

CONOCOPHILLIPS
Form 10-Q
November 02, 2010

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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 **September 30, 2010**

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 **01-0562944**
(State or other jurisdiction of *(I.R.S. Employer*
incorporation or organization) *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
(Do not check if a 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

The registrant had 1,469,224,505 shares of common stock, \$.01 par value, outstanding at September 30, 2010.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Consolidated Income Statement****ConocoPhillips**

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009 ⁽²⁾	2010	2009 ⁽²⁾
Revenues and Other Income				
Sales and other operating revenues ⁽¹⁾	\$ 47,208	40,173	137,715	106,362
Equity in earnings of affiliates	1,004	981	2,960	1,986
Gain on sale of Syncrude	-	-	2,878	-
Other income	1,337	117	1,885	347
Total Revenues and Other Income	49,549	41,271	145,438	108,695
Costs and Expenses				
Purchased crude oil, natural gas and products	34,051	28,008	97,660	72,376
Production and operating expenses	2,583	2,534	7,729	7,652
Selling, general and administrative expenses	493	427	1,375	1,378
Exploration expenses	252	386	848	854
Depreciation, depletion and amortization	2,246	2,327	6,844	6,904
Impairments	59	56	1,682	110
Taxes other than income taxes ⁽¹⁾	4,227	4,205	12,511	11,384
Accretion on discounted liabilities	110	96	337	308
Interest and debt expense	264	336	914	914
Foreign currency transaction (gains) losses	(10)	(17)	80	(28)
Total Costs and Expenses	44,275	38,358	129,980	101,852
Income before income taxes	5,274	2,913	15,458	6,843
Provision for income taxes	2,205	1,426	6,094	3,665
Net income	3,069	1,487	9,364	3,178
Less: net income attributable to noncontrolling interests	(14)	(17)	(47)	(49)
Net Income Attributable to ConocoPhillips	\$ 3,055	1,470	9,317	3,129
Net Income Attributable to ConocoPhillips Per Share of Common Stock (dollars)⁽³⁾				
Basic	\$ 2.06	.98	6.26	2.10
Diluted	2.05	.97	6.21	2.08

Dividends Paid Per Share of Common Stock

<i>(dollars)</i>	\$.55	.47	1.60	1.41
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Average Common Shares Outstanding *(in thousands)*

Basic	1,481,522	1,488,352	1,488,024	1,486,922
Diluted	1,493,080	1,498,204	1,499,367	1,496,391

(1)Includes excise taxes on petroleum products sales:

\$	3,544	3,538	10,181	9,914
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(2)Recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.

(3)For the purpose of the earnings per share calculation only, 2009 net income attributable to ConocoPhillips has been reduced by \$12 million for the excess of the amount paid for the redemption of a noncontrolling interest over its carrying value, which was charged directly to retained earnings.

See Notes to Consolidated Financial Statements.

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

	Millions of Dollars	
	September 30 2010	December 31 2009*
Assets		
Cash and cash equivalents	\$ 7,996	542
Accounts and notes receivable (net of allowance of \$28 million in 2010 and \$76 million in 2009)	11,723	11,861
Accounts and notes receivable related parties	1,755	1,354
Investment in LUKOIL	2,856	-
Inventories	7,741	4,940
Prepaid expenses and other current assets	3,246	2,470
Total Current Assets	35,317	21,167
Investments and long-term receivables	31,182	35,742
Loans and advances related parties	2,175	2,352
Net properties, plants and equipment	81,460	87,708
Goodwill	3,637	3,638
Intangibles	806	823
Other assets	756	708
Total Assets	\$ 155,333	152,138
Liabilities		
Accounts payable	\$ 14,148	14,168
Accounts payable related parties	1,916	1,317
Short-term debt	376	1,728
Accrued income and other taxes	5,186	3,402
Employee benefit obligations	768	846
Other accruals	3,027	2,234
Total Current Liabilities	25,421	23,695
Long-term debt	23,225	26,925
Asset retirement obligations and accrued environmental costs	8,518	8,713
Joint venture acquisition obligation related party	4,492	5,009
Deferred income taxes	17,286	17,956
Employee benefit obligations	3,732	4,130
Other liabilities and deferred credits	2,742	3,097
Total Liabilities	85,416	89,525
Equity		
Common stock (2,500,000,000 shares authorized at \$.01 par value)		

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Issued (2010 1,737,649,139 shares; 2009 1,733,345,558 shares)		
Par value	17	17
Capital in excess of par	43,956	43,681
Grantor trusts (at cost: 2010 37,798,903 shares; 2009 38,742,261 shares)	(650)	(667)
Treasury stock (at cost: 2010 230,625,731 shares; 2009 208,346,815 shares)	(17,468)	(16,211)
Accumulated other comprehensive income	4,405	3,065
Unearned employee compensation	(55)	(76)
Retained earnings	39,156	32,214
Total Common Stockholders' Equity	69,361	62,023
Noncontrolling interests	556	590
Total Equity	69,917	62,613
Total Liabilities and Equity	\$ 155,333	152,138

**Recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.*

See Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statement of Cash Flows****ConocoPhillips**

Millions of Dollars
 Nine Months Ended
 September 30
2010 2009*

Cash Flows From Operating Activities

Net income	\$	9,364	3,178
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization		6,844	6,904
Impairments		1,682	110
Dry hole costs and leasehold impairments		327	471
Accretion on discounted liabilities		337	308
Deferred taxes		(935)	(872)
Undistributed equity earnings		(1,642)	(1,298)
Gain on asset dispositions		(4,671)	(88)
Other		(221)	(151)
Working capital adjustments			
Decrease (increase) in accounts and notes receivable		323	(94)
Decrease (increase) in inventories		(2,898)	(1,026)
Decrease (increase) in prepaid expenses and other current assets		(459)	(286)
Increase (decrease) in accounts payable		401	910
Increase (decrease) in taxes and other accruals		2,402	(681)
Net Cash Provided by Operating Activities		10,854	7,385

