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.

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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				Other Benefits	
	September 30				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.

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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

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Millions of Dollars
Nine Months Ended September 30, 2008

Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Australia Funding Company	ConocoPhillips China 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.*

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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	$ 86,999	104,557	1,718	1,495	1,006	132,965	(150,983)	177,757
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	**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)
Net income	**$ 5,188**	3,673	**14,766**	7,520

Net income was $5,188 million in the third quarter of 2008, compared with $3,673 million in the third quarter of 2007. For the nine-month periods ended September 30, 2008 and 2007, net income was $14,766 million and $7,520 million, respectively. The nine-month period in 2007 included a complete impairment ($4,512 million after-tax) of our oil interests in Venezuela, resulting from their expropriation on June 26, 2007.

The results in both 2008 periods were enhanced by significantly higher crude oil, natural gas and natural gas liquids prices, benefiting our E&P, Midstream and LUKOIL Investment segments. These increases were partially offset by a decrease in net income from our R&M segment.

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

Income Statement Analysis

Sales and other operating revenues increased 52 percent in the third quarter of 2008 and 46 percent in the nine-month period, while purchased crude oil, natural gas and products increased 61 percent and 57 percent, respectively. These increases were mainly the result of higher petroleum product prices, and higher prices for crude oil, natural gas and natural gas liquids.

Equity in earnings of affiliates decreased 8 percent in the third quarter of 2008, mainly due to lower earnings from WRB Refining LLC and Chevron Phillips Chemical Company LLC (CPChem), partially offset by increased earnings from FCCL Oil Sands Partnership, DCP Midstream, LLC and LUKOIL. Equity in earnings of affiliates increased 17 percent in the nine-month period, reflecting improved results from LUKOIL, FCCL and DCP Midstream, partially offset by lower results from WRB and CPChem, as well as the absence of earnings from Hamaca and Petrozuata, our heavy-oil joint ventures expropriated by Venezuela in the second quarter of 2007.

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Other income decreased 79 percent and 67 percent during the third quarter and first nine months of 2008, respectively. The decrease was primarily due to higher 2007 net gains on asset dispositions associated with asset rationalization efforts. In addition, the 2007 periods included a net benefit from the Alaska Quality Bank settlements.

Production and operating costs increased 17 percent and 16 percent during the third quarter and first nine months of 2008, respectively. Contributing to the increase were higher maintenance and well workover costs, as well as unfavorable foreign currency exchange impacts in E&P and higher turnaround and utility costs in R&M.

Depreciation, depletion and amortization increased 15 percent during the third quarter and 11 percent during the first nine months of 2008. The increases were mostly associated with our E&P segment, reflecting startup of new developments, foreign currency exchange impacts and changes in asset retirement obligations.

Impairment expropriated assets reflects a second-quarter 2007 noncash impairment of $4,588 million before-tax related to the expropriation of our oil interests in Venezuela. For additional information, see the Expropriated Assets section of Note 13 Impairments, in our 2007 Annual Report on Form 10-K.

Taxes other than income taxes increased 23 percent and 21 percent during the third quarter and first nine months of 2008, respectively, primarily due to increased production taxes in our E&P segment, a significant portion of which relates to Alaska.

Interest and debt expense decreased 39 percent and 35 percent during both periods of 2008, respectively, primarily due to lower average interest rates, as well as impacts related to the Alaska Quality Bank settlements, which occurred in the third quarter of 2007. In addition, the decrease in the nine-month period was also affected by a lower average debt level.

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Segment Results
E&P

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
	Millions of Dollars			
Net Income (Loss)				
Alaska	**$ 556**	765	**1,859**	1,807
Lower 48	**1,050**	460	**2,948**	1,389
United States	**1,606**	1,225	**4,807**	3,196
International	**2,322**	857	**6,007**	(1,189)
	$ 3,928	2,082	**10,814**	2,007
	Dollars Per Unit			
Average Sales Prices				
Crude oil (per barrel)				
United States	**$ 118.90**	72.00	**110.26**	62.70
International	**110.84**	74.03	**108.94**	65.19
Total consolidated	**114.20**	73.01	**109.53**	63.99
Equity affiliates*	**88.32**	44.60	**81.74**	44.30
Worldwide E&P	**112.19**	71.34	**107.84**	61.80
Natural gas (per thousand cubic feet)				
United States	**8.64**	5.36	**8.66**	6.01
International	**9.13**	5.75	**9.14**	6.24
Total consolidated	**8.91**	5.56	**8.93**	6.13
Equity affiliates*	**-**	-	**-**	.30
Worldwide E&P	**8.91**	5.56	**8.93**	6.13
Natural gas liquids (per barrel)				
United States	**68.84**	47.73	**64.53**	43.34
International	**68.78**	48.63	**67.46**	44.21
Total consolidated	**68.81**	48.09	**65.85**	43.71
Equity affiliates*	**-**	-	**-**	-
Worldwide E&P	**68.81**	48.09	**65.85**	43.71
	Millions of Dollars			
Worldwide Exploration Expenses				
General and administrative; geological and geophysical; and lease rentals	**$ 149**	144	**465**	384
Leasehold impairment	**60**	51	**179**	196
Dry holes	**58**	23	**220**	159
	$ 267	218	**864**	739

