CONOCOPHILLIPS
Form 10-Q
April 30, 2012
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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 March 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number: 001-32395

ConocoPhillips

(Exact name of registrant as specified in its charter)

Delaware	**01-0562944**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

600 North Dairy Ashford, Houston, TX 77079
(Address of principal executive offices) (Zip Code)
281-293-1000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 1,264,556,506 shares of common stock, $.01 par value, outstanding at March 31, 2012.

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CONOCOPHILLIPS

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Income Statement **ConocoPhillips**

	Millions of Dollars Three Months Ended March 31	
	2012	2011
Revenues and Other Income		
Sales and other operating revenues*	$ **56,132**	56,530
Equity in earnings of affiliates	**1,220**	1,017
Gain on dispositions	**942**	616
Other income	**60**	84
Total Revenues and Other Income	**58,354**	58,247
Costs and Expenses		
Purchased crude oil, natural gas and products	**41,889**	42,376
Production and operating expenses	**2,696**	2,628
Selling, general and administrative expenses	**685**	499
Exploration expenses	**679**	176
Depreciation, depletion and amortization	**1,838**	2,070
Impairments	**259**	
Taxes other than income taxes*	**4,521**	4,364
Accretion on discounted liabilities	**114**	112
Interest and debt expense	**209**	262
Foreign currency transaction (gains) losses	**(11)**	(36)
Total Costs and Expenses	**52,879**	52,451
Income before income taxes	**5,475**	5,796
Provision for income taxes	**2,520**	2,754
Net income	**2,955**	3,042
Less: net income attributable to noncontrolling interests	**(18)**	(14)
Net Income Attributable to ConocoPhillips	$ **2,937**	3,028
Net Income Attributable to ConocoPhillips Per Share of Common Stock *(dollars)*		
Basic	$ **2.29**	2.11
Diluted	**2.27**	2.09
Dividends Paid Per Share of Common Stock *(dollars)*	$ **.66**	.66

Average Common Shares Outstanding *(in thousands)*		
Basic	**1,283,493**	1,432,285
Diluted	**1,293,104**	1,445,477
**Includes excise taxes on petroleum products sales:*	***$ 3,321***	*3,382*

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income **ConocoPhillips**

	Millions of Dollars Three Months Ended March 31	
	2012	2011
Net Income	**$ 2,955**	3,042
Other comprehensive income		
Defined benefit plans		
Prior service cost arising during the period		
Reclassification adjustment for amortization of prior service credit included in net income	**(1)**	
Net change	**(1)**	
Net actuarial loss arising during the period		
Reclassification adjustment for amortization of prior net losses included in net income	**78**	51
Net change	**78**	51
Nonsponsored plans*	**3**	6
Income taxes on defined benefit plans	**(29)**	(20)
Defined benefit plans, net of tax	**51**	37
Unrealized holding gain on securities**		8
Reclassification adjustment for gain included in net income		(255)
Income taxes on unrealized holding gain on securities		89
Unrealized gain on securities, net of tax		(158)
Foreign currency translation adjustments	**852**	914
Reclassification adjustment for gain included in net income	**1**	
Income taxes on foreign currency translation adjustments	**(19)**	(20)
Foreign currency translation adjustments, net of tax	**834**	894
Hedging activities	**1**	1
Income taxes on hedging activities		
Hedging activities, net of tax	**1**	1
Other Comprehensive Income, Net of Tax	**886**	774
Comprehensive Income	**3,841**	3,816
Less: comprehensive income attributable to noncontrolling interests	**(18)**	(14)
Comprehensive Income Attributable to ConocoPhillips	**$ 3,823**	3,802

**Plans for which ConocoPhillips is not the primary obligor primarily those administered by equity affiliates.*

***Available-for-sale securities of LUKOIL.*

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet **ConocoPhillips**

	Millions of Dollars	
	March 31 2012	December 31 2011
Assets		
Cash and cash equivalents	**$ 3,707**	5,780
Short-term investments*	**508**	581
Restricted cash	**6,050**	
Accounts and notes receivable (net of allowance of $52 million in 2012 and $30 million in 2011)	**15,575**	14,648
Accounts and notes receivable related parties	**1,908**	1,878
Inventories	**6,072**	4,631
Prepaid expenses and other current assets	**3,246**	2,700
Total Current Assets	**37,066**	30,218
Investments and long-term receivables	**33,574**	32,108
Loans and advances related parties	**1,615**	1,675
Net properties, plants and equipment	**85,559**	84,180
Goodwill	**3,330**	3,332
Intangibles	**742**	745
Other assets	**995**	972
Total Assets	**$ 162,881**	153,230
Liabilities		
Accounts payable	**$ 19,637**	17,973
Accounts payable related parties	**1,913**	1,680
Short-term debt	**7,002**	1,013
Accrued income and other taxes	**4,751**	4,220
Employee benefit obligations	**700**	1,111
Other accruals	**2,427**	2,071
Total Current Liabilities	**36,430**	28,068
Long-term debt	**21,358**	21,610
Asset retirement obligations and accrued environmental costs	**9,073**	9,329
Joint venture acquisition obligation related party	**3,393**	3,582
Deferred income taxes	**18,709**	18,055
Employee benefit obligations	**4,033**	4,068
Other liabilities and deferred credits	**2,842**	2,784
Total Liabilities	**95,838**	87,496
Equity		
Common stock (2,500,000,000 shares authorized at $.01 par value)		
Issued (2012 1,753,755,416 shares; 2011 1,749,550,587 shares)		
Par value	**18**	17
Capital in excess of par	**44,936**	44,725
Treasury stock (at cost: 2012 489,198,910 shares; 2011 463,880,628 shares)	**(33,678)**	(31,787)
Accumulated other comprehensive income	**3,972**	3,086
Unearned employee compensation		(11)

