CONOCOPHILLIPS
Form 10-K
February 22, 2008

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2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2007**

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 incorporation or organization)	*(I.R.S. Employer Identification No.)*

600 North Dairy Ashford
Houston, TX 77079
(Address of principal executive offices)

Registrant s telephone number, including area code: **281-293-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 Par Value	New York Stock Exchange
Preferred Share Purchase Rights Expiring June 30, 2012	New York Stock Exchange
6.375% Notes due 2009	New York Stock Exchange
6.65% Debentures due July 15, 2018	New York Stock Exchange
7% Debentures due 2029	New York Stock Exchange

7.125% Debentures due March 15, 2028	New York Stock Exchange
9 3/8% Notes due 2011	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [x] Yes [ ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [x] No

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. [x] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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. (Check one):

[x] 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 Act). [ ] Yes [x] No

The aggregate market value of common stock held by non-affiliates of the registrant on June 29, 2007, the last business day of the registrant s most recently completed second fiscal quarter, based on the closing price on that date of $78.50, was $127.7 billion. The registrant, solely for the purpose of this required presentation, had deemed its Board of Directors and grantor trusts to be affiliates, and deducted their stockholdings of 882,588 and 43,363,722 shares, respectively, in determining the aggregate market value.

The registrant had 1,561,506,369 shares of common stock outstanding at January 31, 2008.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2008 (Part III)

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PART I

Unless otherwise indicated, the company, we, our, us, and ConocoPhillips are used in this report to refer to the businesses of ConocoPhillips and its consolidated subsidiaries. Items 1 and 2, Business and Properties, contain forward-looking statements including, without limitation, statements relating to the company s 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 forecasts, intends, believes, expects, plans, scheduled, targeted, goal, may, anticipates, estimates, and similar expressions identify forward-looking statements. The company does n 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 company s 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 92.

Items 1 and 2. BUSINESS AND PROPERTIES

CORPORATE STRUCTURE

ConocoPhillips is an international, integrated energy company. ConocoPhillips was incorporated in the state of Delaware on November 16, 2001, in connection with, and in anticipation of, the merger between Conoco Inc. (Conoco) and Phillips Petroleum Company (Phillips). The merger between Conoco and Phillips (the merger) was consummated on August 30, 2002, at which time Conoco and Phillips combined their businesses by merging with separate acquisition subsidiaries of ConocoPhillips.

Our business is organized into six operating segments:

Exploration and Production (E&P) This segment primarily explores for, produces, transports and markets crude oil, natural gas and natural gas liquids on a worldwide basis.

Midstream This segment gathers, processes and markets natural gas produced by ConocoPhillips and others, and fractionates and markets natural gas liquids, primarily in the United States and Trinidad. The Midstream segment primarily consists of our 50 percent equity investment in DCP Midstream, LLC.

Refining and Marketing (R&M) This segment purchases, refines, markets and transports crude oil and petroleum products, mainly in the United States, Europe and Asia.

LUKOIL Investment This segment consists of our equity investment in the ordinary shares of OAO LUKOIL (LUKOIL), an international, integrated oil and gas company headquartered in Russia. At December 31, 2007, our ownership interest was 20 percent based on issued shares, and 20.6 percent based on estimated shares outstanding.

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 (CPChem).

Emerging Businesses This segment represents our investment in new technologies or businesses outside our normal scope of operations.

At December 31, 2007, ConocoPhillips employed approximately 32,600 people.

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SEGMENT AND GEOGRAPHIC INFORMATION

For operating segment and geographic information, see Note 29 Segment Disclosures and Related Information, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

EXPLORATION AND PRODUCTION (E&P)

At December 31, 2007, our E&P segment represented 68 percent of ConocoPhillips total assets, while contributing 39 percent of net income. The E&P segment contributed 63 percent of net income in 2006. This decrease primarily reflects the impact of a $4,512 million (after-tax) non-cash impairment related to the expropriation of our oil interests in Venezuela. For additional information, see the Expropriated Assets section of Note 13 Impairments, in the Notes to Consolidated Financial Statements.

This 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 the bitumen and upgrade it into a synthetic crude oil. Operations to liquefy and transport natural gas are also included in the E&P segment. At December 31, 2007, our E&P operations were producing in the United States, Norway, the United Kingdom, the Netherlands, Canada, Nigeria, Ecuador, Argentina, offshore Timor-Leste in the Timor Sea, Australia, China, Indonesia, Algeria, Libya, Vietnam, and Russia.

On January 3, 2007, we closed on a business venture with EnCana Corporation to create an integrated North American heavy-oil business. The venture consists of two 50/50 business ventures a Canadian upstream general partnership, FCCL Oil Sands Partnership, and a U.S. downstream limited liability company, WRB Refining LLC.

On March 31, 2006, we completed the acquisition of Burlington Resources Inc., an independent exploration and production company that held a substantial position in North American natural gas proved reserves, production and exploratory acreage.

The E&P segment does not include the financial results or statistics from our equity investment in the ordinary shares of LUKOIL, which are reported in a separate segment (LUKOIL Investment). As a result, references to results, production, prices and other statistics throughout the E&P segment exclude those related to our equity investment in LUKOIL. However, our share of LUKOIL is included in the supplemental oil and gas operations disclosures on pages 174 through 193.

The information listed below appears in the supplemental oil and gas operations disclosures and is incorporated herein by reference:

Proved worldwide crude oil, natural gas and natural gas liquids reserves.

Net production of crude oil, natural gas and natural gas liquids.

Average sales prices of crude oil, natural gas and natural gas liquids.

Average production costs per barrel-of-oil-equivalent.

Net wells completed, wells in progress, and productive wells.

Developed and undeveloped acreage.

In 2007, E&P s worldwide production, including its share of equity affiliates production other than LUKOIL, averaged 1,857,000 barrels-of-oil-equivalent (BOE) per day, a decrease compared with the 1,936,000 BOE per day averaged in 2006. During 2007, 843,000 BOE per day were produced in the United States, an increase from 808,000 BOE per day in 2006. Production from our international E&P operations averaged 1,014,000 BOE per day in 2007, a decrease compared with 1,128,000 BOE per day in 2006. In addition, our Canadian Syncrude mining operations had net production of 23,000 barrels per day in 2007, compared with 21,000 barrels per day in 2006. The decrease in worldwide production was

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primarily due to expropriation of the company s Venezuelan oil interests, our exit from Dubai, and the effect of asset dispositions. We convert our natural gas production to BOE based on a 6:1 ratio: six thousand cubic feet of natural gas equals one barrel-of-oil-equivalent.

E&P s worldwide annual average crude oil sales price increased 11 percent, from $60.37 per barrel in 2006 to $67.11 per barrel in 2007. E&P s annual average worldwide natural gas sales price increased 1 percent, from $6.19 per thousand cubic feet in 2006 to $6.26 per thousand cubic feet in 2007.

E&P U.S. OPERATIONS

In 2007, U.S. E&P operations contributed 46 percent of E&P s worldwide liquids production and 45 percent of natural gas production, compared with 40 percent and 44 percent in 2006, respectively.

Alaska

Greater Prudhoe Area

The Greater Prudhoe Area is comprised of the Prudhoe Bay field and satellites, as well as the Greater Point McIntyre Area fields. We have a 36.1 percent non-operator interest in all fields within the Greater Prudhoe Area.

The Prudhoe Bay field is the largest oil field on Alaska s North Slope. It is the site of a large waterflood and enhanced oil recovery operation, as well as a gas processing plant that processes and re-injects natural gas into the reservoir. Our net crude oil production from the Prudhoe Bay field averaged 82,200 barrels per day in 2007, compared with 78,800 barrels per day in 2006, while natural gas liquids production averaged 17,900 barrels per day in 2007, compared with 16,700 barrels per day in 2006. The operator has undertaken a program to replace 16 miles of oil transit lines in the Prudhoe Bay field, with an expected completion date in the fourth quarter of 2008.

Prudhoe Bay satellite fields, including Aurora, Borealis, Polaris, Midnight Sun, and Orion, produced 11,900 net barrels per day of crude oil in 2007, compared with 12,900 net barrels per day in 2006. All Prudhoe Bay satellite fields produce through the Prudhoe Bay production facilities.

The Greater Point McIntyre Area (GPMA) primarily includes the Point McIntyre, Niakuk, and Lisburne fields. The fields within the GPMA generally produce through the Lisburne Production Center. Net crude oil production for GPMA averaged 12,700 barrels per day in 2007, compared with 11,400 barrels per day in 2006, while natural gas liquids production averaged 760 barrels per day in 2007, compared with 800 barrels per day in 2006. The bulk of GPMA production came from the Point McIntyre field, which is approximately seven miles north of the Prudhoe Bay field and extends into the Beaufort Sea.

Greater Kuparuk Area

We operate the Greater Kuparuk Area, which is comprised of the Kuparuk field and four satellite fields: Tarn, Tabasco, Meltwater, and West Sak. Field installations include three central production facilities that separate oil, natural gas and water. The natural gas is either used for fuel or compressed for re-injection.

Our net crude oil production from the Kuparuk field averaged 54,100 barrels per day in 2007, compared with 59,900 barrels per day in 2006. The Kuparuk field is located about 40 miles west of Prudhoe Bay, and our ownership interest in the field is 55.3 percent.

Other fields within the Greater Kuparuk Area produced 11,500 net barrels per day of crude oil in 2007, compared with 13,400 net barrels per day in 2006, primarily from the Tarn, Tabasco, and Meltwater satellites. We have a 55.4 percent interest in Tarn and Tabasco and a 55.5 percent interest in Meltwater. The Greater Kuparuk Area also includes the West Sak heavy-oil field. Our net crude oil production from

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West Sak averaged 8,000 barrels per day in 2007, compared with 8,400 barrels per day in 2006. We have a 52.2 percent interest in this field.

Western North Slope

The Alpine field, located west of the Kuparuk field, produced at a net rate of 59,200 barrels of oil per day in 2007, compared with 74,100 barrels per day in 2006. We are the operator and hold a 78 percent interest in Alpine and two satellite fields.

The Alpine satellite fields, Nanuq and Fiord, began production in 2006. The fields produced at a net rate of 20,900 barrels of oil per day in 2007, compared with 4,300 barrels of oil per day in 2006. Peak production is expected in 2008. The oil is processed through the existing Alpine facilities.

We and our co-venturer are pursuing state, local and federal permits for additional Alpine satellite developments in the National Petroleum Reserve Alaska (NPR-A), including the Qannik satellite field discovery announced in 2006. Plans include developing the field from an existing Alpine drill site. Production from Qannik is expected to commence by late 2008.

Cook Inlet Area

Our assets in Alaska also include the North Cook Inlet field, the Beluga River field, and the Kenai liquefied natural gas (LNG) facility, all of which we operate.

We have a 100 percent interest in the North Cook Inlet field. Net production in 2007 averaged 66 million cubic feet per day of natural gas, compared with 88 million cubic feet per day in 2006. Production from the North Cook Inlet field is used to supply our share of gas to the Kenai LNG plant (discussed below).

Our interest in the Beluga River field is 33 percent. Net production averaged 35 million cubic feet per day of natural gas in 2007, compared with 49 million cubic feet per day in 2006. Gas from the Beluga River field is sold to local utilities and industrial consumers, and is used as back-up supply to the Kenai LNG plant.

We have a 70 percent interest in the Kenai LNG plant, which supplies LNG to two utility companies in Japan, utilizing two LNG tankers for transport. We sold 31.2 net billion cubic feet in 2007, compared with 41.3 net billion cubic feet in 2006. In January 2007, we and our co-venturer filed for a two-year extension of the Kenai LNG plant s export license with the U.S. Department of Energy, which would extend the export license through March 31, 2011. In January 2008, the state of Alaska announced its unconditional support for the requested license extension as the result of an agreement between the state, us and our co-venturer. The agreement addresses future drilling in the Cook Inlet, sale of seismic and well data to third parties, terms of access to the LNG plant and a framework to negotiate state support of potential future export license extensions.

Exploration

In 2007, we drilled six exploration wells. Two wells were classified as dry holes and four wells encountered commercial quantities of oil. One of the successful wells is located in the West Sak field, and three are in the Tarn field. We also acquired more than 2,360 square kilometers of 3D seismic and were the successful bidder in two lease sales, acquiring two lease blocks covering 8,253 acres.

Transportation

We transport the petroleum liquids produced on the North Slope to market through the Trans-Alaska Pipeline System (TAPS). TAPS is comprised of an 800-mile pipeline, marine terminal, spill response and escort vessel system that ties the North Slope of Alaska to the port of Valdez in south-central Alaska.

A project to upgrade TAPS pump stations began in 2004. The phased project startup that began in the first quarter of 2007 is progressing, and two of the four pump stations ultimately targeted for upgrade are

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currently online. We have a 28.3 percent ownership interest in TAPS. We also have ownership interests in the Alpine, Kuparuk and Oliktok pipelines on the North Slope.

Our wholly owned subsidiary, Polar Tankers, Inc., manages the marine transportation of our Alaska North Slope production. Polar Tankers operates five ships in the Alaskan crude trade, chartering additional third-party-operated vessels as necessary. Beginning with the *Polar Endeavour* in 2001, Polar Tankers has brought into service five double-hulled tankers. The fifth and final tanker, the *Polar Enterprise,* began Alaska North Slope service in February 2007.

In late 2007, we submitted a proposal to the governor of Alaska to advance the development of the Alaska Natural Gas Pipeline Project. The proposed pipeline would transport approximately 4 billion cubic feet per day of natural gas from the Alaska North Slope to markets in Canada and the United States. We have a 36.1 percent non-operator interest in the Greater Prudhoe Area fields that are expected to be a primary source of natural gas to be shipped in the proposed pipeline. Our proposal was submitted as an alternative to the process the Alaska Legislature established in its Alaska Gasline Inducement Act (AGIA). In our proposal, we stated our willingness to make significant investments, without state matching funds, to advance this project. In January 2008, we received a letter from the governor of Alaska stating our alternative does not give the state a reason to deviate from the AGIA process. We formally responded to the governor s letter on January 24, 2008. As a result of the lack of engagement by the state of Alaska on our proposal, we are reassessing how best to advance the Alaska natural gas pipeline project. During this reassessment, as an initial step we will continue planning and contracting efforts in preparation for route reconnaissance and environmental studies starting in June 2008. We expect to continue to testify before the Alaska Legislature and engage the Alaska public with our view of the best path forward to advance the gas pipeline project.

Lower 48 States

Gulf of Mexico

At year-end 2007, our portfolio of producing properties in the Gulf of Mexico included one operated field and five fields operated by our co-venturers.

We operate and hold a 75 percent interest in the Magnolia field in Garden Banks Blocks 783 and 784. Magnolia utilizes a tension-leg platform in 4,700 feet of water. Net production from Magnolia averaged 7,300 barrels per day of liquids and 13 million cubic feet per day of natural gas in 2007, compared with 17,800 barrels per day of liquids and 44 million cubic feet per day of natural gas in 2006.

