CONOCOPHILLIPS
Form 10-Q
August 02, 2016
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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 June 30, 2016

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 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 1,238,505,159 shares of common stock, $.01 par value, outstanding at June 30, 2016.

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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 June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Revenues and Other Income				
Sales and other operating revenues	**$ 5,348**	8,293	**10,469**	16,009
Equity in earnings (losses) of affiliates	**80**	258	**(69)**	463
Gain on dispositions	**128**	52	**151**	104
Other income	**19**	57	**39**	86
Total Revenues and Other Income	**5,575**	8,660	**10,590**	16,662
Costs and Expenses				
Purchased commodities	**2,002**	3,230	**4,227**	6,467
Production and operating expenses	**1,445**	1,798	**2,799**	3,600
Selling, general and administrative expenses	**167**	218	**353**	377
Exploration expenses	**610**	549	**1,115**	1,031
Depreciation, depletion and amortization	**2,329**	2,329	**4,576**	4,460
Impairments	**62**	78	**198**	94
Taxes other than income taxes	**197**	225	**377**	449
Accretion on discounted liabilities	**112**	122	**221**	243
Interest and debt expense	**312**	210	**593**	412
Foreign currency transaction gains	**(17)**	(8)	**(1)**	(24)
Total Costs and Expenses	**7,219**	8,751	**14,458**	17,109
Loss before income taxes	**(1,644)**	(91)	**(3,868)**	(447)
Income tax provision (benefit)	**(586)**	73	**(1,354)**	(569)
Net income (loss)	**(1,058)**	(164)	**(2,514)**	122
Less: net income attributable to noncontrolling interests	**(13)**	(15)	**(26)**	(29)
Net Income (Loss) Attributable to ConocoPhillips	**$ (1,071)**	(179)	**(2,540)**	93
Net Income (Loss) Attributable to ConocoPhillips Per Share of Common Stock *(dollars)*				
Basic	**$ (0.86)**	(0.15)	**(2.04)**	0.07
Diluted	**(0.86)**	(0.15)	**(2.04)**	0.07
Dividends Paid Per Share of Common Stock *(dollars)*	**$ 0.25**	0.73	**0.50**	1.46

Average Common Shares Outstanding *(in thousands)*				
Basic	**1,244,892**	1,241,026	**1,244,724**	1,240,909
Diluted	**1,244,892**	1,241,026	**1,244,724**	1,246,130

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income **ConocoPhillips**

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Net Income (Loss)	**$ (1,058)**	(164)	**(2,514)**	122
Other comprehensive income (loss)				
Defined benefit plans				
Prior service credit arising during the period		140		140
Reclassification adjustment for amortization of prior service credit included in net loss	**(9)**	(3)	**(18)**	(4)
Net actuarial gain (loss) arising during the period	**(69)**	15	**(300)**	15
Reclassification adjustment for amortization of net actuarial losses included in net income	**74**	102	**182**	152
Income taxes on defined benefit plans	**3**	(93)	**53**	(110)
Defined benefit plans, net of tax	**(1)**	161	**(83)**	193
Foreign currency translation adjustments	**(224)**	796	**959**	(1,949)
Income taxes on foreign currency translation adjustments		(9)		17
Foreign currency translation adjustments, net of tax	**(224)**	787	**959**	(1,932)
Other Comprehensive Income (Loss), Net of Tax	**(225)**	948	**876**	(1,739)
Comprehensive Income (Loss)	**(1,283)**	784	**(1,638)**	(1,617)
Less: comprehensive income attributable to noncontrolling interests	**(13)**	(15)	**(26)**	(29)
Comprehensive Income (Loss) Attributable to ConocoPhillips	**$ (1,296)**	769	**(1,664)**	(1,646)