Retained earnings	**51,286**	49,194
Total Common Stockholders Equity	**66,534**	65,224
Noncontrolling interests	**509**	510
Total Equity	**67,043**	65,734
Total Liabilities and Equity	**$ 162,881**	153,230
**Includes marketable securities of:*	***$ 407***	*232*

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows **ConocoPhillips**

	Millions of Dollars	
	Three Months Ended March 31	
	2012	2011
Cash Flows From Operating Activities		
Net income	**$ 2,955**	3,042
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	**1,838**	2,070
Impairments	**259**	
Dry hole costs and leasehold impairments	**518**	50
Accretion on discounted liabilities	**114**	112
Deferred taxes	**258**	87
Undistributed equity earnings	**(423)**	(523)
Gain on dispositions	**(942)**	(616)
Other	**(404)**	(185)
Working capital adjustments		
Decrease (increase) in accounts and notes receivable	**(913)**	(681)
Decrease (increase) in inventories	**(1,402)**	(2,669)
Decrease (increase) in prepaid expenses and other current assets	**(67)**	(546)
Increase (decrease) in accounts payable	**1,859**	1,753
Increase (decrease) in taxes and other accruals	**532**	53
Net Cash Provided by Operating Activities	**4,182**	1,947
Cash Flows From Investing Activities		
Capital expenditures and investments	**(4,260)**	(2,884)
Proceeds from asset dispositions	**1,109**	1,787
Net sales (purchases) of short-term investments	**92**	(1,170)
Long-term advances/loans related parties	**4**	4
Collection of advances/loans related parties	**38**	40
Other	**7**	12
Net Cash Used in Investing Activities	**(3,010)**	(2,211)
Cash Flows From Financing Activities		
Issuance of debt	**5,794**	
Repayment of debt	**(54)**	(373)
Change in restricted cash	**(6,050)**	
Issuance of company common stock	**36**	75
Repurchase of company common stock	**(1,899)**	(1,636)
Dividends paid on company common stock	**(843)**	(944)
Other	**(254)**	(183)
Net Cash Used in Financing Activities	**(3,270)**	(3,061)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**25**	43
Net Change in Cash and Cash Equivalents	**(2,073)**	(3,282)

Cash and cash equivalents at beginning of period	**5,780**	9,454
Cash and Cash Equivalents at End of Period	**$ 3,707**	6,172

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements **ConocoPhillips**

Note 1 Interim Financial Information

The interim-period financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated financial position of ConocoPhillips and its results of operations and cash flows for such periods. All such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes included in our 2011 Annual Report on Form 10-K.

Note 2 Variable Interest Entities (VIEs)

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

We have an agreement with Freeport LNG Development, L.P. (Freeport LNG) to participate in a liquefied natural gas (LNG) receiving terminal in Quintana, Texas. We have no ownership in Freeport LNG; however, we own a 50 percent interest in Freeport LNG GP, Inc. (Freeport GP), which serves as the general partner managing the venture. We entered into a credit agreement with Freeport LNG, whereby we agreed to provide loan financing for the construction of the terminal. We also entered into a long-term agreement with Freeport LNG to use 0.9 billion cubic feet per day of regasification capacity. The terminal became operational in June 2008, and we began making payments under the terminal use agreement. Freeport LNG began making loan repayments in September 2008, and the loan balance outstanding was $602 million at March 31, 2012, and $612 million at December 31, 2011. Freeport LNG is a VIE because Freeport GP holds no equity in Freeport LNG, and the limited partners of Freeport LNG do not have any substantive decision making ability. We performed an analysis of the expected losses and determined we are not the primary beneficiary. This expected loss analysis took into account that the credit support arrangement requires Freeport LNG to maintain sufficient commercial insurance to mitigate any loan losses. The loan to Freeport LNG is accounted for as a financial asset, and our investment in Freeport GP is accounted for as an equity investment.

Note 3 Inventories

Inventories consisted of the following:

	Millions of Dollars	
	March 31 2012	December 31 2011
Crude oil and petroleum products	**$ 5,071**	3,633
Materials, supplies and other	**1,001**	998
	$ 6,072	4,631

Inventories valued on the last-in, first-out (LIFO) basis totaled $4,789 million and $3,387 million at March 31, 2012, and December 31, 2011, respectively. The estimated excess of current replacement cost over LIFO cost of inventories amounted to approximately $9,500 million and $8,400 million at March 31, 2012, and December 31, 2011, respectively.

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Note 4 Assets Held for Sale or Sold

In March 2012, we sold our Vietnam Exploration and Production (E&P) business for $1,100 million, including customary working capital adjustments, and recognized a gain of $937 million before-tax, which was included in the Gain on dispositions line on the consolidated income statement. The business had a net carrying value of approximately $163 million, which included $352 million of properties, plants and equipment (PP&E), $69 million of asset retirement obligations and $145 million of deferred income taxes.

In January 2012, we entered into an agreement to sell our interest in the Statfjord Field and associated satellites, all of which are located in the North Sea and included in our E&P segment. The sale is expected to be completed in the second quarter of 2012. Accordingly, on our consolidated balance sheet as of March 31, 2012, we reclassified $199 million of PP&E to Prepaid expenses and other current assets, $446 million of asset retirement obligations to Other accruals, and $322 million of noncurrent deferred income tax assets as current, based on their held for sale status.