Cash Flows From Investing Activities

Capital expenditures and investments		(6,371)	(8,176)
Proceeds from asset dispositions		12,233	938
Long-term advances/loans related parties		(296)	(303)
Collection of advances/loans related parties		104	62
Other		114	50
Net Cash Provided by (Used in) Investing Activities		5,784	(7,429)

Cash Flows From Financing Activities

Issuance of debt		96	9,051
Repayment of debt		(5,304)	(6,027)
Issuance of company common stock		59	(11)
Repurchase of company common stock		(1,258)	-
Dividends paid on company common stock		(2,376)	(2,090)
Other		(544)	(1,091)
Net Cash Used in Financing Activities		(9,327)	(168)

Effect of Exchange Rate Changes on Cash and Cash Equivalents	143	98
Net Change in Cash and Cash Equivalents	7,454	(114)
Cash and cash equivalents at beginning of period	542	755
Cash and Cash Equivalents at End of Period	\$ 7,996	641

**Recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.*

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 2009 Annual Report on Form 10-K.

Note 2 Changes in Accounting Principles**LUKOIL Accounting**

Effective January 1, 2010, we changed the method used to determine our equity-method share of OAO LUKOIL's earnings. Prior to 2010, we estimated our LUKOIL equity earnings for the current quarter based on current market indicators, publicly available LUKOIL information and other objective data. This earnings estimation process was necessary because, historically, LUKOIL's accounting cycle close and preparation of U.S. generally accepted accounting principles financial statements occurred subsequent to our reporting deadline, and for certain periods this timing gap exceeded 93 days. Although Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 323, Investments Equity Method and Joint Ventures, provides that when financial statements of an investee are not sufficiently timely, then the investor should record its share of earnings or loss based on the most recently available financial statements, U.S. Securities and Exchange Commission guidance indicates this timing gap generally should not exceed 93 days. Recently, the timing gap has been reduced to less than 93 days for all reporting periods. Accordingly, we believe it is preferable to implement a change in accounting principle to record our equity-method share of LUKOIL's earnings on a one-quarter-lag basis, rather than using an earnings estimate for the current quarter, because it improves reporting reliability, while maintaining an acceptable level of relevance. This change in accounting principle to a one-quarter lag under ASC Topic 323 has been applied retrospectively, by recasting prior period financial information. The following table summarizes the line items affected on the consolidated income statement:

	Millions of Dollars					
	2010			2009		
	Computed with Estimate	As Reported with Lag	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Equity in earnings of affiliates	\$ 892	1,004	112	1,015	981	(34)
Other income	1,207	1,337	130	117	117	-
Provision for income taxes	2,247	2,205	(42)	1,427	1,426	(1)
Net income	2,785	3,069	284	1,520	1,487	(33)
Net income attributable to ConocoPhillips	2,771	3,055	284	1,503	1,470	(33)
Net income attributable to ConocoPhillips per share of common stock (dollars)						
Basic	\$ 1.87	2.06	.19	1.00	.98	(.02)
Diluted	1.86	2.05	.19	1.00	.97	(.03)

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	Millions of Dollars					
	Nine Months Ended September 30					
	2010	2010	Effect	As	2009	Effect
Computed with Estimate	As Reported with Lag	of Change	Originally Reported	As Adjusted	of Change	
Equity in earnings of affiliates	\$ 2,778	2,960	182	2,506	1,986	(520)
Other income	1,755	1,885	130	347	347	-
Provision for income taxes	6,137	6,094	(43)	3,673	3,665	(8)
Net income	9,009	9,364	355	3,690	3,178	(512)
Net income attributable to ConocoPhillips	8,962	9,317	355	3,641	3,129	(512)
Net income attributable to ConocoPhillips per share of common stock (dollars)						
Basic	\$ 6.02	6.26	.24	2.44	2.10	(.34)
Diluted	5.98	6.21	.23	2.43	2.08	(.35)

The following table summarizes the line items affected on the consolidated balance sheet:

	Millions of Dollars					
	September 30, 2010			December 31, 2009		
	Computed with Estimate	As Reported with Lag	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Investments and long-term receivables	\$ 31,182	31,182	-	36,192	35,742	(450)
Deferred income taxes	17,278	17,286	8	17,962	17,956	(6)
Accumulated other comprehensive income	4,324	4,405	81	3,065	3,065	-
Retained earnings	39,245	39,156	(89)	32,658	32,214	(444)

There was no cumulative impact to retained earnings as of January 1, 2009, as a result of the accounting change. This was due to the impairment of our LUKOIL investment during 2008 to its fair market value on December 31, 2008.

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The following table summarizes the line items affected on the consolidated statement of cash flows:

	Millions of Dollars					
	2010			2009		
	Computed with Estimate	As Reported with Lag	Effect of Change	As Originally Reported	As Adjusted	Effect of Change
Net income	\$ 9,009	9,364	355	3,690	3,178	(512)
Deferred taxes	(892)	(935)	(43)	(864)	(872)	(8)
Undistributed equity earnings	(1,460)	(1,642)	(182)	(1,818)	(1,298)	520
Gain on asset dispositions	(4,541)	(4,671)	(130)	(88)	(88)	-

See Note 6 Investments, Loans and Long-Term Receivables, for additional information relating to our LUKOIL investment.

Transfers of Financial Assets

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, which was codified into FASB ASC Topic 860, Transfers and Servicing. This Statement removes the concept of a qualifying special purpose entity (SPE) and the exception for qualifying SPEs from the consolidation guidance. Additionally, the Statement clarifies the requirements for financial asset transfers eligible for sale accounting. This Statement was effective January 1, 2010, and did not impact our consolidated financial statements.