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet **ConocoPhillips**

	Millions of Dollars	
	June 30 2016	December 31 2015
Assets		
Cash and cash equivalents	**$ 2,863**	2,368
Short-term investments	**1,289**	
Accounts and notes receivable (net of allowance of $5 million in 2016 and $7 million in 2015)	**3,144**	4,314
Accounts and notes receivable related parties	**172**	200
Inventories	**1,150**	1,124
Prepaid expenses and other current assets	**641**	783
Total Current Assets	**9,259**	8,789
Investments and long-term receivables	**21,385**	20,490
Loans and advances related parties	**639**	696
Net properties, plants and equipment (net of accumulated depreciation, depletion and amortization of $74,243 million in 2016 and $70,413 million in 2015)	**63,685**	66,446
Other assets	**1,086**	1,063
Total Assets	**$ 96,054**	97,484
Liabilities		
Accounts payable	**$ 3,746**	4,895
Accounts payable related parties	**72**	38
Short-term debt	**1,331**	1,427
Accrued income and other taxes	**554**	499
Employee benefit obligations	**538**	887
Other accruals	**1,107**	1,510
Total Current Liabilities	**7,348**	9,256
Long-term debt	**27,346**	23,453
Asset retirement obligations and accrued environmental costs	**9,820**	9,580
Deferred income taxes	**9,655**	10,999
Employee benefit obligations	**2,533**	2,286
Other liabilities and deferred credits	**1,521**	1,828
Total Liabilities	**58,223**	57,402
Equity		
Common stock (2,500,000,000 shares authorized at $.01 par value)		
Issued (2016 1,780,735,832 shares; 2015 1,778,226,388 shares)		
Par value	**18**	18
Capital in excess of par	**46,429**	46,357
Treasury stock (at cost: 2016 542,230,673 shares; 2015 542,230,673 shares)	**(36,780)**	(36,780)
Accumulated other comprehensive loss	**(5,371)**	(6,247)
Retained earnings	**33,248**	36,414
Total Common Stockholders Equity	**37,544**	39,762
Noncontrolling interests	**287**	320

Total Equity	**37,831**	40,082
Total Liabilities and Equity	**$ 96,054**	97,484

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows **ConocoPhillips**

	Millions of Dollars Six Months Ended June 30	
	2016	2015
Cash Flows From Operating Activities		
Net income (loss)	**$ (2,514)**	122
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, depletion and amortization	**4,576**	4,460
Impairments	**198**	94
Dry hole costs and leasehold impairments	**823**	713
Accretion on discounted liabilities	**221**	243
Deferred taxes	**(1,457)**	(602)
Distributions received greater than equity losses (undistributed equity earnings)	**222**	(41)
Gain on dispositions	**(151)**	(104)
Other	**(17)**	(454)
Working capital adjustments		
Decrease in accounts and notes receivable	**1,097**	1,419
Decrease (increase) in inventories	**(23)**	42
Decrease (increase) in prepaid expenses and other current assets	**(51)**	153
Decrease in accounts payable	**(454)**	(1,358)
Decrease in taxes and other accruals	**(790)**	(645)
Net Cash Provided by Operating Activities	**1,680**	4,042
Cash Flows From Investing Activities		
Capital expenditures and investments	**(2,954)**	(5,739)
Working capital changes associated with investing activities	**(363)**	(678)
Proceeds from asset dispositions	**363**	294
Net purchases of short-term investments	**(1,292)**	
Collection of advances/loans related parties	**53**	52
Other	**6**	291
Net Cash Used in Investing Activities	**(4,187)**	(5,780)
Cash Flows From Financing Activities		
Issuance of debt	**4,594**	2,498
Repayment of debt	**(827)**	(62)
Issuance of company common stock	**(45)**	(46)
Dividends paid	**(626)**	(1,819)
Other	**(79)**	(35)
Net Cash Provided by Financing Activities	**3,017**	536
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(15)**	(47)
Net Change in Cash and Cash Equivalents	**495**	(1,249)

Cash and cash equivalents at beginning of period		**2,368**	5,062
Cash and Cash Equivalents at End of Period	**$**	**2,863**	3,813

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements **ConocoPhillips**

Note 1 Basis of Presentation

The interim-period financial information presented in the financial statements included in this report is unaudited and, in the opinion of management, includes all known accruals and adjustments 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 unless otherwise disclosed. 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 2015 Annual Report on Form 10-K.

Effective November 1, 2015, the Other International and historically presented Europe segments were restructured to align with changes to our internal organization structure. The Libya business was moved from the Other International segment to the historically presented Europe segment, which is now renamed Europe and North Africa. Certain financial information has been revised for all prior periods presented to reflect the change in the composition of our operating segments. For additional information, see Note 19 Segment Disclosures and Related Information.

Note 2 Change in Accounting Principles

We adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-02, Amendments to the Consolidation Analysis, beginning January 1, 2016. The ASU amends existing requirements applicable to reporting entities that are required to evaluate whether certain legal entities, including variable interest entities (VIEs), should be consolidated. The adoption of this ASU did not have an impact on our consolidated financial statements and disclosures. See Note 3 Variable Interest Entities, for additional information on our significant VIE.