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

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	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
	Thousands of Barrels Daily			
Operating Statistics				
Crude oil produced				
Alaska	**218**	241	**239**	261
Lower 48	**85**	103	**92**	104
United States	**303**	344	**331**	365
Europe	**221**	203	**205**	210
Asia Pacific	**87**	83	**88**	91
Canada	**25**	17	**24**	19
Middle East and Africa	**73**	73	**78**	80
Other areas	**9**	10	**9**	10
Total consolidated	**718**	730	**735**	775
Equity affiliates*				
Canada	**32**	29	**29**	27
Russia and Caspian	**31**	15	**21**	15
Venezuela	**-**	-	**-**	56
	781	774	**785**	873
Natural gas liquids produced				
Alaska	**13**	15	**16**	18
Lower 48	**74**	73	**73**	71
United States	**87**	88	**89**	89
Europe	**15**	11	**19**	12
Asia Pacific	**19**	13	**17**	13
Canada	**24**	26	**25**	29
Middle East and Africa	**3**	1	**3**	2
	148	139	**153**	145
	Millions of Cubic Feet Daily			
Natural gas produced**				
Alaska	**102**	116	**100**	113
Lower 48	**1,971**	2,219	**1,989**	2,210
United States	**2,073**	2,335	**2,089**	2,323
Europe	**847**	793	**918**	932
Asia Pacific	**648**	575	**617**	592

Canada	**1,061**	1,069	**1,072**	1,118
Middle East and Africa	**122**	124	**114**	130
Other areas	**18**	20	**19**	21
Total consolidated	**4,769**	4,916	**4,829**	5,116
Equity affiliates*				
Venezuela	**-**	-	**-**	6
	4,769	4,916	**4,829**	5,122
		Thousands of Barrels Daily		
Mining operations				
Syncrude produced	**24**	27	**21**	24

**Excludes our equity share of LUKOIL, which is reported in the LUKOIL Investment segment.*
***Represents quantities available for sale. Excludes gas equivalent of natural gas liquids shown above.*

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The E&P segment explores for, produces, transports and markets crude oil, natural gas and natural gas liquids on a worldwide basis. It also mines deposits of oil sands in Canada to extract the bitumen and upgrade it into a synthetic crude oil. At September 30, 2008, our E&P operations were producing in the United States, Norway, the United Kingdom, the Netherlands, Canada, Nigeria, Ecuador, offshore Timor-Leste in the Timor Sea, Australia, China, Indonesia, Algeria, Libya, Vietnam, and Russia.

The E&P segment reported net income of $3,928 million in the third quarter of 2008, compared with $2,082 million in the third quarter of 2007. Results for the third quarter of 2008 reflected higher crude oil, natural gas and natural gas liquids prices, partially offset by higher production taxes, higher operating costs, and lower volumes.

Net income for the E&P segment for the first nine months of 2008 was $10,814 million, compared with $2,007 million for the corresponding period of 2007. The nine-month 2007 period results included a noncash impairment of $4,588 million before-tax ($4,512 million after-tax) related to the expropriation of our oil interests in Venezuela. For additional information, see the Expropriated Assets section of Note 13 Impairments, in our 2007 Annual Report on Form 10-K. The increase in net income was attributed to the impact of the Venezuela impairment on our prior-year results and higher crude oil, natural gas and natural gas liquids prices. The increase was partially offset by higher production taxes, lower volumes, higher operating costs and a reduced net benefit from asset rationalization efforts. See the Business Environment and Executive Overview section for additional information on industry crude oil and natural gas prices.

U.S. E&P

Net income from our U.S. E&P operations increased 31 percent and 50 percent in the third quarter and first nine months of 2008, respectively, primarily due to higher crude oil, natural gas and natural gas liquids prices. The increases were partially offset by higher production taxes (mainly in Alaska), lower crude oil and natural gas volumes, higher operating costs and the absence of a net benefit from the Alaska Quality Bank settlements recorded in the third quarter of 2007.

U.S. E&P production on a barrel-of-oil-equivalent (BOE) basis averaged 736,000 BOE per day in the third quarter of 2008, a decrease of 10 percent from 821,000 BOE per day in the third quarter of 2007. The production decrease was primarily due to normal field decline, unplanned downtime mostly related to hurricane disruptions, and planned maintenance activities in Alaska.

International E&P

Net income from our international E&P operations was $2,322 million in the third quarter of 2008, compared with $857 million in the third quarter of 2007. The increase was primarily attributed to higher crude oil, natural gas and natural gas liquids prices, as well as increased volumes. This was partially offset by higher depreciation expense.

Net income from our international E&P operations was $6,007 million in the first nine months of 2008, compared with a net loss of $1,189 million in the corresponding period of 2007. The increase in net income was attributed to the impact of the Venezuela impairment on our prior-year results and higher crude oil, natural gas and natural gas liquids prices. The increase was partially offset by higher depreciation expense, increased operating costs, lower volumes primarily due to the expropriation of our oil interests in Venezuela, and a lower net benefit from asset rationalization efforts.

International E&P production averaged 988,000 BOE per day in the third quarter of 2008, an increase of 8 percent from 911,000 BOE per day in the third quarter of 2007, primarily due to production from new developments in the United Kingdom, Russia, Indonesia, Norway and Canada, as well as less planned and unplanned downtime. This increase was partially offset by normal field decline and the impact of higher commodity prices on production sharing contracts.

