CONOCOPHILLIPS
Form 10-Q
October 29, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2008**

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) (Zip Code)

281-293-1000
(Registrant s telephone number, including area code)

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

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The registrant had 1,490,817,631 shares of common stock, $.01 par value, outstanding at September 30, 2008.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Income Statement **ConocoPhillips**

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Revenues and Other Income				
Sales and other operating revenues*	$ **70,044**	46,062	**196,338**	134,752
Equity in earnings of affiliates	**1,214**	1,314	**4,385**	3,749
Other income	**115**	557	**555**	1,696
Total Revenues and Other Income	**71,373**	47,933	**201,278**	140,197
Costs and Expenses				
Purchased crude oil, natural gas and products	**49,608**	30,862	**138,642**	88,397
Production and operating expenses	**3,059**	2,620	**8,861**	7,669
Selling, general and administrative expenses	**513**	569	**1,668**	1,700
Exploration expenses	**267**	218	**864**	739
Depreciation, depletion and amortization	**2,361**	2,052	**6,748**	6,092
Impairment expropriated assets	**-**	-	**-**	4,588
Impairments	**57**	188	**82**	285
Taxes other than income taxes*	**5,619**	4,583	**16,570**	13,654
Accretion on discounted liabilities	**114**	81	**314**	241
Interest and debt expense	**239**	391	**656**	1,017
Foreign currency transaction losses (gains)	**54**	(20)	**11**	(198)
Minority interests	**15**	25	**51**	65
Total Costs and Expenses	**61,906**	41,569	**174,467**	124,249
Income before income taxes	**9,467**	6,364	**26,811**	15,948
Provision for income taxes	**4,279**	2,691	**12,045**	8,428
Net Income	$ **5,188**	3,673	**14,766**	7,520
Net Income Per Share of Common Stock *(dollars)*				
Basic	$ **3.43**	2.26	**9.61**	4.60
Diluted	**3.39**	2.23	**9.50**	4.54
Dividends Paid Per Share of Common Stock *(dollars)*	$ **.47**	.41	**1.41**	1.23

Average Common Shares Outstanding *(in thousands)*				
Basic	**1,510,897**	1,622,456	**1,535,932**	1,635,128
Diluted	**1,528,187**	1,644,267	**1,554,952**	1,657,244
**Includes excise taxes on petroleum products sales:*	*$* ***4,022***	*3,954*	***11,970***	*11,864*

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet **ConocoPhillips**

	Millions of Dollars	
	September 30 2008	December 31 2007
Assets		
Cash and cash equivalents	**$ 1,116**	1,456
Accounts and notes receivable (net of allowance of $83 million in 2008 and $58 million in 2007)	**14,514**	14,687
Accounts and notes receivable related parties	**2,472**	1,667
Inventories	**6,741**	4,223
Prepaid expenses and other current assets	**3,483**	2,702
Total Current Assets	**28,326**	24,735
Investments and long-term receivables	**34,344**	31,457
Loans and advances related parties	**2,053**	1,871
Net properties, plants and equipment	**89,259**	89,003
Goodwill	**29,224**	29,336
Intangibles	**861**	896
Other assets	**540**	459
Total Assets	**$ 184,607**	177,757
Liabilities		
Accounts payable	**$ 17,364**	16,591
Accounts payable related parties	**1,873**	1,270
Short-term debt	**387**	1,398
Accrued income and other taxes	**6,369**	4,814
Employee benefit obligations	**758**	920
Other accruals	**2,759**	1,889
Total Current Liabilities	**29,510**	26,882
Long-term debt	**21,713**	20,289
Asset retirement obligations and accrued environmental costs	**7,713**	7,261
Joint venture acquisition obligation related party	**5,828**	6,294
Deferred income taxes	**20,408**	21,018
Employee benefit obligations	**2,813**	3,191
Other liabilities and deferred credits	**2,619**	2,666
Total Liabilities	**90,604**	87,601
Minority Interests	**1,127**	1,173

Common Stockholders Equity		
Common stock (2,500,000,000 shares authorized at $.01 par value)		
Issued (2008 1,728,185,223 shares; 2007 1,718,448,829 shares)		
Par value	**17**	17
Capital in excess of par	**43,308**	42,724
Grantor trusts (at cost: 2008 41,599,027 shares; 2007 42,411,331 shares)	**(716)**	(731)
Treasury stock (at cost: 2008 195,768,565 shares; 2007 104,607,149 shares)	**(15,469)**	(7,969)
Accumulated other comprehensive income	**2,742**	4,560
Unearned employee compensation	**(109)**	(128)
Retained earnings	**63,103**	50,510
Total Common Stockholders Equity	**92,876**	88,983
Total	**$ 184,607**	177,757

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows **ConocoPhillips**

	Millions of Dollars Nine Months Ended September 30	
	2008	2007
Cash Flows From Operating Activities		
Net income	**$ 14,766**	7,520
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	**6,748**	6,092
Impairment expropriated assets	**-**	4,588
Impairments	**82**	285
Dry hole costs and leasehold impairments	**399**	355
Accretion on discounted liabilities	**314**	241
Deferred taxes	**59**	55
Undistributed equity earnings	**(2,530)**	(1,472)
Gain on asset dispositions	**(346)**	(1,316)
Other	**(134)**	28
Working capital adjustments*		
Decrease (increase) in accounts and notes receivable	**(243)**	411
Increase in inventories	**(2,709)**	(334)
Decrease (increase) in prepaid expenses and other current assets	**(689)**	430
Increase in accounts payable	**1,633**	1,052
Increase (decrease) in taxes and other accruals	**2,186**	(305)
Net Cash Provided by Operating Activities	**19,536**	17,630
Cash Flows From Investing Activities		
Capital expenditures and investments	**(10,535)**	(7,907)
Proceeds from asset dispositions	**729**	3,057
Long-term advances/loans related parties	**(181)**	(449)
Collection of advances/loans related parties	**15**	66
Other	**(186)**	24
Net Cash Used in Investing Activities	**(10,158)**	(5,209)
Cash Flows From Financing Activities		
Issuance of debt	**2,264**	824
Repayment of debt	**(1,857)**	(6,141)
Issuance of company common stock	**182**	251
Repurchase of company common stock	**(7,500)**	(4,501)
Dividends paid on company common stock	**(2,159)**	(2,009)
Other	**(426)**	(289)
Net Cash Used in Financing Activities	**(9,496)**	(11,865)

Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(222)**	6
Net Change in Cash and Cash Equivalents	**(340)**	562
Cash and cash equivalents at beginning of period	**1,456**	817
Cash and Cash Equivalents at End of Period	**$ 1,116**	1,379

**Net of acquisition and disposition of businesses.*
See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements **ConocoPhillips**

Note 1 Interim Financial Information

The interim-period financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated financial position of ConocoPhillips and its results of operations and cash flows for such periods. All such adjustments are of a normal and recurring nature. To enhance your understanding of these interim financial statements, see the consolidated financial statements and notes included in our 2007 Annual Report on Form 10-K.

Note 2 Changes in Accounting Principles

SFAS No. 157

Effective January 1, 2008, we implemented Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. We elected to implement this Statement with the one-year deferral permitted by FASB Staff Position (FSP) 157-2 for nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed on a recurring basis (at least annually). The deferral applies to nonfinancial assets and liabilities measured at fair value in a business combination; impaired properties, plants and equipment; intangible assets and goodwill; and initial recognition of asset retirement obligations and restructuring costs for which we use fair value. We do not expect any significant impact to our consolidated financial statements when we implement SFAS No. 157 for these assets and liabilities.