Note 3 Variable Interest Entities

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:

Australia Pacific LNG Pty Ltd (APLNG)

APLNG is considered a VIE, as it has entered into certain contractual arrangements that provide it with additional forms of subordinated financial support. We are not the primary beneficiary of APLNG because we share with Origin Energy and China Petrochemical Corporation (Sinopec) the power to direct the key activities of APLNG that most significantly impact its economic performance, which involve activities related to the production and commercialization of coalbed methane, as well as liquefied natural gas (LNG) processing and export marketing. As a result, we do not consolidate APLNG, and it is accounted for as an equity method investment.

As of June 30, 2016, we have not provided any financial support to APLNG other than amounts previously contractually required. Unless we elect otherwise, we have no requirement to provide liquidity or purchase the assets of APLNG. See Note 6 Investments, Loans and Long-Term Receivables, and Note 11 Guarantees, for additional information.

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Note 4 Inventories

Inventories consisted of the following:

	Millions of Dollars	
	June 30 2016	December 31 2015
Crude oil and natural gas	**$ 463**	406
Materials and supplies	**687**	718
	$ 1,150	1,124

Inventories valued on the last-in, first-out (LIFO) basis totaled $331 million and $317 million at June 30, 2016 and December 31, 2015, respectively. The estimated excess of current replacement cost over LIFO cost of inventories was approximately $74 million and $6 million at June 30, 2016 and December 31, 2015, respectively.

Note 5 Assets Held for Sale or Sold

On April 22, 2016, we sold our interest in the Alaska Beluga River Unit natural gas field in the Cook Inlet for $134 million, net of settlement of gas imbalances and customary adjustments, and recognized a gain on disposition of $56 million. At the time of disposition, the net carrying value of our Beluga River Unit interest, which is included in the Alaska segment, was $78 million, consisting primarily of $100 million of properties, plants and equipment (PP&E) and $19 million of asset retirement obligations (ARO).

Note 6 Investments, Loans and Long-Term Receivables

APLNG

APLNG s $8.5 billion project finance facility consists of financing agreements executed by APLNG with the Export-Import Bank of the United States for approximately $2.9 billion, the Export-Import Bank of China for approximately $2.7 billion, and a syndicate of Australian and international commercial banks for approximately $2.9 billion. At June 30, 2016, $8.5 billion had been drawn from the facility. In connection with the execution of the project financing, we provided a completion guarantee for our pro-rata share of the project finance facility until the project achieves financial completion. See Note 11 Guarantees, for additional information.

APLNG is considered a VIE, as it has entered into certain contractual arrangements that provide it with additional forms of subordinated financial support. See Note 3 Variable Interest Entities, for additional information.

Following the fourth-quarter 2015 impairment of our investment in APLNG, the outlook for crude oil and natural gas prices continued to deteriorate into the first quarter of 2016. As a result, the estimated fair value of our investment in APLNG declined to an amount below book value as of March 31, 2016. Based on a review of the facts and circumstances surrounding this decline in fair value, we concluded the impairment was not other than temporary under the guidance of FASB Accounting Standards Codification (ASC) Topic 323, Investments Equity Method and Joint Ventures. During the second quarter of 2016, primarily due to an improved outlook for crude oil prices, the estimated fair value of our investment increased and is above book value as of June 30, 2016.

At June 30, 2016, the book value of our equity method investment in APLNG was $10,327 million. The balance is included in the Investments and long-term receivables line on our consolidated balance sheet.

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FCCL

At June 30, 2016, the book value of our equity method investment in FCCL Partnership was $8,939 million, net of a $1,363 million reduction due to cumulative foreign currency translation effects. The balance is included in the Investments and long-term receivables line on our consolidated balance sheet.

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. At June 30, 2016, significant loans to affiliated companies included $750 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 our consolidated balance sheet, while the short-term portion is in Accounts and notes receivable related parties.

Note 7 Suspended Wells

The capitalized cost of suspended wells at June 30, 2016, was $1,293 million, an increase of $33 million from $1,260 million at year-end 2015. Two suspended wells in the Gulf of Mexico totaling $100 million were charged to dry hole expense during the first six months of 2016 relating to exploratory well costs capitalized for a period greater than one year as of December 31, 2015.