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Our Syncrude mining operations produced 24,000 barrels per day in the third quarter of 2008, compared with 27,000 barrels per day in the third quarter of 2007.

Midstream

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
	Millions of Dollars			
Net Income*	**$ 173**	104	**472**	291
**Includes DCP Midstream-related net income:*	***$ 153***	*90*	***408***	*216*
	Dollars Per Barrel			
Average Sales Prices				
U.S. natural gas liquids*				
Consolidated	**$ 67.39**	48.62	**65.23**	43.85
Equity affiliates	**60.46**	47.73	**59.82**	42.86

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

	Thousands of Barrels Daily			
Operating Statistics				
Natural gas liquids extracted*	**176**	216	**190**	208
Natural gas liquids fractionated**	**181**	168	**166**	173

**Includes our share of equity affiliates, except LUKOIL, which is included in the LUKOIL Investment segment.*
***Excludes DCP Midstream.*

The Midstream segment purchases raw natural gas from producers and gathers natural gas through an extensive network of pipeline gathering systems. The natural gas is then processed to extract natural gas liquids from the raw gas stream. The remaining residue gas is marketed to electrical utilities, industrial users and gas marketing companies. Most of the natural gas liquids are fractionated separated into individual components like ethane, butane and propane and marketed as chemical feedstock, fuel or blendstock. The Midstream segment consists of our 50 percent equity investment in DCP Midstream, LLC, as well as our other natural gas gathering and processing operations, and natural gas liquids fractionation and marketing businesses, primarily in the United States and Trinidad.

Net income from the Midstream segment increased 66 percent and 62 percent in the third quarter and first nine months of 2008. The increase in both periods was primarily due to higher realized natural gas liquids prices, partially offset by higher costs, including increased fuel costs and repairs and maintenance work. In addition, the third quarter was negatively impacted by lower volumes, primarily related to hurricane impacts.

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R&M

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
	Millions of Dollars			
Net Income				
United States	**$ 524**	873	**1,546**	3,648
International	**325**	434	**487**	1,153
	$ 849	1,307	**2,033**	4,801
	Dollars Per Gallon			
U.S. Average Sales Prices*				
Gasoline				
Wholesale	**$ 3.21**	2.32	**3.00**	2.23
Retail	**3.42**	2.43	**3.14**	2.38
Distillates wholesale	**3.56**	2.36	**3.41**	2.18
	Thousands of Barrels Daily			
Operating Statistics				
Refining operations*				
United States				
Crude oil capacity**	**2,008**	2,037	**2,008**	2,034
Crude oil runs	**1,813**	1,980	**1,837**	1,938
Capacity utilization (percent)	**90%**	97	**91**	95
Refinery production	**1,975**	2,177	**2,020**	2,139
International				
Crude oil capacity**	**670**	687	**670**	693
Crude oil runs	**505**	574	**557**	616
Capacity utilization (percent)	**75%**	84	**83**	89
Refinery production	**523**	593	**562**	634
Worldwide				
Crude oil capacity**	**2,678**	2,724	**2,678**	2,727
Crude oil runs	**2,318**	2,554	**2,394**	2,554
Capacity utilization (percent)	**87%**	94	**89**	94
Refinery production	**2,498**	2,770	**2,582**	2,773

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

*** Weighted-average crude oil capacity for the three- and nine-month periods of 2007. Actual capacity at September 30, 2007, was 2,037,000, 669,000 and 2,706,000 barrels per day, respectively, for our U.S. refineries, our international refineries and worldwide.*

Petroleum products sales volumes				
United States				
Gasoline	**1,089**	1,212	**1,095**	1,256
Distillates	**858**	869	**880**	853
Other products	**365**	439	**384**	473
	2,312	2,520	**2,359**	2,582
International	**634**	629	**645**	694
	2,946	3,149	**3,004**	3,276

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

Net income from the R&M segment decreased 35 percent during the third quarter of 2008 and 58 percent in the first nine months of 2008. The results in both periods were lower due to decreased refining volumes, the absence of a $141 million third-quarter 2007 German tax legislation benefit and a reduced benefit from asset rationalization efforts. Additionally, the first nine months were impacted by significantly lower U.S. realized refining margins and higher operating costs, while higher global realized marketing margins partially offset these negative impacts.

U.S. R&M

Net income from our U.S. R&M operations decreased 40 percent in the third quarter of 2008 and 58 percent in the first nine months of 2008. The decrease in both periods was primarily the result of lower refining margins and volumes and higher turnaround and utility costs. Higher marketing margins partially offset the decrease during both periods.

Our U.S. refining capacity utilization rate was 90 percent in the third quarter of 2008, compared with 97 percent in the third quarter of 2007. The decline in the current year rate resulted mainly from downtime associated with hurricanes. In September 2008, WRB, our refining business venture with EnCana, received final government approval on a key permit associated with the expansion of the Wood River refinery.

International R&M

Net income from our international R&M operations decreased 25 percent in the third quarter of 2008 and 58 percent for the first nine months of 2008. Contributing to the decrease in both periods were negative foreign currency exchange impacts, the absence of a third-quarter 2007 German tax legislation benefit, and a reduced net benefit from asset rationalization efforts. Higher international refining and marketing margins partially offset these decreases. Additionally, the first nine months were impacted by decreased refining and marketing volumes.