Note 5 Investments, Loans and Long-Term Receivables

Australia Pacific LNG

In January 2012, Australia Pacific LNG (APLNG) and China Petrochemical Corporation (Sinopec) signed an amendment to their existing LNG sales agreement for the sale and purchase of an additional 3.3 million tonnes of LNG per year through 2035. This agreement, in combination with the binding Heads of Agreement with Kansai Electric Power Co. Inc., signed in November 2011, finalizes the marketing of the second train. In conjunction with the LNG sales agreement, the parties have also agreed for Sinopec to subscribe for additional shares in APLNG, which upon completion will raise its equity interest from 15 percent to 25 percent. As a result, both our ownership interest and Origin Energy s ownership interest would dilute from 42.5 percent to 37.5 percent. The Subscription Agreement is subject to customary governmental approvals and, along with the amendment to the sales agreement, is conditional on a final investment decision on the second train, which is expected in the second quarter of 2012. We expect to record a loss of approximately $135 million after-tax from the dilution in the second quarter of 2012.

Loans and Long-Term Receivables

As part of our normal ongoing business operations and consistent with industry practice, we enter into numerous agreements with other parties to pursue business opportunities. Included in such activity are loans made to certain affiliated and non-affiliated companies. Significant loans to affiliated companies at March 31, 2012, included the following:

- $602 million in loan financing to Freeport LNG.
- $1,131 million in project financing to Qatar Liquefied Gas Company Limited (3) (QG3).

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

Long-term receivables from non-affiliated companies are included in the Investments and long-term receivables line on the consolidated balance sheet, while the short-term portion related to non-affiliate loans is in Accounts and notes receivable.

Other

We have investments remeasured at fair value on a recurring basis to support certain nonqualified deferred compensation plans. The fair value of these assets at March 31, 2012, was $352 million, and at December 31, 2011, was $336 million. The entire value is categorized in Level 1 of the fair value hierarchy. These investments are measured at fair value using a market approach based on quotations from national securities exchanges.

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Merey Sweeny, L.P. (MSLP) owns a delayed coker and related facilities at the Sweeny Refinery. MSLP processes our long residue, which is produced from heavy sour crude oil, for a processing fee. Fuel-grade petroleum coke is produced as a by-product and becomes the property of MSLP. Prior to August 28, 2009, MSLP was owned 50/50 by us and Petróleos de Venezuela S.A. (PDVSA). Under the agreements that govern the relationships between the partners, certain defaults by PDVSA with respect to supply of crude oil to the Sweeny Refinery gave us the right to acquire PDVSA s 50 percent ownership interest in MSLP, which we exercised on August 28, 2009. PDVSA has initiated arbitration with the International Chamber of Commerce challenging the exercise of the call right and claiming it was invalid. The arbitral tribunal is scheduled to hold hearings on the merits of the dispute in December 2012. We continue to use the equity method of accounting for our investment in MSLP.

Note 6 Properties, Plants and Equipment

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

	$00000000	**$00000000**	**$00000000**	**$00000000**	**$00000000**	**$00000000**
	Millions of Dollars					
	March 31, 2012			December 31, 2011		
	Gross PP&E	Accum. DD&A	Net PP&E	Gross PP&E	Accum. DD&A	Net PP&E
Exploration and Production (E&P)	$ **125,827**	**55,990**	**69,837**	124,111	55,565	68,546
Midstream	**134**	**85**	**49**	135	86	49
Refining and Marketing (R&M)	**22,364**	**8,329**	**14,035**	22,096	8,128	13,968
LUKOIL Investment						
Chemicals						
Emerging Businesses	**1,063**	**240**	**823**	1,023	220	803
Corporate and Other	**1,865**	**1,050**	**815**	1,844	1,030	814
	$ **151,253**	**65,694**	**85,559**	149,209	65,029	84,180

Note 7 Suspended Wells

The capitalized cost of suspended wells at March 31, 2012, was $1,008 million, a decrease of $29 million from $1,037 million at year-end 2011. For the category of exploratory well costs capitalized for a period greater than one year as of December 31, 2011, no wells were charged to dry hole expense during the first three months of 2012.

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Note 8 Impairments

During the three-month periods of 2012 and 2011, we recognized the following before-tax impairment charges:

	Millions of Dollars	
	Three Months Ended March 31	
	2012	2011
E&P		
United States	**$ 2**	
International	**214**	
R&M		
United States	**1**	
International	**42**	
	$ 259	

In the first quarter of 2012, we recorded a $213 million property impairment in our E&P segment for the carrying value of capitalized project development costs associated with our Mackenzie Gas Project. Advancement of the project was suspended indefinitely in the first quarter of 2012 due to a continued decline in market conditions and the lack of acceptable commercial terms. In addition, we recorded a $481 million impairment for the undeveloped leasehold costs associated with the project. The leasehold impairment was included in the Exploration expenses line on our consolidated income statement. We also recorded a $42 million impairment in our R&M segment related to equipment formerly associated with the canceled Wilhelmshaven Refinery upgrade project.

Note 9 Debt

We have two commercial paper programs supported by our $8.0 billion revolving credit facilities: the ConocoPhillips $6.35 billion program, primarily a funding source for short-term working capital needs, and the ConocoPhillips Qatar Funding Ltd. $1.5 billion commercial paper program, which is used to fund commitments relating to the QG3 Project. Commercial paper maturities are generally limited to 90 days.

At both March 31, 2012, and December 31, 2011, we had no direct outstanding borrowings under our revolving credit facilities, but $26 million in letters of credit had been issued as of March 31, 2012, and $40 million as of December 31, 2011. In addition, under the two commercial paper programs, there was $1,097 million of commercial paper outstanding at March 31, 2012, compared with $1,128 million at December 31, 2011. Since we had $1,097 million of commercial paper outstanding and had issued $26 million of letters of credit, we had access to $6.9 billion in borrowing capacity under our revolving credit facilities at March 31, 2012.

At March 31, 2012, we classified $1,010 million of short-term debt as long-term debt, based on our ability and intent to refinance the obligation on a long-term basis under our revolving credit facilities.