Note 8 Impairments

During the three- and six-month periods ended June 30, 2016 and 2015, we recognized before-tax impairment charges within the following segments:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Alaska	**$**	7		7
Lower 48	**51**		**60**	
Europe and North Africa	**10**	71	**137**	87
Asia Pacific and Middle East	**1**		**1**	
	$ 62	78	**198**	94

Our Europe and North Africa segment included impairments of $137 million in the six-month period of 2016, primarily as a result of lower natural gas prices in the United Kingdom. Our Lower 48 segment included impairments of $51 million and $60 million respectively, in the three- and six-month periods of 2016, primarily as a result of lower natural gas prices and increased asset retirement obligation estimates.

The three- and six-month periods of 2015 included impairments in our Europe and North Africa segment of $71 million and $87 million, respectively, primarily as a result of lower natural gas prices in the United Kingdom.

The charges discussed below are included in the Exploration expenses line on our consolidated income statement and are not reflected in the table above.

Exploration expenses in the three- and six-month periods of 2016 are aligned with our decision announced in 2015 to reduce deepwater exploration spending. We recorded a $203 million before-tax impairment for the

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associated carrying value of our Gibson and Tiber undeveloped leaseholds in deepwater Gulf of Mexico in the second quarter of 2016. Additionally, in the first quarter of 2016, we recorded a $95 million before-tax impairment for the associated carrying value of capitalized undeveloped leasehold costs of the Melmar prospect, and a $73 million impairment in our Lower 48 segment, primarily as a result of changes in the estimated market value following the completion of an initial marketing effort.

Note 9 Debt

In the first quarter of 2016, we reduced our revolving credit facility, expiring in June 2019, from $7.0 billion to $6.75 billion. We have two commercial paper programs supported by our $6.75 billion revolving credit facility: the ConocoPhillips $6.25 billion program, primarily a funding source for short-term working capital needs, and the ConocoPhillips Qatar Funding Ltd. $500 million program, which is used to fund commitments relating to QG3. Commercial paper maturities are generally limited to 90 days.

At June 30, 2016 and December 31, 2015, we had no direct outstanding borrowings under the revolving credit facility, with no letters of credit as of June 30, 2016 or December 31, 2015. Under the ConocoPhillips Qatar Funding Ltd. commercial paper program, no commercial paper was outstanding at June 30, 2016, compared with $803 million at December 31, 2015. Since we had no commercial paper outstanding and had issued no letters of credit, we had access to $6.75 billion in borrowing capacity under our revolving credit facility at June 30, 2016.

In March 2016, we issued notes consisting of:

The $1,250 million of 4.20% Notes due 2021.
The $1,250 million of 4.95% Notes due 2026.
The $500 million of 5.95% Notes due 2046.

In addition, on March 18, 2016, we entered into a $1,600 million three-year senior unsecured term loan facility. Borrowings will accrue interest at a base rate or, for certain Eurodollar borrowings, the London Interbank Offered Rate (LIBOR), in each case plus a margin that is set based on our corporate credit ratings. The applicable margin for loans bearing interest based on the base rate ranges from 0.50% to 1.00% and the applicable margin for loans bearing interest based on LIBOR ranges from 1.50% to 2.00%. Based on our current corporate credit ratings, the applicable margin for loans accruing interest at the base rate is 0.50% and the applicable margin for loans accruing interest at LIBOR is 1.50%.

The term loan facility contains customary covenants regarding, among other matters, material compliance with laws and restrictions against certain consolidations, mergers and asset sales and creation of certain liens on our assets and consolidated subsidiaries. The term loan facility also contains financial covenants including a total debt to capitalization ratio, excluding the impacts of certain noncash impairments and foreign currency translation adjustments as defined in the Term Loan Agreement, which may not exceed 65 percent. At June 30, 2016, we were in compliance with this covenant.

The term loan facility includes customary events of default (subject to specified cure periods, materiality qualifiers and exceptions), including the failure to pay any interest, principal or fees when due, the failure to perform or the violation of any covenant contained in the term loan facility, the making of materially inaccurate or false representations or warranties, a default on certain material indebtedness, insolvency or bankruptcy, a change of control and the occurrence of material Employee Retirement Income Security Act of 1974 (ERISA) events and certain judgments against us or our material subsidiaries.

