Short-term debt | \$ 1,438 | 370 |
| Total debt* | \$ 30,364 | 27,455 |
| Total equity | \$ 60,007 | 56,265 |
| Percent of total debt to capital** | 34% | 33 |
| Percent of floating-rate debt to total debt | 14% | 37 |

* *Total debt includes short- and long-term debt, as shown on our consolidated balance sheet.*

** *Capital includes total debt and total equity.*

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources. Cash generated from operating activities is the primary source of funding. In addition, during the first half of 2009, we issued \$9 billion of long-term notes. During the first six months of 2009, available cash was primarily used to support our ongoing capital expenditures and investments program, repay commercial paper and other debt, pay dividends, and meet the funding requirements to FCCL Partnership. Total dividends paid on our common stock during the first six months were \$1,393 million. During the first half of 2009, cash and cash equivalents increased \$133 million to \$888 million.

In addition to cash flows from operating activities and proceeds from asset sales, we rely on our commercial paper and credit facility program, and our shelf registration statements to support our short- and long-term liquidity requirements. The credit markets, including the commercial paper markets in the United States, have recently experienced adverse conditions. Although we have not been materially impacted by these conditions, continuing volatility in the credit markets may increase costs associated with issuing commercial paper or other debt instruments due to increased spreads over relevant interest rate benchmarks. Such volatility may also affect our ability, the ability of our joint ventures and equity affiliates, and the ability of third parties with whom we seek to do business, to access those credit markets. Notwithstanding these adverse market conditions, we believe current cash and short-term investment balances and cash generated by operations, together with access to external sources of funds as described below in the *Significant Sources of Capital* section, will be sufficient to meet our funding requirements in the near- and long-term, including our capital spending program, dividend payments, required debt payments and the funding requirements to FCCL.

Significant Sources of Capital*Operating Activities*

During the first six months of 2009, cash of \$4,452 million was provided by operating activities, a 63 percent decrease from cash from operations of \$12,021 million in the corresponding period of 2008. The decline was primarily due to significantly lower commodity prices and lower refining margins.

While the stability of our cash flows from operating activities benefits from geographic diversity and the effects of upstream and downstream integration, our short- and long-term operating cash flows are highly dependent upon prices

for crude oil, natural gas and natural gas liquids, as well as refining and marketing margins. During the first six months of 2009, crude oil and natural gas prices were significantly lower than in the same period of 2008. These prices and margins are driven by market conditions over which we have no control. Absent other mitigating factors, as these prices and margins fluctuate, we would expect a corresponding change in our operating cash flows.

The level of our production volumes of crude oil, natural gas and natural gas liquids also impacts our cash flows.

These production levels are impacted by such factors as acquisitions and dispositions of fields, field production decline rates, new technologies, operating efficiency, weather conditions, and new discoveries

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through exploratory success and their timely and cost-effective development. While we actively manage these factors, production levels can cause variability in cash flows, although historically this variability has not been as significant as that caused by commodity prices.

In addition, the level and quality of output from our refineries impacts our cash flows. The output at our refineries is impacted by such factors as operating efficiency, maintenance turnarounds, feedstock availability and weather conditions. We actively manage the operations of our refineries and, typically, any variability in their operations has not been as significant to cash flows as that caused by refining margins.

Asset Sales

Proceeds from asset sales during the first six months of 2009 were \$232 million, compared with \$441 million in the same period of 2008. In January of 2009, we closed on the sale of a large part of our remaining U.S. retail marketing assets, which included seller financing in the form of a \$370 million five-year note and letters of credit totaling \$54 million.

Commercial Paper and Credit Facilities

At June 30, 2009, we had a \$7.35 billion revolving credit facility, which expires in September 2012. The facility may be used as direct bank borrowings, as support for the ConocoPhillips \$5.6 billion commercial paper program, as support for the ConocoPhillips Qatar Funding Ltd. \$1.5 billion commercial paper program, as support for issuances of letters of credit totaling up to \$750 million, or as support for up to \$250 million of commercial paper issued by TransCanada Keystone Pipeline LP, a Keystone Pipeline joint venture entity. At both June 30, 2009, and December 31, 2008, we had no outstanding borrowings under the credit facility, but \$40 million in letters of credit had been issued. Under both ConocoPhillips commercial paper programs, \$2,211 million of commercial paper was outstanding at June 30, 2009, compared with \$6,933 million at December 31, 2008.