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In anticipation of the separation of our downstream businesses into Phillips 66 (see Note 21 Planned Separation of Downstream Businesses, for additional information), in March 2012, Phillips 66 issued, through a private placement, the following Senior Notes. The Notes are fully and unconditionally guaranteed by Phillips 66 Company, a 100 percent owned subsidiary. These Notes are classified as short-term debt on the consolidated balance sheet as, under the terms of the Notes, they must be redeemed within one year unless retained by Phillips 66 in the separation.

$800 million aggregate principal amount at 1.950% due 2015.

$1.5 billion aggregate principal amount at 2.950% due 2017.

$2.0 billion aggregate principal amount at 4.300% due 2022.

$1.5 billion aggregate principal amount at 5.875% due 2042.

As of March 31, 2012, the net proceeds from this offering were deposited in two segregated escrow accounts for the benefit of the holders of the Notes. These funds were restricted as to withdrawal or usage pending a written notice from Phillips 66 to the escrow agents that, among other items, the contribution to Phillips 66 of the downstream business of ConocoPhillips, in connection with the separation from ConocoPhillips, has been consummated in all material respects. Accordingly, these funds, along with approximately $290 million of funds sufficient to pay a mandatory redemption price plus accrued interest to the note holders should the separation not occur, are included in the Restricted cash line on our consolidated balance sheet as of March 31, 2012.

Note 10 Joint Venture Acquisition Obligation

We are obligated to contribute $7.5 billion, plus interest, over a 10-year period that began in 2007, to FCCL Partnership. Quarterly principal and interest payments of $237 million began in the second quarter of 2007 and will continue until the balance is paid. Of the principal obligation amount, approximately $742 million was short-term and was included in the Accounts payable related parties line on our March 31, 2012, consolidated balance sheet. The principal portion of these payments, which totaled $180 million in the first three months of 2012, is included in the Other line in the financing activities section on 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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Note 11 Noncontrolling Interests

Activity for the equity attributable to noncontrolling interests for the first three months of 2012 and 2011 was as follows:

	Millions of Dollars					
	2012			2011		
	Common Stockholders Equity	Non-Controlling Interest	Total Equity	Common Stockholders Equity	Non-Controlling Interest	Total Equity
Balance at January 1	**$ 65,224**	**510**	**65,734**	68,562	547	69,109
Net income	**2,937**	**18**	**2,955**	3,028	14	3,042
Dividends	**(843)**		**(843)**	(944)		(944)
Repurchase of company common stock	**(1,899)**		**(1,899)**	(1,636)		(1,636)
Distributions to noncontrolling interests		**(19)**	**(19)**		(12)	(12)
Other changes, net*	**1,115**		**1,115**	962		962
Balance at March 31	**$ 66,534**	**509**	**67,043**	69,972	549	70,521

**Includes components of other comprehensive income, which are disclosed separately in the Consolidated Statement of Comprehensive Income.*

Note 12 Guarantees

At March 31, 2012, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantee and expect future performance to be either immaterial or have only a remote chance of occurrence.

Guarantees of Joint Venture Debt

At March 31, 2012, we had guarantees outstanding for our portion of joint venture debt obligations, which have terms of up to 24 years. The maximum potential amount of future payments under the guarantees is approximately $120 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

In conjunction with our purchase of a 50 percent ownership interest in APLNG from Origin Energy in October 2008, we agreed to participate, if and when requested, in any parent company guarantees that were outstanding at the time we purchased our interest in APLNG. These parent company guarantees cover the obligation of APLNG to deliver natural gas under several sales agreements with remaining terms of 5 to 20 years. Our maximum potential amount of future payments, or cost of volume delivery, under these guarantees is estimated to be $1,288 million ($2,879 million in the event of intentional or reckless breach) at March 2012 exchange rates based on our 42.5 percent share of the remaining contracted volumes, which could become payable if APLNG fails to meet its obligations under these agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, would only be triggered if APLNG does not have enough natural gas to meet these sales commitments and if the co-venturers do not make necessary equity contributions into APLNG. Additionally, we have guaranteed the performance of APLNG with regard to certain contracts executed in connection with APLNG s issuance of the Train 1 Notice to Proceed. Our maximum potential amount of future payments related to these guarantees is estimated to be $250 million at March 2012 exchange rates based on our 42.5 percent ownership in APLNG.

We have other guarantees with maximum future potential payment amounts totaling $500 million, which consist primarily of guarantees to fund the short-term cash liquidity deficits of certain joint ventures, a guarantee of minimum charter revenue for an LNG vessel, one small construction completion guarantee, guarantees relating to the startup of a refining joint venture, guarantees of the lease payment obligations of a joint venture, guarantees of the residual value of leased corporate aircraft, and guarantees of the performance of a business partner or some of its customers. These guarantees generally extend up to 13 years or life of the venture.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to qualifying indemnifications. Agreements associated with these sales include indemnifications for taxes, environmental liabilities, permits and licenses, employee claims, real estate indemnity against tenant defaults, and litigation. The terms of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, the term is generally indefinite and the maximum amount of future payments is generally unlimited. The carrying amount recorded for these indemnifications at March 31, 2012, was $349 million. We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information the liability is essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. Included in the recorded carrying amount were $207 million of environmental accruals for known contamination that are included in asset retirement obligations and accrued environmental costs at March 31, 2012. For additional information about environmental liabilities, see Note 13 Contingencies and Commitments.

Note 13 Contingencies and Commitments

A number of lawsuits involving a variety of claims have been made against ConocoPhillips that arise in the ordinary course of business. We also may be required 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 active and inactive sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

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

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Environmental

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

Although liability of those potentially responsible for environmental remediation costs is generally joint and several for federal sites and frequently so for state sites, we are usually only one of many companies cited at a particular site. Due to the joint and several liabilities, we could be responsible for all cleanup costs related to any site at which we have been designated as a potentially responsible party. 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 and time limits.