We have the right at any time and from time to time to prepay the term loan, in whole or in part, without premium or penalty upon notice to the Administrative Agent.

The net proceeds of the notes and term loan will be used for general corporate purposes.

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At June 30, 2016, we had $283 million of certain variable rate demand bonds (VRDBs) outstanding with maturities ranging through 2035. The VRDBs are redeemable at the option of the bondholders on any business day. The VRDBs are included in the Long-term debt line on our consolidated balance sheet.

Note 10 Noncontrolling Interests

Activity attributable to common stockholders equity and noncontrolling interests for the first six months of 2016 and 2015 was as follows:

	Millions of Dollars					
	2016			2015		
	Common Stockholders Equity	Non-Controlling Interest	Total Equity	Common Stockholders Equity	Non-Controlling Interest	Total Equity
Balance at January 1	**$ 39,762**	**320**	**40,082**	51,911	362	52,273
Net income (loss)	**(2,540)**	**26**	**(2,514)**	93	29	122
Dividends	**(626)**		**(626)**	(1,819)		(1,819)
Distributions to noncontrolling interests		**(59)**	**(59)**		(43)	(43)
Other changes, net*	**948**		**948**	(1,565)	1	(1,564)
Balance at June 30	**$ 37,544**	**287**	**37,831**	48,620	349	48,969

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

Note 11 Guarantees

At June 30, 2016, 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 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.

APLNG Guarantees

At June 30, 2016, we had outstanding multiple guarantees in connection with our 37.5 percent ownership interest in APLNG. The following is a description of the guarantees with values calculated utilizing June 2016 exchange rates:

We have guaranteed APLNG s performance with regard to a construction contract executed in connection with APLNG s issuance of the Train 1 and Train 2 Notices to Proceed. We estimate the remaining term of this guarantee is one year. Our maximum potential amount of future payments related to this guarantee is approximately $80 million and would become payable if APLNG cancels the applicable construction contract and does not perform with respect to the amounts owed to the contractor.

We have issued a construction completion guarantee related to the third-party project financing secured by APLNG. Our maximum potential amount of future payments under the guarantee is estimated to be $3.2 billion, which could be payable if the full debt financing capacity is utilized and completion of the project is not achieved. Our guarantee of the project financing will be released

upon meeting certain completion tests with milestones, which we estimate should occur beginning

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later in 2016. Our maximum exposure at June 30, 2016, is $3.2 billion based upon our pro-rata share of the facility used at that date. At June 30, 2016, the carrying value of this guarantee is approximately $114 million.

In conjunction with our original purchase of an ownership interest in APLNG from Origin Energy in October 2008, we agreed to reimburse Origin Energy for our share of the existing contingent liability arising under guarantees of an existing obligation of APLNG to deliver natural gas under several sales agreements with remaining terms of 1 to 26 years. Our maximum potential liability for future payments, or cost of volume delivery, under these guarantees is estimated to be $1.0 billion ($1.9 billion in the event of intentional or reckless breach), and would become payable if APLNG fails to meet its obligations under these agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, would only be triggered if APLNG does not have enough natural gas to meet these sales commitments and if the co-venturers do not make necessary equity contributions into APLNG.

We have guaranteed the performance of APLNG with regard to certain other contracts executed in connection with the project s continued development. The guarantees have remaining terms of up to 29 years or the life of the venture. Our maximum potential amount of future payments related to these guarantees is approximately $160 million and would become payable if APLNG does not perform.

Other Guarantees

We have other guarantees with maximum future potential payment amounts totaling approximately $530 million, which consist primarily of a guarantee of the residual value of a leased office building, guarantees of the residual value of leased corporate aircraft, a guarantee for our portion of a joint venture s project finance reserve accounts, and a guarantee of minimum charter revenue for an LNG vessel. These guarantees have remaining terms of up to eight years and would become payable if, upon sale, certain asset values are lower than guaranteed amounts, business conditions decline at guaranteed entities, or as a result of nonperformance of contractual terms by guaranteed parties.

Indemnifications

Over the years, we have entered into agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to qualifying indemnifications. These agreements include indemnifications for taxes, environmental liabilities, employee claims 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 June 30, 2016, was approximately $90 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 at June 30, 2016, were approximately $40 million of environmental accruals for known contamination that are included in the Asset retirement obligations and accrued environmental costs line on our consolidated balance sheet. For additional information about environmental liabilities, see Note 12 Contingencies and Commitments.