Due to our election under FSP 157-2, for 2008, SFAS No. 157 applies to commodity and foreign currency derivative contracts and certain nonqualified deferred compensation and retirement plan assets that are measured at fair value on a recurring basis in periods subsequent to initial recognition. The implementation of SFAS No. 157 did not cause a change in the method of calculating fair value of assets or liabilities, with the exception of incorporating the impact of our nonperformance risk on derivative liabilities which was not material. The primary impact from adoption was additional disclosures.

SFAS No. 157 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or our assumptions about pricing by market participants.

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

Exchange-cleared financial options are valued using exchange closing prices and are classified as Level 1. Financial OTC and physical commodity options are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and

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contractual prices for the underlying instruments, as well as other relevant economic measures. The degree to which these inputs are observable in the forward markets determines whether the option is classified as Level 2 or 3.

As permitted under SFAS No. 157, we use a mid-market pricing convention (the mid-point price between bid and ask prices). When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

The fair value hierarchy for our financial assets and liabilities accounted for at fair value on a recurring basis at September 30, 2008, was:

	Millions of Dollars			
	Level 1	Level 2	Level 3	Total
Assets				
Commodity derivatives	$ 5,868	2,874	20	8,762
Foreign exchange derivatives	-	101	-	101
Nonqualified benefit plans	365	-	-	365
Total assets	6,233	2,975	20	9,228
Liabilities				
Commodity derivatives	(5,628)	(2,670)	(8)	(8,306)
Foreign exchange derivatives	-	(182)	-	(182)
Total liabilities	(5,628)	(2,852)	(8)	(8,488)
Net assets	$ 605	123	12	740

The derivative values above are based on analysis of each contract as the fundamental unit of account as required by SFAS No. 157; therefore, derivative assets and liabilities with the same counterparty are not netted where the legal right of offset exists, which is different than the net presentation basis in Note 13 Financial Instruments and Derivative Contracts. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

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Changes in the fair value of net commodity derivatives classified as Level 3 in the fair value hierarchy during the three- and nine-month periods ended September 30, 2008, were:

	Millions of Dollars	
	Three Months Ended September 30	Nine Months Ended September 30
Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
Beginning balance	$ (56)	(34)
Total gains (losses), realized and unrealized		
Included in earnings	45	(8)
Included in other comprehensive income	-	-
Purchases, issuances and settlements	20	44
Transfers in and/or out of Level 3	3	10
Balance at September 30, 2008	$ 12	12

The amount of total gains (losses) for the three- and nine-month periods included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at September 30, 2008, were:

	Millions of Dollars	
	Three Months Ended September 30	Nine Months Ended September 30
Related to assets	$ 16	8
Related to liabilities	(16)	(9)

Gains and losses, realized and unrealized, included in earnings for the three- and nine-month periods ended September 30, 2008, were:

	Millions of Dollars					
	Three Months Ended September 30			Nine Months Ended September 30		
	Other Operating Revenues	Purchased Crude Oil, Natural Gas and Products	Total	Other Operating Revenues	Purchased Crude Oil, Natural Gas and Products	Total
Total gains (losses) included in earnings	$ 55	(10)	45	(3)	(5)	(8)
Change in unrealized gains (losses) relating to assets held	$ 16	-	16	8	-	8

at September 30, 2008

Change in unrealized gains (losses) relating to liabilities held at September 30, 2008	$	(9)	(7)	(16)	(4)	(5)	(9)

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SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This Statement permits the election to carry financial instruments and certain other items similar to financial instruments at fair value on the balance sheet, with all changes in fair value reported in earnings. By electing the fair value option in conjunction with a derivative, an entity can achieve an accounting result similar to a fair value hedge without having to comply with complex hedge accounting rules. We adopted this Statement effective January 1, 2008, but did not make a fair value election at that time or during the first nine months of 2008 for any financial instruments not already carried at fair value in accordance with other accounting standards. Accordingly, the adoption of SFAS No. 159 did not impact our consolidated financial statements.

Note 3 Variable Interest Entities (VIEs)

We have a 24 percent interest in West2East Pipeline LLC (West2East), a company holding a 100 percent interest in Rockies Express Pipeline LLC (Rockies Express). West2East is a VIE, but we are not the primary beneficiary. We use the equity method of accounting for our investment. In 2007, we issued a guarantee for 24 percent of the $2 billion in credit facilities of Rockies Express. In addition, we have a guarantee for 24 percent of $600 million of Floating Rate Notes due 2009 issued by Rockies Express. At September 30, 2008, the book value of our investment in West2East was $246 million. See Note 11 Guarantees, for additional information.

We have a 30 percent ownership interest with a 50 percent governance interest in the OOO Naryanmarneftegaz (NMNG) joint venture to develop resources in the Timan-Pechora province of Russia. The NMNG joint venture is a VIE because we and our related party, OAO LUKOIL, have disproportionate interests. We are not the primary beneficiary of the VIE and we use the equity method of accounting for this investment. At September 30, 2008, the book value of our investment in the venture was $1,995 million.

Note 4 Inventories

Inventories consisted of the following:

	Millions of Dollars	
	September 30 2008	December 31 2007
Crude oil and petroleum products	**$ 5,827**	3,373
Materials, supplies and other	**914**	850
	$ 6,741	4,223

Inventories valued on the last-in, first-out (LIFO) basis totaled $5,497 million and $2,974 million at September 30, 2008, and December 31, 2007, respectively. The remaining inventories were valued under various methods, including first-in, first-out and weighted average. The excess of current replacement cost over LIFO cost of inventories amounted to $7,022 million and $6,668 million at September 30, 2008, and December 31, 2007, respectively.

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Note 5 Assets Held for Sale

Noncurrent assets and noncurrent liabilities classified as current assets and current liabilities under the held for sale provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, totaled $1,092 million and $159 million, respectively, at December 31, 2007. During the first nine months of 2008, a portion of these held-for-sale assets were sold, and additional assets met the held-for-sale criteria. As a result, at September 30, 2008, we classified $1,039 million of noncurrent assets as Prepaid expenses and other current assets on our consolidated balance sheet and we classified $272 million of noncurrent liabilities as current liabilities, consisting of $145 million in Accrued income and other taxes and $127 million in Other accruals. Contingent upon necessary regulatory approvals and negotiation of final contract terms, we expect the majority of these assets to be sold by the end of 2008, with the remainder to be sold in 2009.

The major classes of noncurrent assets and noncurrent liabilities held for sale and classified as current were:

	Millions of Dollars	
	September 30 2008	December 31 2007
Assets		
Investments and long-term receivables	**$ 7**	48
Net properties, plants and equipment	**865**	946
Goodwill	**164**	89
Intangibles	**2**	2
Other assets	**1**	7
Total assets	**$ 1,039**	1,092
Exploration and Production	**$ 283**	189
Refining and Marketing	**756**	903
	$ 1,039	1,092
Liabilities		
Asset retirement obligations and accrued environmental costs	**$ 120**	23
Deferred income taxes	**145**	133
Other liabilities and deferred credits	**7**	3
Total liabilities	**$ 272**	159
Exploration and Production	**$ 158**	35
Refining and Marketing	**114**	124
	$ 272	159

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Note 6 Investments, Loans and Long-Term Receivables

LUKOIL

Our ownership interest in LUKOIL was 20 percent at September 30, 2008, based on 851 million shares authorized and issued. For financial reporting under U.S. generally accepted accounting principles, treasury shares held by LUKOIL are not considered outstanding for determining our equity-method ownership interest in LUKOIL. Our ownership interest, based on estimated shares outstanding, was also 20 percent at September 30, 2008, compared with 20.6 percent at December 31, 2007.