We hold a 16 percent interest in the unitized Ursa field located in the Mississippi Canyon area. Ursa utilizes a tension-leg platform in approximately 3,900 feet of water. We also own a 16 percent interest in the Princess field, a northern, subsalt extension of the Ursa field. Our total net production from the unitized area in 2007 averaged 13,400 barrels per day of liquids and 16 million cubic feet per day of natural gas, compared with 14,400 barrels per day of liquids and 18 million cubic feet per day of natural gas in 2006.

The unitized K2 field is comprised of seven blocks in the Green Canyon area. In December 2006, the unit was expanded from two to seven blocks, and our working interest was reduced from 16.8 to 12.4 percent. Net production from K2 averaged 3,500 barrels per day of liquids and 2 million cubic feet per day of natural gas in 2007, compared with 2,150 barrels per day of liquids and 1 million cubic feet per day of natural gas in 2006.

Onshore

Our 2007 onshore production primarily consisted of natural gas, with the majority of production located in the San Juan Basin, the Permian Basin, the Lobo Trend, the Bossier Trend, and the Panhandles of Texas and Oklahoma. We also have operations in the Wind River, Anadarko, and Fort Worth Basins, as well as east Texas and north and south Louisiana. We have other onshore properties in the Williston Basin, the Piceance Basin, and the Cedar Creek Anticline.

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The San Juan Basin, located in northwest New Mexico and southwest Colorado, includes the majority of our coalbed methane (CBM) production. In addition, we continue to pursue development opportunities in three conventional formations in the San Juan Basin. Net production from the San Juan Basin averaged 49,800 barrels per day of liquids and 971 million cubic feet per day of natural gas in 2007, compared with 41,900 barrels per day of liquids and 851 million cubic feet per day of natural gas in 2006.

In addition to our CBM production from the San Juan Basin, we also hold CBM acreage positions in the Uinta Basin in Utah, the Black Warrior Basin in Alabama, and the Piceance Basin in Colorado.

Activities in 2007 primarily were centered on continued optimization and development of these assets. Combined production from all Lower 48 onshore fields in 2007 averaged a net 2,100 million cubic feet per day of natural gas and 157,000 barrels per day of liquids, compared with 1,900 million cubic feet per day of natural gas and 128,000 barrels per day of liquids in 2006.

Transportation

In June 2006, we acquired a 24 percent interest in West2East Pipeline LLC, a company holding a 100 percent interest in Rockies Express Pipeline LLC (Rockies Express). Rockies Express plans to construct a 1,679-mile natural gas pipeline from Colorado to Ohio. The pipeline is expected to be completed in 2009.

Exploration

In the Lower 48 states, we own undeveloped mineral interests in 7.6 million net acres and hold leases on 2.2 million undeveloped net acres. In 2007, we successfully completed 81 gross exploration wells. Areas of focus in 2007 included the east Texas Bossier Trend, deepwater Gulf of Mexico, Bakken play in the Williston Basin, and the Barnett Trend in the Fort Worth Basin. Other areas with active exploration drilling programs included the Anadarko and Piceance Basins, and south Texas.

E&P EUROPE

In 2007, E&P operations in Europe contributed 22 percent of E&P s worldwide liquids production, compared with 23 percent in 2006. Europe operations contributed 19 percent of natural gas production in 2007, compared with 21 percent in 2006. Our European assets are principally located in the Norwegian and U.K. sectors of the North Sea. We also have operations in the East Irish Sea and the Netherlands.

Norway

The Greater Ekofisk Area, located approximately 200 miles offshore Norway in the center of the North Sea, is composed of four producing fields: Ekofisk, Eldfisk, Embla, and Tor. The Ekofisk complex serves as a hub for petroleum operations in the area, with surrounding developments utilizing the Ekofisk infrastructure. Net production in 2007 from the Greater Ekofisk Area was 102,700 barrels of liquids per day and 103 million cubic feet of natural gas per day, compared with 121,700 barrels of liquids per day and 123 million cubic feet of natural gas per day in 2006. We are the operator and hold a 35.1 percent interest in Ekofisk.

During 2007, we continued to evaluate the optimal approach to redevelop the Eldfisk facilities. Our objective is to maintain and upgrade the facilities in order to continue production until the end of the license period in 2028.

We also have ownership interests in other producing fields in the Norwegian sector of the North Sea and Norwegian Sea, including a 24.3 percent interest in the Heidrun field, a 10.3 percent interest in the Statfjord field, a 23.3 percent interest in the Huldra field, a 1.6 percent interest in the Troll field, a 9.1 percent interest in the Visund field, a 6.4 percent interest in the Grane field, and a 2.4 percent interest in the Oseberg area. Our net production from these and other fields in the Norwegian sector of the North

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Sea and the Norwegian Sea averaged 67,300 barrels of liquids per day and 133 million cubic feet of natural gas per day in 2007, compared with 75,800 barrels of liquids per day and 147 million cubic feet of natural gas per day in 2006.

We and our co-venturers received approval from Norwegian authorities in 2004 for the Alvheim North Sea development. The development plans include a floating production storage and offloading (FPSO) vessel and subsea installations. Production from the field is targeted to commence in mid-2008. We have a 20 percent interest in the project.

In 2005, Norwegian and U.K. authorities approved the Statfjord Late-Life Project, a Statfjord-area gas recovery project which began production in October of 2007. We have a combined Norway/U.K. 15.2 percent interest in this project.

Transportation

We have interests in the transportation and processing infrastructure in the Norwegian North Sea, including a 35.1 percent interest in the Norpipe Oil Pipeline System and a 2.2 percent interest in Gassled, which owns most of the Norwegian gas transportation system.

Exploration

In 2007, we participated in one appraisal well and four exploration wells within the Oseberg licenses of the northern North Sea, license PL018 of the Greater Ekofisk Area, and PL281 in the Moere Basin of the Norwegian Sea. Drilling operations extended into 2008 on two of these wells, one of which concluded operations and was expensed as a dry hole in the first quarter of 2008. Drilling operations continue on the other well. Hydrocarbons were encountered in all three wells whose drilling operations were completed by the end of the year. One of these wells was successful and the remaining two wells are being evaluated.

In 2007, we were awarded three new North Sea exploration licenses in Norway PL404, PL399 and PL424.

United Kingdom

We have a 58.7 percent interest in the Britannia natural gas and condensate field, and own 50 percent of Britannia Operator Limited, the operator of the field. Our net production from Britannia averaged 252 million cubic feet of natural gas per day and 10,300 barrels of liquids per day in 2007, compared with 246 million cubic feet of natural gas per day and 10,100 barrels of liquids per day in 2006.

We have a 75 percent interest in the Brodgar field and an 83.5 percent interest in the Callanish field. First production from these two Britannia satellite fields is targeted for mid-2008.

We operate and hold a 36.5 percent interest in the Judy/Joanne fields, which together comprise J-Block. Additionally, the Jade field produces from a wellhead platform and pipeline tied to the J-Block facilities. We operate and hold a 32.5 percent interest in Jade. Together, these fields produced a net 14,300 barrels of liquids per day and 94 million cubic feet of natural gas per day in 2007, compared with 15,900 barrels of liquids per day and 133 million cubic feet of natural gas per day in 2006.

We have various ownership interests in 18 producing gas fields in the Rotliegendes and Carboniferous areas of the southern North Sea. Net production in 2007 averaged 276 million cubic feet per day of natural gas and 1,200 barrels of liquids per day, compared with 309 million cubic feet per day of natural gas and 1,200 barrels per day of liquids in 2006.

In 2006, the U.K. government approved a plan for the development of two new Saturn satellite fields in the Rotliegendes area of the southern North Sea Tethys and Mimas. We have a 25 percent interest in the Tethys field, and first production began in February 2007. We have a 35 percent interest in the Mimas

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field, and first production began in June 2007. These fields were producing a combined net 12 million cubic feet of natural gas per day at year-end 2007.

In 2007, the U.K. government approved a plan for the development of the Kelvin field in the Carboniferous area of the southern North Sea, in which we have a 50 percent operator interest. First production began in November 2007, and the field was producing at a net rate of approximately 54 million cubic feet of natural gas per day at year-end 2007.

We also have ownership interests in several other producing fields in the U.K. North Sea, including a 23.4 percent interest in the Alba field, a 40 percent interest in the MacCulloch field, and a 4.84 percent interest in the Statfjord field. Production from these and the other remaining fields in the U.K. sector of the North Sea averaged a net 20,500 barrels of liquids per day and 15 million cubic feet of natural gas per day in 2007, compared with 26,700 barrels of liquids per day and 34 million cubic feet of natural gas per day in 2006. We sold our interests in the Everest and Armada fields during the first quarter of 2007.

We have a 24 percent interest in the Clair field development in the Atlantic Margin. First production from Clair began in early 2005 from a conventional platform, with peak production expected in 2008. Net production in 2007 averaged 7,000 barrels of liquids per day and 1 million cubic feet of natural gas per day, compared with 6,000 barrels of liquids per day and 1 million cubic feet of natural gas per day in 2006.

We have a 100 percent ownership interest in the Millom, Dalton and Calder fields in the East Irish Sea, which are operated on our behalf by a third party. The natural gas produced from these fields is transported onshore, processed and sold into the U.K. spot market. Net production in 2007 averaged 36 million cubic feet of natural gas per day, compared with 38 million cubic feet of natural gas per day in 2006.

Transportation

The Interconnector pipeline, which connects the United Kingdom and Belgium, facilitates marketing natural gas produced in the United Kingdom throughout Europe. Our 10 percent equity share of the Interconnector pipeline allows us to ship approximately 200 million net cubic feet of natural gas per day to markets in continental Europe, and our reverse-flow rights provide an 85 million net cubic feet per day of natural gas import capability to the United Kingdom.

We operate two terminals in the United Kingdom: the Teesside oil terminal, in which we have a 29.3 percent interest, and the Theddlethorpe gas terminal, in which we have a 50 percent interest. We also have a 100 percent ownership interest in the Rivers Gas Terminal in the United Kingdom.

Exploration

In 2007, we participated in five appraisal wells and four exploration wells and were awarded an interest in one North Sea exploration license in the North Sea P1423.

In the Atlantic Margin West of Shetland region, and adjacent to the Clair field, operations concluded on two appraisal wells, both of which encountered hydrocarbons. The appraisal program confirmed the viability of the Clair Ridge discovery, and development planning is under way.

In the southern North Sea, one appraisal well and two exploration wells were drilled. The appraisal well was successfully completed and began first production in 2007. Operations concluded on the two exploration wells, both of which encountered hydrocarbons. One of these exploration wells was successfully tested.

In the central North Sea, we concluded operations on one exploration well and one appraisal well. The exploration well was unsuccessful and expensed as a dry hole. The appraisal well encountered hydrocarbons. Operations continue on another exploration well, located adjacent to and east of the 2006

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Jasmine gas and condensate discovery. Operations also continue on an appraisal well, which is located to the north of the 2006 Jackdaw discovery.

Denmark

We sold our ownership interests in the Danish sector of the North Sea in 2007.

Netherlands

We have varying non-operated production interests in the Dutch sector of the North Sea, as well as interests in offshore pipelines and an onshore gas plant and terminal at Den Helder. Net production in 2007 averaged 52 million cubic feet of natural gas per day, compared with 34 million cubic feet of natural gas per day in 2006.

Exploration

In 2007, we participated in one exploration well and one appraisal well in the southern North Sea, both of which encountered hydrocarbons. The exploration well, located within the JDA K15 license, was successfully completed and began production in 2007. The appraisal well, located within the E18a license, appraised additional potential to a 2006 discovery. The well was successful and a field development plan is being progressed.

E&P CANADA

In 2007, E&P operations in Canada contributed 7 percent of E&P s worldwide liquids production (excluding Syncrude production), compared with 5 percent in 2006. Canadian operations contributed 22 percent of E&P s worldwide natural gas production in 2007, compared with 20 percent in 2006.

Oil and Gas Operations

Western Canada

Operations in western Canada encompass properties in Alberta, northeastern British Columbia and southern Saskatchewan. The properties in northern Alberta and northeastern British Columbia contain a mix of oil and natural gas, and are primarily accessible only in the winter. The properties in the central and foothills areas of Alberta mainly produce natural gas. The properties in southern Alberta and southern Saskatchewan produce natural gas and medium-to-heavy oil. Net production from these oil and gas operations in western Canada averaged 46,000 barrels per day of liquids and 1,106 million cubic feet per day of natural gas in 2007, compared with 50,000 barrels per day of liquids and 983 million cubic feet per day of natural gas in 2006.

In January 2007, we completed the sale of oil and natural gas producing properties and undeveloped acreage in western Canada, including oil properties in northern, central and southern Alberta and natural gas properties in southwestern Alberta and southeastern Saskatchewan. Combined, net production from these properties contributed approximately 18,000 BOE per day to our 2006 average production.

Surmont

We have a 50 percent operating interest in the Surmont lease, located approximately 35 miles south of Fort McMurray, Alberta. The Surmont project uses an enhanced thermal oil recovery method called steam-assisted gravity drainage (SAGD). Steam injection began in the second quarter of 2007, and first production was achieved in the fourth quarter of 2007. Peak production is expected in 2014. We anticipate processing our share of the heavy oil produced as a feedstock in our owned and affiliated U.S. refineries.

EnCana Joint Venture

In October 2006, we announced a business venture with EnCana Corporation (EnCana), to create an integrated North American heavy-oil business. The transaction closed on January 3, 2007. The venture

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consists of two 50/50 business ventures, a Canadian upstream general partnership, FCCL Oil Sands Partnership (FCCL), and a U.S. downstream limited liability company, WRB Refining LLC. We use the equity method of accounting for our investments in both entities.

FCCL s operating assets consist of the Foster Creek and Christina Lake SAGD bitumen projects, both located in the eastern flank of the Athabasca oil sands in northeast Alberta. EnCana is the operator and managing partner of FCCL. Our share of production was 26,800 barrels per day in 2007.

See the Refining and Marketing (R&M) section for information on WRB Refining LLC.

Consistent with our practice and in accordance with U.S. Securities and Exchange Commission guidelines, we use year-end prices for hydrocarbon reserve estimation for both our Surmont and FCCL properties. Bitumen prices can be seasonal, often reaching low levels at year end. Conversely, natural gas prices, a significant cost component of the development, can be seasonally high at year end. As a result, the ability to reflect proved reserves for SAGD bitumen projects can fluctuate because of the economics associated with this seasonality. For example, at year-end 2005, we could not reflect any proved reserves for Surmont. At year-end 2007, we were able to reflect proved reserves for Surmont and FCCL. However, it is reasonably possible that future year-end bitumen and natural gas price levels may result in the de-booking of some or all of our Surmont and FCCL proved reserves.