Variable Interest Entities (VIEs)

Also in June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 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 consolidation guidance for VIEs. This Statement was codified into FASB ASC Topic 810,

Consolidation. More specifically, Topic 810 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 was effective January 1, 2010, and its adoption did not impact our consolidated financial statements, other than the required disclosures. For additional information, see Note 3 Variable Interest Entities (VIEs).

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 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 LUKOIL have disproportionate interests, and LUKOIL was a related party at inception of the joint venture. Since LUKOIL is no longer a related party, we do not believe NMNG would be a VIE if reconsidered today. LUKOIL owns 70 percent versus our 30 percent direct interest; therefore, 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. At September 30, 2010, the book value of our investment in the venture was \$1,414 million.

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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 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. Freeport LNG began making loan repayments in September 2008, and the loan balance outstanding as of September 30, 2010, was \$663 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 are not the primary beneficiary because the equity holders of Freeport GP are not related parties and have equally shared power. Neither party has the power to direct the significant activities without the consent of the other party, in which case neither party is considered to be the primary beneficiary. 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.

Note 4 Inventories

Inventories consisted of the following:

	Millions of Dollars	
	September 30 2010	December 31 2009
Crude oil and petroleum products	\$ 6,771	3,955
Materials, supplies and other	970	985
	\$ 7,741	4,940

Inventories valued on the last-in, first-out (LIFO) basis totaled \$6,563 million and \$3,747 million at September 30, 2010, and December 31, 2009, respectively. The excess of current replacement cost over LIFO cost of inventories amounted to \$5,666 million and \$5,627 million at September 30, 2010, and December 31, 2009, respectively.

Note 5 Assets Held for Sale

In the fourth quarter of 2009, we announced plans to raise approximately \$10 billion from asset sales through the end of 2011. At December 31, 2009, we classified \$323 million of Refining and Marketing (R&M) noncurrent assets, primarily investment in equity affiliates, and \$75 million of R&M noncurrent deferred income tax liabilities as held for sale. During 2010, these assets and others were sold, and in the third quarter of 2010, additional Exploration and Production (E&P) assets in the United States and Canada met the held for sale criteria. As a result, at September 30, 2010, we classified \$638 million of properties, plants and equipment as Prepaid expenses and other current assets and \$219 million of asset retirement obligations and accrued environmental costs as Other accruals on our consolidated balance sheet. We also classified \$54 million of deferred income taxes as current. Contingent upon necessary regulatory approvals and negotiation of final contract terms, we expect these assets to be sold by the end of 2010 or early 2011. Excluding the Syncrude sale discussed below, and the gain on the sale of our LUKOIL shares discussed in Note 6 Investments, Loans and Long-Term Receivables, the net before-tax gain from asset dispositions during the nine-month period ended September 30, 2010, was \$475 million, and this amount was included in the Other income line of our consolidated income statement.

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On June 25, 2010, we sold our 9.03 percent interest in the Syncrude Canada Ltd. joint venture for \$4.6 billion. Syncrude was included in our E&P segment and had synthetic oil proved reserves of 248 million barrels at December 31, 2009. Production in 2009 was 23,000 barrels per day. The \$2.9 billion before-tax gain on this disposition was included as a separate line in the **Total Revenues and Other Income** section of our consolidated income statement. The cash proceeds were included in the **Proceeds from asset dispositions** line within the investing cash flow section of our consolidated statement of cash flows. At the time of disposition, Syncrude had a net carrying value of \$1.75 billion, which included \$1.97 billion of properties, plants and equipment. During fiscal 2010 until its disposition, Syncrude contributed \$327 million in intercompany sales and other operating revenues, and generated income before taxes of \$127 million and net income of \$93 million.

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

Our average ownership interest in LUKOIL in the second quarter of 2010, used to record our equity-method share of LUKOIL's second-quarter results on a lag basis, was 19.46 percent. On July 28, 2010, we announced our intention to sell our entire interest in LUKOIL, then consisting of 163,367,629 shares. This decision is being implemented as follows:

On July 28, 2010, we entered into a stock purchase and option agreement (the Agreement) with a wholly owned subsidiary of LUKOIL, pursuant to which such subsidiary would purchase 64,638,729 shares from us at a price of \$53.25 per share, or \$3.44 billion in total. This transaction closed on August 16, 2010.

Also pursuant to the Agreement, the LUKOIL subsidiary had a 60-day option, expiring on September 26, 2010, to purchase any or all of our interest remaining at the time of exercise of the option, at a price of \$56 per share. Upon exercise of this option, we sold 42,500,000 shares on September 29, 2010, for proceeds of \$2.38 billion.

Finally, we intend to sell our remaining shares in the open market from time to time, subject to the terms of the Shareholder Agreement, by the end of 2011.

In total, during the third quarter of 2010, we sold 113 million shares of LUKOIL for \$6,161 million, realizing a before-tax gain on disposition of \$1,219 million, which was included in the **Other income** line of the consolidated income statement. As a result of these sales, our ownership interest has declined to a level at which we are no longer able to exercise significant influence over the operating and financial policies of LUKOIL, and going forward we will no longer account for our remaining investment in LUKOIL using the equity method. We will also no longer report proved reserves or production related to our LUKOIL investment, which were 1,967 million barrels of oil equivalent (BOE) at December 31, 2009, and 437 thousand BOE per day for the nine-month period ended September 30, 2010, respectively.