Our international refining capacity utilization rate was 75 percent in the third quarter of 2008, compared with 84 percent in the same quarter of 2007. The utilization rate was primarily impacted in both periods by reduced crude throughput at our Wilhelmshaven refinery due to economic conditions.

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LUKOIL Investment

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Net Income	**$ 438**	387	**1,922**	1,169
Operating Statistics*				
Net crude oil production (thousands of barrels daily)	**371**	390	**384**	404
Net natural gas production (millions of cubic feet daily)	**303**	249	**356**	278
Net refinery crude oil processed (thousands of barrels daily)	**228**	226	**222**	210

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

The LUKOIL Investment segment represents our investment in the ordinary shares of LUKOIL, an international, integrated oil and gas company headquartered in Russia, which we account for under the equity method. As of September 30, 2008, our ownership interest in LUKOIL was 20 percent based on authorized and issued shares. Our ownership interest based on estimated shares outstanding, used for equity-method accounting, was also 20 percent at September 30, 2008. Since LUKOIL s accounting cycle close and preparation of U.S. generally accepted accounting principles financial statements occur subsequent to our reporting deadline, our equity earnings and statistics for our LUKOIL investment are estimated based on current market indicators, publicly available LUKOIL operating results and other objective data. Once the difference between actual and estimated results is known, an adjustment is recorded. This estimate-to-actual adjustment will be a recurring component of future period results. The adjustment to second-quarter 2008 estimates, recorded in the third quarter of 2008, reduced net income $101 million. This compares with a reduction to net income of $85 million recorded in the third quarter of 2007.

In addition to our estimated equity share of LUKOIL s earnings, this segment reflects the amortization of the basis difference between our equity interest in the net assets of LUKOIL and the book value of our investment. The segment also includes the costs associated with our employees seconded to LUKOIL.

Net income from the LUKOIL Investment segment increased 13 percent in the third quarter of 2008 and 64 percent in the first nine months of 2008. The increase in both periods was primarily due to higher estimated realized prices, partially offset by higher estimated taxes and operating costs, as well as a decrease in estimated volumes.

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.

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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.

Chemicals

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Net Income	**$ 46**	110	**116**	260

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

Net income from the Chemicals segment decreased 58 percent and 55 percent in the third quarter and first nine months of 2008, respectively. The decrease in both periods was due to lower aromatics and styrenics margins, as well as higher utility and turnaround costs. Both periods also had increased olefin and polyolefin margins. Business conditions in the chemicals and plastics industry are expected to remain challenging in the near term.

Emerging Businesses

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Net Income (Loss)				
Power	**$ 53**	21	**106**	33
Other	**(18)**	(18)	**(51)**	(43)
	$ 35	3	**55**	(10)

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

The Emerging Businesses segment reported net income of $35 million in the third quarter of 2008, compared with $3 million in the same quarter of 2007. Net income for the first nine months of 2008 was $55 million, compared with a net loss of $10 million for the same period a year ago. The improvement for both periods primarily reflects improved international power generation results, partially offset by lower domestic power results.

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Corporate and Other

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	**2008**	2007
Net Loss				
Net interest	**$ (149)**	(195)	**(376)**	(663)
Corporate general and administrative expenses	**(41)**	(49)	**(153)**	(126)
Acquisition/merger-related costs	**-**	(11)	**-**	(40)
Other	**(91)**	(65)	**(117)**	(169)
	$ (281)	(320)	**(646)**	(998)

Net interest consists of interest and financing expense, net of interest income and capitalized interest, as well as premiums incurred on the early retirement of debt. In 2008, net interest decreased 24 percent in the third quarter and 43 percent in the first nine months. The decrease in both periods was affected by lower average interest rates, while the decrease in the first nine months was also affected by a lower average debt level.

Corporate general and administrative expenses decreased 16 percent in the third quarter, primarily due to lower benefit-related expenses, partially offset by higher charitable contributions and advertising costs. Corporate general and administrative expenses increased 21 percent in the first nine months of 2008, as higher charitable contributions and advertising costs were only partially offset by lower benefit-related expenses.

Acquisition-related costs in 2007 included transition costs associated with the Burlington Resources acquisition.

The category Other includes certain foreign currency transaction gains and losses, environmental costs associated with sites no longer in operation, and other costs not directly associated with an operating segment. Increased expenses for the third quarter of 2008 mainly related to higher foreign currency losses. Improved results from Other in the first nine months of 2008 included lower foreign currency losses.

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CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

	Millions of Dollars	
	At September 30 2008	At December 31 2007
Short-term debt	**$ 387**	1,398
Total debt*	**$ 22,100**	21,687
Minority interests	**$ 1,127**	1,173
Common stockholders equity	**$ 92,876**	88,983
Percent of total debt to capital**	**19%**	19
Percent of floating-rate debt to total debt	**21%**	25

**Total debt includes short-term and long-term debt, as shown on our consolidated balance sheet.*
***Capital includes total debt, minority interests and common stockholders equity.*

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources. Cash generated from operating activities is the primary source of funding. In addition, during the first nine months of 2008, we raised $729 million in proceeds from asset dispositions. During the first nine months, available cash was used to support our ongoing capital expenditures and investments program, repurchase shares of our common stock, provide loan financing to certain equity affiliates, pay dividends, and meet the funding requirements to FCCL Oil Sands Partnership. Total dividends paid on our common stock during the first nine months were $2,159 million. During the first nine months of 2008, cash and cash equivalents decreased $340 million to $1,116 million.