On March 1, 2015, a supplier to one of the refineries included in Phillips 66 as part of the separation of our Downstream businesses formally registered Phillips 66 as a party to the supply agreement, thereby triggering a guarantee we provided at the time of separation. Our maximum potential liability for future payments under this guarantee, which would become payable if Phillips 66 does not perform its contractual obligations under the supply agreement, is approximately $1.5 billion. At June 30, 2016, the carrying value of this guarantee is approximately $98 million and the remaining term is eight years. Because Phillips 66 has indemnified us for losses incurred under this guarantee, we have recorded an indemnification asset from Phillips 66 of

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approximately $98 million. The recorded indemnification asset amount represents the estimated fair value of the guarantee; however, if we are required to perform under the guarantee, we would expect to recover from Phillips 66 any amounts in excess of that value, provided Phillips 66 is a going concern.

Note 12 Contingencies and Commitments

A number of lawsuits involving a variety of claims arising in the ordinary course of business have been filed against ConocoPhillips. 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 but 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. With respect to 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 factors such 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 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 other 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 agency 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.

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We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state and international sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except those acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. At June 30, 2016, our balance sheet included a total environmental accrual of $262 million, compared with $258 million at December 31, 2015, for remediation activities in the United States and Canada. We expect to incur a substantial amount of these expenditures within the next 30 years. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings

We are subject to various lawsuits and claims including but not limited to matters involving oil and gas royalty and severance tax payments, gas measurement and valuation methods, contract disputes, environmental damages, personal injury, and property damage. Our primary exposures for such matters relate to alleged royalty and tax underpayments on certain federal, state and privately owned properties and claims of alleged environmental contamination from historic operations. We will continue to defend ourselves vigorously in these matters.

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, is 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 June 30, 2016, we had performance obligations secured by letters of credit of $290 million (issued as direct bank letters of credit) related to various purchase commitments for materials, supplies, commercial activities and services incident to the ordinary conduct of business.

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, Petróleos de Venezuela S.A. (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. On September 3, 2013, an ICSID arbitration tribunal held that Venezuela unlawfully expropriated ConocoPhillips significant oil investments in June 2007. A separate arbitration phase is currently proceeding to determine the damages owed to ConocoPhillips for Venezuela s actions. On October 10, 2014, we filed a separate arbitration under the rules of the International Chamber of Commerce against PDVSA for contractual compensation related to the Petrozuata and Hamaca heavy crude oil projects.

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 the ICSID tribunal, Ecuador confiscated the crude oil production of Burlington and its co-venturer and sold the 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. On April 24, 2012, Ecuador filed supplemental counterclaims asserting environmental damages, which we believe are not

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material. The ICSID tribunal issued a decision on liability on December 14, 2012, in favor of Burlington, finding that Ecuador s seizure of Blocks 7 and 21 was an unlawful expropriation in violation of the Ecuador-U.S. Bilateral Investment Treaty. An additional arbitration phase to determine the damages owed to ConocoPhillips for Ecuador s actions and to address Ecuador s counterclaims is complete. We are awaiting the tribunal s award.

ConocoPhillips served a Notice of Arbitration on the Timor-Leste Minister of Finance in October 2012 for outstanding disputes related to a series of tax assessments. The arbitration hearing was conducted in Singapore in June 2014 under the United Nations Commission on International Trade Laws (UNCITRAL) arbitration rules, pursuant to the terms of the Tax Stability Agreement with the Timor-Leste government. In January 2016, we settled three of the four Timor-Leste tax disputes. In March 2016, we received a decision from the arbitration tribunal on the fourth Timor-Leste tax dispute item and have reached a settlement in principle with the Timor-Leste government on this dispute.

Note 13 Derivative and Financial Instruments

Derivative Instruments

We use futures, forwards, swaps and options in various markets to meet our customer needs and capture market opportunities. Our commodity business primarily consists of natural gas, crude oil, bitumen, LNG and natural gas liquids.

Our derivative instruments are held at fair value on our consolidated balance sheet. Where these balances have the right of setoff, they are presented on a net basis. Related cash flows are recorded as operating activities on our consolidated statement of cash flows. On our consolidated income statement, realized and unrealized gains and losses are recognized either on a gross basis if directly related to our physical business or a net basis if held for trading. Gains and losses related to contracts that meet and are designated with the normal purchase normal sale exception are recognized upon settlement. We generally apply this exception to eligible crude contracts. We do not use hedge accounting for our commodity derivatives.