At June 30, 2009, our primary funding source for short-term working capital needs was the ConocoPhillips \$5.6 billion commercial paper program. Commercial paper maturities are generally limited to 90 days. The ConocoPhillips Qatar Funding Ltd. \$1.5 billion commercial paper program is used to fund commitments relating to the Qatargas 3 project. Since we had \$2,211 million of commercial paper outstanding, had issued \$40 million of letters of credit and had up to a \$250 million guarantee on commercial paper issued by Keystone, we had access to \$4.8 billion in borrowing capacity under our revolving credit facility at June 30, 2009.

In July 2009, we arranged a new \$500 million credit facility, which expires in July 2012, bringing our total borrowing capacity under our revolving credit facilities to \$7.85 billion.

Shelf Registrations

We have a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (SEC) under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of various types of debt and equity securities. Under this SEC shelf registration, in February 2009, we issued \$1.5 billion of 4.75% Notes due 2014, \$2.25 billion of 5.75% Notes due 2019, and \$2.25 billion of 6.50% Notes due 2039. In addition, in May 2009, we issued \$1.5 billion of 4.60% Notes due 2015, \$1.0 billion of 6.00% Notes due 2020 and \$500 million of 6.50% Notes due 2039. The proceeds from these notes were primarily used to reduce outstanding commercial paper balances and for general corporate purposes.

We also have on file with the SEC a shelf registration statement under which ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II, both wholly owned subsidiaries, could issue an indeterminate amount of senior debt securities, fully and unconditionally guaranteed by ConocoPhillips and ConocoPhillips Company.

Noncontrolling Interests

At June 30, 2009, we had \$1,078 million of equity in less than wholly owned consolidated subsidiaries held by noncontrolling interest owners, including a noncontrolling interest of \$491 million in Ashford Energy

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Capital S.A. The remaining noncontrolling interest amounts were primarily related to operating joint ventures we control. The largest of these, amounting to \$560 million, was related to Darwin liquefied natural gas (LNG) operations, located in Australia's Northern Territory. On July 15, 2009, Ashford agreed to redeem for \$500 million, plus accrued dividends, the investment in Ashford held by Cold Spring Finance S.a.r.l. The redemption resulted indirectly in ConocoPhillips increasing its issuance of commercial paper in July.

Off-Balance Sheet Arrangements

As part of our normal ongoing business operations and consistent with normal industry practice, we enter into numerous agreements with other parties to pursue business opportunities, which share costs and apportion risks among the parties as governed by the agreements. At June 30, 2009, we were liable for certain contingent obligations under the following contractual arrangements:

Qatargas 3: We own a 30 percent interest in Qatargas 3, an integrated project to produce and liquefy natural gas from Qatar's North Field. Our interest is held through a jointly owned company, Qatar Liquefied Gas Company Limited (3), for which we use the equity method of accounting. Qatargas 3 secured project financing of \$4 billion in December 2005, consisting of \$1.3 billion of loans from export credit agencies (ECA), \$1.5 billion from commercial banks, and \$1.2 billion from ConocoPhillips. The ConocoPhillips loan facilities have substantially the same terms as the ECA and commercial bank facilities. Prior to project completion certification, all loans, including the ConocoPhillips loan facilities, are guaranteed by the participants based on their respective ownership interests. Accordingly, our maximum exposure to this financing structure is \$1.2 billion. Upon completion certification, currently expected in 2011, all project loan facilities, including the ConocoPhillips loan facilities, will become nonrecourse to the project participants. At June 30, 2009, Qatargas 3 had approximately \$3.5 billion outstanding under all the loan facilities, of which ConocoPhillips provided \$956 million, and an additional \$82 million of accrued interest.