At September 30, 2008, the book value of our ordinary share investment in LUKOIL was $12,864 million. Our share of the net assets of LUKOIL was estimated to be $10,393 million. The majority of this basis difference of $2,471 million is being amortized on a unit-of-production basis.

At September 30, 2008, the closing price of LUKOIL shares (ADRs) on the London Stock Exchange was $58.80 per share, down $39.80 per share, or 40 percent, from June 30, 2008. The aggregate market value of our LUKOIL investment at September 30 was, therefore, $10,003 million, or $2,861 million below the $12,864 million book value of our LUKOIL investment. Book value includes $7.5 billion of share acquisition costs, along with undistributed equity earnings and basis difference amortization. We evaluated the decrease in market value below book value of our LUKOIL investment and concluded the decline did not meet the other-than-temporary impairment recognition guidance of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. In reaching this conclusion, we considered: 1) the lack of deterioration in LUKOIL s financial condition and near-term prospects during the quarter; 2) general oil and gas industry downward stock price trends during the quarter, as well as the historical volatility of oil and gas commodity prices, which often create short-term volatility in energy industry stock prices; 3) the intent and ability of ConocoPhillips to retain its investment in LUKOIL; 4) the short length of time book value has been less than market value; and 5) non-energy-related factors impacting the U.S. and Russian financial markets during the quarter.

At October 29, 2008, the closing price of LUKOIL shares on the London Stock Exchange was $33.01 per share, 44 percent lower than at September 30, 2008. We will continue to closely monitor the relationship between the carrying value and market value of our LUKOIL investment. Should we determine in the future there has been a loss in the carrying value of our investment that is other than temporary, we would record a noncash impairment of our investment, calculated as the total difference between carrying value and market value as of the end of the reporting period.

Loans to Related Parties

As part of our normal ongoing business operations and consistent with industry practice, we invest and enter into numerous agreements with other parties to pursue business opportunities, which share costs and apportion risks among the parties as governed by the agreements. Included in such activity are loans made to certain affiliated companies. The long-term portion of these loans are included in the Loans and advances related parties balance sheet line item, while the short-term portion is included in Accounts and notes receivable related parties. Significant loans to affiliated companies at September 30, 2008, included the following:

- $768 million in loan financing to Freeport LNG Development, L.P. This loan was provided for the construction of a liquefied natural gas (LNG) facility which became operational late in the second quarter of 2008. The loan was converted from a construction loan to term loan in August 2008 and Freeport started making repayments in September 2008. At the time of the loan conversion in August, it consisted of $650 million of principal and $124 million of accrued interest.

- $330 million in loan financing and an additional $43 million of accrued interest to Varandey Terminal Company associated with the costs of a terminal expansion. The terminal construction was completed in late second-quarter 2008, and the final loan amount was $330 million at current exchange rates, excluding accrued interest. Although repayments are not required to start until May 2010, Varandey used available cash to repay $7 million of interest in third-quarter 2008.

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$817 million of project financing and an additional $67 million of accrued interest to Qatargas 3, an integrated project to produce and liquefy natural gas from Qatar s North field. Our maximum exposure to this financing structure is $1.2 billion.

$197 million in short-term loan financing and an additional $1 million of accrued interest to TransCanada Keystone Pipeline LP, which is expected to be repaid before year end.

Note 7 Properties, Plants and Equipment

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

	Millions of Dollars					
	September 30, 2008			December 31, 2007		
	Gross PP&E	Accum. DD&A	Net PP&E	Gross PP&E	Accum. DD&A	Net PP&E
E&P	**$ 107,175**	**35,391**	**71,784**	102,550	30,701	71,849
Midstream	**115**	**68**	**47**	267	103	164
R&M	**20,792**	**5,217**	**15,575**	19,926	4,733	15,193
LUKOIL Investment	**-**	**-**	**-**	-	-	-
Chemicals	**-**	**-**	**-**	-	-	-
Emerging Businesses	**1,219**	**152**	**1,067**	1,204	138	1,066
Corporate and Other	**1,517**	**731**	**786**	1,414	683	731
	$ 130,818	**41,559**	**89,259**	125,361	36,358	89,003

Suspended Wells

The company s capitalized cost of suspended wells at September 30, 2008, was $685 million, an increase of $96 million from $589 million at year-end 2007. For the category of exploratory well costs capitalized for a period greater than one year as of December 31, 2007, $12 million was charged to dry hole expense during the first nine months of 2008.

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Note 8 Impairments

Expropriated Assets

In the second quarter of 2007, we recorded a noncash impairment, including allocable goodwill, of $4,588 million before-tax ($4,512 million after-tax) related to our investments in the Petrozuata and Hamaca heavy-oil ventures and the offshore Corocoro oil development project in Venezuela. See Note 13 Impairments, in our 2007 Annual Report on Form 10-K, for additional information.

Other Impairments

We recognized the following net impairments:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
E&P				
United States	$ **-**	-	**-**	1
International	**56**	151	**59**	326
R&M				
United States	**1**	1	**23**	48
International	**-**	30	**-**	30
Increase in fair value of previously impaired assets	**-**	(2)	**-**	(128)
Corporate	**-**	8	**-**	8
	$ **57**	188	**82**	285

During the third quarter and nine-month period of 2008, property impairments were primarily associated with changes in asset retirement obligations for properties at the end of their economic life. In addition, the nine-month period also includes amounts related to planned asset dispositions.

During the third quarter and nine-month period of 2007, we recorded property impairments for:

The write-down of held-for-sale assets to fair value, less cost to sell.

Changes in asset retirement obligations for properties at the end of their economic life.

The write-down of abandoned properties or projects.

In addition and in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the nine-month period of 2007 included a $128 million gain for the subsequent increase in the fair value of certain assets impaired in the prior year to reflect finalized sales agreements. This gain was netted with write-downs into the Impairments line of the consolidated income statement.

Note 9 Debt

In January 2008, we reduced our Floating Rate Five-Year Term Note due 2011 from $3 billion to $2 billion, with a subsequent reduction in June 2008 to $1.5 billion. In March 2008, we redeemed our $300 million 7.125% Debentures due 2028 at a premium of $8 million, plus accrued interest.

In May 2008, we issued notes consisting of $400 million of 4.40% Notes due 2013, $500 million of 5.20% Notes due 2018 and $600 million of 5.90% Notes due 2038. The proceeds from the offering were used to reduce commercial paper and for general corporate purposes.

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At September 30, 2008, we had a $7.35 billion revolving credit facility, which expires in September 2012. The facility was reduced from $7.5 billion due to the bankruptcy of Lehman Commercial Paper Inc., one of the revolver participants. The facility may be used as direct bank borrowings, as support for the ConocoPhillips $7.35 billion commercial paper program, as support for the ConocoPhillips Qatar Funding Ltd. $1.5 billion commercial paper program, or as support for issuances of letters of credit totaling up to $750 million. At September 30, 2008, and December 31, 2007, we had no outstanding borrowings under the credit facility, but $40 million and $41 million, respectively, in letters of credit had been issued. Under the combined commercial paper programs, $1,519 million of commercial paper was outstanding at September 30, 2008, compared with $725 million at December 31, 2007.

Also at September 30, 2008, we classified $2,469 million of short-term debt as long-term debt, based on our ability and intent to refinance the obligations on a long-term basis under our revolving credit facility.

On October 1, 2008, we entered into a $2.5 billion 364-day bank facility to provide additional support to temporarily expand our commercial paper program to $9.85 billion. We expanded our commercial paper program to ensure adequate liquidity after the initial funding of our transaction with Origin Energy. For additional information, see Note 21 Joint Venture with Origin Energy.