In addition to cash flows from operating activities and proceeds from asset sales, we rely on our cash balance, commercial paper and credit facility programs, and our shelf registration statements to support our short- and long-term liquidity requirements. The credit markets, including the commercial paper markets in the United States, have recently experienced adverse conditions. Although we have not been materially impacted by these conditions, continuing volatility in the credit markets may increase costs associated with issuing commercial paper or other debt instruments due to increased spreads over relevant interest rate benchmarks, or affect our, or third parties we seek to do business with, ability to access those markets. Notwithstanding these adverse market conditions, we believe current cash and short-term investment balances and cash generated by operations, together with access to external sources of funds as described below in the Significant Sources of Capital section, will be sufficient to meet our funding requirements in the near- and long-term, including our capital spending program, dividend payments, required debt payments and the funding requirements to FCCL. Share repurchase levels for the remainder of 2008 will depend on market conditions and capital commitments.

Significant Sources of Capital

Operating Activities

During the first nine months of 2008, cash of $19,536 million was provided by operating activities, an 11 percent increase from cash from operations of $17,630 million in the corresponding period of 2007. Contributing to the increase were higher commodity prices in our E&P segment, partially offset by lower U.S. refining margins.

While the stability of our cash flows from operating activities benefits from geographic diversity and the effects of upstream and downstream integration, our short- and long-term operating cash flows are highly dependent upon prices for crude oil, natural gas and natural gas liquids, as well as refining and marketing margins. During the first nine months of 2008 and 2007, we benefited from favorable crude oil and natural gas

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prices. Prices and margins are driven by market conditions over which we have no control. Absent other mitigating factors, as these prices and margins fluctuate, we would expect a corresponding change in our operating cash flows.
The level of our production volumes of crude oil, natural gas and natural gas liquids also impacts our cash flows. These production levels are impacted by such factors as acquisitions and dispositions of fields, field production decline rates, new technologies, operating efficiency, weather conditions, the addition of proved reserves through exploratory success, and the timely and cost-effective development of those proved reserves. While we actively manage these factors, production levels can cause variability in cash flows, although historically this variability has not been as significant as that experienced with commodity prices.
In addition, the level and quality of output from our refineries impacts our cash flows. The output at our refineries is impacted by such factors as operating efficiency, maintenance turnarounds, feedstock availability and weather conditions. We actively manage the operations of our refineries and, typically, any variability in their operations has not been as significant to cash flows as that experienced with refining margins.

Asset Sales

Proceeds from asset sales during the first nine months of 2008 were $729 million, compared with $3,057 million in the same period of 2007. Proceeds for both periods primarily reflect our ongoing efforts to dispose of assets that no longer fit into our strategic plans or those that could bring more value by being monetized in the near term.

Commercial Paper and Credit Facilities

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. This 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. The facility is broadly syndicated among financial institutions and does not contain any material adverse change provisions or any covenants requiring maintenance of specified financial ratios or ratings. The credit agreement contains a cross-default provision relating to the failure to pay principal or interest on other debt obligations of $200 million or more by ConocoPhillips, or by any of its consolidated subsidiaries. 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.
At September 30, 2008, our primary funding source for short-term working capital needs was the ConocoPhillips $7.35 billion commercial paper program. Commercial paper maturities are generally limited to 90 days. The ConocoPhillips Qatar Funding Ltd. $1.5 billion commercial paper program is used to fund commitments relating to the Qatargas 3 project. Since we had $1,519 million of commercial paper outstanding and had issued $40 million of letters of credit, we had access to $5.8 billion in borrowing capacity under our revolving credit facility at September 30, 2008.
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. See Note 21 Joint Venture with Origin Energy, in the Notes to Consolidated Financial Statements, for additional information.

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Shelf Registrations

We have a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (SEC) under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of various types of debt and equity securities. Under this shelf, 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.

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

Minority Interests

At September 30, 2008, we had outstanding $1,127 million of equity in less than wholly owned consolidated subsidiaries held by minority interest owners, including a minority interest of $505 million in Ashford Energy Capital S.A. The remaining minority interest amounts are primarily related to operating joint ventures we control. The largest of these, $602 million, was related to the Darwin LNG project located in northern Australia.

Off-Balance Sheet Arrangements

As part of our normal ongoing business operations and consistent with normal industry practice, we enter into numerous agreements with other parties to pursue business opportunities, which share costs and apportion risks among the parties as governed by the agreements. At September 30, 2008, we were liable for certain contingent obligations under the following contractual arrangements:

Qatargas 3: We own a 30 percent interest in Qatargas 3, an integrated project to produce and liquefy natural gas from Qatar s North field. Our interest is held through a jointly owned company, Qatar Liquefied Gas Company Limited (3), for which we use the equity method of accounting. Qatargas 3 secured project financing of $4 billion in December 2005, consisting of $1.3 billion of loans from export credit agencies (ECA), $1.5 billion from commercial banks, and $1.2 billion from ConocoPhillips. The ConocoPhillips loan facilities have substantially the same terms as the ECA and commercial bank facilities. Prior to project completion certification, all loans, including the ConocoPhillips loan facilities, are guaranteed by the participants, based on their respective ownership interests. Accordingly, our maximum exposure to this financing structure is $1.2 billion. Upon completion certification, currently expected in 2010, all project loan facilities, including the ConocoPhillips loan facilities, will become nonrecourse to the project participants. At September 30, 2008, Qatargas 3 had $2.9 billion outstanding under all the loan facilities, of which ConocoPhillips provided $817 million, and an additional $67 million of accrued interest.