Rockies Express Pipeline: In June 2006, we issued a guarantee for 24 percent of \$2 billion in credit facilities issued to Rockies Express Pipeline LLC, operated by Kinder Morgan Energy Partners, L.P. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be \$480 million, which could become payable if the credit facilities are fully utilized and Rockies Express fails to meet its obligations under the credit agreement. At June 30, 2009, Rockies Express had \$1,883 million outstanding under the credit facilities, with our 24 percent guarantee equaling \$452 million. In addition, we have a 24 percent guarantee on \$600 million of Floating Rate Notes due in August 2009. The operator anticipates construction completion in late 2009. Refinancing of the \$2 billion credit facility is expected to take place at that time, making the debt nonrecourse to ConocoPhillips. Construction cost estimates have increased significantly from original projections, and additional increases or other changes related to the investment may impact whether an other-than-temporary impairment of our equity investment is required.

Keystone Oil Pipeline: In December 2007, we acquired a 50 percent equity interest in four Keystone Pipeline entities (Keystone) to create a joint venture with TransCanada Corporation. Keystone is constructing a crude oil pipeline originating in Alberta with delivery points in Illinois and Oklahoma. In connection with certain planning and construction activities, we agreed to reimburse TransCanada with respect to a portion of guarantees issued by TransCanada for certain of Keystone's obligations to third parties. Our maximum potential amount of future payments associated with these guarantees is based on our ultimate ownership percentage in Keystone and is estimated to be \$90 million at June 30, 2009, which could become payable if Keystone fails to meet its obligations and the obligations cannot otherwise be mitigated. Payments under the guarantees are contingent upon the partners not making necessary equity contributions into Keystone; therefore, it is considered unlikely payments would be required. All but \$8 million of the guarantees will terminate after construction is completed, currently estimated to occur in 2010.

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In addition to the above guarantees, in order to obtain long-term shipping commitments that would enable a pipeline expansion starting at Hardisty, Alberta, and extending to near Port Arthur, Texas, the Keystone owners executed an agreement in July 2008 to guarantee Keystone's obligations under its agreement to provide transportation at a specified price for certain shippers to the Gulf Coast. Although our guarantee is for 50 percent of these obligations, TransCanada has agreed to reimburse us for amounts we pay in excess of our current ownership percentage in Keystone. Our maximum potential amount of future payments, or cost of volume delivery, under this guarantee, after such reimbursement, is estimated to be \$220 million (\$550 million before reimbursement) at June 30, 2009, which could become payable if Keystone fails to meet its obligations under the agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, are contingent upon Keystone defaulting on its obligation to construct the pipeline in accordance with the terms of the agreement.

In December 2008, we provided a guarantee of up to \$250 million of balances outstanding under a commercial paper program. This program was established by Keystone to provide funding for a portion of its construction costs attributable to our ownership interest in the project. Payment under the guarantee would be due in the event Keystone failed to repay principal and interest, when due, to short-term noteholders. Keystone's other owner will guarantee a similar, but separate, funding vehicle. At June 30, 2009, \$197 million was outstanding under the Keystone commercial paper program guaranteed by us.

In October 2008, we elected to exercise an option to reduce our equity interest in Keystone from 50 percent to 20.01 percent through a dilution mechanism. At June 30, 2009, our ownership interest was approximately 23 percent. In June 2009, we signed an agreement to sell our remaining ownership interest in Keystone to TransCanada. Upon the closing of this transaction, currently expected in the third quarter, all our guarantees related to Keystone will cease.

For additional information about guarantees, see Note 11 Guarantees, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Capital Requirements

For information about our capital expenditures and investments, see the Capital Spending section.

During the first six months of 2009, we used proceeds from the issuance of commercial paper to redeem \$284 million of 6.375% Notes and \$950 million of Floating Rate Notes upon their maturity. Our debt balance at June 30, 2009, was \$30.4 billion, an increase of \$2.9 billion from the balance at December 31, 2008.

We are obligated to contribute \$7.5 billion, plus interest, over a 10-year period, beginning in 2007, to FCCL.