Note 10 Joint Venture Acquisition Obligation

On January 3, 2007, we closed on a business venture with EnCana Corporation. As part of this transaction, we are obligated to contribute $7.5 billion, plus interest, over a ten-year period, which began in 2007, to the upstream business venture, FCCL Oil Sands Partnership, which was formed as a result of the transaction.

Quarterly principal and interest payments of $237 million began in the second quarter of 2007, and will continue until the balance is paid. Of the principal obligation amount, approximately $617 million is short-term and is included in the Accounts payable related parties line on our September 30, 2008, consolidated balance sheet. The principal portion of these payments, which totaled $442 million in the first nine months of 2008, is included in the Other line in the financing activities section of our consolidated statement of cash flows. Interest accrues at a fixed annual rate of 5.3 percent on the unpaid principal balance. Fifty percent of the quarterly interest payment is reflected as a capital contribution and is included in the Capital expenditures and investments line on our consolidated statement of cash flows.

Note 11 Guarantees

At September 30, 2008, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial.

Construction Completion Guarantees

In December 2005, we issued a construction completion guarantee for 30 percent of the $4.0 billion in loan facilities of Qatargas 3, which will be used to construct an LNG train in Qatar. Of the $4.0 billion in loan facilities, ConocoPhillips has committed to provide $1.2 billion. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be $850 million, which could become payable if the full debt financing is utilized and completion of the Qatargas 3 project is

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not achieved. The project financing will be nonrecourse to ConocoPhillips upon certified completion, currently expected in 2010. At September 30, 2008, the carrying value of the guarantee to the third-party lenders was $11 million. For additional information, see Note 6 Investments, Loans and Long-Term Receivables.

Guarantees of Joint-Venture Debt

In June 2006, we issued a guarantee for 24 percent of the $2 billion in credit facilities of Rockies Express Pipeline LLC (Rockies Express), which will be used to construct a natural gas pipeline across a portion of the United States. At September 30, 2008, Rockies Express had $854 million outstanding under the credit facilities, with our 24 percent guarantee equaling $205 million. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be $480 million, which could become payable if the credit facilities are fully utilized and Rockies Express fails to meet its obligations under the credit agreement. In addition, we also have a guarantee for 24 percent of $600 million of Floating Rate Notes due 2009 issued by Rockies Express in September 2007. It is anticipated final construction completion will be achieved in 2009, and refinancing will take place at that time, making the debt nonrecourse to ConocoPhillips. At September 30, 2008, the total carrying value of these guarantees to third-party lenders was $12 million. See Note 3 Variable Interest Entities (VIEs), for additional information.

At September 30, 2008, we had other guarantees outstanding for our portion of joint-venture debt obligations, which have terms of up to 17 years. The maximum potential amount of future payments under the guarantees is approximately $80 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

The Merey Sweeny, L.P. (MSLP) joint-venture project agreement requires the partners in the venture to pay cash calls to cover operating expenses in the event the venture does not have enough cash to cover operating expenses after setting aside the amount required for debt service over the next 16 years. Although there is no maximum limit stated in the agreement, the intent is to cover short-term cash deficiencies should they occur. Our maximum potential future payments under the agreement are currently estimated to be $100 million, assuming such a shortfall exists at some point in the future due to an extended operational disruption.

In February 2003, we entered into two agreements establishing separate guarantee facilities of $50 million each for two LNG ships. Subject to the terms of each such facility, we will be required to make payments should the charter revenue generated by the respective ship fall below certain specified minimum thresholds, and we will receive payments to the extent that such revenues exceed those thresholds. The net maximum future payments that we may have to make over the 20-year terms of the two agreements could be up to $100 million in total. To the extent we receive any such payments, our actual gross payments over the 20 years could exceed that amount. In the event either ship is sold or a total loss occurs, we also may have recourse to the sales or insurance proceeds to recoup payments made under the guarantee facilities.

We have guarantees of the residual value of leased corporate aircraft. The maximum potential payment under these guarantees at September 30, 2008, was $170 million.

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. Keystone plans to construct a crude oil pipeline originating in Hardisty, Alberta, with delivery points at Wood River and Patoka, Illinois, and Cushing, Oklahoma. In connection with certain planning and construction activities, agreements were put in place with third parties to guarantee the payments due. Our maximum potential amount of future payments under those agreements is estimated to be $400 million, which could become payable if Keystone fails to meet its obligations under the agreements noted above and the obligation cannot otherwise be mitigated. Payments under the guarantees are contingent upon the partners not making

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necessary equity contributions into Keystone; therefore, it is considered unlikely that payments would be required. All but $15 million of the guarantees will terminate after construction is completed, currently estimated to occur in 2010.

In addition to the above guarantee, in order to obtain long-term shipping commitments that would enable a pipeline expansion starting at Hardisty, Alberta, and extending to near Port Arthur, Texas, the Keystone owners entered into a 20-year guarantee in July 2008 to ship volumes for certain shippers to the Gulf Coast. Our maximum potential amount of future payments, or cost of volume delivery, under this guarantee is estimated to be $550 million, which could become payable if Keystone fails to meet its obligations under the agreements noted above and cannot otherwise be mitigated. This is considered unlikely as payment, or cost of volume delivery, is contingent upon the partners defaulting on their obligation to construct and operate in accordance with the terms of the agreement. In October 2008, we elected to exercise an option to reduce our equity interest from 50 percent to 20.01 percent. The change in equity will occur through a dilution mechanism, which is expected to gradually lower our ownership interest, as well as our guarantee obligation, until reaching 20.01 percent by the third quarter of 2009.

We have other guarantees with maximum future potential payment amounts totaling $200 million, which consist primarily of dealer and jobber loan guarantees to support our marketing business, guarantees to fund the short-term cash liquidity deficits of certain joint ventures, one small construction completion guarantee, guarantees relating to the startup of a refining joint venture, and guarantees of the lease payment obligations of a joint venture. These guarantees generally extend up to 10 years or life of the venture and payment would be required only if the dealer, jobber or lessee goes into default, if the joint ventures have cash liquidity issues, if a construction project is not completed, or if a guaranteed party defaults on lease payments.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations and joint ventures and have sold several assets, including downstream and midstream assets, certain exploration and production assets, and downstream retail and wholesale sites that gave rise to qualifying indemnifications. Agreements associated with these sales include indemnifications for taxes, environmental liabilities, permits and licenses, employee claims, real estate indemnity against tenant defaults, and litigation. The terms of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, the term is generally indefinite and the maximum amount of future payments is generally unlimited. The carrying amount recorded for these indemnifications at September 30, 2008, was $454 million. We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information the liability is essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. Included in the carrying amount recorded were $253 million of environmental accruals for known contamination that is included in asset retirement obligations and accrued environmental costs at September 30, 2008. For additional information about environmental liabilities, see Note 12 Contingencies and Commitments.

Note 12 Contingencies and Commitments

In the case of all known non-income-tax-related contingencies, we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we adopted FIN 48, effective January 1, 2007. FIN 48 requires a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

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

Environmental

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

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

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

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except for those acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable that future costs will be incurred and these costs can be reasonably estimated. At September 30, 2008, our balance sheet included a total environmental accrual of $1,028 million, compared with $1,089 million at December 31, 2007. We expect to incur the majority of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

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Legal Proceedings

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

Other Contingencies

We have contingent liabilities resulting from throughput agreements with pipeline and processing companies not associated with financing arrangements. Under these agreements, we may be required to provide any such company with additional funds through advances and penalties for fees related to throughput capacity not utilized. In addition, at September 30, 2008, we had performance obligations secured by letters of credit of $2,213 million (of which $40 million was issued under the provisions of our revolving credit facility, and the remainder was issued as direct bank letters of credit) and various purchase commitments for materials, supplies, services and items of permanent investment incident to the ordinary conduct of business.