Parsons Lake/Mackenzie Gas Project

We are working with three other energy companies, as members of the Mackenzie Delta Producers Group, on the development of the Mackenzie Valley pipeline and gathering system, which is proposed to transport onshore gas production from the Mackenzie Delta in northern Canada to established markets in North America. We have a 75 percent interest in the Parsons Lake gas field, one of the primary fields in the Mackenzie Delta that would anchor the pipeline development. This pipeline project faces significant regulatory and construction cost issues; therefore, no definitive startup date can be estimated at this time.

Exploration

We hold exploration acreage in four areas of Canada: the Western Canada Sedimentary Basin, offshore eastern Canada, the Mackenzie Delta/Beaufort Sea, and the Arctic Islands. Within the Western Canada Sedimentary Basin, we hold exploration acreage throughout the basin, including the foothills of western Alberta and eastern British Columbia. In the foothills, we drilled three exploratory wells in 2007 two will be completed as producing wells and one will be tested and evaluated. During 2007, we also drilled three exploratory wells on acreage in the central Alberta Nisku project that resulted in one producer, while the remaining wells were expensed as dry holes. One successful exploration well was drilled in late 2007 on a recently defined Montney gas prospect in northeast British Columbia. Throughout the rest of western Canada, we participated in drilling approximately 48 lower risk exploratory wells near our producing assets. In the Mackenzie Delta, we were successful in acquiring additional offshore acreage following the 2004 Umiak discovery.

Other Canadian Operations

Syncrude Canada Ltd.

We own a 9 percent interest in the Syncrude Canada Ltd. (SCL) joint venture, created for the purpose of mining shallow deposits of oil sands, extracting the bitumen, and upgrading it into a light sweet crude oil called Syncrude. The primary plant and facilities are located at Mildred Lake, about 25 miles north of Fort McMurray, Alberta, with an auxiliary mining and extraction facility approximately 20 miles from the Mildred Lake plant. SCL, as operator of the joint venture, holds eight oil sands leases and the associated surface rights, of which our share is approximately 22,400 net acres. Our net share of production averaged 23,400 barrels per day in 2007, compared with 21,100 barrels per day in 2006.

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The U.S. Securities and Exchange Commission s regulations define this project as mining-related and not part of conventional oil and gas operations. As such, Syncrude operations are not included in our proved oil and gas reserves or production as reported in our supplemental oil and gas information.

E&P SOUTH AMERICA

In 2007, E&P operations in South America contributed 5 percent of E&P s worldwide liquids production, compared with 10 percent in 2006. This decrease primarily relates to the expropriation of our oil interests in Venezuela in the second quarter of 2007, as noted below. We also have interests in Ecuador, Argentina and Peru.

Venezuela

Petrozuata, Hamaca and Corocoro

On June 26, 2007, we announced we had been unable to reach agreement with respect to our migration to an *empresa mixta* structure mandated by the Nationalization Decree. In response, Petróleos de Venezuela S.A. (PDVSA) or its affiliates directly assumed the activities associated with and control over ConocoPhillips interests in the Petrozuata and Hamaca heavy-oil ventures and the offshore Corocoro development project.

In the second quarter of 2007, we recorded a $4,512 million (after-tax) non-cash impairment related to the expropriation of our oil interests in Venezuela. For additional information, see the Expropriated Assets section of Note 13 Impairments, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Plataforma Deltana Block 2

We have a 40 percent interest in Plataforma Deltana Block 2. The block is operated by our co-venturer and holds a gas discovery made by PDVSA in 1983. PDVSA has the option to enter the project with a 35 percent interest, which would proportionately reduce our interest in the project to 26 percent. In December 2007, the co-venturers presented the notification of commerciality and submitted a conditional development plan for governmental approval in compliance with license requirements. Several critical components required to progress an investment decision have not yet been defined by the government. Assuming timely resolution of these components, we expect a preliminary engineering study could be completed by late 2008, and a more significant developmental engineering study could be completed by late 2009.

Ecuador

In Ecuador, we hold a 42.5 percent interest in Block 7 and a 46.25 percent interest in Block 21. Net production in 2007 averaged 10,300 barrels of crude oil per day, compared with 6,800 barrels per day in 2006.

Argentina

We have a 25.7 percent interest in the producing Sierra Chata concession in Argentina. Net production in 2007 averaged 19 million cubic feet of natural gas per day, compared with 17 million cubic feet per day in 2006.

Peru

We have varying ownership interests in six exploration blocks in Peru. In the first quarter of 2007, we acquired a 100 percent interest in Block 129. In Block 57, we drilled one exploration well that encountered hydrocarbons.

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E&P ASIA PACIFIC

In 2007, E&P operations in the Asia Pacific area contributed 10 percent of E&P s worldwide liquids production and 11 percent of natural gas production, compared with 11 percent and 12 percent in 2006, respectively.

Indonesia

We operate seven production sharing contracts (PSCs) in Indonesia. Production from Indonesia in 2007 averaged a net 330 million cubic feet per day of natural gas and 11,800 barrels per day of oil, compared with 319 million cubic feet per day of natural gas and 12,400 barrels per day of oil in 2006. Natural gas is sold under long-term contracts benchmarked to crude oil prices to markets in Indonesia and Singapore. Natural gas is also sold to the Indonesian domestic markets under U.S.-dollar-denominated, fixed-price contracts. Our assets are concentrated in two core areas: the West Natuna Sea and onshore South Sumatra.

Offshore

We operate four offshore PSCs: South Natuna Sea Block B, Ketapang, Amborip VI, and Kuma. We sold our 25 percent non-operator interest in the Pangkah PSC, offshore East Java, in the third quarter of 2007.

The South Natuna Sea Block B PSC, in which we have a 40 percent interest, has two producing oil fields and 16 gas fields in various stages of development. In late 2006, gas production began from the Hiu gas field. In December 2007, crude oil and natural gas production began from the Kerisi field and development continued on the North Belut field.

Onshore

We operate three onshore PSCs. Two are in South Sumatra: Corridor PSC and South Jambi B. We also operate Warim in Papua. In January 2007, we sold our 50 percent working interest in the Block A PSC in North Sumatra, and we sold our 60 percent interest in Corridor TAC in September 2007. In November 2007, the Sakakemang Joint Operating Body expired. We also transferred our non-operator interest in the Banyumas PSC in Java to our partners effective January 2008.

The Corridor PSC is located onshore South Sumatra and we have a 54 percent interest. We operate six oil fields and six natural gas fields, and supply natural gas from the Grissik and Suban gas processing plants to the Duri steamflood in central Sumatra and to markets in Singapore and Batam. The Suban Phase II project, an expansion of the existing Suban gas plant in the Corridor PSC, began producing in October 2007.

We have a 45 percent interest in the South Jambi B PSC, which is also located in South Sumatra. This shallow gas project supplies natural gas to Singapore.

Transportation

We are a 35 percent owner of TransAsia Pipeline Company Pvt. Ltd., a consortium company, which has a 40 percent ownership in PT Transportasi Gas Indonesia, an Indonesian limited liability company, which owns and operates the Grissik to Duri, and Grissik to Singapore, natural gas pipelines.

Exploration

In January 2007, we signed a new PSC agreement for a 60 percent interest in the Kuma block, which is located in Makassar Straits, between the islands of Kalimantan and Sulawesi. The acreage contains multiple exploration targets. A 3D survey will commence on the Kuma PSC in 2008. In addition, exploration work will continue on the Amborip VI PSC. Exploration wells are being planned for drilling in 2009 on both of these PSCs.

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China

The Xijiang development consists of two fields located approximately 80 miles south of Hong Kong in the South China Sea. The facilities include two manned platforms and an FPSO vessel. Our combined net production of crude oil from the Xijiang fields averaged 7,900 barrels per day in 2007, compared with 10,100 barrels per day in 2006. Production from the Peng Lai 19-3 field in Bohai Bay Block 11-05 averaged 10,500 net barrels of oil per day in 2007, compared with 13,800 net barrels per day in 2006. We have a 49 percent interest, with the remainder held by the China National Offshore Oil Corporation.

In 2005, we received government approval to develop Phase II of the Peng Lai 19-3 field, as well as concurrent development through the same facilities of the nearby Peng Lai 25-6 field. The first wellhead platform of Phase II was placed into operation in 2007. The FPSO vessel is scheduled to be installed in late 2008 with production beginning in early 2009.

We have a 24.5 percent interest in the Panyu field and a 100 percent interest in the Ba Jiao Chang (BJC) field. The Panyu development is an offshore project located approximately 36 miles southwest of the Xijiang development. The field produced 12,700 net barrels of oil per day in 2007, and 9,100 net barrels of oil per day in 2006. The BJC gas field is located onshore in Sichuan province. In 2007, net gas production averaged 11 million cubic feet per day, compared with 7 million cubic feet per day in 2006.

Vietnam

Our ownership interest in Vietnam is centered around the Cuu Long Basin in the South China Sea, and consists of two primarily oil producing blocks, four exploration blocks, and one gas pipeline transportation system.

We have a 23.3 percent interest in Block 15-1 in the Cuu Long Basin. Net production in 2007 was 13,700 barrels of oil per day, compared with 11,800 barrels per day in 2006. The oil is being processed through a one-million-barrel FPSO vessel. Development of the Su Tu Vang field continued in 2007. First oil production is targeted for late 2008. During 2007, preliminary engineering was completed on the Su Tu Den Northeast development. Appraisal of the Su Tu Trang and Su Tu Nau discoveries continued in 2007.

We have a 36 percent interest in the Rang Dong field in Block 15-2 in the Cuu Long Basin. All wellhead platforms produce into an FPSO vessel. Net production in 2007 was 8,500 barrels of liquids per day and 15 million cubic feet per day of natural gas, compared with 13,000 barrels per day and 21 million cubic feet per day in 2006.

Transportation

We own a 16.3 percent interest in the Nam Con Son natural gas pipeline. This 244-mile transportation system links gas supplies from the Nam Con Son Basin to gas markets in southern Vietnam.

Exploration

A successful appraisal well was drilled during 2007 in the Su Tu Nau field in the northeast area of Block 15-1. Further appraisal plans and potential development options for this field are currently being evaluated.

In 2007, we executed an agreement with a co-venturer to partially exchange interests in offshore Blocks 5-2 and 5-3. Within these two blocks, joint appraisal and development plans are currently under way for the Moc Tinh and Hai Thach discoveries.

We also continued to evaluate the potential of our interests in deepwater Blocks 133 and 134 in the Nam Con Son Basin.

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Timor Sea and Australia

Bayu-Undan

We operate and hold an ownership interest in the Bayu-Undan field located in the Timor Sea. In accordance with various governance agreements, a redetermination of the ownership interest in the Bayu-Undan Joint Venture, Darwin LNG Pty Ltd and the Bayu-Undan Pipeline Joint Venture was completed in 2007. The redetermination increased our controlling interest from 56.7 percent to 57.15 percent. The Bayu-Undan field was developed in two phases. Phase I was a gas-recycle project, where condensate and natural gas liquids were separated and removed and the dry gas was re-injected into the reservoir. This phase began production in February 2004, and averaged a net rate of 34,100 barrels of liquids per day in 2007, compared with 53,400 barrels per day in 2006.

Phase II involved the installation of a natural gas pipeline from the field to Darwin, Australia, and construction of an LNG facility located at Wickham Point, Darwin, to meet gross contracted sales of up to 3 million tons of LNG per year for a period of 17 years to customers in Japan. The LNG facility was completed and began full operation in 2006, with the first LNG cargo loaded in February 2006. Our net share of natural gas production from the Bayu-Undan field was 189 million cubic feet per day in 2007, compared with 200 million cubic feet per day in 2006. The natural gas production from the Bayu-Undan field is used by the Darwin LNG plant.

In 2007, Bayu-Undan and the Darwin LNG facility were shutdown for a 35-day period due to planned maintenance and facility improvements.

Greater Sunrise

We have a 30 percent interest in the Greater Sunrise gas and condensate field located in the Timor Sea. In January 2006, agreement was reached between the governments of Australia and Timor-Leste concerning sharing of revenues from the anticipated development of the Greater Sunrise field. In February 2007, the government of Timor-Leste ratified the International Unitisation Agreement (IUA) and the governments of Timor-Leste and Australia both ratified the treaty on Certain Maritime Arrangements in the Timor Sea. The Australian government ratified the IUA in 2004.

Ratification of these two treaties created the legal and regulatory framework required by us and our co-venturers to reconsider development options for the Greater Sunrise fields. Key challenges to be resolved before significant funding commitments can be made include: ensuring the reservoir is adequately appraised, partner and government alignment on the development concept, and establishing fiscal stability arrangements. Immediate activity is focused on reprocessing seismic data to define the remaining appraisal program and commencing the development concept screening phase.

Other

A cooperative field development agreement for the Athena/Perseus (WA-17-L) gas field, located offshore Western Australia, was executed in 2001. In 2007, our net share of production was 34 million cubic feet of natural gas per day, compared with 35 million cubic feet of natural gas per day in 2006. Early in the third quarter of 2007, abandonment of the Elang/Kakatua/Kakatua North fields commenced and production ceased.

Exploration

We are the operator of the NT/P 69 and the NT/P 61 licenses, located offshore Northern Territory, Australia, which include the Caldita and Barossa discoveries. A Caldita appraisal well drilled in early 2007 encountered hydrocarbons, but it was expensed as a dry hole. Acquisition of seismic data concluded in 2007, and interpretation of this data will begin in 2008 to further evaluate these discoveries.

In 2007, we were awarded operatorship and a 60 percent interest in the Western Australia offshore exploration license WA-398-P, which is adjacent to existing ConocoPhillips acreage. The work program obligation includes 3D seismic and four exploration wells.

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In the fourth quarter of 2007, we sold our interests in Western Australia offshore blocks WA-341-P, WA-343-P and WA-344-P.

Malaysia

Exploration

We have interests in deepwater Blocks G and J, located off the east Malaysian state of Sabah. In late 2007, we and our co-venturers sanctioned the Gumusut-Kakap field development that incorporates the 2003 Gumusut discovery in Block J. Also in 2007, we participated in two exploration wells. We had a discovery in the Petai field in Block G. Petai and previous Block G discoveries are being evaluated as part of a broader area development plan. One Block J well was expensed as a dry hole.

In 2007, we signed a new PSC that includes both oil and gas rights for the Kebabangan field and three additional discoveries. Kebabangan is moving toward field development. The remaining discoveries are awaiting appraisal.

E&P MIDDLE EAST AND AFRICA

In 2007, E&P operations in the Middle East and Africa contributed 8 percent of E&P s worldwide liquids production and 2 percent of natural gas production, compared with 10 percent and 3 percent in 2006, respectively.