Quarterly principal and interest payments of \$237 million began in the second quarter of 2007 and will continue until the balance is paid. Of the principal obligation amount, approximately \$642 million was short-term and was included in the Accounts payable related parties line on our June 30, 2009, consolidated balance sheet. The principal portion of these payments, which totaled \$309 million in the first six months of 2009, are included in the Other line in the financing activities section of our consolidated statement of cash flows. Interest accrues at a fixed annual rate of 5.3 percent on the unpaid principal balance. Fifty percent of the quarterly interest payment is reflected as a capital contribution and is included in the Capital expenditures and investments line on our consolidated statement of cash flows.

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In December 2005, we entered into a credit agreement with Qatargas 3, whereby we will provide loan financing of approximately \$1.2 billion for the construction of an LNG train in Qatar. This financing will represent 30 percent of the project's total debt financing. Through June 30, 2009, we had provided \$956 million in loan financing, and an additional \$82 million of accrued interest. See the "Off-Balance Sheet Arrangements" section for additional information on Qatargas 3.

We have provided intermittent short-term loan financing to WRB Refining LLC, to assist it in meeting its operating and capital spending requirements. At June 30, 2009, \$150 million of such financing was outstanding.

Capital Spending**Capital Expenditures and Investments**

| | Millions of Dollars Six Months Ended June 30 | |
|--------------------------|--|-------|
| | 2009 | 2008 |
| E&P | | |
| United States - Alaska | \$ 481 | 890 |
| United States - Lower 48 | 1,451 | 1,735 |
| International | 2,503 | 2,999 |
| | 4,435 | 5,624 |
| Midstream | 4 | - |
| R&M | | |
| United States | 826 | 677 |
| International | 193 | 196 |
| | 1,019 | 873 |
| LUKOIL Investment | - | - |
| Chemicals | - | - |
| Emerging Businesses | 73 | 112 |
| Corporate and Other | 47 | 111 |
| | \$ 5,578 | 6,720 |
| United States | \$ 2,819 | 3,413 |
| International | 2,759 | 3,307 |
| | \$ 5,578 | 6,720 |

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E&P

Capital spending for E&P during the first six months of 2009 totaled \$4,435 million. The expenditures supported key exploration and development projects including:

Alaska activities related to development drilling in the Greater Kuparuk Area, the Greater Prudhoe Bay Area, the Western North Slope (including satellite field prospects) and the Cook Inlet Area; and exploration.

Oil and natural gas developments in the Lower 48, including New Mexico, Texas, Louisiana, Oklahoma, Montana, North Dakota, Wyoming, and offshore in the Gulf of Mexico.

Investment in West2East Pipeline LLC, a company holding a 100 percent interest in Rockies Express Pipeline LLC.

Oil sands projects, primarily those associated with FCCL, and ongoing natural gas projects in Canada.

In the North Sea, the Greater Ekofisk Area, and various southern and central North Sea assets.

An integrated project to produce and liquefy natural gas from Qatar's North Field.

The Kashagan Field in the Caspian Sea, offshore Kazakhstan.

Advancement of coalbed methane projects in Australia associated with the Australia Pacific LNG joint venture.

The Peng Lai 19-3 development in China's Bohai Bay.

The Gumusut Field offshore Malaysia.

The North Belut Field in Block B, as well as other projects offshore Block B and onshore South Sumatra in Indonesia.

Fields offshore Vietnam.

Onshore developments in Nigeria.

R&M

Capital spending for R&M during the first six months of 2009 totaled \$1,019 million and included projects to meet environmental standards and improve the operating integrity, safety and energy efficiency of processing units. Capital also was spent on refinery upgrade projects to expand conversion capability and increase clean product yield.

Major project activities in progress include:

Expansion of a hydrocracker at the Rodeo facility of our San Francisco Refinery.

Design activities toward the upgrade of the Wilhelmshaven Refinery.

U.S. programs aimed at air emission reductions.

Contingencies

Legal and Tax Matters

We accrue a liability for known contingencies (other than those related to income taxes) when a loss is probable and the amounts can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain. Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements.