Note 13 Financial Instruments and Derivative Contracts

Derivative assets and liabilities were:

	Millions of Dollars	
	September 30 2008	December 31 2007
Derivative Assets		
Current	**$ 1,173**	453
Long-term	**141**	89
	$ 1,314	542
Derivative Liabilities		
Current	**$ 969**	493
Long-term	**162**	67
	$ 1,131	560

In the preceding table, the 2008 derivative assets appear net of $224 million of obligations to return cash collateral, and the 2008 derivative liabilities appear net of $32 million of rights to reclaim cash collateral. These derivative assets and liabilities appear as prepaid expenses and other current assets, other assets, other accruals, or other liabilities and deferred credits on the balance sheet.

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Note 14 Comprehensive Income

ConocoPhillips comprehensive income was as follows:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Net income	**$ 5,188**	3,673	**14,766**	7,520
After-tax changes in:				
Defined benefit pension plans				
Net prior service cost	**7**	5	**(3)**	15
Net actuarial loss	**10**	8	**17**	38
Nonsponsored plans	**4**	-	**8**	(3)
Foreign currency translation adjustments	**(1,584)**	1,320	**(1,841)**	2,596
Hedging activities	**1**	(2)	**1**	(5)
Comprehensive income	**$ 3,626**	5,004	**12,948**	10,161

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

	Millions of Dollars	
	September 30 2008	December 31 2007
Defined benefit pension plans	**$ (443)**	(465)
Foreign currency translation adjustments	**3,192**	5,033
Deferred net hedging loss	**(7)**	(8)
Accumulated other comprehensive income	**$ 2,742**	4,560

Note 15 Cash Flow Information

	Millions of Dollars Nine Months Ended September 30	
	2008	2007
Noncash Investing and Financing Activities		
Investment in an upstream business venture through issuance of an acquisition obligation	**$ -**	7,313
Investment in a downstream business venture through contribution of noncash assets and liabilities	**-**	2,415
Cash Payments		
Interest	**$ 475**	650
Income taxes	**10,250**	7,969

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Note 16 Employee Benefit Plans
Pension and Postretirement Plans

	Millions of Dollars					
	Pension Benefits September 30				Other Benefits September 30	
Components of Net Periodic Benefit Cost	**2008**		2007		**2008**	2007
	U.S.	**Int l.**	U.S.	Int l.		
Three Months Ended						
Service cost	**$ 46**	**24**	44	25	**2**	3
Interest cost	**61**	**44**	57	41	**8**	12
Expected return on plan assets	**(55)**	**(45)**	(51)	(37)	**-**	-
Amortization of prior service cost	**4**	**-**	3	1	**3**	3
Recognized net actuarial loss (gain)	**15**	**3**	15	12	**(3)**	(5)
Net periodic benefit costs	**$ 71**	**26**	68	42	**10**	13
Nine Months Ended						
Service cost	**$ 140**	**71**	132	73	**9**	10
Interest cost	**185**	**134**	171	120	**36**	34
Expected return on plan assets	**(167)**	**(134)**	(153)	(109)	**-**	-
Amortization of prior service cost	**8**	**-**	8	5	**8**	10
Recognized net actuarial loss (gain)	**48**	**9**	46	35	**(13)**	(15)
Net periodic benefit costs	**$ 214**	**80**	204	124	**40**	39

During the first nine months of 2008, we contributed $357 million to our domestic qualified and nonqualified plans and $123 million to our international benefit plans. We currently expect to contribute a total of $470 million to our domestic plans and $182 million to our international plans in 2008.

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Note 17 Related Party Transactions
Significant transactions with related parties were:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Operating revenues (a)	**$ 3,944**	2,465	**11,115**	7,967
Purchases (b)	**6,038**	4,156	**16,129**	11,455
Operating expenses and selling, general and administrative expenses (c)	**142**	103	**385**	309
Net interest income (d)	**15**	25	**55**	80

(a) We sold natural gas to DCP Midstream, LLC and crude oil to the Malaysian Refining Company Sdn. Bhd. (MRC), among others, for processing and marketing. Natural gas liquids, solvents and petrochemical feedstocks were sold to Chevron Phillips Chemical Company LLC (CPChem), gas oil and hydrogen feedstocks were sold to Excel Paralubes and refined products were sold primarily to CFJ Properties and LUKOIL. Natural gas, crude oil, blendstock and other intermediate products were sold to WRB Refining LLC. In addition, we charged several of our affiliates including CPChem, Merey Sweeny L.P. (MSLP) and Hamaca Holding LLC (until expropriation on June 26, 2007) for the use of common facilities, such as steam generators, waste and water treaters, and warehouse facilities.

(b) We purchased refined products from WRB Refining. We purchased natural gas and natural gas liquids from DCP Midstream and CPChem for use in our refinery processes and other feedstocks from various affiliates. We purchased crude oil from LUKOIL, upgraded crude oil from Petrozuata C.A. (as a related party until expropriation on June 26, 2007) and refined products from MRC. We also paid fees to various pipeline equity companies for transporting finished refined products and natural gas, and a price upgrade to MSLP for heavy crude oil processing. We purchased base oils and fuel products from Excel Paralubes for use in our refinery and specialty businesses.

(c) We paid processing fees to various affiliates. Additionally, we paid crude oil transportation fees to pipeline equity companies.

(d) We paid and/or received interest to/from various affiliates, including FCCL Oil Sands Partnership. See Note 6 Investments, Loans and Long-Term Receivables, for additional information on loans to affiliated companies.

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Note 18 Segment Disclosures and Related Information

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

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

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

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

4) LUKOIL Investment This segment represents our investment in the ordinary shares of LUKOIL, an international, integrated oil and gas company headquartered in Russia. At September 30, 2008, our ownership interest was 20 percent based on both authorized and issued shares and estimated shares outstanding.

5) Chemicals This segment manufactures and markets petrochemicals and plastics on a worldwide basis. The Chemicals segment consists of our 50 percent equity investment in CPChem.

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

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

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Analysis of Results by Operating Segment

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Sales and Other Operating Revenues				
E&P				
United States	**$ 15,320**	9,416	**42,831**	27,153
International	**10,333**	5,559	**27,245**	17,052
Intersegment eliminations U.S.	**(2,263)**	(1,612)	**(6,900)**	(4,264)
Intersegment eliminations international	**(3,005)**	(1,927)	**(8,852)**	(4,844)
E&P	**20,385**	11,436	**54,324**	35,097
Midstream				
Total sales	**2,112**	1,182	**5,854**	3,396
Intersegment eliminations	**(52)**	(39)	**(171)**	(143)
Midstream	**2,060**	1,143	**5,683**	3,253
R&M				
United States	**33,778**	24,369	**97,989**	69,022
International	**14,065**	9,178	**38,960**	27,606
Intersegment eliminations U.S.	**(293)**	(113)	**(797)**	(376)
Intersegment eliminations international	**(17)**	(2)	**(37)**	(7)
R&M	**47,533**	33,432	**136,115**	96,245
LUKOIL Investment	**-**	-	**-**	-
Chemicals	**2**	2	**8**	8
Emerging Businesses				
Total sales	**303**	150	**791**	450
Intersegment eliminations	**(244)**	(105)	**(600)**	(310)
Emerging Businesses	**59**	45	**191**	140
Corporate and Other	**5**	4	**17**	9
Consolidated sales and other operating revenues	**$ 70,044**	46,062	**196,338**	134,752
Net Income (Loss)				
E&P				
United States	**$ 1,606**	1,225	**4,807**	3,196
International	**2,322**	857	**6,007**	(1,189)