Qatar

Qatargas 3 is an integrated project, jointly owned by Qatar Petroleum (68.5 percent), ConocoPhillips (30 percent) and Mitsui & Co., Ltd. (1.5 percent). The project comprises upstream natural gas production facilities to produce approximately 1.4 billion gross cubic feet per day of natural gas from Qatar s North field over the 25-year life of the project. The project also includes a 7.8-million-gross-ton-per-year LNG facility. The LNG will be shipped from Qatar in a fleet of LNG vessels, and is destined for sale primarily in the United States. The first LNG cargos are expected to be loaded from Qatargas 3 in 2009.

In the fourth quarter of 2007, we signed agreements with affiliates of ExxonMobil and Qatar Petroleum that provide for a 12.4 percent ownership interest in the Golden Pass LNG regasification facility and associated pipeline (Golden Pass). The facilities are currently being constructed on the Sabine-Neches Industrial Ship Channel northwest of Sabine Pass, Texas. Subject to the negotiation of definitive agreements, ConocoPhillips will also secure capacity rights in the Golden Pass LNG terminal and pipeline to manage a substantial portion of the LNG we will purchase from Qatargas 3. In addition to the United States, other market alternatives for Qatargas 3 LNG production are being evaluated.

In order to capture cost savings, Qatargas 3 is executing the development of the onshore and offshore assets as a single integrated project with Qatargas 4, a joint venture between Qatar Petroleum and Royal Dutch Shell plc. This includes the joint development of offshore facilities situated in a common offshore block in the North field, as well as the construction of two identical LNG process trains, and associated gas treating facilities for both the Qatargas 3 and Qatargas 4 joint ventures. Upon completion of the Qatargas 3 and Qatargas 4 projects, production from the LNG plant and associated facilities will be combined and shared.

In July 2007, we committed to sponsor a water sustainability center in the Qatar Science & Technology Park. The center will conduct applied research and testing in the industrial, municipal, and agricultural water sectors. The primary focus will be on removing contaminants from petroleum industry water.

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In December 2007, ConocoPhillips and Qatar Petroleum International, a wholly owned subsidiary of Qatar Petroleum, announced the two companies signed a Memorandum of Understanding to pursue and develop international energy projects outside of Qatar.

Dubai

Our oil concession offshore Dubai ended effective April 2007.

Algeria

We have interests in three fields in Block 405a: a 65 percent operating interest in the Menzel Lejmat North (MLN) field; a 3.73 percent interest in the Ourhoud field; and a 16.9 percent interest in the EMK (El Merk) oil field unit. Net production from these fields averaged 10,800 barrels of crude oil per day in 2007, compared with 9,800 barrels per day in 2006.

Libya

ConocoPhillips holds a 16.33 percent interest in the Waha concessions in Libya. The concessions encompass nearly 13 million acres located in the Sirte Basin. Net crude oil production averaged 46,900 barrels per day in 2007, compared with 50,400 barrels per day in 2006, including 3,800 barrels per day associated with the complete recovery of our 1986 underlift position.

Egypt

During the first quarter of 2007, we sold our 50 percent non-operated interest in a concession in Egypt that included the development of the Tao gas field and its associated facilities.

Nigeria

At year-end 2007, we were producing from four onshore Oil Mining Leases (OMLs), in which we have a 20 percent non-operator interest. Our net production from these leases was 19,300 barrels of liquids per day and 117 million cubic feet of natural gas per day in 2007, compared with 24,500 barrels per day and 138 million cubic feet per day in 2006. In 2007, we continued development of projects in the onshore OMLs to supply feedstock natural gas under a gas sales contract with Nigeria LNG Limited, which owns an LNG facility on Bonny Island.

We have a 20 percent interest in a 480-megawatt gas-fired power plant in Kwale, Nigeria. The plant came online in March 2005, and supplies electricity to Nigeria s national electricity supplier. The plant consumes 68 million gross cubic feet per day of natural gas, including that sourced from our proved natural gas reserves in the OMLs.

During 2007, Brass LNG Limited (Brass LNG) continued to progress activities for a planned LNG facility to be constructed in Nigeria s central Niger Delta. We have a 17 percent equity interest in Brass LNG.

Exploration

During 2007, we made an onshore exploration discovery in OML 61, and the well is now producing. During the fourth quarter of 2007, we initiated drilling of an appraisal well in deepwater Oil Prospecting License (OPL) 214. The well encountered hydrocarbons, and drilling operations concluded in the first quarter of 2008. In the first quarter of 2007, we recorded a leasehold impairment related to OPL 248. In the second quarter of 2007, we relinquished our interest in OPL 318.

E&P RUSSIA AND CASPIAN

Russia

Polar Lights

We have a 50 percent equity ownership interest in Polar Lights Company, a Russian limited liability company established in January 1992 to develop fields in the Timan-Pechora Basin in northern Russia.

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Our net production from Polar Lights averaged 11,800 barrels of oil per day in 2007, compared with 12,100 barrels per day in 2006, and is included in equity affiliate production.

NMNG

In June 2005, ConocoPhillips and LUKOIL created the OOO Naryanmarneftegaz (NMNG) joint venture to develop resources in the northern part of Russia s Timan-Pechora province. We have a 30 percent ownership interest with a 50 percent governance interest in NMNG. We use the equity method of accounting for this joint venture. NMNG is working to develop the Yuzhno Khylchuyu (YK) field.

Production from the NMNG joint-venture fields is transported via pipeline to LUKOIL s existing terminal at Varandey Bay on the Barents Sea and then shipped via tanker to international markets. LUKOIL intends to complete an expansion of the terminal s oil-throughput capacity from 30,000 barrels per day to 240,000 barrels per day to accommodate production from the YK field.

Caspian

In the Caspian Sea, we have a 9.26 percent interest in the Republic of Kazakhstan s North Caspian Sea Production Sharing Agreement (NCSPSA), which includes the Kashagan field. Detailed design, procurement and construction activities continued on the Kashagan oil field development following approval by the Republic of Kazakhstan for the development plan and budget in 2004. The first phase of field development currently being executed includes the construction of artificial drilling islands with processing facilities and living quarters, and pipelines to carry production onshore. The initial production phase of the contract is for 20 years, with options to extend the agreement an additional 20 years. During 2007, the Republic of Kazakhstan triggered dispute proceedings under the NCSPSA following submission of a revised development plan and budget reflecting Kashagan cost increases and schedule delays. The international co-venturers signed a Memorandum of Understanding in January 2008, agreeing to the proportional dilution of their equity interest to allow the state-owned energy company, JSC NC KazMunaiGaz, to increase its ownership interest from 8.33 percent to 16.81 percent, effective January 1, 2008, subject to the completion of definitive agreements on dilution and other matters. As a result, our interest in the NCSPSA would be reduced from 9.26 percent to 8.40 percent, effective January 2008. In addition, a joint operating company, with significant involvement from the larger owners, will operate future phases of Kashagan. First production is expected at the end of 2011.

Transportation

We have a 2.5 percent interest in the Baku-Tbilisi-Ceyhan (BTC) pipeline. This 1,760-kilometer pipeline transports crude oil from the Caspian region through Azerbaijan, Georgia and Turkey, for tanker loadings at the Mediterranean port of Ceyhan. The BTC pipeline became operational in mid-2006.

Exploration

In 2007, appraisal and development concept studies continued for Kalamkas More, Kairan and Aktote. Testing operations on a Kairan appraisal well drilled in 2006 were successfully completed. Concept studies for development are under way for all three fields.

E&P OTHER

LNG

In late 2003, we signed an agreement with Freeport LNG Development, L.P. (Freeport LNG) to participate in its proposed LNG receiving terminal in Quintana, Texas. This agreement gave us 1 billion cubic feet per day of regasification capacity in the terminal and a 50 percent interest in the general partnership managing the venture. The terminal is designed to have capacity of 1.5 billion cubic feet per day. Freeport LNG received final approval in 2005 from the Federal Energy Regulatory Commission (FERC) to construct and operate the facility. Construction began in 2005, and commercial startup is expected in

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2008. In 2005, we executed an option to secure 0.3 billion cubic feet per day of capacity in a subsequent expansion of the facility, which is subject to certain regulatory approvals and commercial decisions to proceed. In 2007, we released 0.1 billion cubic feet per day of our original 1 billion cubic feet per day regasification capacity to allow Freeport LNG more flexibility in marketing the remaining regasification capacity.

In order to deliver the natural gas from the Freeport terminal to market, we are constructing a 32-mile, 42-inch pipeline from the Freeport terminal to a point near Iowa Colony, Texas. Construction began in the first quarter of 2007 and is planned for completion in early 2008 to coincide with the Freeport terminal startup.

In 2007, we sold our 50 percent interest in Sound Energy Solutions, a company pursuing a proposed LNG regasification terminal in the Port of Long Beach, California. In the United Kingdom, we, along with the other Norsea Pipeline Limited shareholders, submitted applications in 2007 to obtain planning permission for an LNG regasification facility and combined heat and power plant at the existing Norsea Pipeline Limited oil terminal site at Teesside, United Kingdom. A decision on the applications is expected in 2008. We withdrew from a project to develop an LNG regasification terminal at the Port of Eemshaven in the Netherlands.

Commercial

The Commercial organization optimizes the commodity flows of our E&P segment. This group markets our crude oil and natural gas production, with commodity buyers, traders and marketers in offices in the United States, the United Kingdom, Singapore, Canada and Dubai.

Natural Gas Pricing

Compared with the more global nature of crude oil commodity pricing, natural gas prices have historically varied more in different regions of the world. We produce natural gas from regions around the world that have significantly different supply, demand and regulatory circumstances, typically resulting in significantly lower average sales prices than in the Lower 48 region of the United States. Moreover, excess supply conditions that exist in certain parts of the world cannot easily serve to mitigate the relatively high-price conditions in the Lower 48 states and other markets because of a lack of infrastructure and because of the difficulties in transporting natural gas. We, along with other companies in the oil and gas industry, are planning long-term projects in regions of excess supply to install the infrastructure required to produce and liquefy natural gas for transportation by tanker and subsequent regasification in regions where market demand is strong, such as the Lower 48 states or certain parts of Asia, but where supplies are not as plentiful. Due to the significance of the overall investment in these long-term projects, the natural gas sales prices (to a third-party LNG facility) or transfer prices (to a company-owned LNG facility) in the areas of excess supply are expected to remain well below sales prices for natural gas that is produced closer to areas of high demand and which can be transferred to existing natural gas pipeline networks, such as in the Lower 48 states.

E&P RESERVES

We have not filed any information with any other federal authority or agency with respect to our estimated total proved reserves at December 31, 2007. No difference exists between our estimated total proved reserves for year-end 2006 and year-end 2005, which are shown in this filing, and estimates of these reserves shown in a filing with another federal agency in 2007.

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DELIVERY COMMITMENTS

We sell crude oil and natural gas from our E&P producing operations under a variety of contractual arrangements, some of which specify the delivery of a fixed and determinable quantity. Our Commercial organization also enters into natural gas sales contracts where the source of the natural gas used to fulfill the contract can be the spot market, or a combination of our reserves and the spot market. Worldwide, we are contractually committed to deliver approximately 5.0 trillion cubic feet of natural gas and 115 million barrels of crude oil in the future, including approximately 1 trillion cubic feet related to the minority interests of consolidated subsidiaries. These contracts have various expiration dates through the year 2025. Although these delivery commitments could be fulfilled utilizing proved reserves in the United States, Canada, the Timor Sea, Nigeria, Indonesia, and the United Kingdom, we anticipate that some of them will be fulfilled with purchases in the spot market. A portion of our commitments relate to proved undeveloped reserves. See the disclosure on Proved Undeveloped Reserves in Management s Discussion and Analysis of Financial Condition and Results of Operations for information on the development of proved undeveloped reserves.

MIDSTREAM

At December 31, 2007, our Midstream segment represented 1 percent of ConocoPhillips total assets, while contributing 4 percent of net income.

Our Midstream business is primarily conducted through our 50 percent equity investment in DCP Midstream, LLC. DCP Midstream is a joint venture with Spectra Energy.

The Midstream business purchases raw natural gas from producers and gathers natural gas through extensive pipeline gathering systems. The gathered natural gas is then processed to extract natural gas liquids. 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. Total natural gas liquids extracted in 2007, including our share of DCP Midstream, was 211,000 barrels per day, compared with 209,000 barrels per day in 2006.

DCP Midstream markets a portion of its natural gas liquids to ConocoPhillips and Chevron Phillips Chemical Company LLC (a joint venture between ConocoPhillips and Chevron Corporation) under a supply agreement that continues until December 31, 2014. This purchase commitment is on an if-produced, will-purchase basis and so it has no fixed production schedule, but has had, and is expected over the remaining term of the contract to have, a relatively stable purchase pattern. Under this agreement, natural gas liquids are purchased at various published market index prices, less transportation and fractionation fees.

DCP Midstream is headquartered in Denver, Colorado. At December 31, 2007, DCP Midstream owned or operated 53 natural gas liquids extraction plants, 10 natural gas liquids fractionation plants, and its gathering and transmission systems included approximately 58,000 miles of pipeline. In 2007, DCP Midstream s raw natural gas throughput averaged 5.9 billion cubic feet per day, and natural gas liquids extraction averaged 363,000 barrels per day, compared with 6.0 billion cubic feet per day and 360,000 barrels per day in 2006. DCP Midstream s assets are primarily located in the following producing regions: Rocky Mountains, Midcontinent, Permian, East Texas/North Louisiana, South Texas, Central Texas, and the Gulf Coast.

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Outside of DCP Midstream, our U.S. natural gas liquids business included the following assets as of December 31, 2007:

A 50 percent interest in a natural gas liquids extraction plant in San Juan County, New Mexico. Our net share of plant inlet capacity is 275 million cubic feet per day. Effective January 1, 2008, our interest in this plant was moved to the E&P segment for reporting purposes.

A 25,000-barrel-per-day capacity natural gas liquids fractionation plant in Gallup, New Mexico.

A 22.5 percent equity interest in Gulf Coast Fractionators, which owns a natural gas liquids fractionation plant in Mont Belvieu, Texas (with our net share of capacity at 25,000 barrels per day).

A 40 percent interest in a fractionation plant in Conway, Kansas (with our net share of capacity at 42,000 barrels per day).

A 12.5 percent equity interest in a fractionation plant in Mont Belvieu, Texas (with our net share of capacity at 26,000 barrels per day).

We also own a 39 percent equity interest in Phoenix Park Gas Processors Limited (Phoenix Park), a joint venture primarily with the National Gas Company of Trinidad and Tobago Limited. Phoenix Park processes gas in Trinidad and markets natural gas liquids throughout the Caribbean and into the U.S. Gulf Coast. Its facilities include a 1.35-billion-cubic-feet-per-day gas processing plant and a 70,000-barrels-per-day natural gas liquids fractionator. Our share of natural gas liquids extracted averaged 7,800 barrels per day in 2007, compared with 6,400 barrels per day in 2006. Our share of fractionated liquids averaged 12,800 barrels per day in 2007, compared with 12,700 barrels per day in 2006.