Environmental

We are subject to the same numerous international, federal, state and local environmental laws and regulations as other companies in the petroleum exploration and production, refining, and crude oil and refined product marketing and transportation businesses. For a discussion of the most significant of these environmental laws and regulations, including those with associated remediation obligations, see the Environmental section in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 63 through 65 of our 2008 Annual Report on Form 10-K.

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We, from time to time, receive requests for information or notices of potential liability from the Environmental Protection Agency and state environmental agencies alleging that we are a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or an equivalent state statute. On occasion, we also have been made a party to cost recovery litigation by those agencies or by private parties. These requests, notices and lawsuits assert potential liability for remediation costs at various sites that typically are not owned by us, but allegedly contain wastes attributable to our past operations. As of December 31, 2008, we reported we had been notified of potential liability under CERCLA and comparable state laws at 65 sites around the United States. At June 30, 2009, we had resolved and closed one of these sites, leaving 64 unresolved sites where we have been notified of potential liability.

At June 30, 2009, our balance sheet included a total environmental accrual of \$972 million, compared with \$979 million at December 31, 2008. We expect to incur a substantial amount of these expenditures within the next 30 years.

Notwithstanding any of the foregoing, and as with other companies engaged in similar businesses, environmental costs and liabilities are inherent in our operations and products, and there can be no assurance that material costs and liabilities will not be incurred. However, we currently do not expect any material adverse effect on our results of operations or financial position as a result of compliance with current environmental laws and regulations.

Climate Change

There has been a broad range of proposed or promulgated state, national and international laws focusing on greenhouse gas (GHG) reduction. These proposed or promulgated laws apply or could apply in countries where we have interests or may have interests in the future. Laws in this field continue to evolve, and while they are likely to be increasingly widespread and stringent, at this stage it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation. Compliance with changes in laws, regulations and obligations that create a GHG emission trading scheme or GHG reduction policies generally could significantly increase costs or reduce demand for fossil energy derived products. For examples of legislation or precursors for possible regulation that do or could affect our operations, see the *Climate Change* section in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 65 through 66 of our 2008 Annual Report on Form 10-K.

NEW ACCOUNTING STANDARDS

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets*, an amendment of FASB Statement No. 140. This Statement removes the concept of a qualifying special purpose entity (SPE) from SFAS No. 140 and the exception for qualifying SPEs from the consolidation guidance of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities (FIN 46(R))*. Additionally, the Statement clarifies the requirements for financial asset transfers eligible for sale accounting. This Statement is effective January 1, 2010, and we do not expect any significant impact to our consolidated financial statements.

Also in June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends FIN 46(R) to address the effects of the elimination of the qualifying SPE concept in SFAS No. 166, and other concerns about the application of key provisions of

FIN 46(R). More specifically, SFAS No. 167 requires a qualitative rather than a quantitative approach to determine the primary beneficiary of a variable interest entity (VIE), it amends certain guidance pertaining to the determination of the primary beneficiary when related parties are involved, and it amends certain guidance for determining whether an entity is a VIE. Additionally, this Statement requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE. This Statement is effective January 1, 2010. We are currently evaluating the impact on our consolidated financial statements.

The FASB issued SFAS No. 168, *The FASB Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement 162, in late June 2009. The FASB

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Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) and will supersede all then-existing non-SEC accounting and reporting standards on the effective date, September 15, 2009. The Codification will not change GAAP, but consolidates it into a logical and consistent structure. We will be required to revise our references to GAAP in our financial statements beginning with the third quarter of 2009.

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, to improve the transparency associated with disclosures about the plan assets of a defined benefit pension or other postretirement plan. This FSP requires the disclosure of each major asset category at fair value using the fair value hierarchy in SFAS No. 157, Fair Value Measurements. This FSP is effective for annual financial statements beginning with the 2009 fiscal year, but will not impact our consolidated financial statements, other than requiring additional disclosures.