Total E&P	**3,928**	2,082	**10,814**	2,007
Midstream	**173**	104	**472**	291
R&M				
United States	**524**	873	**1,546**	3,648
International	**325**	434	**487**	1,153
Total R&M	**849**	1,307	**2,033**	4,801
LUKOIL Investment	**438**	387	**1,922**	1,169
Chemicals	**46**	110	**116**	260
Emerging Businesses	**35**	3	**55**	(10)
Corporate and Other	**(281)**	(320)	**(646)**	(998)
Consolidated net income	**$ 5,188**	3,673	**14,766**	7,520

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	Millions of Dollars	
	September 30 2008	December 31 2007
Total Assets		
E&P		
United States	**$ 37,606**	35,160
International	**58,522**	59,412
Goodwill	**25,457**	25,569
Total E&P	**121,585**	120,141
Midstream	**1,905**	2,016
R&M		
United States	**27,440**	24,336
International	**10,494**	9,766
Goodwill	**3,767**	3,767
Total R&M	**41,701**	37,869
LUKOIL Investment	**13,038**	11,164
Chemicals	**2,312**	2,225
Emerging Businesses	**1,239**	1,230
Corporate and Other	**2,827**	3,112
Consolidated total assets	**$ 184,607**	177,757

Note 19 Income Taxes

Our effective tax rate for both the third quarter and first nine months of 2008 was 45 percent, compared with 42 percent and 53 percent for the same two periods of 2007. The change in the effective tax rate for the third quarter of 2008, versus the third quarter of 2007, was primarily due to a tax rate decrease enacted in Germany in the third quarter of 2007. The change in the effective tax rate for the nine months of 2008, compared with the same period of 2007, was primarily due to the impact of the expropriation of our oil interests in Venezuela on 2007 results (see the Expropriated Assets section of Note 13 Impairments, in our 2007 Annual Report on Form 10-K, for additional information), partially offset by the impact of a higher proportion of income in higher tax-rate jurisdictions in 2008. The effective tax rate in excess of the domestic federal statutory rate of 35 percent was primarily due to the impact of foreign taxes.

Note 20 New Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (Revised), Business Combinations (SFAS No. 141(R)). This Statement will apply to all transactions in which an entity obtains control of one or more other businesses. In general, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed in the transaction; establishes the acquisition date as the fair value measurement point; and modifies the disclosure requirements. This Statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. However, starting January 1, 2009, accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations will impact tax expense instead of impacting goodwill. We are currently evaluating the changes provided for in this Statement.

Also in December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which changes the classification of noncontrolling interests, sometimes called minority interests, in the consolidated financial statements. Additionally, this Statement establishes a single method of accounting for changes in a parent company s ownership interest that do not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. This Statement is effective January 1, 2009, and will be applied prospectively with the

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exception of the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. We are currently evaluating the impact of this Statement on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB No. 133. This Statement expands the annual and interim disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, for derivative instruments within the scope of that Statement. We must adopt SFAS No. 161 no later than January 1, 2009, but it will not have any impact on our consolidated financial statements, other than the additional disclosures.

Note 21 Joint Venture with Origin Energy

In October 2008, we closed on a transaction with Origin Energy (Origin), an integrated Australian energy company, to create a long-term Australasian natural gas business. The 50/50 joint venture will focus on coalbed methane production from the Bowen and Surat basins in Queensland, Australia, and liquefied natural gas (LNG) processing and export sales.

With this transaction, we have gained access to a leading coalbed methane resource in Australia and will enhance our LNG position with the expected creation of an additional LNG hub serving the Asia Pacific markets.

Under the terms of the transaction, we paid US$5 billion at closing. In addition, we will carry Origin for AU$1.15 billion related to their initial share of joint venture funding requirements, when incurred. We have committed to make up to four additional payments of US$500 million each, expected within the next decade, when each of four expected LNG trains are approved by the joint venture for development, for a total possible cash acquisition investment of approximately US$8 billion at current exchange rates. We funded our initial upfront payment by issuing approximately $4.9 billion of commercial paper and with cash on hand.

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Supplementary Information Condensed Consolidating Financial Information

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

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

All other nonguarantor subsidiaries of ConocoPhillips.

The consolidating adjustments necessary to present ConocoPhillips results on a consolidated basis.

This condensed consolidating financial information should be read in conjunction with the accompanying consolidated financial statements and notes. Certain previously reported amounts appearing on the 2007 income statements have been reclassified to conform to the current year presentation.

	Millions of Dollars							
	Three Months Ended September 30, 2008							
Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Revenues and Other Income								
Sales and other operating revenues	$ -	45,549	-	-	-	24,495	-	70,044
Equity in earnings of affiliates	5,256	3,856	-	-	-	1,181	(9,079)	1,214
Other income (loss)	(1)	135	-	-	-	(19)	-	115
Intercompany revenues	1	1,166	20	22	14	9,720	(10,943)	-
Total Revenues and Other Income	5,256	50,706	20	22	14	35,377	(20,022)	71,373
Costs and Expenses								
Purchased crude oil, natural gas and products	-	41,990	-	-	-	18,180	(10,562)	49,608
Production and operating expenses	-	1,243	-	-	-	1,841	(25)	3,059
Selling, general and administrative expenses	7	339	-	-	-	180	(13)	513
Exploration expenses	-	31	-	-	-	236	-	267
Depreciation, depletion and amortization	-	393	-	-	-	1,968	-	2,361
Impairments	-	-	-	-	-	57	-	57
Taxes other than income taxes	-	1,280	-	-	-	4,396	(57)	5,619
Accretion on discounted liabilities	-	14	-	-	-	100	-	114
Interest and debt expense	97	132	17	19	14	246	(286)	239
Foreign currency transaction losses (gains)	-	18	-	(71)	(99)	206	-	54
Minority interests	-	-	-	-	-	15	-	15

Total Costs and Expenses	104	45,440	17	(52)	(85)	27,425	(10,943)	61,906
Income before income taxes	5,152	5,266	3	74	99	7,952	(9,079)	9,467
Provision for income taxes	(36)	618	1	7	17	3,672	-	4,279
Net Income	$ 5,188	4,648	2	67	82	4,280	(9,079)	5,188

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Millions of Dollars
Three Months Ended September 30, 2007

Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Revenues and Other Income								
Sales and other operating revenues	$ -	30,130	-	-	-	15,932	-	46,062
Equity in earnings of affiliates	3,731	3,227	-	-	-	602	(6,246)	1,314
Other income	-	121	-	-	-	436	-	557
Intercompany revenues	1	814	30	21	13	4,648	(5,527)	-
Total Revenues and Other Income	3,732	34,292	30	21	13	21,618	(11,773)	47,933
Costs and Expenses								
Purchased crude oil, natural gas and products	-	26,477	-	-	-	9,211	(4,826)	30,862
Production and operating expenses	-	1,054	-	-	-	1,588	(22)	2,620
Selling, general and administrative expenses	4	365	-	-	-	212	(12)	569
Exploration expenses	-	29	-	-	-	189	-	218
Depreciation, depletion and amortization	-	388	-	-	-	1,664	-	2,052
Impairments	-	16	-	-	-	172	-	188
Taxes other than income taxes	-	1,363	-	-	-	3,291	(71)	4,583
Accretion on discounted liabilities	-	12	-	-	-	69	-	81
Interest and debt expense	85	431	28	20	14	409	(596)	391
Foreign currency transaction losses (gains)	-	6	-	83	44	(153)	-	(20)
Minority interests	-	-	-	-	-	25	-	25

Total Costs and Expenses	89	30,141	28	103	58	16,677	(5,527)	41,569
Income (loss) before income taxes	3,643	4,151	2	(82)	(45)	4,941	(6,246)	6,364
Provision for income taxes	(30)	581	-	11	6	2,123	-	2,691
Net Income (Loss)	$ 3,673	3,570	2	(93)	(51)	2,818	(6,246)	3,673