ConocoPhillips was a party to a service contract related to the gathering, processing and transporting of natural gas in the Deir Ez Zor region of eastern Syria with the Syrian Petroleum Company that expired December 31, 2005. In 2006, we ended our presence in Syria and have no continuing operations or personnel in Syria. During 2007, we worked toward the resolution of certain immaterial claims that remain outstanding associated with our former operations there. Additionally, as part of our global crude oil supply and trading operations and consistent with applicable laws and policies of the United States and other countries in which we operate, we have purchased, and may continue to purchase, immaterial amounts of Syrian crude oil and blendstocks as feedstock for our global refining operations.

REFINING AND MARKETING (R&M)

At December 31, 2007, our R&M segment represented 21 percent of ConocoPhillips total assets, while contributing 50 percent of net income. The R&M segment contributed 29 percent of net income in 2006. R&M s percent of consolidated net income in 2007 was higher than normal due to a significant impairment recorded in the E&P segment.

R&M operations encompass refining crude oil and other feedstocks into petroleum products (such as gasoline, distillates and aviation fuels); buying, selling and transporting crude oil; and buying, transporting, distributing and marketing petroleum products. R&M has operations in the United States, Europe and Asia Pacific. The R&M segment does not include the results or statistics from our equity investment in LUKOIL, which are reported in a separate segment (LUKOIL Investment).

The Commercial organization optimizes the commodity flows of our R&M segment. This organization procures feedstocks for R&M s refineries, facilitates supplying a portion of the gas and power needs of the R&M facilities, supplies petroleum products to our marketing operations, and markets petroleum products directly to third parties. Commercial has buyers, traders and marketers in offices in the United States, the United Kingdom, Singapore, Canada and Dubai.

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UNITED STATES

Refining

At December 31, 2007, we owned or had an interest in 12 crude oil refineries in the United States, having an aggregate crude oil throughput capacity of 2,037,000 barrels per day net to ConocoPhillips. We are the operator of all 12 refineries.

				Net Crude Throughput Capacity (MB/D)	
				At December 31	Effective January 1
Refinery	Location		Region	2007	2008
Bayway	Linden	New Jersey	East Coast	238	238
Trainer	Trainer	Pennsylvania	East Coast	185	185
				423	423
Alliance	Belle Chasse	Louisiana	Gulf Coast	247	247
Lake Charles	Westlake	Louisiana	Gulf Coast	239	239
Sweeny	Old Ocean	Texas	Gulf Coast	247	247
				733	733
Wood River	Roxana	Illinois	Central	153	153
Borger	Borger	Texas	Central	124	95*
Ponca City	Ponca City	Oklahoma	Central	187	187
				464	435
Billings	Billings	Montana	West Coast	58	58
Ferndale	Ferndale	Washington	West Coast	100	100
Los Angeles	Carson/Wilmington	California	West Coast	139	139
San Francisco	Arroyo Grande/ San Francisco	California	West Coast	120	120
				417	417
				2,037	2,008

**Amount reflects our 65 percent share of the Borger refinery effective January 1, 2008.*

We had an 85 percent share of the Borger refinery in 2007.

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East Coast Region

Bayway Refinery

The Bayway refinery is located on the New York Harbor in Linden, New Jersey. The refinery has a crude oil processing capacity of 238,000 barrels per day, and processes mainly light, low-sulfur crude oil. Crude oil is supplied to the refinery by tanker, primarily from the North Sea, Canada and West Africa. The refinery produces a high percentage of transportation fuels, such as gasoline, ultra-low-sulfur diesel and jet fuel. Other products include petrochemical feedstocks, home heating oil and residual fuel oil. The facility distributes its refined products to East Coast customers by pipeline, barge, railcar and truck. The complex also includes a 775-million-pound-per-year polypropylene plant.

Trainer Refinery

The Trainer refinery is located on the Delaware River in Trainer, Pennsylvania. The refinery has a crude oil processing capacity of 185,000 barrels per day, and processes mainly light, low-sulfur crude oil. The Bayway and Trainer refineries are operated in coordination with each other by sharing crude oil cargoes and often moving feedstocks between the facilities. Trainer receives a majority of its crude oil by tanker from West Africa, Canada and the North Sea. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. Other products include home heating oil, residual fuel oil and liquefied petroleum gas. Refined products are primarily distributed to customers in Pennsylvania, New York and New Jersey by pipeline, barge, railcar and truck.

Gulf Coast Region

Alliance Refinery

The Alliance refinery is located on the Mississippi River in Belle Chasse, Louisiana. The refinery has a crude oil processing capacity of 247,000 barrels per day, and processes mainly light, low-sulfur crude oil. Alliance receives domestic crude oil from the Gulf of Mexico via pipeline, and foreign crude oil from the North Sea and West Africa via pipeline connected to the Louisiana Offshore Oil Port. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. Other products include home heating oil, petrochemical feedstocks and anode petroleum coke. The majority of the refined products are distributed to customers in the southeastern and eastern United States through major common-carrier pipeline systems and by barge.

Lake Charles Refinery

The Lake Charles refinery is located in Westlake, Louisiana. The refinery has a crude oil processing capacity of 239,000 barrels per day, and processes mainly heavy, high-sulfur crude oil, but also processes low-sulfur and acidic crude oil. The refinery receives domestic and foreign crude oil, with a majority of its foreign crude oil being heavy Venezuelan and Mexican crude oil, both delivered via tanker. The refinery produces a high percentage of transportation fuels, such as gasoline, off-road diesel and jet fuel, along with home heating oil. The majority of its refined products are distributed to customers by truck, railcar, barge or major common-carrier pipelines to customers in the southeastern and eastern United States. In addition, refined products can be sold into export markets through the refinery s marine terminal.

The Lake Charles facilities include a specialty coker and calciner that manufacture graphite petroleum coke, which is supplied to the steel industry. The coker and calciner also provide a substantial increase in light oils production by breaking down the heaviest part of the crude barrel to allow additional production of diesel fuel and gasoline.

Sweeny Refinery

The Sweeny refinery is located in Old Ocean, Texas. The refinery has a crude oil processing capacity of 247,000 barrels per day. The refinery processes both heavy, high-sulfur crude oil, the majority of which is sourced from Venezuela, and light, low-sulfur crude oil. The refinery primarily receives crude oil via tankers through its 100-percent-owned and jointly owned terminals on the Gulf Coast, including a deepwater terminal at Freeport, Texas. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. Other products include home heating oil, petrochemical feedstocks

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and petroleum (fuel) coke. Refined products are distributed throughout the midwest and southeast United States by pipeline, barge, railcar and truck.

ConocoPhillips has a 50 percent interest in Merey Sweeny, L.P., a limited partnership that owns a 70,000-barrel-per-day delayed coker and related facilities at the Sweeny refinery that produce fuel-grade petroleum coke. PDVSA, which owns the other 50 percent interest, supplies the refinery with heavy, high-sulfur crude oil. We are the operator and managing partner.

Central Region

EnCana Joint Venture

In October 2006, we announced a business venture with EnCana Corporation (EnCana), to create an integrated North American heavy-oil business. The transaction closed on January 3, 2007. The venture consists of two 50/50 business ventures, a Canadian upstream general partnership, FCCL Oil Sands Partnership, and a U.S. downstream limited liability company, WRB Refining LLC (WRB). We use the equity method of accounting for our investments in both entities.

WRB consists of the Wood River and Borger refineries, located in Roxana, Illinois and Borger, Texas, respectively. We are the operator and managing partner of WRB. The joint venture has expanded the processing capability of heavy Canadian crude to 95,000 barrels per day from 60,000 barrels per day with the startup of a new coker at Borger. With the completion of the Wood River coker and refinery expansion project, anticipated in 2011, we expect the capability to grow to 225,000 barrels per day. Further expansion of both Wood River and Borger are expected to provide the ultimate capability to process 550,000 barrels per day. For the Wood River refinery, operating results are shared 50/50. For the Borger refinery, we were entitled to 85 percent of the operating results in 2007, with our share decreasing to 65 percent in 2008, and 50 percent in all years thereafter.

See the Exploration and Production (E&P) section for additional information on the upstream venture.

Wood River Refinery

The Wood River refinery is located on the east side of the Mississippi River in Roxana, Illinois. It has a crude oil processing capacity of 306,000 barrels per day, and our net share of this capacity at December 31, 2007, was 153,000 barrels per day. The refinery processes a mix of both light, low-sulfur and heavy, high-sulfur crude oil. The refinery receives domestic and foreign crude oil by various pipelines. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. Other products include petrochemical feedstocks and asphalt. Through an off-take agreement, a significant portion of its gasoline and diesel is sold to a third party for delivery via pipelines into the upper Midwest, including the Chicago, Illinois, and Milwaukee, Wisconsin, metropolitan areas. The remaining refined products are distributed to customers in the Midwest by pipeline, truck, barge and railcar.

In early 2007, the refinery completed the construction and startup of a facility utilizing proprietary sulfur removal technology for the production of low-sulfur gasoline.

Borger Refinery

The Borger refinery is located in Borger, Texas, and the complex includes a natural gas liquids fractionation facility. The crude oil processing capacity of the refinery is 146,000 barrels per day, and the natural gas liquids fractionation capacity is 45,000 barrels per day. Our net share of the crude oil capacity at December 31, 2007, was 124,000 barrels per day. The refinery processes mainly light, high-sulfur and medium, high-sulfur crude oil. It receives crude oil and natural gas liquids feedstocks through pipelines from West Texas, the Texas Panhandle and Wyoming. The Borger refinery also receives foreign crude oil via pipeline. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel, along with a variety of natural gas liquids and solvents. Refined products are transported via pipelines from the refinery to West Texas, New Mexico, Colorado, and the Midcontinent region.

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In the second quarter of 2007, construction was completed on a 25,000-barrel-per-day coker and a new vacuum unit along with revamps of heavy oil and distillate hydrotreaters. These projects allow the refinery to comply with clean fuel regulations for ultra-low-sulfur diesel and low-sulfur gasoline, as well as comply with required reductions of sulfur dioxide emissions. Additional project benefits include improved operating performance by adding additional upgrading capability, improved utilization, and the capability to process heavy Canadian crude oil.

Ponca City Refinery

The Ponca City refinery is located in Ponca City, Oklahoma. The refinery has a crude oil processing capacity of 187,000 barrels per day. The refinery processes a mixture of light, medium and heavy crude oil. Most of the crude processed is received by pipeline from the Gulf of Mexico, Oklahoma, Kansas, Texas and Canada. The refinery produces high ratios of low-sulfur gasoline and ultra-low-sulfur diesel fuel from crude oil. Finished petroleum products are primarily shipped by company-owned and common carrier pipelines to markets throughout the Midcontinent region.

West Coast Region

Billings Refinery

The Billings refinery is located in Billings, Montana. The refinery has a crude oil processing capacity of 58,000 barrels per day, and processes a mixture of Canadian heavy, high-sulfur crude oil, plus domestic high-sulfur and low-sulfur crude oil, all delivered by pipeline. A delayed coker converts heavy, high-sulfur residue into higher value light oils. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and aviation fuels, as well as fuel-grade petroleum coke. Finished petroleum products from the refinery are delivered by pipeline, railcar and truck. Pipelines transport most of the refined products to markets in Montana, Wyoming, Utah and Washington.

Ferndale Refinery

The Ferndale refinery is located on Puget Sound in Ferndale, Washington. During 2007, the refinery completed a project to expand the crude unit capacity by replacing piping and modifying various equipment. This project increased capacity by 4,000 barrels per day to 100,000 barrels per day, effective July 1, 2007. The refinery primarily receives light, low-sulfur crude oil from the Alaskan North Slope, as well as crude oil from Canada. The refinery produces transportation fuels such as gasoline and diesel. Other products include residual fuel oil supplying the northwest marine transportation market. Most refined products are distributed by pipeline and barge to major markets in the northwest United States.

Los Angeles Refinery

The Los Angeles refinery is composed of two linked facilities located about five miles apart in Carson and Wilmington, California. Carson serves as the front-end of the refinery by processing crude oil, and Wilmington serves as the back-end by upgrading products. The refinery has a crude oil processing capacity of 139,000 barrels per day, and processes mainly heavy, high-sulfur crude oil. The refinery receives domestic crude oil via pipeline from California, and both foreign and domestic crude oil by tanker through a third-party terminal in the Port of Long Beach. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. Other products include fuel-grade petroleum coke. The refinery produces California Air Resources Board (CARB) gasoline by blending ethanol to meet government-mandated oxygenate requirements. Refined products are distributed to customers in Southern California, Nevada and Arizona by pipeline and truck.

San Francisco Refinery

The San Francisco refinery is composed of two linked facilities located about 200 miles apart. The Santa Maria facility is located in Arroyo Grande, California, about 200 miles south of San Francisco, while the Rodeo facility is in the San Francisco Bay area. The refinery has a crude oil processing capacity of 120,000 barrels per day. The refinery processes mainly heavy, high-sulfur crude oil, which is received by pipeline in California and by tanker from foreign and domestic sources. Semi-refined liquid products from the Santa Maria facility are sent by pipeline to the Rodeo facility for upgrading into finished petroleum

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products. The Rodeo facility has a calciner which upgrades a portion of the coke that is produced. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuel. It also produces CARB gasoline by blending ethanol to meet government-mandated oxygenate requirements. The majority of the refined products are distributed by pipeline, railcar, truck and barge to customers in California.

Marketing

In the United States, R&M markets gasoline, diesel fuel, and aviation fuel through approximately 8,750 outlets in 49 states. The majority of these sites utilize the Conoco, Phillips 66 or 76 brands.

Wholesale

In our wholesale operations, we utilize a network of marketers and dealers operating approximately 7,750 outlets that provide refined product off-take from our operated refineries. A strong emphasis is placed on the wholesale channel of trade because of its lower capital requirements. We also buy and sell petroleum products in the spot market. Our refined products are marketed on both a branded and unbranded basis.

In addition to automotive gasoline and diesel fuel, we produce and market aviation gasoline, which is used by smaller, piston-engine aircraft. Aviation gasoline and jet fuel are sold through independent marketers at approximately 590 Phillips 66 branded locations in the United States.

Retail

In our retail operations, we own and operate 330 sites under the Phillips 66, Conoco and 76 brands.

Company-operated retail operations are focused in 10 states, mainly in the Midcontinent, Rocky Mountain and West Coast regions. Most of these outlets market merchandise through the Kicks, Breakplace or Circle K brand convenience stores.

At December 31, 2007, CFJ Properties, our 50/50 joint venture with Flying J, owned and operated approximately 110 truck travel plazas that carry the Conoco and/or Flying J brands.

In December 2006, we announced our U.S. company-owned and company-operated retail outlets, and our U.S. company-owned and dealer-operated retail outlets, were expected to be divested to new or existing wholesale marketers. We sold 54 sites during 2007, and 766 company- and dealer-operated sites were classified as held for sale at December 31, 2007. We expect to complete the disposition of our U.S. retail assets in 2008.