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 in respect of sites acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. At March 31, 2012, our balance sheet included a total environmental accrual of $920 million, compared with $922 million at December 31, 2011. We expect to incur a substantial amount of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings

Our legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. Our process facilitates the early evaluation and quantification of potential exposures in individual cases. This process also enables us to track those cases that have been scheduled for trial and/or mediation. 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 regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, are required.

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 March 31, 2012, we had performance obligations secured by letters of credit of $2,551 million (of which $26 million was issued under the provisions of our revolving credit facility, and the remainder was issued as direct bank letters of credit) related to various purchase commitments for materials, supplies, services and items of permanent investment incident to the ordinary conduct of business.

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In 2007, we announced we had been unable to reach agreement with respect to our migration to an *empresa mixta* structure mandated by the Venezuelan government s Nationalization Decree. As a result, Venezuela s national oil company, PDVSA, or its affiliates, directly assumed control over ConocoPhillips interests in the Petrozuata and Hamaca heavy oil ventures and the offshore Corocoro development project. In response to this expropriation, we filed a request for international arbitration on November 2, 2007, with the World Bank s International Centre for Settlement of Investment Disputes (ICSID). An arbitration hearing was held before an ICSID tribunal during the summer of 2010, and we are currently awaiting an interim decision on key legal and factual issues. A different arbitration hearing was held in January 2012 with the International Chamber of Commerce on ConocoPhillips separate claims against PDVSA for certain breaches of their Association Agreements prior to the expropriation.

In 2008, Burlington Resources, Inc., a wholly owned subsidiary of ConocoPhillips, initiated arbitration before ICSID against The Republic of Ecuador, as a result of the newly enacted Windfall Profits Tax Law and government-mandated renegotiation of our production sharing contracts. Despite a restraining order issued by ICSID, Ecuador confiscated the crude oil production of Burlington and its co-venturer and sold the illegally seized crude oil. In 2009, Ecuador took over operations in Blocks 7 and 21, fully expropriating our assets. In June 2010, the ICSID tribunal concluded it has jurisdiction to hear the expropriation claim. An arbitration hearing on case merits occurred in March 2011, and we are awaiting a decision. On September 30, 2011, Ecuador filed a supplemental counterclaim asserting environmental damages, which we believe will not be material. The arbitration process is ongoing.

Note 14 Financial Instruments and Derivative Contracts

Financial Instruments

We invest excess cash in financial instruments with maturities based on our cash forecasts for the various currency pools we manage. The maturities of these investments may from time to time extend beyond 90 days. The types of financial instruments in which we currently invest include:

- Time Deposits: Interest bearing deposits placed with approved financial institutions.

- Commercial Paper: Unsecured promissory notes issued by a corporation, commercial bank, or government agency purchased at a discount, maturing at par.

- Government or government agency obligations: Negotiable debt obligations issued by a government or government agency.

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These financial instruments appear in the Cash and cash equivalents line on our consolidated balance sheet if the maturities at the time we made the investments were 90 days or less; otherwise, these held-to-maturity investments are included in the Short-term investments line. We held the following financial instruments:

	Millions of Dollars Carrying Amount			
	Cash & Cash Equivalents		Short-Term Investments*	
	March 31 2012	December 31 2011	**March 31 2012**	December 31 2011
Cash	**$ 1,066**	1,169		
Time Deposits				
Remaining maturities from 1 to 90 days	**2,209**	4,318	**101**	349
Remaining maturities from 91 to 180 days				
Commercial Paper				
Remaining maturities from 1 to 90 days	**96**	293	**407**	232
Remaining maturities from 91 to 180 days				
Government Obligations				
Remaining maturities from 1 to 90 days	**336**			
Remaining maturities from 91 to 180 days				
	$ 3,707	5,780	**508**	581

**Carrying value approximates fair value.*

At March 31, 2012, we had $6,050 million of financial instruments designated as Restricted cash on our consolidated balance sheet, which represented the net funds received from a private bond offering by Phillips 66 issued in connection with its planned separation from ConocoPhillips, along with approximately $290 million of funds sufficient to pay a mandatory redemption price plus accrued interest to the note holders should the separation not occur. These amounts were deposited into two segregated escrow accounts for the benefit of the note holders and were restricted as to withdrawal and usage. At March 31, 2012, the funds in the escrow accounts were invested in U.S. Treasury Bills ($5,920 million) and U.S. Treasury Notes ($130 million), all with maturities within 30 days from March 31, 2012. For additional information, see Note 9 Debt.

Derivative Instruments

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

Purchase and sales contracts with fixed minimum notional volumes for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) are recorded on the balance sheet as derivatives unless the contracts are eligible for and we elect the normal purchases and normal sales exception (i.e., contracts to purchase or sell quantities we expect to use or sell over a reasonable period in the normal course of business). We record most of our contracts to buy or sell natural gas and the majority of our contracts to sell power as derivatives, but we do apply the normal purchases and normal sales exception to certain long-term contracts to sell our natural gas production. We generally apply this normal purchases and normal sales exception to eligible crude oil and refined product commodity purchase and sales contracts; however, we may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of the purchase or sales contract but hedge accounting will not be applied, in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

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We value our exchange-traded derivatives using closing prices provided by the exchange as of the balance sheet date, and these are classified as Level 1 in the fair value hierarchy. Where exchange-provided prices are adjusted, non-exchange quotes are used, or when the instrument lacks sufficient liquidity, we generally classify those exchange-cleared contracts as Level 2. Over-the-counter (OTC) financial swaps and physical commodity forward purchase and sales contracts are generally valued using quotations provided by brokers and price index developers, such as Platts and Oil Price Information Service. These quotes are corroborated with market data and are classified as Level 2. In certain less liquid markets or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC swaps and physical commodity purchase and sales contracts are valued using internally developed methodologies that consider historical relationships among various commodities that result in management s best estimate of fair value. These contracts are classified as Level 3. A contract that is initially classified as Level 3 due to absence or insufficient corroboration of broker quotes over a material portion of the contract will transfer to Level 2 when the portion of the trade having no quotes or insufficient corroboration becomes an insignificant portion of the contract. A contract would also transfer to Level 2 if we began using a corroborated broker quote that has become available. Conversely, if a corroborated broker quote ceases to be available or used by us, the contract would transfer from Level 2 to Level 3. There were no material transfers in or out of Level 1.