	Millions of Dollars							
	Nine Months Ended September 30, 2008							
Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Revenues and Other Income								
Sales and other operating revenues	$ -	128,145	-	-	-	68,193	-	196,338
Equity in earnings of affiliates	14,907	10,713	-	-	-	3,935	(25,170)	4,385
Other income (loss)	(2)	622	-	-	-	(65)	-	555
Intercompany revenues	25	2,798	63	67	41	25,463	(28,457)	-
Total Revenues and Other Income	14,930	142,278	63	67	41	97,526	(53,627)	201,278
Costs and Expenses								
Purchased crude oil, natural gas and products	-	117,520	-	-	-	48,363	(27,241)	138,642
Production and operating expenses	-	3,690	-	-	-	5,266	(95)	8,861
Selling, general and administrative expenses	14	1,124	-	-	-	576	(46)	1,668
Exploration expenses	-	131	-	-	-	733	-	864
Depreciation, depletion and amortization	-	1,144	-	-	-	5,604	-	6,748
Impairments	-	21	-	-	-	61	-	82
Taxes other than income taxes	-	3,819	-	-	-	12,927	(176)	16,570
Accretion on discounted liabilities	-	43	-	-	-	271	-	314
Interest and debt expense	225	457	57	58	40	718	(899)	656
Foreign currency transaction losses (gains)	-	16	-	(85)	(106)	186	-	11
Minority interests	-	-	-	-	-	51	-	51

Total Costs and Expenses	239	127,965	57	(27)	(66)	74,756	(28,457)	174,467
Income before income taxes	14,691	14,313	6	94	107	22,770	(25,170)	26,811
Provision for income taxes	(75)	1,605	2	(6)	4	10,515	-	12,045
Net Income	$ 14,766	12,708	4	100	103	12,255	(25,170)	14,766

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	Millions of Dollars							
	Nine Months Ended September 30, 2007							
Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Revenues and Other Income								
Sales and other operating revenues	$ -	87,022	-	-	-	47,730	-	134,752
Equity in earnings of affiliates	7,623	6,881	-	-	-	1,927	(12,682)	3,749
Other income	4	263	-	-	-	1,429	-	1,696
Intercompany revenues	148	2,303	90	60	37	13,215	(15,853)	-
Total Revenues and Other Income	7,775	96,469	90	60	37	64,301	(28,535)	140,197
Costs and Expenses								
Purchased crude oil, natural gas and products	-	74,279	-	-	-	27,831	(13,713)	88,397
Production and operating expenses	-	3,249	-	-	-	4,484	(64)	7,669
Selling, general and administrative expenses	13	1,053	-	-	-	676	(42)	1,700
Exploration expenses	-	75	-	-	-	664	-	739
Depreciation, depletion and amortization	-	1,111	-	-	-	4,981	-	6,092
Impairment expropriated assets	-	1,925	-	-	-	2,663	-	4,588
Impairments	-	(8)	-	-	-	293	-	285
Taxes other than income taxes	-	4,161	-	-	-	9,701	(208)	13,654
Accretion on discounted liabilities	-	40	-	-	-	201	-	241
Interest and debt expense	296	1,399	84	58	40	966	(1,826)	1,017
Foreign currency transaction losses (gains)	-	16	-	181	121	(516)	-	(198)
Minority interests	-	-	-	-	-	65	-	65
	309	87,300	84	239	161	52,009	(15,853)	124,249

Total Costs and Expenses								
Income (loss) before income taxes	7,466	9,169	6	(179)	(124)	12,292	(12,682)	15,948
Provision for income taxes	(54)	2,255	2	9	4	6,212	-	8,428
Net Income (Loss)	$ 7,520	6,914	4	(188)	(128)	6,080	(12,682)	7,520

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Millions of Dollars
At September 30, 2008

Balance Sheet	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Assets								
Cash and cash equivalents	$ -	244	-	6	1	1,110	(245)	1,116
Accounts and notes receivable	49	13,230	19	1	-	22,889	(19,202)	16,986
Inventories	-	4,334	-	-	-	2,516	(109)	6,741
Prepaid expenses and other current assets	3	887	-	4	3	2,586	-	3,483
Total Current Assets	52	18,695	19	11	4	29,101	(19,556)	28,326
Investments, loans and long-term receivables*	97,446	105,372	1,700	1,396	945	40,520	(210,982)	36,397
Net properties, plants and equipment	-	19,541	-	-	-	69,716	2	89,259
Goodwill	-	12,711	-	-	-	16,513	-	29,224
Intangibles	-	789	-	-	-	72	-	861
Other assets	14	176	2	4	27	413	(96)	540
Total Assets	$ 97,512	157,284	1,721	1,411	976	156,335	(230,632)	184,607
Liabilities and Stockholders Equity								
Accounts payable	$ 26	20,942	-	3	4	17,464	(19,202)	19,237
Short-term debt	-	301	950	-	-	86	(950)	387
Accrued income and other taxes	-	9	-	1	(1)	6,360	-	6,369
Employee benefit obligations	-	461	-	-	-	295	2	758
Other accruals	63	894	25	32	22	1,729	(6)	2,759
Total Current Liabilities	89	22,607	975	36	25	25,934	(20,156)	29,510

Long-term debt	5,048	5,377	749	1,250	848	7,491	950	21,713
Asset retirement obligations and accrued environmental costs	-	1,111	-	-	-	6,602	-	7,713
Joint venture acquisition obligation	-	-	-	-	-	5,828	-	5,828
Deferred income taxes	(3)	3,421	-	15	18	16,973	(16)	20,408
Employee benefit obligations	-	2,076	-	-	-	737	-	2,813
Other liabilities and deferred credits*	6,174	21,104	-	51	23	12,982	(37,715)	2,619
Total Liabilities	11,308	55,696	1,724	1,352	914	76,547	(56,937)	90,604
Minority interests	-	(12)	-	-	-	1,139	-	1,127
Retained earnings (deficit)	56,590	36,660	(3)	(47)	(4)	29,849	(59,942)	63,103
Other stockholders equity	29,614	64,940	-	106	66	48,800	(113,753)	29,773
Total	$ 97,512	157,284	1,721	1,411	976	156,335	(230,632)	184,607

**Includes intercompany loans.*

	Millions of Dollars At December 31, 2007							
Balance Sheet	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Assets								
Cash and cash equivalents	$ -	195	-	7	1	1,626	(373)	1,456
Accounts and notes receivable	40	12,421	15	12	4	19,548	(15,686)	16,354
Inventories	-	2,043	-	-	-	2,190	(10)	4,223
Prepaid expenses and other current assets	9	578	-	1	-	2,114	-	2,702
Total Current Assets	49	15,237	15	20	5	25,478	(16,069)	24,735
Investments, loans and long-term receivables*	86,942	57,936	1,700	1,470	997	18,972	(134,689)	33,328
Net properties, plants and equipment	-	17,677	-	-	-	71,317	9	89,003
Goodwill	-	12,746	-	-	-	16,590	-	29,336
Intangibles	-	808	-	-	-	88	-	896
Other assets	8	153	3	5	4	520	(234)	459
Total Assets	$ 86,999	104,557	1,718	1,495	1,006	132,965	(150,983)	177,757
Liabilities and Stockholders Equity								
Accounts payable	$ 6	18,792	-	10	4	15,108	(16,059)	17,861
Short-term debt	1,000	309	-	-	-	89	-	1,398
Accrued income and other taxes	-	601	-	-	(1)	4,117	97	4,814
Employee benefit obligations	-	509	-	-	-	411	-	920
Other accruals	21	594	20	16	11	1,230	(3)	1,889
	1,027	20,805	20	26	14	20,955	(15,965)	26,882