Transportation

Pipelines and Terminals

At December 31, 2007, we had approximately 28,000 miles of common-carrier crude oil, raw natural gas liquids, and petroleum products pipeline systems in the United States, including those partially owned and/or operated by affiliates. We also owned and/or operated 51 finished product terminals, seven liquefied petroleum gas terminals, five crude oil terminals and one coke exporting facility.

In December 2007, we acquired a 50 percent equity interest in the Keystone Oil Pipeline (Keystone) to form a 50/50 joint venture with TransCanada Corporation. This joint venture plans to construct a 2,148-mile crude oil pipeline originating in Hardisty, Alberta, with delivery points at Wood River and Patoka, Illinois, and Cushing, Oklahoma. Keystone is designed to have a daily capacity of 590,000 barrels and has received binding, firm commitments from credit-worthy shippers for 495,000 barrels per day of the planned pipeline capacity, of which we have a portion. Subject to receipt of regulatory approvals, initial deliveries for Keystone s first segment are projected for late 2009, and the second segment is expected to be fully operational in the first half of 2011. We expect to utilize the Keystone pipeline to transport our Canadian crude oil production to market, including as a source of supply to WRB.

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Tankers

At December 31, 2007, we had under charter 18 double-hulled crude oil tankers, with capacities ranging in size from 650,000 to 1,100,000 barrels. These tankers are utilized to transport feedstocks to certain of our U.S. refineries. The information above excludes the operations of the company s subsidiary, Polar Tankers, Inc., which is discussed in the E&P segment overview, as well as an owned tanker on lease to a third party for use in the North Sea.

Several transportation assets were sold during 2007, including the domestic marine inland barge and vessel operations, the Grand Junction terminal, the Bettendorf terminal, and the Kapalama pipeline. Negotiations to sell the international marine operations leasehold interest in six international tankers were under way in 2007, and this sale was completed in January 2008.

Specialty Businesses

We manufacture and sell a variety of specialty products including petroleum cokes, lubes (such as automotive and industrial lubricants), solvents, and pipeline flow improvers to commercial, industrial and wholesale accounts worldwide.

Lubricants are marketed under the Conoco, Phillips 66, 76 Lubricants and Kendall Motor Oil brands. The distribution network includes mass merchandise stores, fast lubes, tire stores, automotive dealers and convenience stores. Lubricants are also sold to industrial customers in many markets.

The company s 50 percent-owned Excel Paralubes joint venture owns a hydrocracked lubricant base oil manufacturing plant located adjacent to the Lake Charles refinery. The facility produces approximately 20,000 barrels per day of high-quality, clear hydrocracked base oils. Hydrocracked base oils are second in quality only to synthetic base oils, but are produced at a much lower cost. The Lake Charles refinery supplies Excel Paralubes with a portion of its gas-oil feedstocks. We purchase 50 percent of the joint venture s output, and blend the base oil into finished lubricants or market it to third parties.

We also manufacture high-quality graphite and anode-grade cokes in the United States and Europe for use in the global steel and aluminum industries.

During 2007, our Specialty Businesses operations sold its Conostan calibration fluid technology.

Additionally, as of December 31, 2007, we had a 50 percent interest in Penreco, which manufactures and markets highly refined specialty petroleum products, including solvents, waxes, petrolatums and white oils, for global markets. In January 2008, we sold our interest in Penreco.

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INTERNATIONAL

Refining

At December 31, 2007, R&M owned or had an interest in five refineries outside the United States with an aggregate crude oil capacity of 669,000 barrels per day net to ConocoPhillips.

Refinery	Location		Ownership Interest	Net Crude Throughput Capacity (MB/D) At December 31 2007	Net Crude Throughput Capacity (MB/D) Effective January 1 2008
Humber	N. Lincolnshire	United Kingdom	100.00%	221	221
Whitegate	Cork	Ireland	100.00	71	71
Wilhelmshaven	Wilhelmshaven	Germany	100.00	260	260
MiRO	Karlsruhe	Germany	18.75	57	58
Melaka	Melaka	Malaysia	47.00	60	60
				669	670

Humber Refinery

The Humber refinery is located in North Lincolnshire, United Kingdom. The refinery s crude oil processing capacity is 221,000 barrels per day. Crude oil processed at the refinery is supplied primarily from the North Sea and includes light, low-sulfur and acidic crude oil. The refinery also processes intermediate feedstocks, mostly vacuum gas oils and residual fuel oil.

The Humber refinery is a fully integrated refinery that produces a high percentage of transportation fuels, such as gasoline and diesel. Other products include home heating oil and specialty chemicals. The refinery also has two coking units with associated calcining plants, which upgrade the heaviest part of the crude barrel and imported feedstocks into light-oil products and graphite and anode petroleum cokes. Products produced in the refinery are marketed in the United Kingdom, along with the rest of Europe and the United States.

Whitegate Refinery

The Whitegate refinery in Cork, Ireland, has a crude oil processing capacity of 71,000 barrels per day. Crude oil processed by the refinery is light, low-sulfur crude oil sourced mostly from the North Sea. The refinery primarily produces transportation fuels, such as gasoline, diesel and fuel oil, which are distributed to the inland market, as well as being exported to Europe and the United States. We also operate a crude oil and products storage complex consisting of 7.5 million barrels of storage capacity and an offshore mooring buoy, located in Bantry Bay, about 80 miles southwest of the Whitegate refinery in southern Cork County.

Wilhelmshaven Refinery

The Wilhelmshaven refinery is located in the northern state of Lower Saxony in Germany, and has a crude oil processing capacity of 260,000 barrels per day. Crude oil processed by the refinery is low-sulfur sourced mostly from the North Sea. The Wilhelmshaven refinery mainly produces transportation fuels, fuel oil, and intermediate feedstocks, which are primarily exported to Europe and the United States, but are also distributed to the inland market via truck and rail. Additionally, we operate a marine terminal, rail and truck loading facilities and a tank farm. We have evaluated alternatives to economically improve the operation of the refinery and have incorporated a deep conversion plan into our capital budget.

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MiRO Refinery

The Mineraloel Raffinerie Oberrhein GmbH (MiRO) refinery in Karlsruhe, Germany, is a joint-venture refinery with a crude oil processing capacity of 307,000 barrels per day. Effective January 1, 2008, the refinery s capacity was increased by 5,000 barrels per day due to incremental debottlenecking, with our share being an increase of 1,000 barrels per day. We have an 18.75 percent interest in MiRO, giving us a net capacity share of 58,000 barrels per day. The refinery s crude oil feedstock includes medium-sulfur crude oil. The MiRO complex is a fully integrated refinery producing gasoline, middle distillates and specialty products, along with a small amount of residual fuel oil. The refinery has a high capacity to convert lower-cost feedstocks into higher-value products, primarily with a fluid catalytic cracker and a delayed coker. The refinery also produces fuel-grade and specialty calcined cokes. The refinery processes crude and other feedstocks supplied by each of the co-venturers in proportion to their respective ownership interests. The majority of refined products are distributed by truck and railcar to Germany and neighboring markets.

Melaka Refinery

The refinery in Melaka, Malaysia, is a joint-venture refinery in which we own a 47 percent interest. The refinery has a rated crude oil processing capacity of 128,000 barrels per day, of which our share is 60,000 barrels per day. The medium, high-sulfur crude oil processed by the refinery is sourced mostly from the Middle East. The refinery produces a full range of refined petroleum products. The refinery capitalizes on our proprietary coking technology to upgrade low-cost feedstocks to higher-margin products. Our share of refined products is transported by tanker and marketed in Malaysia and other Asian markets.

In late 2007, we and our co-venturers sanctioned a project for the planned expansion of the refinery due for completion in early 2010. This project is intended to increase crude oil, conversion and treating unit capacities.

Other

In May 2006, we signed a Memorandum of Understanding with Saudi Aramco to conduct a detailed evaluation of the proposed development of a 400,000-barrel-per-day, full-conversion refinery in Yanbu, Saudi Arabia. The refinery would be designed to process Arabian heavy crude oil and produce high-quality, ultra-low-sulfur refined products. A joint ConocoPhillips and Saudi Aramco project team has initiated work on the front-end engineering design study. This study, as well as an evaluation of project financing and negotiations of key commercial agreements, is scheduled to be completed later in 2008.

In July 2006, we announced the signing of a Memorandum of Understanding with International Petroleum Investment Company (IPIC) of Abu Dhabi to identify new upstream and downstream opportunities for joint investment. A feasibility study for construction of a 500,000-barrel-per-day refinery in Fujairah, United Arab Emirates, was completed in 2007. ConocoPhillips decided not to proceed with this joint-investment opportunity.

Our 16.33 percent ownership interest in Česká Rafinérská, a.s. (CRC), consisting of two refineries located in the Czech Republic, was sold during 2007.

Marketing

At December 31, 2007, R&M had marketing operations in eight European countries. R&M s European marketing strategy is to sell primarily through owned, leased or joint-venture retail sites using a low-cost, high-volume strategy. We also market aviation fuels, liquid petroleum gases, heating oils, transportation fuels and marine bunkers to commercial customers and into the bulk or spot market.

We use the JET brand name to market retail and wholesale products in Austria, Denmark, Germany, Norway, Sweden and the United Kingdom. In addition, a joint venture in which we have an equity

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interest markets products in Switzerland under the Coop brand name. We also sell a portion of our Ireland refinery output to inland Irish markets.

As of December 31, 2007, R&M had approximately 1,600 marketing outlets in its European operations, of which approximately 1,150 were company-owned, and 450 were dealer-owned. Through our joint-venture operations in Switzerland, we also have interests in 196 additional sites. The company s largest branded site networks are in Germany and the United Kingdom, which account for approximately 75 percent of our total European branded units. During 2007, we sold 377 of our fueling stations in six European countries to LUKOIL and completely divested our marketing operations in Thailand and Malaysia. As of December 31, 2007, agreements were signed for the sale of Norway, Sweden and Denmark marketing assets. We expect to complete the disposition of these assets in 2008.

LUKOIL INVESTMENT

At December 31, 2007, our LUKOIL Investment segment represented 6 percent of ConocoPhillips total assets, while contributing 15 percent of net income.

In September 2004, we made a joint announcement with LUKOIL, an international integrated oil and gas company headquartered in Russia, of an agreement to form a broad-based strategic alliance, whereby we would become a strategic equity investor in LUKOIL. By year-end 2005, we had an ownership interest in LUKOIL of 16.1 percent. At December 31, 2006 and 2007, we had a 20 percent ownership interest, based on issued shares, and a 20.6 percent ownership interest, based on estimated shares outstanding. See Note 10 Investments, Loans and Long-Term Receivables, in the Notes to Consolidated Financial Statements, for additional information.

Under the Shareholder Agreement between the two companies, we have representation on the LUKOIL Board of Directors (Board), and LUKOIL s corporate charter requires unanimous Board consent for certain key decisions. In addition, the Shareholder Agreement limits our ownership interest in LUKOIL to 20 percent, based on authorized and issued shares, and limits our ability to sell our LUKOIL shares for a period of four years from September 29, 2004, except in certain circumstances. We use the equity method of accounting for our investment in LUKOIL.

As reported in LUKOIL s 2006 annual report, the majority of its 2006 upstream oil production was sourced within Russia, with 63 percent from the western Siberia region, 14 percent from the Timan-Pechora province and 12 percent from the Urals region. Outside of Russia, LUKOIL had oil production in 2006 in Kazakhstan, Egypt, and Azerbaijan, and gas production in Uzbekistan. Ninety-one percent of LUKOIL s natural gas production was sourced within Russia. In addition, LUKOIL has an active exploration program focused in Russia, but also encompassing several other international countries. Downstream, LUKOIL has seven refineries with a net crude oil throughput capacity of approximately 1.2 million barrels per day. In addition, LUKOIL has a marketing network which extends to 19 countries, with the majority of wholesale and retail sales in Russia, the United States and Europe.

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CHEMICALS

At December 31, 2007, our Chemicals segment represented 1 percent of ConocoPhillips total assets, while contributing 3 percent of net income.

The Chemicals segment consists of our 50 percent equity investment in Chevron Phillips Chemical Company LLC (CPChem), a joint venture with Chevron Corporation. CPChem is headquartered in The Woodlands, Texas.

CPChem s business is structured around three primary operating segments: Olefins & Polyolefins, Aromatics & Styrenics, and Specialty Products. The Olefins & Polyolefins segment produces and markets ethylene, propylene, and other olefin products, which are primarily consumed within CPChem for the production of polyethylene, normal alpha olefins, polypropylene, and polyethylene pipe. The Aromatics & Styrenics segment manufactures and markets aromatics products, such as benzene, styrene, paraxylene and cyclohexane. This segment also manufactures and markets polystyrene, as well as styrene-butadiene copolymers. The Specialty Products segment manufactures and markets a variety of specialty chemical products, including organosulfur chemicals, solvents, catalysts, drilling chemicals, mining chemicals and high-performance engineering plastics and compounds.

CPChem s domestic production facilities are located at Baytown, Borger, Conroe, La Porte, Orange, Pasadena, Port Arthur and Old Ocean, Texas; St. James, Louisiana; Pascagoula, Mississippi; Marietta, Ohio; and Guayama, Puerto Rico. CPChem also has one pipe fittings production plant and eight plastic pipe production plants in eight states. Major international production facilities are located in Belgium, China, Saudi Arabia, Singapore, South Korea and Qatar. CPChem has research and technical facilities in Oklahoma, Ohio and Texas, as well as in Singapore and Belgium.

CPChem owns a 49 percent interest in a joint-venture company, Qatar Chemical Company Ltd. (Q-Chem), that owns a major olefins and polyolefins complex in Mesaieed, Qatar. CPChem also owns a 49 percent interest in Qatar Chemical Company II Ltd. (Q-Chem II), a joint venture that began construction of a second complex in Mesaieed in 2005. This Q-Chem II facility is designed to produce polyethylene and normal alpha olefins on a site adjacent to the Q-Chem complex. In connection with this project, CPChem and Qatar Petroleum entered into a separate agreement with Total Petrochemicals and Qatar Petrochemical Company Ltd., establishing a joint venture to develop an ethylene cracker in Ras Laffan Industrial City, Qatar. The cracker will provide ethylene feedstock via pipeline to the Q-Chem II plants. Operational startup of the Q-Chem II projects is anticipated in the second quarter of 2009.

In 2003, CPChem formed a 50-percent-owned joint venture company to develop an integrated styrene facility in Al Jubail, Saudi Arabia. The facility, being built on a site adjacent to the existing aromatics complex owned by Saudi Chevron Phillips Company (SCP), another 50-percent-owned CPChem joint venture, will include feed fractionation, an olefins cracker, and ethylbenzene and styrene monomer processing units. Construction of the facility, which began in the fourth quarter of 2004, is in conjunction with an expansion of SCP s existing benzene plant, together called the JCP Project. Operational startup is anticipated in mid-2008.