At September 30, 2010, our remaining 5.9 percent investment in LUKOIL was reclassified from **Investments and long-term receivables** to current assets on our consolidated balance sheet as an available-for-sale equity security and carried at fair value of \$2,856 million, reflecting a closing price of LUKOIL shares on the London Stock Exchange of \$56.80 per share. The carrying value reflects a pretax unrealized gain over our cost of \$663 million. This unrealized gain, net of related income taxes, is reported as a component of accumulated other comprehensive income. The fair value is categorized as Level 1 in the fair value hierarchy. See Note 2 **Changes in Accounting Principles**, for additional information about accounting for our LUKOIL investment.

Table of Contents**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 September 30, 2010, included the following:

\$663 million in loan financing to Freeport LNG Development, L.P.

\$1,096 million in project financing and an additional \$94 million of accrued interest to Qatargas 3.

\$551 million in loan financing to WRB Refining LLC.

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. At September 30, 2010, the Varandey Terminal Company is no longer considered a related party. Accordingly, the long-term portion of this loan is included in the Investments and long-term receivables line of the consolidated balance sheet, while the short-term portion is in Prepaid expenses and other current assets.

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 September 30, 2010, was \$315 million, and at December 31, 2009, was \$338 million. Substantially the entire value is categorized in Level 1 of the fair value hierarchy. These investments are measured at fair value using a market approach based on quotations from national securities exchanges.

Merey Sweeny, L.P. (MSLP) is a limited partnership that owns a 70,000 barrel-per-day delayed coker and related facilities at the Sweeny Refinery. MSLP processes our long residue, which is produced from heavy sour crude oil, for a processing fee. Fuel-grade petroleum coke is produced as a by-product and becomes the property of MSLP. Prior to August 28, 2009, MSLP was owned 50/50 by us and Petróleos de Venezuela S.A. (PDVSA). Under the agreements that govern the relationships between the partners, certain defaults by PDVSA with respect to supply of crude oil to the Sweeny Refinery gave us the right to acquire PDVSA's 50 percent ownership interest in MSLP. On August 28, 2009, we exercised that right. PDVSA has initiated arbitration in the International Chamber of Commerce challenging our actions, and this arbitration is underway. We continue to use the equity method of accounting for our investment in MSLP.

Note 7 Properties, Plants and Equipment

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

	Millions of Dollars					
	September 30, 2010			December 31, 2009		
	Gross PP&E	Accum. DD&A	Net PP&E	Gross PP&E	Accum. DD&A	Net PP&E
E&P	\$ 114,281	48,921	65,360	115,224	45,577	69,647
Midstream	126	79	47	123	74	49
R&M	23,294	8,858	14,436	23,047	6,714	16,333
LUKOIL Investment	-	-	-	-	-	-
Chemicals	-	-	-	-	-	-
Emerging Businesses	1,193	342	851	1,198	300	898
Corporate and Other	1,680	914	766	1,650	869	781
	\$ 140,574	59,114	81,460	141,242	53,534	87,708

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The capitalized cost of suspended wells at September 30, 2010, was \$1,061 million, an increase of \$153 million from \$908 million at year-end 2009. For the category of exploratory well costs capitalized for a period greater than one year as of December 31, 2009, no wells were charged to dry hole expense during the first nine months of 2010.

Note 8 Impairments

During the first nine months of 2010 and 2009, we recognized the following before-tax impairment charges:

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
E&P				
United States	\$ 29	-	29	-
International	4	-	5	59
R&M				
United States	-	55	17	50
International	-	-	1,600	-
Emerging Businesses	26	-	31	-
Corporate	-	1	-	1
	\$ 59	56	1,682	110

2010

The nine-month period of 2010 included the \$1,502 million impairment of our refinery in Wilhelmshaven, Germany, due to cancelled plans for a project to upgrade the refinery, and a \$98 million impairment as a result of our decision to end our participation in a new refinery project in Yanbu Industrial City, Saudi Arabia.

2009

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, due to their expropriation. An arbitration hearing on case merits is scheduled for March 2011, with a decision on case merits expected in December 2011.

Table of Contents**Fair Value Remeasurements**

The following table shows the values of assets at September 30, 2010, and December 31, 2009, by major category, measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Fair Value	Millions of Dollars Fair Value Measurements Using		Before-Tax Loss
		Level 1 Inputs	Level 3 Inputs	
September 30, 2010				
Net properties, plants and equipment (held for use)	\$ 297	-	297	1,588*
Net properties, plants and equipment (held for sale)	23	23	-	43
December 31, 2009				
Net properties, plants and equipment (held for use)	\$ 210	-	210	385
Net properties, plants and equipment (held for sale)	121	35	86	62
Equity method investments	1,784	-	1,784	286

*Includes a \$55 million leasehold impairment charged to exploration expenses.

2010

During 2010, net properties, plants and equipment held for use with a carrying amount of \$1,885 million were written down to a fair value of \$297 million, resulting in a before-tax loss of \$1,588 million. The fair values were determined by the use of internal discounted cash flow models using estimates of future production, prices, costs and a discount rate believed to be consistent with those used by principal market participants and cash flow multiples for similar assets and alternative use.

During 2010, net properties, plants and equipment held for sale with a carrying amount of \$64 million were written down to their fair value of \$23 million less cost to sell of \$2 million for a net \$21 million, resulting in a before-tax loss of \$43 million. The fair values were primarily determined by binding negotiated selling prices with third parties, with some adjusted for the fair value of certain liabilities retained.

2009

During 2009, net properties, plants and equipment held for use with a carrying amount of \$610 million were written down to a fair value of \$210 million, resulting in a before-tax loss of \$385 million. In addition, certain equity method investments associated with our E&P segment were determined to have a fair value below carrying amount, and the impairment was considered to be other than temporary. These investments with a book value of \$2,070 million were written down to a fair value of \$1,784 million resulting in a charge of \$286 million before-tax, which is included in the Equity in earnings of affiliates line of our consolidated income statement. The fair values were determined by the application of an internal discounted cash flow model using estimates of future production, prices, costs and a discount rate believed to be consistent with those used by principal market participants. In addition, the equity investment fair value considered market analysis of certain similar undeveloped properties owned by one of the investees.