The following table presents the gross fair values of our commodity derivatives, excluding collateral, and the line items where they appear on our consolidated balance sheet:

	Millions of Dollars	
	June 30 2016	December 31 2015
Assets		
Prepaid expenses and other current assets	**$ 333**	768
Other assets	**40**	60
Liabilities		
Other accruals	**359**	754
Other liabilities and deferred credits	**33**	46

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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 June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Sales and other operating revenues	**$ (163)**	44	**(166)**	28
Other income	**(3)**	2	**(2)**	1
Purchased commodities	**130**	(47)	**129**	(3)

The table below summarizes our material net exposures resulting from outstanding commodity derivative contracts:

	Open Position Long/(Short)	
	June 30 2016	December 31 2015
Commodity		
Natural gas and power (billions of cubic feet equivalent)		
Fixed price	**(11)**	(14)
Basis	**27**	(17)

Foreign Currency Exchange Derivatives

We have foreign currency exchange rate risk resulting from international operations. Our foreign currency exchange derivative activity primarily relates to managing our cash-related and foreign currency exchange rate exposures, such as firm commitments for capital programs or local currency tax payments, dividends, and cash returns from net investments in foreign affiliates. We do not elect hedge accounting on our foreign currency exchange derivatives.

The following table presents the gross fair values of our foreign currency exchange derivatives, excluding collateral, and the line items where they appear on our consolidated balance sheet:

	Millions of Dollars	
	June 30 2016	December 31 2015
Assets		
Prepaid expenses and other current assets	**$**	47
Liabilities		
Other accruals	**104**	8

The (gains) losses from foreign currency exchange derivatives incurred, and the line item where they appear on our consolidated income statement were:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Foreign currency transaction (gains) losses	**$ 86**	(37)	**183**	(13)

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

		In Millions Notional Currency	
		June 30	
		2016	December 31 2015
Sell U.S. dollar, buy other currencies*	USD	**2**	347
Buy U.S. dollar, sell other currencies**	USD		20
Buy British pound, sell other currencies***	GBP	**1,076**	567

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

***Primarily Canadian dollar and Norwegian krone.*

****Primarily Canadian dollar and euro.*

Financial Instruments

We have certain financial instruments on our consolidated balance sheet related to interest-bearing time deposits and commercial paper. These held-to-maturity financial instruments are included in Cash and cash equivalents on our consolidated balance sheet if the maturities at the time we made the investments were 90 days or less; otherwise, these investments are included in Short-term investments on our consolidated balance sheet.

	Millions of Dollars Carrying Amount			
	Cash and Cash Equivalents		Short-Term Investments	
	June 30	December 31	**June 30**	December 31
	2016	2015	**2016**	2015
Cash	**$ 837**	528		
Time deposits				
Remaining maturities from 1 to 90 days	**2,026**	1,840	**682**	
Remaining maturities from 91 to 180 days			**607**	
	$ 2,863	2,368	**1,289**	

Credit Risk

Financial instruments potentially exposed to concentrations of credit risk consist primarily of cash equivalents, short-term investments, over-the-counter (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;

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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 to us.

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

The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position on June 30, 2016 and December 31, 2015, was $79 million and $158 million, respectively. For these instruments, $1 million of collateral was posted as of June 30, 2016, and $2 million of collateral was posted as of December 31, 2015. If our credit rating had been downgraded below investment grade on June 30, 2016, we would be required to post $78 million of additional collateral, either with cash or letters of credit.

Note 14 Fair Value Measurement

We carry a portion of our assets and liabilities at fair value that are measured at a reporting date using an exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability) and disclosed according to the quality of valuation inputs under the following hierarchy:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are directly or indirectly observable.
Level 3: Unobservable inputs that are significant to the fair value of assets or liabilities.

The classification of an asset or liability is based on the lowest level of input significant to its fair value. Those that are initially classified as Level 3 are subsequently reported as Level 2 when the fair value derived from unobservable inputs is inconsequential to the overall fair value, or if corroborated market data becomes available. Assets and liabilities that are initially reported as Level 2 are subsequently reported as Level 3 if corroborated market data is no longer available. Transfers occur at the end of the reporting period. There were no material transfers in or out of Level 1 during 2016 or 2015.