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

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

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

	Millions of Dollars							
	March 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	**$ 3,344**	**2,009**	**66**	**5,419**	2,807	1,947	72	4,826
Interest rate derivatives		**27**		**27**		31		31
Foreign currency exchange derivatives		**22**		**22**		13		13
Total assets	**3,344**	**2,058**	**66**	**5,468**	2,807	1,991	72	4,870
Liabilities								
Commodity derivatives	**3,620**	**1,826**	**6**	**5,452**	2,970	1,722	10	4,702
Foreign currency exchange derivatives		**7**		**7**		23		23
Total liabilities	**3,620**	**1,833**	**6**	**5,459**	2,970	1,745	10	4,725
Net assets (liabilities)	**$ (276)**	**225**	**60**	**9**	(163)	246	62	145

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

As reflected in the table above, Level 3 activity was not material.

Commodity Derivative Contracts We operate in the worldwide crude oil, bitumen, refined product, natural gas, LNG, natural gas liquids and electric power markets and are exposed to fluctuations in the prices for these commodities. These fluctuations can affect our revenues, as well as the cost of operating, investing and financing activities. Generally, our policy is to remain exposed to the market prices of commodities; however, we use futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited, immaterial amount of trading not directly related to our physical business. We also use the market knowledge gained from these activities to capture market opportunities such as moving physical commodities to more profitable locations, storing commodities to capture seasonal or time premiums, and blending commodities to capture quality upgrades. Derivatives may be used to optimize these activities which may move our risk profile away from market average prices.

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

	Millions of Dollars	
	March 31 2012	December 31 2011
Assets		
Prepaid expenses and other current assets	**$ 5,048**	4,433
Other assets	**399**	415
Liabilities		
Other accruals	**5,047**	4,350
Other liabilities and deferred credits	**433**	374

Hedge accounting has not been used for any item in the table. The amounts shown are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of setoff exists).

The gains (losses) from commodity derivatives incurred, and the line items where they appear on our consolidated income statement were:

	Millions of Dollars Three Months Ended March 31	
	2012	2011
Sales and other operating revenues*	**$ (726)**	(1,027)
Other income	**2**	(7)
Purchased crude oil, natural gas and products*	**576**	321

Hedge accounting has not been used for any items in the table.
**2011 has been restated to eliminate certain non-derivative transactions and realign certain derivative transactions between sales and purchases.*

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

	Open Position Long / (Short)	
	March 31 2012	December 31 2011
Commodity		
Crude oil, refined products and natural gas liquids (millions of barrels)	**(23)**	(13)
Natural gas and power (billions of cubic feet equivalent)		
Fixed price	**(20)**	(57)
Basis	**50**	(25)

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

The adjustments to the fair values of the interest rate swaps and hedged debt have not been material.

Foreign Currency Exchange Derivatives We have foreign currency exchange rate risk resulting from international operations. We do not comprehensively hedge the exposure to movements in currency exchange rates, although we may choose to selectively hedge certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments, dividends, and cash returns from net investments in foreign affiliates to be remitted within the coming year.

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

	Millions of Dollars	
	March 31 2012	December 31 2011
Assets		
Prepaid expenses and other current assets	**$ 21**	12
Other assets	**1**	1
Liabilities		
Other accruals	**6**	23
Other liabilities and deferred credits	**1**	

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

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

	Millions of Dollars Three Months Ended March 31	
	2012	2011
Foreign exchange transaction (gains) losses	**$ (66)**	3

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

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

		In Millions Notional Currency[1]	
		March 31 2012	December 31 2011
Foreign Currency Exchange Derivatives			
Sell U.S. dollar, buy other currencies[2]	USD	**2,064**	1,949
Buy British pound, sell Canadian dollar	GBP	**94**	
Buy euro, sell other currencies[3]	EUR	**154**	
Sell euro, buy other currencies[4]	EUR		61

(1) Denominated in U.S. dollar, British pound and euro.

(2) Primarily euro, Canadian dollar, Norwegian krone and British pound.

(3) Primarily Canadian dollar and British pound.

(4) Primarily Canadian dollar and Norwegian krone.

Credit Risk

Financial instruments potentially exposed to concentrations of credit risk consist primarily of cash equivalents, OTC derivative contracts and trade receivables. Our cash equivalents and short-term investments are placed in high-quality commercial paper, money market funds, government debt securities and time deposits with major international banks and financial institutions.

The credit risk from our OTC derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant nonperformance. We also use futures, swaps and option contracts that have a negligible credit risk because these trades are cleared with an exchange clearinghouse and subject to mandatory margin requirements until settled; however, we are exposed to the credit risk of those exchange brokers for receivables arising from daily margin cash calls, as well as for cash deposited to meet initial margin requirements.

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

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

The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position on March 31, 2012, and December 31, 2011, was $249 million and $237 million, respectively, for which collateral of $4 million and $3 million, respectively, was posted. If our credit rating were lowered one level from its A rating (per Standard and Poor s) on March 31, 2012, we would be required to post no additional collateral to our counterparties. If we were downgraded below investment grade, we would be required to post $245 million of additional collateral, either with cash or letters of credit.

Fair Values of Financial Instruments

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

Cash, cash equivalents, restricted cash and short-term investments: The carrying amount reported on the balance sheet approximates fair value.

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

Debt: The carrying amount of our floating-rate debt approximates fair value. The fair value of the fixed-rate debt is estimated based on quoted market prices as a Level 2 fair value.