Also during 2009, net properties, plants and equipment held for sale with a carrying amount of \$178 million were written down to a fair value of \$121 million, less cost to sell of \$5 million for a net \$116 million, resulting in a before-tax loss of \$62 million. The fair values were largely based on binding negotiated prices with third parties, with some adjusted for the fair value of certain liabilities retained.

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Note 9 Debt

We have two commercial paper programs supported by our \$7.85 billion revolving credit facilities: the ConocoPhillips \$6.35 billion program, primarily a funding source for short-term working capital needs, and the ConocoPhillips Qatar Funding Ltd. \$1.5 billion commercial paper program, which is used to fund commitments relating to the Qatargas 3 Project. Commercial paper maturities are generally limited to 90 days.

At both September 30, 2010, and December 31, 2009, we had no direct outstanding borrowings under our revolving credit facilities, but \$40 million in letters of credit had been issued. In addition, under the two commercial paper programs, there was \$1,159 million of commercial paper outstanding at September 30, 2010, compared with \$1,300 million at December 31, 2009. Since we had \$1,159 million of commercial paper outstanding and had issued \$40 million of letters of credit, we had access to \$6.7 billion in borrowing capacity under our revolving credit facilities at September 30, 2010.

During the first nine months of 2010, the following debt instruments were repaid prior to their maturity:

The \$400 million 6.68% bonds.

The \$178 million 6.4% bonds.

The \$1,750 million 6.35% bonds.

The \$350 million 5.30% bonds.

The \$750 million remaining balance of the Floating Rate Five-Year Term Notes.

During the first nine months of 2010, the following debt instruments were repaid at their maturity:

The \$150 million 9.875% bonds.

The \$1,264 million 8.75% bonds.

At September 30, 2010, we classified \$1,159 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 facilities.

Note 10 Joint Venture Acquisition Obligation

We are obligated to contribute \$7.5 billion, plus interest, over a 10-year period that began 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, \$686 million was short-term and was included in the Accounts payable related parties line on our September 30, 2010, consolidated balance sheet. The principal portion of these payments, which totaled \$491 million in the first nine months of 2010, is 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 Noncontrolling Interests**

Activity for the equity attributable to noncontrolling interests for the first nine months of 2010 and 2009 was as follows:

	Millions of Dollars					
	Common Stockholders Equity	2010 Non- Controlling Interests	Total Equity	Common Stockholders Equity	2009* Non- Controlling Interests	Total Equity
Balance at January 1	\$ 62,023	590	62,613	55,165	1,100	56,265
Net income	9,317	47	9,364	3,129	49	3,178
Dividends	(2,376)	-	(2,376)	(2,090)	-	(2,090)
Repurchase of company common stock	(1,258)	-	(1,258)	-	-	-
Distributions to noncontrolling interests	-	(80)	(80)	-	(74)	(74)
Other changes, net**	1,655	(1)	1,654	4,795	(488)	4,307
Balance at September 30	\$ 69,361	556	69,917	60,999	587	61,586

*Recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.

**Includes components of other comprehensive income, which are disclosed separately in Note 15 Comprehensive Income.

Note 12 Guarantees

At September 30, 2010, 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 are being used to finance the construction of 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, which is expected in 2011. At September 30, 2010, the carrying value of the guarantee to third-party lenders was \$11 million.

Guarantees of Joint Venture Debt

At September 30, 2010, we had guarantees outstanding for our portion of joint venture debt obligations, which have terms of up to 15 years. The maximum potential amount of future payments under the guarantees is approximately \$80 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

In conjunction with our purchase of a 50 percent ownership interest in Australia Pacific LNG Pty Limited (APLNG) from Origin Energy in October 2008, we agreed to participate, if and when

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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 7 to 21 years. Our maximum potential amount of future payments, or cost of volume delivery, under these guarantees is estimated to be \$1,572 million (\$3,396 million in the event of intentional or reckless breach) at September 2010 exchange rates 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 co-venturers do not make necessary equity contributions into APLNG.

We have other guarantees with maximum future potential payment amounts totaling \$440 million, which consist primarily of guarantees to fund the short-term cash liquidity deficits of certain joint ventures, guarantees of minimum charter revenue for two LNG vessels, one small construction completion guarantee, 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 14 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 September 30, 2010, was \$395 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. 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 \$245 million of environmental accruals for known contamination that are included in asset retirement obligations and accrued environmental costs at September 30, 2010. For additional information about environmental liabilities, see Note 13 Contingencies and Commitments.

Note 13 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

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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 that is 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 as 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 the site conditions, apportion responsibility and determine the appropriate remediation. In some instances, we may have no liability or may attain a settlement of liability. Where it appears that 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 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 September 30, 2010, our balance sheet included a total environmental accrual of \$987 million, compared with \$1,017 million at December 31, 2009. We expect to incur a substantial amount 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 that 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 all our cases,

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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 September 30, 2010, we had performance obligations secured by letters of credit of \$1,684 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.

Long-Term Throughput Agreements and Take-or-Pay Agreements

Our obligation under throughput agreements to support third-party shipper financing arrangements for a crude oil transportation system commenced during the second quarter of 2010. The aggregate amounts of estimated future payments under these agreements are: 2010 \$25 million; 2011 \$233 million; 2012 \$277 million; 2013 \$276 million; 2014 \$276 million; and 2015 and after \$4,423 million.