In 2007, CPChem formed a 50-percent-owned joint venture company, Saudi Polymers Company, to construct and operate an integrated petrochemicals complex at Al Jubail, Saudi Arabia. The facility will produce ethylene, propylene, polyethylene, polypropylene, polystyrene, and 1-hexene. Construction began in January 2008, and commercial production is scheduled to begin in late 2011. Prior to project completion, CPChem s ownership interest in the joint venture is expected to decline to 35 percent.

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In 2007, CPChem and the Dow Chemical Company signed a non-binding Memorandum of Understanding relating to the formation of a joint venture involving assets from their polystyrene and styrene monomer businesses in the Americas. Upon formation of the joint venture, CPChem intends to contribute its styrene monomer plant in St. James, Louisiana, and its polystyrene plant in Marietta, Ohio, and Dow intends to contribute six polystyrene plants. The new venture is subject to customary regulatory review, due diligence, completion of definitive agreements, and corporate and other approvals. Joint-venture operations are expected to commence in the first half of 2008.

EMERGING BUSINESSES

At December 31, 2007, our Emerging Businesses segment represented 1 percent of ConocoPhillips total assets. Emerging Businesses encompass the development of new technologies and businesses outside our normal scope of operations.

Power Generation

The focus of our power business is on developing integrated projects to support the company s E&P and R&M strategies and business objectives. The projects that are primarily in place to enable these strategies are included within their respective E&P and R&M segments. The power projects and assets that have a significant merchant component are included in the Emerging Businesses segment.

The Immingham combined heat and power (CHP) plant, a wholly owned 730-megawatt, gas-fired facility in North Lincolnshire, United Kingdom, provides steam and electricity to the Humber refinery and steam to a neighboring refinery, as well as merchant power into the U.K. market.

In October 2006, we announced we would invest approximately $400 million to expand the capacity at our Immingham CHP plant by 450 megawatts to 1,180 megawatts. Development work on Immingham Phase 2 began with the award of a contract for front-end engineering and securing of additional connection availability to the U.K. grid. Commercial operation of the expansion is expected to start in mid-2009.

We also own a gas-fired cogeneration plant in Orange, Texas.

In October 2007, we purchased a 50 percent operating interest in Sweeny Cogeneration LP (SCLP). SCLP provides steam and electric power to the Sweeny refinery complex with any excess power sold into the market. We account for this joint venture using the equity method of accounting.

Carbon-to-liquids

We are expanding our efforts to develop carbon-to-liquids technology focused on coal and petroleum coke.

Alternative Energy and Technology Programs

Alternative Energy and Technology Programs focuses on developing new business opportunities designed to provide growth options for ConocoPhillips well into the future. Example areas of interest include advanced hydrocarbon processes, energy conversion technologies, new petroleum-based products, and renewable fuels. ConocoPhillips is interested in the production of biofuels. We have recently commercialized the production of renewable diesel, a new type of renewable fuel that utilizes existing infrastructure. In 2007, we formed a research relationship with Iowa State University to develop new methods for producing second-generation biofuels. We also formed alliances with Tyson Foods and Archer Daniels Midland to produce and market the next generation of renewable transportation fuels.

Coal-to-gas

We offer a gasification technology (E-Gas™) that uses petroleum coke, coal, and other low-value hydrocarbons as feedstock, resulting in high-value synthetic gas used for a slate of products, including power, hydrogen and chemicals.

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In 2007, we entered into an agreement with Peabody Energy to perform a feasibility study for the development of a coal-to-gas facility using proprietary ConocoPhillips E-Gas™ technology. If constructed, the facility would be developed at a location where Peabody has access to coal reserves and existing infrastructure. The feasibility study and preliminary design are expected to continue into 2008.

COMPETITION

We compete with private, public and state-owned companies in all facets of the petroleum and chemicals businesses. Some of our competitors are larger and have greater resources. Each of the segments in which we operate is highly competitive. No single competitor, or small group of competitors, dominates any of our business lines.

Upstream, our E&P segment competes with numerous other companies in the industry to locate and obtain new sources of supply, and to produce oil and natural gas in an efficient, cost-effective manner. Based on publicly available year-end 2006 reserves statistics, we had, on a BOE basis, the sixth-largest total of worldwide proved reserves of non-government-controlled companies. We deliver our oil and natural gas production into the worldwide oil and natural gas commodity markets. The principal methods of competing include geological, geophysical and engineering research and technology; experience and expertise; economic analysis in connection with property acquisitions; and operating efficient oil and gas producing properties.

The Midstream segment, through our equity investment in DCP Midstream and our consolidated operations, competes with numerous other integrated petroleum companies, as well as natural gas transmission and distribution companies, to deliver the components of natural gas to end users in the commodity natural gas markets. DCP Midstream is a large producer of natural gas liquids in the United States. DCP Midstream s principal methods of competing include economically securing the right to purchase raw natural gas into its gathering systems, managing the pressure of those systems, operating efficient natural gas liquids processing plants, and securing markets for the products produced.

Downstream, our R&M segment competes primarily in the United States, Europe and the Asia Pacific region. Based on the statistics published in the December 24, 2007, issue of the *Oil & Gas Journal*, our R&M segment had the second-largest U.S. refining capacity of 16 large refiners of petroleum products. Worldwide, it ranked fifth among non-government-controlled companies. In the Chemicals segment, CPChem generally ranks within the top 10 producers of many of its major product lines, based on average 2007 production capacity, as published by industry sources. Petroleum products, petrochemicals and plastics are delivered into the worldwide commodity markets. Elements of downstream competition include product improvement, new product development, low-cost structures, and improved manufacturing and distribution systems. In the marketing portion of the business, competitive factors include product properties and processibility, reliability of supply, customer service, price and credit terms, advertising and sales promotion, and development of customer loyalty to ConocoPhillips or CPChem s branded products.

GENERAL

At the end of 2007, we held a total of 1,818 active patents in 72 countries worldwide, including 686 active U.S. patents. During 2007, we received 40 patents in the United States and 124 foreign patents. Our products and processes generated licensing revenues of $55 million in 2007. The overall profitability of any business segment is not dependent on any single patent, trademark, license, franchise or concession.

Company-sponsored research and development activities charged against earnings were $160 million, $117 million, and $125 million in 2007, 2006, and 2005, respectively.

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The environmental information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 81 through 84 under the caption, Environmental, is incorporated herein by reference. It includes information on expensed and capitalized environmental costs for 2007 and those expected for 2008 and 2009.

Web Site Access to SEC Reports

Our Internet Web site address is *http://www.conocophillips.com*. Information contained on our Internet Web site is not part of this report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our Web site, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. Alternatively, you may access these reports at the SEC s Web site at *http://www.sec.gov*.

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Item 1A. RISK FACTORS

You should carefully consider the following risk factors in addition to the other information included in this Annual Report on Form 10-K. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.

A substantial or extended decline in crude oil, natural gas and natural gas liquids prices, as well as refining margins, would reduce our operating results and cash flows, and could impact our future rate of growth and the carrying value of our assets.

Prices for crude oil, natural gas and natural gas liquids fluctuate widely. Our revenues, operating results and future rate of growth are highly dependent on the prices we receive for our crude oil, natural gas, natural gas liquids and refined products. Historically, the markets for crude oil, natural gas, natural gas liquids and refined products have been volatile and may continue to be volatile in the future. The factors influencing the prices of crude oil, natural gas, natural gas liquids and refined products are beyond our control. These factors include, among others:

- Worldwide and domestic supplies of, and demand for, crude oil, natural gas, natural gas liquids and refined products.
- The cost of exploring for, developing, producing, refining and marketing crude oil, natural gas, natural gas liquids and refined products.
- Changes in weather patterns and climatic changes.
- The ability of the members of OPEC and other producing nations to agree to and maintain production levels.
- The worldwide military and political environment, uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism in the United States, or elsewhere.
- The price and availability of alternative and competing fuels.
- Domestic and foreign governmental regulations and taxes.
- Additional or increased nationalization and expropriation activities by foreign governments.
- General economic conditions worldwide.

The long-term effects of these and other conditions on the prices of crude oil, natural gas, natural gas liquids and refined products are uncertain. Generally, our policy is to remain exposed to market prices of commodities; however, management may elect to hedge the price risk of our crude oil, natural gas, natural gas liquids and refined products. Lower crude oil, natural gas, natural gas liquids and refined products prices may reduce the amount of these commodities that we can produce economically, which may reduce our revenues, operating income and cash flows. Significant reductions in commodity prices could require us to reduce capital spending, share repurchases, debt reduction, or to impair the carrying value of assets.

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Estimates of crude oil and natural gas reserves depend on many factors and assumptions, including various assumptions that are based on conditions in existence as of the dates of the estimates. Any material changes in those conditions or other factors affecting those assumptions could impair the quantity and value of our crude oil and natural gas reserves.

The proved crude oil and natural gas reserve information relating to us included in this annual report has been derived from engineering estimates prepared or reviewed by our personnel. The estimates were calculated using crude oil and natural gas prices in effect as of December 31, 2007, as well as other conditions in existence as of that date. Any significant future price changes will have a material effect on the quantity and present value of our proved reserves. Future reserve revisions could also result from changes in, among other things, governmental regulation.

Reserve estimation is a subjective process that involves estimating volumes to be recovered from underground accumulations of crude oil and natural gas that cannot be directly measured. Estimates of economically recoverable crude oil and natural gas reserves and of future net cash flows depend upon a number of variable factors and assumptions, including:

- Historical production from the area, compared with production from other comparable producing areas.
- The assumed effects of regulations by governmental agencies.
- Assumptions concerning future crude oil and natural gas prices.
- Assumptions concerning future operating costs, severance and excise taxes, development costs and workover and remedial costs.

As a result, different petroleum engineers, each using industry-accepted geologic and engineering practices and scientific methods, may produce different estimates of reserves and future net cash flows based on the same available data. Because of the subjective nature of crude oil and natural gas reserve estimates, each of the following items may differ materially from the amounts or other factors estimated:

- The amount and timing of crude oil and natural gas production.
- The revenues and costs associated with that production.
- The amount and timing of future development expenditures.

The discounted future net revenues from our proved reserves should not be construed to represent fair market value. As required by rules adopted by the SEC, the estimated discounted future net cash flows from our proved reserves, as described in the supplemental oil and gas operations disclosures on pages 174 through 193, are based generally on prices and costs as of the date of the estimate, while actual future prices and costs may be materially higher or lower. In addition, the 10 percent discount factor, which SEC rules require to be used to calculate discounted future net revenues for reporting purposes, is not necessarily the most appropriate discount factor based on our cost of capital and the risks associated with our business and the crude oil and natural gas industry in general.

If we are unsuccessful in acquiring or finding additional reserves, our future crude oil and natural gas production would decline, thereby reducing our cash flows and results of operations, negatively impacting our financial condition.

The rate of production from crude oil and natural gas properties generally declines as reserves are depleted. Except to the extent that we acquire additional properties containing proved reserves, conduct successful exploration and development activities, or, through engineering studies, identify additional or secondary recovery reserves, our proved reserves will decline materially as we produce crude oil and natural gas. Accordingly, to the extent we are unsuccessful in replacing the crude oil and natural gas we produce with

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good prospects for future production, our business will decline. Creating and maintaining an inventory of projects depends on many factors, including:

Obtaining rights to explore, develop and produce crude oil and natural gas in promising areas.

Drilling success.

The ability to complete long lead-time, capital-intensive projects timely and on budget.

Efficient and profitable operation of mature properties.

We may not be able to find or acquire additional reserves at acceptable costs.

Crude oil price increases and environmental regulations may reduce our refined product margins.

The profitability of our R&M segment depends largely on the margin between the cost of crude oil and other feedstocks we refine and the selling prices we obtain for refined products. Our overall profitability could be adversely affected by the availability of supply and rising crude oil and other feedstock prices that we do not recover in the marketplace. Refined product margins historically have been volatile and vary with the level of economic activity in the various marketing areas, the regulatory climate, logistical capabilities and the available supply of refined products. In addition, environmental regulations, particularly the 1990 amendments to the Clean Air Act, have imposed, and are expected to continue to impose, increasingly stringent and costly requirements on our refining and marketing operations, which may reduce refined product margins.

We expect to continue to incur substantial capital expenditures and operating costs as a result of our compliance with existing and future environmental laws and regulations. Likewise, future environmental laws and regulations may impact or limit our current business plans and/or reduce demand for our products. As a result, our business, financial condition, results of operations and cash flows in future periods could be materially adversely affected.

Our businesses are subject to numerous laws and regulations relating to the protection of the environment. These laws and regulations continue to increase in both number and complexity and affect our operations with respect to, among other things:

The discharge of pollutants into the environment.

Emissions into the atmosphere (such as nitrogen oxides, sulfur dioxide and mercury emissions in the United States, or potential future control of greenhouse gas emissions).

The handling, use, storage, transportation, disposal and clean up of hazardous materials and hazardous and non-hazardous wastes.

The dismantlement, abandonment and restoration of our properties and facilities at the end of their useful lives.

We have incurred and will continue to incur substantial capital, operating and maintenance, and remediation expenditures as a result of these laws and regulations. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of our products and services, our operating results will be adversely affected. The specific impact of these laws and regulations on us and our competitors may vary depending on a number of factors, including the age and location of operating facilities, marketing areas and production processes. We may also be required to make material expenditures to:

Modify operations.

Install pollution control equipment.

Perform site cleanups.

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Curtail operations.

Acquire additional non-petroleum feedstocks or compliance credits to comply with laws mandating specified percentages of biofuels in our refined products.

We may become subject to liabilities we currently do not anticipate in connection with new, amended or more stringent requirements, stricter interpretations of existing requirements or the future discovery of contamination. In addition, any failure by us to comply with existing or future laws could result in civil or criminal fines and other enforcement actions against us.

Our, and our predecessors , operations also could expose us to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by releases of hazardous substances.

Environmental laws are subject to frequent change and many of them have become more stringent. In some cases, they can impose liability for the entire cost of cleanup on any responsible party, without regard to negligence or fault, and impose liability on us for the conduct of others or conditions others have caused, or for our acts that complied with all applicable requirements when we performed them.

Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Contingencies Environmental in Item 7 of this annual report for further information about environmental laws and regulations impacting our business.

Worldwide political and economic developments could damage our operations and materially reduce our profitability and cash flows.

Local political and economic factors in international markets could have a material adverse effect on us. Approximately 63 percent of our crude oil, natural gas and natural gas liquids production in 2007 was derived from production outside the United States, and 59 percent of our proved reserves, as of December 31, 2007, were located outside the United States.

There are many risks associated with operations in international markets, including changes in foreign governmental policies relating to crude oil, natural gas, natural gas liquids or refined product pricing and taxation, other political, economic or diplomatic developments, changing political conditions and international monetary fluctuations. These risks include, among others:

Political and economic instability, war, acts of terrorism and civil disturbances.