Total Current Liabilities								
Long-term debt	3,402	5,694	1,699	1,250	848	7,396	-	20,289
Asset retirement obligations and accrued environmental costs	-	1,167	-	-	-	6,094	-	7,261
Joint venture acquisition obligation	-	-	-	-	-	6,294	-	6,294
Deferred income taxes	(3)	3,050	-	32	18	17,907	14	21,018
Employee benefit obligations	-	2,292	-	-	-	899	-	3,191
Other liabilities and deferred credits*	42	16,447	-	132	102	15,489	(29,546)	2,666
Total Liabilities	4,468	49,455	1,719	1,440	982	75,034	(45,497)	87,601
Minority interests	-	(19)	-	-	-	1,194	(2)	1,173
Retained earnings (deficit)	43,988	23,952	(1)	(147)	(107)	20,738	(37,913)	50,510
Other stockholders equity	38,543	31,169	-	202	131	35,999	(67,571)	38,473
Total	$ 86,999	104,557	1,718	1,495	1,006	132,965	(150,983)	177,757

**Includes intercompany loans.*

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	Millions of Dollars							
	Nine Months Ended September 30, 2008							
Statement of Cash Flows	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Net Cash Provided by (Used in) Operating Activities	$ 8,852	1,769	6	(1)	-	11,922	(3,012)	19,536
Cash Flows From Investing Activities								
Capital expenditures and investments	-	(3,901)	-	-	-	(7,341)	707	(10,535)
Proceeds from asset dispositions	-	251	-	-	-	658	(180)	729
Long-term advances/loans related parties	-	(400)	-	-	-	(2,812)	3,031	(181)
Collection of advances/loans related parties	-	224	-	-	-	12	(221)	15
Other	-	(183)	-	-	-	(3)	-	(186)
Net Cash Used in Investing Activities	-	(4,009)	-	-	-	(9,486)	3,337	(10,158)
Cash Flows From Financing Activities								
Issuance of debt	2,136	2,671	-	-	-	488	(3,031)	2,264
Repayment of debt	(1,500)	(350)	-	-	-	(228)	221	(1,857)
Issuance of company common stock	182	-	-	-	-	-	-	182
Repurchase of company common stock	(7,500)	-	-	-	-	-	-	(7,500)
Dividends paid on common stock	(2,159)	-	(6)	-	-	(3,134)	3,140	(2,159)
Other	(11)	126	-	-	-	(14)	(527)	(426)
Net Cash Provided by (Used in) Financing Activities	(8,852)	2,447	(6)	-	-	(2,888)	(197)	(9,496)

Effect of Exchange Rate Changes on Cash and Cash Equivalents		-	(158)	-	-	-	(64)	-	(222)
Net Change in Cash and Cash Equivalents		-	49	-	(1)	-	(516)	128	(340)
Cash and cash equivalents at beginning of period		-	195	-	7	1	1,626	(373)	1,456
Cash and Cash Equivalents at End of Period	$	-	244	-	6	1	1,110	(245)	1,116

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	Millions of Dollars							
	Nine Months Ended September 30, 2007							
Statement of Cash Flows	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips Canada Funding Company I	ConocoPhillips Canada Funding Company II	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Net Cash Provided by (Used in) Operating Activities	$ 11,862	(2,048)	7	-	-	8,473	(664)	17,630
Cash Flows From Investing Activities								
Capital expenditures and investments	-	(1,821)	-	-	-	(6,288)	202	(7,907)
Proceeds from asset dispositions	-	1,299	-	-	-	2,604	(846)	3,057
Long-term advances/loans related parties	-	(143)	-	-	-	(2,486)	2,180	(449)
Collection of advances/loans related parties	-	954	-	-	-	1	(889)	66
Other	1	22	-	-	-	1	-	24
Net Cash Provided by (Used in) Investing Activities	1	311	-	-	-	(6,168)	647	(5,209)
Cash Flows From Financing Activities								
Issuance of debt	(36)	2,179	-	-	-	861	(2,180)	824
Repayment of debt	(5,564)	(561)	-	-	-	(905)	889	(6,141)
Issuance of company common stock	251	-	-	-	-	-	-	251
Repurchase of company common stock	(4,501)	-	-	-	-	-	-	(4,501)
Dividends paid on common stock	(2,009)	-	(7)	-	-	(626)	633	(2,009)
Other	(4)	76	-	-	-	(1,005)	644	(289)
Net Cash Provided by (Used in) Financing Activities	(11,863)	1,694	(7)	-	-	(1,675)	(14)	(11,865)

Effect of Exchange Rate Changes on Cash and Cash Equivalents		-	-	-	-	-	6	-	6
Net Change in Cash and Cash Equivalents		-	(43)	-	-	-	636	(31)	562
Cash and cash equivalents at beginning of period		-	116	-	-	1	1,042	(342)	817
Cash and Cash Equivalents at End of Period	$	-	73	-	-	1	1,678	(373)	1,379

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis contains forward-looking statements including, without limitation, statements relating to our plans, strategies, objectives, expectations, and intentions, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words intends, believes, expects, plans, scheduled, should, anticipates, estimates, and similar expressions identify forward-looking statements. We do not undertake to update, revise or correct any of the forward-looking information. Readers are cautioned that such forward-looking statements should be read in conjunction with the disclosures under the heading: CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 beginning on page 54.

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

Our Exploration and Production (E&P) segment had net income of $3,928 million in the third quarter of 2008, which accounted for 76 percent of our total net income in the quarter. This compares with E&P net income of $3,999 million in the second quarter of 2008, and $2,082 million in the third quarter of 2007.

E&P net income in the third quarter of 2008 was impacted by a decrease in commodity prices. Industry crude oil prices for West Texas Intermediate averaged $117.83 per barrel in the third quarter of 2008, or $6.15 per barrel lower than the second quarter of 2008, but $42.35 higher than in the same period a year earlier. Crude oil prices were influenced, among other factors, by growing concerns about financial markets and the slowing worldwide economy s expected adverse impact on oil demand growth.

Industry natural gas prices for Henry Hub decreased during the third quarter of 2008 to $10.25 per million British thermal units (MMBTU), down $0.69 per MMBTU from the second quarter of 2008 but $4.09 higher than in the same period a year earlier. Natural gas prices trended lower during the third quarter due to rising domestic unconventional gas production in the face of slowing natural gas demand growth due to the weakening U.S. economy. Although production fell in September due to hurricane outages, natural gas storage still moved above the five year average, further influencing the downward move in the natural gas price.

Our Refining and Marketing (R&M) segment had net income of $849 million in the third quarter of 2008, compared with $664 million in the second quarter of 2008, and $1,307 million in the third quarter of 2007. The increase in net income from the previous quarter was primarily due to improved global realized marketing margins and lower turnaround costs, which were partially offset by lower refining volumes. The decrease in net income from the third quarter of 2007 reflects a lower net benefit from the company s asset rationalization efforts, the absence of a third-quarter 2007 German tax legislation benefit and lower refining volumes. These items were partially offset by improved global realized marketing margins.

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RESULTS OF OPERATIONS

Unless otherwise indicated, discussion of results for the three- and nine-month periods ending September 30, 2008, is based on a comparison with the corresponding periods of 2007.

Consolidated Results

A summary of net income (loss) by business segment follows:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Exploration and Production (E&P)	**$ 3,928**	2,082	**10,814**	2,007
Midstream	**173**	104	**472**	291
Refining and Marketing (R&M)	**849**	1,307		