Note 14 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 capture market opportunities. Since we are not currently using cash flow 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 and the majority of our contracts to sell power 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 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 sales 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 sales 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 sales 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. A contract that is initially classified as Level 3 due to absence or insufficient corroboration of broker quotes over a material portion of the contract will transfer to Level 2 when the portion of the trade having no quotes or insufficient corroboration becomes an insignificant portion of the contract. A contract would also transfer to Level 2 if we began using a corroborated broker quote that has

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become available. Conversely, if a corroborated broker quote ceases to be available or used by us, the contract would transfer from Level 2 to Level 3. There were no transfers in or out of Level 1.

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							
	September 30, 2010				December 31, 2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	\$ 2,766	1,109	60	3,935	1,710	1,659	61	3,430
Interest rate derivatives	-	28	-	28	-	-	-	-
Foreign exchange derivatives	-	45	-	45	-	45	-	45
Total assets	2,766	1,182	60	4,008	1,710	1,704	61	3,475
Liabilities								
Commodity derivatives	2,989	917	18	3,924	1,797	1,496	24	3,317
Foreign exchange derivatives	-	12	-	12	-	47	-	47
Total liabilities	2,989	929	18	3,936	1,797	1,543	24	3,364
Net assets (liabilities)	\$ (223)	253	42	72	(87)	161	37	111

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.

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		Nine Months Ended	
	September 30 2010	2009	September 30 2010	2009
Beginning balance	\$ 41	74	37	40
Total net gains (losses), realized and unrealized, included in earnings	28	(10)	60	8
Net purchases, issuances and settlements	(20)	(20)	(42)	(47)

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Transfers into Level 3	-	4	1	65
Transfers out of Level 3	(7)	(11)	(14)	(29)
Ending balance	\$ 42	37	42	37

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

	Millions of Dollars					
	Other Operating Revenues	2010 Purchased Crude Oil, Natural Gas and Products	Other Operating Total	Revenues	2009 Purchased Crude Oil, Natural Gas and Products	Total
Three Months Ended						
September 30						
Total gains (losses) included in earnings	\$ 41	(13)	28	(10)	-	(10)
Change in unrealized gains (losses) relating to assets held at September 30	\$ 44	1	45	3	-	3
Change in unrealized gains (losses) relating to liabilities held at September 30	\$ (10)	(12)	(22)	(16)	-	(16)
Nine Months Ended						
September 30						
Total gains (losses) included in earnings	\$ 95	(35)	60	8	-	8
Change in unrealized gains (losses) relating to assets held at September 30	\$ 84	1	85	11	-	11
Change in unrealized gains (losses) relating to liabilities held at September 30	\$ (12)	(21)	(33)	(21)	-	(21)

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 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.

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

	Millions of Dollars	
	September	December
	30	31
	2010	2009
Assets		
Prepaid expenses and other current assets	\$ 3,695	3,084
Other assets	266	359
Liabilities		
Other accruals	3,710	3,006
Other liabilities and deferred credits	240	324

Hedge accounting has not been used for any items in the table. The amounts shown 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, and the line items where they appear on our consolidated income statement were:

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Sales and other operating revenues	\$ 227	727	(430)	1,118
Other income	3	(4)	(26)	21
Purchased crude oil, natural gas and products	(270)	(599)	596	(1,554)

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

The table below summarizes our material net exposures resulting from outstanding commodity derivative contracts. These financial and physical derivative contracts are primarily used to manage price exposure on our underlying operations. The underlying exposures may be from non-derivative positions such as inventory volumes or firm natural gas transport contracts. Financial derivative contracts may also offset physical derivative contracts, such as forward sales contracts.

	Open Position	
	Long/(Short)	
	September	December 31
	30	2009
	2010	2009
Commodity		
Crude oil, refined products and natural gas liquids (millions of barrels)	(43)	(16)
Natural gas and power (billions of cubic feet)	(76)	(60)
Basis	(110)	154

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Interest Rate Derivative Contracts During the second quarter of 2010, we executed interest rate swaps to synthetically convert \$500 million of our 4.60% fixed-rate notes due in 2015 to a London Interbank Offered Rate (LIBOR)-based floating rate. These swaps qualify for and are designated as fair-value hedges using the short-cut method of hedge accounting. The short-cut method permits the assumption that changes in the value of the derivative perfectly offset changes in the value of the debt; therefore, no gain or loss has been recognized due to hedge ineffectiveness.

The fair value of interest rate derivative assets and liabilities and the line items where they appear on our consolidated balance sheet were:

	Millions of Dollars	
	September 30 2010	December 31 2009
Assets		
Prepaid expenses and other current assets	\$ 10	-
Other assets	18	-

Hedge accounting was used for all items in the table. The amounts shown are presented gross.

The (gains) and losses from interest rate derivatives used in a fair-value hedge, losses and (gains) from changes in the fair value of the hedged debt, and the line item where they appear on our consolidated income statement were:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Recorded in interest and debt expense				
From the interest rate derivatives	\$ (14)	-	(30)	-
From the hedged debt	12	-	26	-

The extent to which the change in value of the interest rate derivatives differs from the change in value of the hedged debt is an adjustment to recorded interest expense on the fixed-rate debt that effectively results in interest expense for the period being recorded at variable-rate LIBOR.

Foreign Exchange Derivatives 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, dividends, and cash returns from net investments in foreign affiliates to be remitted within the coming year.

The fair value of foreign exchange derivative assets and liabilities, and the line items where they appear on our consolidated balance sheet were:

	Millions of Dollars	
	September 30 2010	December 31 2009
Assets		
Prepaid expenses and other current assets	\$ 44	38

Other assets	1	7
Liabilities		
Other accruals	12	40
Other liabilities and deferred credits	-	7

Hedge accounting has not been used for any items in the table. The amounts shown are presented gross.