The possibility that a foreign government may seize our property, with or without compensation, may attempt to renegotiate or revoke existing contractual arrangements and concessions, or may impose additional taxes or royalties.

Fluctuating currency values, hard currency shortages and currency controls.

Continued hostilities and turmoil in the world and the occurrence or threat of future terrorist attacks could affect the economies of the United States and other developed countries. A lower level of economic activity could result in a decline in energy consumption, which could cause our revenues and margins to decline and limit our future growth prospects. More specifically, our energy-related assets may be at greater risk of future terrorist attacks than other possible targets. A direct attack on our assets, or assets used by us, could have a material adverse effect on our operations, financial condition, results of operations and prospects. These risks could lead to increased volatility in prices for crude oil, natural gas, natural gas liquids and refined products and could increase instability in the financial and insurance markets, making it more difficult for us to access capital and to obtain the insurance coverage that we consider adequate.

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Actions of the U.S., state and local governments through tax and other legislation, executive order and commercial restrictions could reduce our operating profitability both in the United States and abroad. The U.S. government can prevent or restrict us from doing business in foreign countries. These restrictions and those of foreign governments have in the past limited our ability to operate in, or gain access to, opportunities in various countries. Actions by both the United States and host governments have affected operations significantly in the past and will continue to do so in the future.

We also are exposed to fluctuations in foreign currency exchange rates. We do not comprehensively hedge our exposure to currency rate changes, although we may choose to selectively hedge certain working capital balances, firm commitments, cash returns from affiliates and/or tax payments. These efforts may not be successful.

Changes in governmental regulations may impose price controls and limitations on production of crude oil and natural gas.

Our operations are subject to extensive governmental regulations. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of crude oil and natural gas wells below actual production capacity in order to conserve supplies of crude oil and natural gas. Because legal requirements are frequently changed and subject to interpretation, we cannot predict the effect of these requirements.

Our operations are subject to business interruptions and casualty losses, and we do not insure against all potential losses, so we could be seriously harmed by unexpected liabilities.

Our exploration and production operations are subject to unplanned occurrences, including blowouts, explosions, fires, loss of well control, formations with abnormal pressures, spills and adverse weather. In addition, our refining, marketing and transportation operations are subject to business interruptions due to scheduled refinery turnarounds and unplanned events such as explosions, fires, pipeline interruptions, pipeline ruptures, crude oil or refined product spills, inclement weather or labor disputes. Our operations are also subject to the additional hazards of pollution, releases of toxic gas and other environmental hazards and risks, as well as hazards of marine operations, such as capsizing, collision and damage or loss from severe weather conditions. All such hazards could result in loss of human life, significant property and equipment damage, environmental pollution, impairment of operations and substantial losses to us. These hazards have adversely affected us in the past, and litigation arising from a catastrophic occurrence in the future at one of our locations may result in our being named as a defendant in lawsuits asserting potentially large claims or being assessed potentially substantial fines by governmental authorities. In addition, we are exposed to risks inherent in any business, such as terrorist attacks, equipment failures, accidents, theft, strikes, protests and sabotage, that could disrupt or interrupt operations.

We maintain insurance against many, but not all, potential losses or liabilities arising from these operating hazards in amounts that we believe to be prudent. Uninsured losses and liabilities arising from operating hazards could reduce the funds available to us for exploration, drilling, production and other capital expenditures and could materially reduce our profitability.

Our investments in joint ventures decrease our ability to manage risk.

We conduct many of our operations through joint ventures in which we may share control with our joint-venture partners. Although we often enter into joint-venture arrangements in order to share risks with our joint-venture partners, these arrangements may decrease our ability to manage risk. As with any joint-venture arrangement, differences in views among the joint-venture participants may result in delayed decisions or in failures to agree on major issues. There is the risk that our joint-venture partners may at any time have economic, business or legal interests or goals that are inconsistent with those of the joint venture or us. There is also risk our joint-venture partners may be unable to meet their economic or other

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obligations and we may be required to fulfill those obligations alone. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and, in turn, our business and operations.

We anticipate entering into additional joint ventures with other entities. We cannot assure that we will undertake such joint ventures or, if undertaken, that such joint ventures will be successful.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 3. 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 previously reported in ConocoPhillips 2006 Form 10-K and our first-, second- and third-quarter 2007 Form 10-Qs that were not resolved prior to the fourth quarter of 2007. No new reportable matters arose during the fourth quarter of 2007. While it is not possible to accurately predict the final outcome of these pending proceedings, if any one or more of such proceedings was decided adversely to ConocoPhillips, 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 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 decree 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 decree and/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 U.S. Securities and Exchange Commission 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.

Matters Previously Reported

The South Coast Air Quality Management District (SCAQMD) conducted an audit of the Los Angeles refinery to assess compliance with applicable local, state, and federal regulations related to fugitive emissions. As a result of the audit, SCAQMD issued three Notices of Violations (NOVs) alleging multiple counts of non-compliance. SCAQMD has not yet specified a penalty for these alleged violations. We are currently assessing these allegations and expect to work with SCAQMD toward a resolution of these NOVs.

In October 2007, we received a Complaint from the U.S. EPA alleging violations of the Clean Water Act related to a 2006 oil spill at our Bayway refinery and proposing a penalty of $156,000. We have begun discussions with the EPA to settle this matter and will work with the agency to resolve this matter.

On September 25, 2007, the Sweeny refinery received a draft order to resolve a July 6, 2007, Notice of Enforcement (NOE) relating to alleged violations of the Texas Clean Air Act. The allegations relate to compliance with limitations contained in the refinery s Title V operating permit and one emission event.

In November 2007, we paid $114,450 as a penalty and agreed to fund a Supplemental Environmental Project (SEP) in the same amount. We anticipate approval of the settlement by the Texas Commission on Environmental Quality (TCEQ).

In June 2007, the Ferndale refinery was informed by the U.S. EPA that it will seek penalties for Ferndale s alleged failure to comply with certain portions of the Benzene Waste Operations rule. The government alleges the facility has not complied with certain equipment maintenance and inspection rules since 1993. We are working with the EPA and the Department of Justice to resolve this matter.

The Pennsylvania Department of Environmental Protection (PADEP) has informed the Trainer refinery it intends to seek penalties for acid gas flaring which occurred during April and/or May 2007. We are currently assessing this matter and expect to work with the PADEP to resolve it. Since this matter is subject to an EPA Consent Decree, we do not anticipate reporting further on this matter until we receive a specific request and if such request meets the reporting threshold.

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On April 30, 2007, the Borger refinery received an offer to settle a range of violations alleged in a March 16, 2007, NOE issued by the TCEQ. The alleged violations relate to air quality permit limits, emission events, testing requirements, and reporting or recordkeeping requirements. In November 2007, we submitted payment of a penalty of $84,900 and agreed to fund an SEP valued at $84,900. We anticipate TCEQ will approve this settlement.

In March 2007, the Sweeny refinery received a series of NOEs from the TCEQ. These NOEs generally relate to emission events such as flaring and other unplanned releases. The TCEQ proposed a penalty of $325,120 in a revised draft order received in November 2007. We paid a penalty of $162,560 and agreed to fund an SEP in the same amount upon final approval of the settlement by the TCEQ.

On February 7, 2007, Gulf Coast Fractionators, a gas processing facility operated by ConocoPhillips in which we have a 22.5 percent interest, received a draft order from the TCEQ proposing to settle alleged violations of air emission permit limits at the plant. The order proposed a penalty of $135,538. In October 2007, this matter was resolved by payment of a penalty of $67,769 and agreement to fund an SEP of $67,769. We anticipate this proposed settlement will be approved by the TCEQ.

In the fall of 2006, the Wood River refinery experienced two incidents where coker oil mist was released from the Distilling West coker. In a February 9, 2007, letter the state of Illinois demanded $50,000 for each release. We are working with the state toward a final resolution of this matter.

On March 28, 2006, the TCEQ issued a revised draft agreed order relating to alleged air quality violations at the Borger refinery. The order addresses several categories of air quality violations including emission events, violation of permit conditions, and failure to pay emission fees, and a single solid waste violation for improper classification and disposal of waste. The order proposed a penalty of $160,406. The TCEQ recalculated the penalty of $151,726. We agreed to pay a penalty of $75,863 and to fund an SEP in the same amount. The TCEQ approved this settlement and the required payments have been made.

On December 16, 2005, our Bayway refinery experienced a hydrocarbon spill to the Rahway River and Arthur Kill. As a result of this spill, we signed an Order on Consent (Order) with the state of New York, and are also negotiating similar settlements with the state of New Jersey and the federal government. Under the final New York Order, we paid a penalty of $50,000 and conducted a beach cleanup.

In December 2005, the TCEQ proposed an administrative penalty of $120,132 for alleged violations of the Texas Clean Air Act at the Borger refinery. The allegations relate to unexcused emission events, reporting and recordkeeping requirements, leak detection and repair, flare outages, and Title V permit reporting. We have paid an administrative penalty of $57,716, and agreed to perform SEPs totaling $57,716. This settlement was approved and adopted by the TCEQ at its meeting November 7, 2007, and the final SEP payment has been made.

In December 2005, routine tests at our refinery in Lake Charles, Louisiana, revealed that certain particulate matter emissions did not meet established limits. The refinery has resolved this issue and achieved full compliance with all applicable particulate matter emission limits in the first quarter of 2007. The EPA and Louisiana Department of Environmental Quality were kept informed of the refinery s remedial actions. The refinery will work with the agencies to resolve any enforcement actions that may be brought. Since this matter is subject to an EPA Consent Decree, we do not anticipate reporting further on this matter until we receive a specific request and if such request meets the reporting threshold.

In March 2005, ConocoPhillips Pipe Line Company (CPPL) received a Notice of Probable Violation and Proposed Civil Penalty from the Department of Transportation s Pipeline and Hazardous Materials Safety Administration (DOT) alleging violation of DOT operation and safety regulations at certain facilities in

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Kansas, Missouri, Illinois, Indiana, Wyoming and Nebraska. DOT is proposing penalties in the amount of $184,500. An information hearing was held on September 24, 2007. CPPL has provided additional information in support of its position. A DOT ruling is not anticipated until the first quarter of 2008.

The U.S. Coast Guard and Washington State Department of Ecology investigated the possible sources of an oil spill in Puget Sound. In November 2004, the U.S. Attorney and the U.S. Coast Guard offices in Seattle, Washington, issued subpoenas to Polar Tankers, Inc., a subsidiary of ConocoPhillips Company, for records related to the vessel Polar Texas. On December 23, 2004, the governor of the state of Washington and the U.S. Coast Guard publicly announced they believed the Polar Texas was the source of the spill. The company fully cooperated with the investigations. The U.S. Attorney s Office in Seattle declined prosecution of the company. Polar Tankers, ConocoPhillips and the state of Washington settled the matter, with payment of civil penalties in the amount of $540,000. Additionally, the company has agreed to pay the federal government $2.2 million to cover the cost of the spill cleanup, and $80,000 in civil penalties. The settlement did not include any admission of liability. The company and the authorities remain in settlement negotiations around other remaining items.

In April 2004, in response to several historic spills at the Albuquerque Products Terminal, we received an Administrative Compliance Order from the New Mexico Environment Department. The order does not propose a penalty assessment, but rather attempts to impose specific design, construction and operational changes. We have been in negotiations with the agency and have proposed a settlement offer of $100,000. We will continue to work with the agency to resolve this matter.

In August of 2003, EPA Region 6 issued a Show Cause Order alleging violations of the federal Clean Water Act at the Borger refinery. The alleged violations relate primarily to discharges of selenium and reported exceedances of permit limits for whole effluent toxicity. On April 17, 2007, the U.S. Department of Justice (DOJ) sent a draft Consent Decree (CD) proposing to settle the outstanding wastewater allegations. The draft CD proposes a penalty of $2.64 million and includes injunctive actions, some of which have already been completed by ConocoPhillips. We are working with the DOJ and EPA to resolve this matter.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position Held	Age*
Rand C. Berney	Vice President and Controller	52
John A. Carrig	Executive Vice President, Finance, and Chief Financial Officer	56
Sigmund L. Cornelius	Senior Vice President, Planning, Strategy and Corporate Affairs	52
James L. Gallogly	Executive Vice President, Refining, Marketing and Transportation	55
Janet L. Kelly	Senior Vice President, Legal, General Counsel and Corporate Secretary	50
John E. Lowe	Executive Vice President, Exploration and Production	49
James J. Mulva	Chairman of the Board of Directors, President and Chief Executive Officer	61

**On March 1, 2008.*

There is no family relationship among the officers named above. Each officer of the company is elected by the Board of Directors at its first meeting after the Annual Meeting of Stockholders and thereafter as appropriate. Each officer of the company holds office from date of election until the first meeting of the directors held after the next Annual Meeting of Stockholders or until a successor is elected. The date of the next annual meeting is May 14, 2008. Set forth below is information about the executive officers.

Rand C. Berney was appointed Vice President and Controller of ConocoPhillips upon completion of the merger in 2002.

John A. Carrig was appointed Executive Vice President, Finance, and Chief Financial Officer of ConocoPhillips upon completion of the merger in 2002.

Sigmund L. Cornelius was appointed Senior Vice President, Planning, Strategy and Corporate Affairs of ConocoPhillips effective September 1, 2007, having previously served as ConocoPhillips President, Exploration and Production Lower 48 since 2006. He served as President, Global Gas of ConocoPhillips since 2004, and prior to that he served as ConocoPhillips President, Lower 48, Latin America and Midstream since 2003. He served as Vice President, Upstream Business Development of ConocoPhillips following completion of the merger in 2002.

James L. Gallogly was appointed Executive Vice President, Refining, Marketing and Transportation of ConocoPhillips effective April 1, 2006, having previously served as President and Chief Executive Officer of Chevron Phillips Chemical Company LLC since 2000.

Janet L. Kelly was appointed Senior Vice President, Legal, General Counsel and Corporate Secretary of ConocoPhillips effective September 1, 2007, having previously served as ConocoPhillips Deputy General Counsel since 2006. Prior to joining ConocoPhillips in 2006, she was a partner at Zelle, Hoffman, Voelbel, Mason and Gette, having previously served as Senior Vice President, Chief Administrative Officer and Chief Compliance Officer of Kmart Corporation since 2003. Prior to joining Kmart

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Corporation, she served as Executive Vice President of Corporate Development and Administration, General Counsel and Secretary of Kellogg Company since 2001.

John E. Lowe was appointed Executive Vice President, Exploration and Production of ConocoPhillips effective September 1, 2007, having previously served as ConocoPhillips Executive Vice President, Commercial since 2006. He served as ConocoPhillips Executive Vice President, Planning, Strategy and Corporate Affairs since completion of the merger in 2002.

James J. Mulva was appointed Chairman of the Board of Directors, President and Chief Executive Officer of ConocoPhillips effective October 1, 2004, having previously served as ConocoPhillips President and Chief Executive Officer since completion of the merger in 2002.