Fixed-rate 5.3 percent joint venture acquisition obligation: Fair value is estimated based on the net present value of the future cash flows as a Level 2 fair value, discounted at March 31, 2012, and December 31, 2011, effective yield rates of 0.97 percent and 1.24 percent, respectively, based on yields of U.S. Treasury securities of similar average duration adjusted for our average credit risk spread and the amortizing nature of the obligation principal. See Note 10 Joint Venture Acquisition Obligation, for additional information.

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

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

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

Forward-exchange contracts: Fair values are estimated by comparing the contract rate to the forward rates in effect at the end of the respective reporting periods, and approximate the exit prices at those dates.

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Our commodity derivative and financial instruments were:

	Millions of Dollars			
	Carrying Amount		Fair Value	
	March 31 2012	December 31 2011	**March 31 2012**	December 31 2011
Financial Assets				
Foreign currency exchange derivatives	**$ 22**	13	**22**	13
Interest rate derivatives	**27**	31	**27**	31
Commodity derivatives	**781**	814	**781**	814
Financial Liabilities				
Total debt, excluding capital leases	**28,331**	22,592	**32,496**	27,065
Joint venture acquisition obligation	**4,135**	4,314	**4,627**	4,820
Foreign currency exchange derivatives	**7**	23	**7**	23
Commodity derivatives	**444**	446	**444**	446

The amounts shown for derivatives in the preceding table are presented net (i.e., assets and liabilities with the same counterparty are netted where the right of setoff and intent to net exist). In addition, the March 31, 2012, commodity derivative assets and liabilities appear net of $21 million of obligations to return cash collateral and $391 million of rights to reclaim cash collateral, respectively. The December 31, 2011, commodity derivative assets and liabilities appear net of no obligations to return cash collateral and $244 million of rights to reclaim cash collateral. No collateral was deposited or held for the foreign currency derivatives or interest rate derivatives.

Note 15 Accumulated Other Comprehensive Income

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

	Millions of Dollars				
	Defined Benefit Plans	Net Unrealized Gain on Securities	Foreign Currency Translation	Hedging	Accumulated Other Comprehensive Income
December 31, 2011	$ (1,971)		5,063	(6)	3,086
Other comprehensive income	**51**		**834**	**1**	**886**
March 31, 2012	**$ (1,920)**		**5,897**	**(5)**	**3,972**

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Note 16 Cash Flow Information

	Millions of Dollars	
	Three Months Ended March 31	
	2012	2011
Cash Payments		
Interest	$ **291**	286
Income taxes	**1,462**	2,722
Net Sales (Purchases) of Short-Term Investments		
Short-term investments purchased	$ **(497)**	(2,101)
Short-term investments sold	**589**	931
	$ **92**	(1,170)

Note 17 Employee Benefit Plans

Pension and Postretirement Plans

	Millions of Dollars					
	Pension Benefits March 31				Other Benefits March 31	
	2012		2011		**2012**	**2011**
Three Months Ended	**U.S.**	**Int l.**	U.S.	Int l.		
Components of Net Periodic Benefit Cost						
Service cost	$ **58**	**28**	64	24	**2**	3
Interest cost	**63**	**43**	62	44	**10**	10
Expected return on plan assets	**(74)**	**(43)**	(70)	(43)		
Amortization of prior service cost (credit)	**2**	**(2)**	2		**(1)**	(2)
Recognized net actuarial loss (gain)	**59**	**18**	41	11	**(1)**	(1)
Net periodic benefit cost	$ **108**	**44**	99	36	**10**	10

During the first three months of 2012, we contributed $114 million to our domestic benefit plans and $56 million to our international benefit plans.

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Note 18 Related Party Transactions

Significant transactions with related parties were:

	Millions of Dollars	
	Three Months Ended March 31	
	2012	2011
Operating revenues and other income (a)	**$ 1,991**	1,816
Purchases (b)	**5,088**	4,354
Operating expenses and selling, general and administrative expenses (c)	**67**	105
Net interest expense (d)	**14**	19

(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), and gas oil and hydrogen feedstocks were sold to Excel Paralubes. Natural gas, crude oil, blendstock and other intermediate products were sold to WRB Refining LP. In addition, we charged several of our affiliates, including CPChem and MSLP, for the use of common facilities, such as steam generators, waste and water treaters, and warehouse facilities.

(b) We purchased refined products from WRB. We purchased natural gas and natural gas liquids from DCP Midstream and CPChem for use in our refinery processes and other feedstocks from various affiliates. We purchased refined products from MRC. We also paid fees to various pipeline equity companies for transporting finished refined products and natural gas, as well as a price upgrade to MSLP for heavy crude processing. We purchased base oils and fuel products from Excel Paralubes for use in our refinery and specialty businesses.

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

(d) We paid and/or received interest to/from various affiliates, including FCCL Partnership. See Note 5 Investments, Loans and Long-Term Receivables, for additional information on loans to affiliated companies.

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Note 19 Segment Disclosures and Related Information

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

1) **E&P** This segment primarily explores for, produces, transports and markets crude oil, bitumen, natural gas, LNG 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.

4) **LUKOIL Investment** This segment represents our prior investment in the ordinary shares of OAO LUKOIL, an international, integrated oil and gas company headquartered in Russia. We completed the divestiture of our entire interest in LUKOIL in the first quarter of 2011.

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 expense and various other corporate activities. Corporate assets include all cash and cash equivalents, short-term investments and restricted cash.

We evaluate performance and allocate resources based on net income attributable to ConocoPhillips. Intersegment sales are at prices that approximate market.