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Gains and losses from foreign exchange derivatives, and the line item where they appear on our consolidated income statement were:

	Millions of Dollars				
	Three Months		Nine Months Ended		
	Ended		September 30		
	September 30 2010	2009	2010	2009	
Foreign exchange transaction (gains) losses	\$	18	40	121	(133)

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

We had the following net notional position of outstanding foreign exchange derivatives:

	In Millions Notional Currency*	
	September 30 2010	December 31 2009
	Foreign Exchange Derivatives	
Sell U.S. dollar, buy other currencies**	USD 1,061	3,211
Sell euro, buy British pound	EUR 248	267

*Denominated in U.S. dollars (USD) and euros (EUR).

**Primarily euro, Canadian dollar, Norwegian krone and British pound.

Credit Risk

Financial instruments potentially exposed to concentrations of credit risk consist primarily of cash equivalents, OTC derivative contracts and trade receivables. Our cash equivalents are placed in high-quality commercial paper, money market funds, government debt securities and time deposits with major international banks and financial institutions. The credit risk from our OTC derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction. 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 IntercontinentalExchange (ICE) Futures.

Our trade receivables result primarily from our petroleum operations and reflect a broad national and international customer base, which limits our exposure to concentrations of credit risk. The majority of these receivables have payment terms of 30 days or less, and we continually monitor this exposure and the creditworthiness of the counterparties. We do not generally require collateral to limit the exposure to loss; however, we will sometimes use letters of credit, prepayments, and master netting arrangements to mitigate credit risk with counterparties that both buy from and sell to us, as these agreements permit the amounts owed by us or owed to others to be offset against amounts due us.

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.

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The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position on September 30, 2010, and December 31, 2009, was \$226 million and \$381 million, respectively, for which no collateral was posted in the normal course of business in 2010 and 2009. If our credit rating were lowered one level from its A rating (per Standard and Poor's) on September 30, 2010, 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 \$226 million of additional collateral, either with 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 September 30 effective yield rate of 1.63 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.

Commodity 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.

Interest rate swap contracts: Fair value is estimated based on a pricing model and market observable interest rate swap curves obtained from a third-party market data provider.

Forward-exchange contracts: Fair value is estimated by comparing the contract rate to the forward rate in effect on September 30, 2010, and approximates the exit price at that date.

Our commodity derivative and financial instruments were:

	Millions of Dollars			
	Carrying Amount		Fair Value	
	September 30 2010	December 31 2009	September 30 2010	December 31 2009
Financial assets				
Foreign exchange derivatives	\$ 45	45	45	45
Interest rate derivatives	28	-	28	-
Commodity derivatives	707	823	707	823
Investment in LUKOIL*	2,856	-	2,856	-
Financial liabilities				
Total debt, excluding capital leases	23,561	28,622	27,382	30,565
Joint venture acquisition obligation	5,178	5,669	5,852	6,276
Foreign exchange derivatives	12	47	12	47
Commodity derivatives	471	632	471	632

*Prior to September 30, 2010, our investment in LUKOIL was accounted for using the equity method. See Note 6 Investment, Loans and Long-Term Receivables, for more information.

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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 September 30, 2010, commodity derivative assets and liabilities appear net of \$5 million of obligations to return cash collateral and \$230 million of rights to reclaim cash collateral, respectively. The December 31, 2009, commodity derivative assets and liabilities appear net of \$70 million of obligations to return cash collateral and \$148 million of rights to reclaim cash collateral, respectively. No collateral was deposited or held for the foreign currency derivatives or interest rate derivatives.

Note 15 Comprehensive Income

ConocoPhillips comprehensive income was as follows:

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009*	2010	2009*
Net income	\$ 3,069	1,487	9,364	3,178
After-tax changes in:				
Defined benefit pension plans				
Net prior service cost	2	3	6	9
Net actuarial loss	33	33	103	100
Nonsponsored plans	14	4	35	2
Foreign currency translation adjustments	2,052	1,672	774	4,473
Unrealized gain on securities	423	-	423	-
Hedging activities	-	2	(1)	3
Comprehensive income	5,593	3,201	10,704	7,765
Less: comprehensive income attributable to noncontrolling interests	(14)	(17)	(47)	(49)
Comprehensive income attributable to ConocoPhillips	\$ 5,579	3,184	10,657	7,716

*Recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.

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

	Millions of Dollars	
	September 30 2010	December 31 2009
Defined benefit plans	\$ (1,360)	(1,504)
Foreign currency translation adjustments	5,350	4,576
Unrealized gain on securities	423	-
Deferred net hedging loss	(8)	(7)
Accumulated other comprehensive income	\$ 4,405	3,065

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

Table of Contents**Note 16 Cash Flow Information**

	Millions of Dollars Nine Months Ended September 30	
	2010	2009
Cash Payments		
Interest	\$ 996	647
Income taxes	6,022	4,807

**Note 17 Employee Benefit Plans
Pension and Postretirement Plans**

Components of Net Periodic Benefit Cost	Millions of Dollars				Other Benefits	
	Pension Benefits					
	2010	2009			U.S.	Int l.
	U.S.	Int l.	U.S.	Int l.		
Three Months Ended September 30						
Service cost	\$ 58	22	48	20	3	2
Interest cost	65	42	69	38	11	12
Expected return on plan assets	(56)	(37)	(46)	(33)	-	-
Amortization of prior service cost	2	-	3	-	-	2
Recognized net actuarial (gain) loss	42	14	47	9	(1)	(4)
Net periodic benefit costs	\$ 111	41	121	34	13	12
Nine Months Ended September 30						
Service cost	\$ 172	67	145	58	8	6
Interest cost	195	126	208	106	34	35
Expected return on plan assets	(168)	(110)	(138)	(92)	-	-
Amortization of prior service cost	7	-	8	-	2	6
Recognized net actuarial (gain) loss	125	41	140	26	(5)	(11)
Net periodic benefit costs	\$ 331	124	363	98	39	36

During the first nine months of 2010, we contributed \$505 million to our domestic benefit plans and \$156 million to our international benefit plans.