OUTLOOK

In July 2009, we signed the Shah Gas Field Joint Venture and Field Entry agreements with the Abu Dhabi National Oil Company to progress the Shah Gas Field project. A final investment decision is expected in 2010, and we hold a 40 percent interest in the proposed project.

In June 2009, we signed project agreements allowing for the joint exploration and development of the Nursultan Block (N Block) located offshore Kazakhstan. We have a 24.5 percent interest in the project.

On April 17, 2009, the United States Court of Appeals for the District of Columbia Circuit issued a decision in a lawsuit brought by an environmental group against the U.S. Department of the Interior (DOI) challenging the DOI's approval of offshore oil and gas leasing under the Outer Continental Shelf Lands Act for the period 2007 through 2012. The Court decision required the five-year leasing program be vacated and remanded to DOI for reconsideration, but the decision is not effective until issuance of a mandate by the Court. On July 28, 2009, in response to petitions for rehearing by the DOI and the American Petroleum Institute, the Court issued an order that stays issuance of the mandate until DOI completes its reconsideration on remand, and also clarifies that its decision only applies to areas offshore Alaska. We are evaluating what, if any, impact this proceeding may have on leases we acquired under the leasing program.

In E&P, we expect our full-year 2009 production to be up slightly, compared with 2008. However, over the next two quarters, we expect that some of the year-to-date production gains achieved through the first half of 2009 will be partly offset, primarily due to normal seasonal maintenance activities and the impacts of reduced natural gas drilling activity in North America.

In R&M, we expect our crude oil capacity utilization rate for the full year of 2009 to be in the mid-80-percent range, as a result of planned maintenance at several facilities and the potential for ongoing weak margins.

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

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, will, projection, forecast, goal, guidance, outlook, effort, target and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about ourselves and the industries in which we operate in general. We caution you that these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

Fluctuations in crude oil, natural gas and natural gas liquids prices, refining and marketing margins, and margins for our chemicals business.

Potential failure or delays in achieving expected reserve or production levels from existing and future oil and gas development projects due to operating hazards, drilling risks and the inherent uncertainties in predicting oil and gas reserves and oil and gas reservoir performance.

Unsuccessful exploratory drilling activities or the inability to obtain access to exploratory acreage.

Failure of new products and services to achieve market acceptance.

Unexpected changes in costs or technical requirements for constructing, modifying or operating facilities for exploration and production, manufacturing, refining or transportation projects.

Unexpected technological or commercial difficulties in manufacturing, refining or transporting our products, including synthetic crude oil and chemicals products.

Lack of, or disruptions in, adequate and reliable transportation for our crude oil, natural gas, natural gas liquids, LNG and refined products.

Inability to timely obtain or maintain permits, including those necessary for construction of LNG terminals or regasification facilities, or refinery projects; comply with government regulations; or make capital expenditures required to maintain compliance.

Failure to complete definitive agreements and feasibility studies for, and to timely complete construction of, announced and future exploration and production, LNG, refinery and transportation projects.

Potential disruption or interruption of our operations due to accidents, extraordinary weather events, civil unrest, political events or terrorism.

International monetary conditions and exchange controls.

Substantial investment or reduced demand for products as a result of existing or future environmental rules and regulations.

Liability for remedial actions, including removal and reclamation obligations, under environmental regulations.

Liability resulting from litigation.

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General domestic and international economic and political developments, including armed hostilities; expropriation of assets; changes in governmental policies relating to crude oil, natural gas, natural gas liquids or refined product pricing, regulation or taxation; other political, economic or diplomatic developments; and international monetary fluctuations.

Changes in tax and other laws, regulations (including alternative energy mandates), or royalty rules applicable to our business.

Limited access to capital or significantly higher cost of capital related to illiquidity or uncertainty in the domestic or international financial markets.

Inability to obtain economical financing for projects, construction or modification of facilities and general corporate purposes.

The operation and financing of our midstream and chemicals joint ventures.