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Analysis of Results by Operating Segment

	Millions of Dollars	
	Three Months Ended March 31	
	2012	2011
Sales and Other Operating Revenues		
E&P		
United States	**$ 7,514**	7,755
International	**7,221**	7,920
Intersegment eliminations U.S.	**(2,028)**	(1,688)
Intersegment eliminations international	**(2,192)**	(2,067)
E&P	**10,515**	11,920
Midstream		
Total sales	**2,027**	2,328
Intersegment eliminations	**(114)**	(156)
Midstream	**1,913**	2,172
R&M		
United States	**29,445**	29,953
International	**14,468**	12,744
Intersegment eliminations U.S.	**(231)**	(265)
Intersegment eliminations international	**(13)**	(13)
R&M	**43,669**	42,419
LUKOIL Investment		
Chemicals	**3**	3
Emerging Businesses		
Total sales	**208**	156
Intersegment eliminations	**(182)**	(145)
Emerging Businesses	**26**	11
Corporate and Other	**6**	5
Consolidated sales and other operating revenues	**$ 56,132**	56,530
Net Income Attributable to ConocoPhillips		
E&P		
United States	**$ 870**	863
International	**1,678**	1,489
Total E&P	**2,548**	2,352
Midstream	**93**	73

R&M		
United States	**415**	402
International	**37**	80
Total R&M	**452**	482
LUKOIL Investment		239
Chemicals	**218**	193
Emerging Businesses	**(14)**	(7)
Corporate and Other	**(360)**	(304)
Net income attributable to ConocoPhillips	**$ 2,937**	3,028

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	Millions of Dollars	
	March 31	December 31
	2012	2011
Total Assets		
E&P		
United States	**$ 37,505**	37,150
International	**66,854**	64,752
Total E&P	**104,359**	101,902
Midstream	**1,981**	2,338
R&M		
United States	**26,073**	24,976
International	**10,600**	8,061
Goodwill	**3,330**	3,332
Total R&M	**40,003**	36,369
LUKOIL Investment		
Chemicals	**3,312**	2,999
Emerging Businesses	**1,033**	974
Corporate and Other	**12,193**	8,648
Consolidated total assets	**$ 162,881**	153,230

Note 20 Income Taxes

Our effective tax rates for the first quarter of 2012 and 2011 were 46 percent and 48 percent, respectively. The change in the effective tax rate for the first quarter of 2012, versus the same period of 2011, was due to asset dispositions in 2012, offset in part by a higher proportion of income in higher tax rate jurisdictions and asset impairments in 2012. The effective tax rate in excess of the domestic federal statutory rate of 35 percent was primarily due to foreign taxes.

Note 21 Planned Separation of Downstream Businesses

On April 4, 2012, our Board of Directors approved the separation of our downstream businesses into a stand-alone, publicly traded corporation via a tax-free distribution. The new downstream company, Phillips 66, will be headquartered in Houston, Texas, and will include our refining, marketing and transportation businesses, most of our Midstream segment, our Chemicals segment, as well as our power generation and certain technology operations included in our Emerging Businesses segment.

In accordance with a separation and distribution agreement, the two companies will be separated through a stock dividend distribution after the market closes on April 30, 2012. Each ConocoPhillips shareholder will receive one share of Phillips 66 stock for every two shares of ConocoPhillips stock held at the close of business on the record date of April 16, 2012. Fractional shares of Phillips 66 common stock will not be distributed, and any fractional shares of Phillips 66 common stock otherwise issuable to a ConocoPhillips shareholder will be sold in the open market on such shareholder s behalf, and such shareholder will receive cash payment with respect to that fractional share.

In conjunction with the separation, we received a private letter ruling from the Internal Revenue Service to the effect that, based on certain facts, assumptions, representations and undertakings set forth in the ruling, for U.S. federal income tax purposes, the distribution of Phillips 66 stock is not taxable to ConocoPhillips or U.S. holders of ConocoPhillips common stock, except in respect of cash received in lieu of fractional share interests. Following the separation, ConocoPhillips will retain no ownership interest in Phillips 66, and each company will have separate public ownership, boards of directors and management. A registration statement on Form 10, as amended through the time of its effectiveness and describing the separation, was filed by Phillips 66 with the U.S. Securities and Exchange Commission and was declared effective on April 12, 2012. On May 1, 2012, Phillips 66 stock will begin trading the regular-way on the New York Stock Exchange under the PSX stock symbol.

Note 22 Subsequent Events

In late April, we and China National Offshore Oil Corp. (CNOOC) reached agreement with China s State Oceanic Administration (SOA) to resolve outstanding claims related to the 2011 seepage incidents. Under the terms of the agreement, we agreed to pay $173 million to the SOA over the next two years. We also agreed to contribute $18 million by December 2014 toward social projects benefiting Bohai Bay. As a result of this agreement, we expect to reflect an $89 million after-tax charge in our second quarter 2012 earnings.

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 100 percent owned by ConocoPhillips. ConocoPhillips Australia Funding Company, ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II are indirect, 100 percent owned subsidiaries of ConocoPhillips Company. ConocoPhillips and ConocoPhillips Company have fully and unconditionally guaranteed the payment obligations of ConocoPhillips Australia Funding Company, ConocoPhillips Canada Funding Company I, and ConocoPhillips Canada Funding Company II, with respect to their publicly held debt securities. Similarly, ConocoPhillips has fully and unconditionally guaranteed the payment obligations of ConocoPhillips Company with respect to its publicly held debt securities. In addition, ConocoPhillips Company has fully and unconditionally guaranteed the payment obligations of ConocoPhillips with respect to its publicly held debt securities. All guarantees are joint and several. The following condensed consolidating financial information presents the results of operations, financial position and cash flows for:

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

All other nonguarantor subsidiaries of ConocoPhillips.

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

This condensed consolidating financial information should be read in conjunction with the accompanying consolidated financial statements and notes.

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	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000
	Millions of Dollars Three Months Ended March 31, 2012							
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	$	33,652				22,480		56,132