Table of Contents**Note 18 Related Party Transactions**

Significant transactions with related parties were:

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Operating revenues and other income (a)	\$ 2,556	1,871	6,540	5,236
Purchases (b)	3,897	3,614	11,245	9,264
Operating expenses and selling, general and administrative expenses (c)	88	85	253	241
Net interest expense (d)	16	19	53	58

- (a) During the third quarter of 2010, we sold a portion of our LUKOIL shares under a stock purchase and option agreement with a wholly owned subsidiary of LUKOIL resulting in a before-tax gain of \$1,149 million. 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. Beginning in the third quarter of 2010, CFJ was no longer considered a related party due to the sale of our interest. 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 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. 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 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. Beginning in the fourth quarter of 2010, transactions with LUKOIL and its subsidiaries will no longer be considered related party transactions. See Note 6 Investments, Loans and Long-Term Receivables, for additional information.

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Note 19 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, bitumen, 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 LUKOIL, an international, integrated oil and gas company headquartered in Russia. At September 30, 2010, our ownership interest was 5.9 percent based on issued shares. Our average ownership interest in the second quarter of 2010, used to record our share of LUKOIL's second-quarter results on a lag basis, was 19.46 percent. See Note 6 Investments, Loans and Long-Term Receivables, for information on sales of LUKOIL shares.
- 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 September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Sales and Other Operating Revenues				
E&P				
United States	\$ 6,983	5,655	22,003	17,148
International	7,416	5,908	20,842	17,607
Intersegment eliminations U.S.	(1,385)	(1,225)	(4,117)	(3,271)
Intersegment eliminations international	(2,007)	(1,998)	(5,896)	(4,783)
E&P	11,007	8,340	32,832	26,701
Midstream				
Total sales	1,609	1,325	5,326	3,220
Intersegment eliminations	(76)	(76)	(263)	(177)
Midstream	1,533	1,249	5,063	3,043
R&M				
United States	23,168	21,070	69,397	52,485
International	11,631	9,637	30,910	24,469
Intersegment eliminations U.S.	(175)	(157)	(563)	(414)
Intersegment eliminations international	(10)	(18)	(84)	(38)
R&M	34,614	30,532	99,660	76,502
LUKOIL Investment	-	-	-	-
Chemicals	3	2	8	8
Emerging Businesses				
Total sales	196	134	590	421
Intersegment eliminations	(153)	(90)	(459)	(331)
Emerging Businesses	43	44	131	90
Corporate and Other	8	6	21	18
Consolidated sales and other operating revenues	\$ 47,208	40,173	137,715	106,362
Net Income (Loss) Attributable to ConocoPhillips				
E&P				
United States	\$ 563	327	1,856	836

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International	1,001	651	5,654	1,567
Total E&P	1,564	978	7,510	2,403
Midstream	77	62	215	216
R&M				
United States	199	73	993	133
International	69	26	(1,008)	119
Total R&M	268	99	(15)	252
LUKOIL Investment	1,310	512*	2,226	763*
Chemicals	132	104	380	194
Emerging Businesses	(20)	(2)	(24)	-
Corporate and Other	(276)	(283)	(975)	(699)
Consolidated net income attributable to ConocoPhillips	\$ 3,055	1,470	9,317	3,129

**LUKOIL Investment recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.*

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	Millions of Dollars	
	September 30 2010	December 31 2009
Total Assets		
E&P		
United States	\$ 35,464	36,122
International	62,175	64,831
Total E&P	97,639	100,953
Midstream	2,123	2,054
R&M		
United States	26,654	24,963
International	8,747	8,446
Goodwill	3,637	3,638
Total R&M	39,038	37,047
LUKOIL Investment	3,205	6,416*
Chemicals	2,706	2,451
Emerging Businesses	1,040	1,069
Corporate and Other	9,582	2,148
Consolidated total assets	\$ 155,333	152,138

*LUKOIL Investment recast to reflect a change in accounting principle. See Note 2 Changes in Accounting Principles, for more information.

Note 20 Income Taxes

Our effective tax rate for the third quarter and first nine months of 2010 was 42 percent and 39 percent, respectively, compared with 49 percent and 54 percent for the same two periods of 2009. The change in the effective tax rate for the third quarter and first nine months of 2010, versus the same periods of 2009, was primarily due to the effect of asset dispositions in 2010 and a higher proportion of income in higher tax rate jurisdictions in 2009. The effective tax rate in excess of the domestic federal statutory rate of 35 percent was primarily due to foreign taxes.

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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.

To facilitate the restructuring of certain legal entities within the Canada operating unit, ConocoPhillips Canada Funding Company I (CFC I) entered into a transaction with another wholly owned subsidiary of ConocoPhillips (included in the All Other Subsidiaries column) whereby it acquired an investment in certain preferred shares of a Canadian legal entity within the ConocoPhillips group, in exchange for a non-interest-bearing demand note payable. The value ascribed to the preferred shares and note payable represented the redemption price for both. This noncash transaction was effective December 31, 2009. As a result, the balance sheet of CFC I reflects a short-term investment of \$2,973 million and a corresponding amount in short-term debt. In January 2010, the preferred shares acquired under the above transaction were resold to the original holder at the same value as the original purchase price, as satisfaction of the obligation under the demand note payable. As these transactions were completed between wholly owned subsidiaries of ConocoPhillips, there is no impact on the consolidated results in either period.

Certain amounts in 2009 have been recast to reflect a change in accounting principle. See Note 2