The factors generally described in Item 1A Risk Factors in our 2008 Annual Report on Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the six months ended June 30, 2009, does not differ materially from that discussed under Item 7A in our 2008 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2009, with the participation of our management, our Chairman and Chief Executive Officer (principal executive officer) and our Senior Vice President, Finance, and Chief Financial Officer (principal financial officer) carried out an evaluation, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Act), of the effectiveness of the design and operation of ConocoPhillips' disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our Chairman and Chief Executive Officer and our Senior Vice President, Finance, and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of June 30, 2009.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

The following is a description of reportable legal proceedings including those involving governmental authorities under federal, state and local laws regulating the discharge of materials into the environment for this reporting period. The following proceedings include those matters that arose during the second quarter of 2009 and any material developments with respect to matters previously reported in ConocoPhillips' 2008 Annual Report on Form 10-K or first-quarter 2009 Quarterly Report on Form 10-Q. While it is not possible to accurately predict the final outcome of these pending proceedings, if any one or more of such proceedings were decided adversely to ConocoPhillips, we expect there would be no material effect on our consolidated financial position. Nevertheless, such proceedings are reported pursuant to the U.S. Securities and Exchange Commission's (SEC) regulations.

Our U.S. refineries are implementing two separate consent decrees regarding alleged violations of the Federal Clean Air Act with the U.S. Environmental Protection Agency (EPA), six states and one local air pollution agency. Some of the requirements and limitations contained in the decrees provide for stipulated penalties for violations. Stipulated penalties under the decrees are not automatic, but must be requested by one of the agency signatories. As part of periodic reports under the decrees or other reports required by permits or regulations, we occasionally report matters which could be subject to a request for stipulated penalties. If a specific request for stipulated penalties meeting the reporting threshold set forth in SEC rules is made pursuant to these decrees based on a given reported exceedance, we will separately report that matter and the amount of the proposed penalty.

New Matters

In April 2009, the Borger Refinery received a Proposed Agreed Order and Penalty demand from the Texas Commission on Environmental Quality (TCEQ) pertaining primarily to several allegations of emission-limit exceedances, permit deviations and the failure to provide notification of air authorization under Texas regulations for several remediation projects. We and TCEQ settled this matter on July 10, 2009, with a penalty payment of \$128,010, a Supplemental Environmental Project contribution of \$128,010, and our written commitment to implement previously-planned operational improvements.

Matters Previously Reported

We received an offer dated February 10, 2009, from the New Mexico Environmental Department (NMED) to settle Notice of Violation CON-0624-0801, which had been previously issued on November 12, 2008. This Notice of Violation (NOV) alleges five violations of the New Mexico Air Quality Control Act at our MCA Tank Battery No. 2 near Maljamar, New Mexico. The parties have agreed to settle this dispute with a penalty payment of \$96,400.

On June 2, 2008, the Billings Refinery received a Violation Letter from the Montana Department of Environmental Quality (MDEQ) for alleged opacity and nickel emissions, which occurred during startup of the catalytic cracker in April 2007. The letter also alleged certain monitoring quality assurance/quality control violations. We paid a penalty of \$351,500 in May 2009 to fully resolve this matter.

On July 16, 2008, we received a demand from the Bay Area Air Quality Management District (BAAQMD) to settle 24 Notices of Violation (NOVs) issued in late 2006 and 2007 for alleged violations of air pollution control regulations at the San Francisco Refinery. During the remainder of 2008 and the first half of 2009, the BAAQMD proposed additional penalties for several other previously-issued NOVs as part of its settlement demand. We and BAAQMD have reached an agreement to settle these NOVs for \$659,500. We paid \$629,500 and the parties have agreed that the remaining payment of \$30,000 will be made upon approval of a permit modification that addresses self-inspections at the refinery's wastewater treatment plant.