Rockies Express Pipeline LLC: In June 2006, we issued a guarantee for 24 percent of $2.0 billion in credit facilities issued to Rockies Express Pipeline LLC (Rockies Express). Rockies Express intends to construct a natural gas pipeline across a portion of the United States. The maximum potential amount of future payments to third-party lenders under the guarantee is estimated to be $480 million, which could become payable if the credit facilities are fully utilized and Rockies Express fails to meet its obligations under the credit agreement. At September 30, 2008, Rockies Express had $854 million outstanding under the credit facilities, with our 24 percent guarantee equaling $205 million. In addition, we have a 24 percent guarantee on $600 million of Floating Rate Notes due 2009. It is anticipated that construction completion will be achieved in 2009, and refinancing will take place at that time, making the debt nonrecourse.

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Keystone Oil Pipeline: We own a 50 percent equity interest in the Keystone Oil Pipeline (Keystone), a joint venture with TransCanada Corporation. Keystone plans to construct a crude oil pipeline originating in Alberta, with delivery points in Illinois and Oklahoma. In connection with certain planning and construction activities, agreements were put in place with third parties to guarantee the payments due under those agreements. 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 obligations cannot otherwise be mitigated. Payments under the guarantees are contingent upon the partners not making necessary equity contributions into Keystone; therefore, it is considered unlikely 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 guaranty obligation, until reaching 20.01 percent by the third quarter of 2009.

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

Capital Requirements

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

Our debt balance at September 30, 2008, was $22.1 billion, a slight increase from the balance at December 31, 2007. 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.

On January 3, 2007, we closed on a business venture with EnCana. 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, 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.

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At year-end 2007, approximately $10.1 billion remained authorized for share repurchases in 2008 for our share repurchase programs announced in 2007. During the first nine months of 2008, we repurchased 91.2 million shares of our common stock at a cost of $7.5 billion. Share repurchases have continued into the fourth quarter. Through the end of October we will have purchased approximately $8 billion in 2008 under our previously announced program. Share repurchase levels for the balance of the year will depend on market conditions and capital commitments.

In December 2005, we entered into a credit agreement with Qatargas 3, whereby we will provide loan financing of approximately $1.2 billion for the construction of a liquefied natural gas (LNG) train in Qatar. This financing will represent 30 percent of the project s total debt financing. Through September 30, 2008, we had provided $817 million in loan financing, and an additional $67 million of accrued interest. See the Off-Balance Sheet Arrangements section for additional information on Qatargas 3.

In 2004, we finalized our transaction with Freeport LNG Development, L.P. (Freeport) to participate in a proposed LNG receiving terminal in Quintana, Texas. We entered into a credit agreement with Freeport to provide loan financing for the construction of the facility. The terminal became operational late in the second quarter of 2008 and in August 2008, when the loan was converted from a construction loan to a term loan, it consisted of $650 million in loan financing and $124 million of accrued interest. Freeport began making repayments in September 2008, and the loan balance outstanding at September 30, 2008, was $768 million.

In the fall of 2004, ConocoPhillips and LUKOIL agreed to the expansion of the Varandey terminal as part of our investment in the OOO Naryanmarneftegaz (NMNG) joint venture. We have an obligation to provide loan financing to Varandey Terminal Company for 30 percent of the costs of the terminal expansion, but we have no governance or ownership interest in the terminal. 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. The outstanding accrued interest at September 30, 2008, was $43 million at current exchange rates.

The long-term portion of our loans to Qatargas 3, Freeport and Varandey Terminal Company are included in the Loans and advances related parties line on the balance sheet, while the short-term portion is in Accounts and notes receivable related parties.

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Capital Spending
Capital Expenditures and Investments

	Millions of Dollars Nine Months Ended September 30	
	2008	2007
E&P		
United States Alaska	**$ 1,083**	471
United States Lower 48	**2,887**	2,085
International	**4,733**	4,339
	8,703	6,895
Midstream	**-**	2
R&M		
United States	**1,092**	617
International	**455**	135
	1,547	752
LUKOIL Investment	**-**	-
Chemicals	**-**	-
Emerging Businesses	**137**	127
Corporate and Other	**148**	131
	$ 10,535	7,907
United States	**$ 5,210**	3,306
International	**5,325**	4,601
	$ 10,535	7,907

E&P
Capital expenditures and investments for E&P during the first nine months of 2008 totaled $8.7 billion. The expenditures supported key exploration and development projects including:

Significant U.S. lease acquisitions in the federal waters of the Chukchi Sea, offshore Alaska, as well as in the deepwater Gulf of Mexico.

Alaska activities related to development drilling in the Greater Kuparuk Area, including West Sak; the Greater Prudhoe Bay Area; the Alpine field, including satellite field prospects; and the Cook Inlet Area; as well as exploration activities.

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

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

The development of the Surmont heavy-oil project, investments related to FCCL, and development of conventional oil and gas reserves, all in Canada.