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The South Coast Air Quality Management District (SCAQMD) conducted an audit of the Los Angeles Refinery in August 2008 to assess compliance with applicable local, state and federal regulations related to fugitive emissions. As a result of the audit, on August 28, 2008, SCAQMD issued five NOVs alleging noncompliance. SCAQMD assessed a penalty of \$85,000 for three of the NOVs, which we have paid. On July 6, 2009, SCAQMD issued a demand to settle one of the two remaining NOVs, along with a demand to settle seven additional NOVs issued in 2008 and 2009 that allege violations of SCAQMD and other air pollution control regulations, for a total payment of \$180,500. We are working with SCAQMD to resolve these NOVs.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A of our 2008 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

| Period | Total Number of Shares Purchased* | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Millions of Dollars Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|--|------------------------------------|--|--|
| April 1-30, 2009 | 2,839 | \$ 40.19 | - | \$ - |
| May 1-31, 2009 | 2,604 | 45.96 | - | - |
| June 1-30, 2009 | - | - | - | - |
| Total | 5,443 | \$ 42.95 | - | |

* Represents the repurchase of common shares from company employees in connection with the company's broad-based employee incentive plans.

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We held our annual stockholders meeting on May 13, 2009. A brief description of each proposal and the voting results follow:

A company proposal to elect 13 directors.

| | Number of Shares | | |
|------------------------|------------------|---------------|-----------|
| | Voted For | Voted Against | Abstain |
| Richard L. Armitage | 1,231,518,390 | 67,893,047 | 7,168,226 |
| Richard H. Auchinleck | 1,235,302,264 | 63,730,495 | 7,546,903 |
| James E. Copeland, Jr. | 1,149,379,939 | 149,133,624 | 8,066,100 |
| Kenneth M. Duberstein | 1,209,062,594 | 89,848,414 | 7,668,656 |
| Ruth R. Harkin | 1,232,016,338 | 66,589,051 | 7,974,275 |
| Harold W. McGraw III | 1,164,993,391 | 133,495,166 | 8,091,007 |
| James J. Mulva | 1,218,431,165 | 81,311,412 | 6,836,986 |
| Harald J. Norvik | 1,186,254,764 | 112,992,116 | 7,332,784 |
| William K. Reilly | 1,215,695,672 | 82,711,791 | 8,172,200 |
| Bobby S. Shackouls | 1,231,488,330 | 67,053,202 | 8,038,130 |
| Victoria J. Tschinkel | 1,183,646,902 | 115,025,089 | 7,907,673 |
| Kathryn C. Turner | 1,211,802,700 | 87,185,473 | 7,591,390 |
| William E. Wade, Jr. | 1,212,903,687 | 85,365,297 | 8,310,580 |

Results of other matters submitted to a vote were:

| | Number of Shares | | | Broker Nonvotes |
|---|------------------|------------------|-------------|--------------------|
| | Voted For | Voted Against | Abstain | |
| Ratification to Appoint Ernst & Young as ConocoPhillips Independent Registered Public Accounting Firm | 1,223,259,717 | 79,431,004 | 3,889,341 | - |
| Proposal to Approve the 2009 Omnibus Stock and Performance Plan | 984,312,575 | 119,499,295 | 5,323,025 | 197,445,167 |
| Stockholder Proposal to Adopt Universal Health Care Principles | 66,675,292 | 866,194,063 | 176,266,670 | 197,444,037 |
| Stockholder Proposal for Advisory Vote on Executive Compensation | 537,957,877 | 533,914,023 | 37,261,099 | 197,447,063 |
| Stockholder Proposal on Political Contributions | 262,237,633 | 695,747,761 | 151,149,730 | 197,444,938 |
| Stockholder Proposal on Greenhouse Gas Reduction | 257,294,253 | 680,873,616 | 170,960,633 | 197,451,560 |
| Stockholder Proposal on Oil Sands Drilling | 286,987,567 | 659,598,520 | 162,549,136 | 197,444,839 |

All 13 nominated directors were elected, the appointment of the independent auditors was ratified, and a management proposal providing for the 2009 Omnibus Stock and Performance Plan was approved. The five stockholder proposals presented were not approved.

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Item 6. EXHIBITS

| | |
|---------|--|
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32 | Certifications pursuant to 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Labels Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONOCOPHILLIPS

/s/ Glenda M. Schwarz

Glenda M. Schwarz
Vice President and Controller
(Chief Accounting and Duly Authorized
Officer)

August 4, 2009

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