Development drilling and facilities projects in the Greater Ekofisk Area located in the Norwegian North Sea.

The Britannia satellite developments in the U.K. North Sea.

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

The Kashagan field in the Caspian Sea, offshore Kazakhstan.

Development of the Yuzhno Khylchuyu (YK) field in the northern part of Russia s Timan-Pechora province through the NMNG joint venture with LUKOIL.

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

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The Gumusut-Kakap development offshore Sabah, Malaysia.

Projects offshore Block B and onshore South Sumatra in Indonesia.

In July 2008, we announced the signing of an interim agreement with the Abu Dhabi National Oil Company (ADNOC) to develop the Shah gas field in Abu Dhabi. Final project agreements are targeted for year-end 2008. ADNOC will have a 60 percent interest and we will have a 40 percent interest in the project.

In October 2008, we closed on a transaction with Origin Energy, an integrated Australian energy company, to create a long-term Australasian natural gas business. We paid $5 billion at closing. See Note 21 Joint Venture with Origin Energy, in the Notes to Consolidated Financial Statements, for additional information.

R&M

Capital spending for R&M during the first nine months of 2008 totaled $1.5 billion and included projects to meet environmental standards and improve the operating integrity, safety and energy efficiency of processing units. Capital also was spent on pipeline development and refinery upgrade projects to increase crude oil capacity, expand conversion capability and increase clean product yield.

Major project activities in progress include:

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

Investment in the Keystone Oil Pipeline.

U.S. programs aimed at air emission reductions.

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Contingencies

Legal and Tax Matters

We accrue for non-income-tax-related contingencies when a loss is probable and the amounts can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. In the case of income-tax-related contingencies, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (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. Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements.

Environmental

We are subject to the same numerous international, federal, state, and local environmental laws and regulations as other companies in the petroleum exploration and production, refining and crude oil and refined product marketing and transportation businesses. For a discussion of the most significant of these environmental laws and regulations, including those with associated remediation obligations, see the Environmental section in Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 81 through 84 of our 2007 Annual Report on Form 10-K.

We, from time to time, receive requests for information or notices of potential liability from the Environmental Protection Agency and state environmental agencies alleging that we are a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or an equivalent state statute. On occasion, we also have been made a party to cost recovery litigation by those agencies or by private parties. These requests, notices and lawsuits assert potential liability for remediation costs at various sites that typically are not owned by us, but allegedly contain wastes attributable to our past operations. As of December 31, 2007, we reported we had been notified of potential liability under CERCLA and comparable state laws at 68 sites around the United States. At September 30, 2008, we reopened two sites and closed one of those two sites, resolved and closed four sites, and received two new notices of potential liability, leaving 67 unresolved sites where we have been notified of potential liability.

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

NEW ACCOUNTING STANDARDS

In December 2007, the FASB issued Statement of Financial Accounting Standards (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

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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 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.

OUTLOOK

In E&P, we expect our fourth-quarter 2008 production to be higher than the third quarter of 2008. We anticipate full-year 2008 production to be slightly below 1.8 million BOE per day due to the impact of higher prices on production-sharing contracts and lost production associated with Hurricanes Gustav and Ike.

In R&M, we expect our crude oil capacity utilization rate in the fourth quarter of 2008 to be in the mid-90-percent range.

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

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

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

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

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

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

Failure of new products and services to achieve market acceptance.

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

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

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

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

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

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

International monetary conditions and exchange controls.

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

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

Liability resulting from litigation.

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

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

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

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

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

The factors set forth under the heading Risk Factors on pages 34 through 39 of our 2007 Annual Report on Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the nine months ended September 30, 2008, does not differ materially from that discussed under Item 7A in our 2007 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2008, with the participation of our management, our Chairman and Chief Executive Officer (principal executive officer) and our Senior Vice President, Finance, and Chief Financial Officer (principal financial officer) carried out an evaluation, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Act), of the effectiveness of the design and operation of ConocoPhillips disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our Chairman and Chief Executive Officer and our Senior Vice President, Finance, and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of September 30, 2008.

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

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The following is a description of reportable legal proceedings including those involving governmental authorities under federal, state and local laws regulating the discharge of materials into the environment for this reporting period. The following proceedings include those matters that arose during the third quarter of 2008 and any material developments with respect to matters previously reported in our 2007 Annual Report on Form 10-K or first and second 2008 Quarterly Reports on Form 10-Q. While it is not possible to accurately predict the final outcome of these pending proceedings, if any one or more of such proceedings were decided adversely to ConocoPhillips, we expect there would be no material effect on our consolidated financial position. Nevertheless, such proceedings are reported pursuant to the U.S. Securities and Exchange Commission s regulations.

Our U.S. refineries are implementing two separate consent decrees, regarding alleged violations of the Federal Clean Air Act, with the U.S. Environmental Protection Agency (EPA), six states and one local air pollution agency. Some of the requirements and limitations contained in the decrees provide for stipulated penalties for violations. Stipulated penalties under the decrees are not automatic, but must be requested by one of the agency signatories. As part of periodic reports under the decrees 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.

New Matters

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, on August 28, 2008, SCAQMD issued five Notices of Violations (NOVs) alleging noncompliance. SCAQMD has not yet specified a penalty for these alleged violations. We are currently assessing the allegations and expect to work with SCAQMD toward a resolution of these NOVs.

Matters Previously Reported

On June 19, 2008, the Trainer refinery received a demand for stipulated penalties under the Refinery Enforcement Initiative Consent Decree in the amount of $110,000 for alleged violations associated with its leak detection and repair program. The penalty was paid in the third quarter of 2008.

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 letter dated February 9, 2007, the state of Illinois demanded $50,000 for each release. During March 2008, we reached agreement with the state of Illinois to settle this matter for a cash penalty of $25,000 and performance of two local recycling events. The penalty was paid in the third quarter of 2008 and the recycling events have been completed.

On March 27, 2008, the Trainer refinery received a proposed Consent Assessment of Civil Penalty from the Pennsylvania Department of Environmental Protection (PADEP) for alleged air quality violations that occurred from 2002 to 2007. The assessment covers several categories of alleged air quality violations including emission events, air emissions inventory reporting, and violation of permit conditions. The proposed penalty is $129,424, and we are working with the PADEP to resolve this matter.

On December 16, 2005, the 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. The proposed natural resources

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damages have been assessed at $70,000, with an additional $40,000 in federal and state oversight costs. We are working to resolve this matter.

On March 27, 2008, the Sweeny refinery received a Notice of Enforcement (NOE) from the Texas Commission on Environmental Quality (TCEQ) for an emissions event related to flaring that occurred on January 28, 2008. A penalty of $32,000 was submitted to the TCEQ in September 2008. This matter is subject to formal approval by the TCEQ Commissioners. We expect consideration of approval to occur in fourth quarter of 2008.

Item 1A. RISK FACTORS

Except for the risk factor set forth below, there have been no material changes to the risk factors disclosed in Item 1A of Part I in our Form 10-K for the year ended December 31, 2007 (Form 10-K). The risk factor set forth below was disclosed in our Form 10-K, but has been updated to provide additional information.

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.

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.

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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.

Recent disruptions in the credit markets and concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices, both of which have contributed to a decline in our stock price and corresponding market capitalization. Further stock price or commodity price decreases in the fourth quarter could result in noncash impairments of long-lived assets and goodwill, as well as other-than-temporary noncash impairments of equity method investments. At December 31, 2007, we had $29.3 billion of goodwill recorded in conjunction with past business combinations and $731 million of intangible assets determined to have indefinite useful lives. Decreased returns on pension fund assets may also materially increase our pension funding requirements.

Likewise, the capital and credit markets have become increasingly volatile as a result of adverse conditions. If the capital and credit markets continue to experience volatility and the availability of funds remains limited, we, and third parties with whom we do business, may incur increased costs associated with issuing commercial paper and/or other debt instruments and this, in turn, could adversely affect our ability to advance our strategic plans as currently contemplated. In this context, changes in our debt rating could have a material adverse effect on our interest costs and financing sources. Our debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased*	Average Price Paid per Total Shares Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	Millions of Dollars Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**
July 1-31, 2008	9,747,673	$ 87.40	9,745,778	$ 4,236
August 1-31, 2008	10,133,449	80.84	10,129,914	3,417
September 1-30, 2008	10,885,253	75.39	10,883,073	2,597
Total	30,766,375	$ 80.99	30,758,765	

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

***On January 12, 2007, we announced a stock repurchase program that provided for the repurchase of up to $1 billion of the company s common stock. On February 9, 2007, we announced plans to repurchase $4 billion of our common stock in 2007, including the $1 billion announced on January 12, 2007. On July 9, 2007, we announced plans to repurchase up to $15 billion of the company s common stock through the end of 2008, which included the $2 billion remaining under the previously announced $4 billion program. Acquisitions for the share repurchase programs are made at management s discretion, at prevailing prices, subject to market conditions and other factors. Repurchases may be increased,*

decreased or discontinued at any time without prior notice. Shares of stock repurchased under the plans are held as treasury shares.

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Item 5. OTHER INFORMATION

On October 29, 2008, following receipt of approval from Australia s Foreign Investment Review Board, we closed on a transaction with Origin Energy 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 processing and export sales. Under the terms of the transaction, we paid $5 billion at closing.

Our initial payment was funded through cash on hand as well as the issuance of approximately $4.9 billion in commercial paper borrowings under our commercial paper program as described in Management s Discussion and Analysis of Financial Condition and Results of Operations under the section entitled Liquidity and Capital Resources Significant Sources of Capital Commercial Paper and Credit Facilities on page 46, which is incorporated herein by reference. Interest rates on commercial paper borrowings are subject to conditions of the short-term money markets.

Item 6. EXHIBITS

Exhibits

3.1	By-Laws of ConocoPhillips, as amended and restated on October 1, 2008 (incorporated by reference to Exhibit 99.2 to the Current Report of ConocoPhillips on Form 8-K filed on October 1, 2008; File No. 001-32395).
10.1	Letter Agreement between ConocoPhillips and John E. Lowe, dated October 1, 2008 (incorporated by reference to Exhibit 99.1 to the Current Report of ConocoPhillips on Form 8-K filed on October 1, 2008; File No. 001-32395).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32	Certifications pursuant to 18 U.S.C. Section 1350.

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SIGNATURE

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

CONOCOPHILLIPS

/s/ Rand C. Berney

Rand C. Berney
Vice President and Controller
(Chief Accounting and Duly Authorized Officer)

October 29, 2008