Recurring Fair Value Measurement

Financial assets and liabilities reported at fair value on a recurring basis primarily include commodity derivatives. Level 1 derivative assets and liabilities primarily represent exchange-traded futures and options that are valued using unadjusted prices available from the underlying exchange. Level 2 derivative assets and liabilities primarily represent OTC swaps, options and forward purchase and sale contracts that are valued using adjusted exchange prices, prices provided by brokers or pricing service companies that are all corroborated by market data. Level 3 derivative assets and liabilities consist of OTC swaps, options and forward purchase and sale contracts where a significant portion of fair value is calculated from underlying market data that is not readily available. The derived value uses industry standard methodologies that may consider the historical relationships among various commodities, modeled market prices, time value, volatility factors and other relevant economic measures. The use of these inputs results in management s best estimate of fair value. Level 3 activity was not material for all periods presented.

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The following table summarizes the fair value hierarchy for gross financial assets and liabilities (i.e., unadjusted where the right of setoff exists for commodity derivatives accounted for at fair value on a recurring basis):

	Millions of Dollars							
	June 30, 2016				December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	**$ 220**	**129**	**24**	**373**	516	242	70	828
Total assets	**$ 220**	**129**	**24**	**373**	516	242	70	828
Liabilities								
Commodity derivatives	**$ 234**	**141**	**17**	**392**	515	273	12	800
Total liabilities	**$ 234**	**141**	**17**	**392**	515	273	12	800

The following table summarizes those commodity derivative balances subject to the right of setoff as presented on our consolidated balance sheet. We have elected to offset the recognized fair value amounts for multiple derivative instruments executed with the same counterparty in our financial statements when a legal right of setoff exists.

	Millions of Dollars					
				Gross Amounts		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Cash Collateral	without Right of Setoff	Net Amounts
June 30, 2016						
Assets	**$ 373**	**275**	**98**		**8**	**90**
Liabilities	**392**	**275**	**117**	**10**	**14**	**93**
December 31, 2015						
Assets	$ 828	600	228		8	220
Liabilities	800	600	200	1	11	188

At June 30, 2016 and December 31, 2015, we did not present any amounts gross on our consolidated balance sheet where we had the right of setoff.

Non-Recurring Fair Value Measurement

The following table summarizes the fair value hierarchy by major category and date of remeasurement for assets accounted for at fair value on a non-recurring basis during the year:

	Millions of Dollars			
	Fair Value		Fair Value Measurements Using Level 3 Inputs	Before-Tax Loss
June 30, 2016				
Net PP&E (held for use)	**$**	**23**	**23**	**53**
March 31, 2016				
Net PP&E (held for use)	$	217	217	129

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Net PP&E held for use is comprised of various producing properties impaired to their individual fair values less costs to sell. The fair values were determined by internal discounted cash flow models using estimates of future production, prices from futures exchanges and pricing service companies, costs, and a discount factor believed to be consistent with those used by principal market participants.

Reported Fair Values of Financial Instruments

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

Cash and cash equivalents and short-term investments: The carrying amount reported on the balance sheet approximates fair value.
Accounts and notes receivable (including long-term and related parties): The carrying amount reported on the balance sheet approximates fair value. The valuation technique and methods used to estimate the fair value of the current portion of fixed-rate related party loans is consistent with Loans and advances related parties.
Loans and advances related parties: The carrying amount of floating-rate loans approximates fair value. The fair value of fixed-rate loan activity is measured using market observable data and is categorized as Level 2 in the fair value hierarchy. See Note 6 Investments, Loans and Long-Term Receivables, for additional information.
Accounts payable (including related parties) and floating-rate debt: The carrying amount of accounts payable and floating-rate debt reported on the balance sheet approximates fair value.
Fixed-rate debt: The estimated fair value of fixed-rate debt is measured using prices available from a pricing service that is corroborated by market data; therefore, these liabilities are categorized as Level 2 in the fair value hierarchy.

The following table summarizes the net fair value of financial instruments (i.e., adjusted where the right of setoff exists for commodity derivatives):

	Millions of Dollars			
	Carrying Amount		Fair Value	
	June 30 2016	December 31 2015	**June 30 2016**	December 31 2015
Financial assets				
Commodity derivatives	**$ 98**	228	**98**	228
Total loans and advances related parties	**755**	808	**755**	808
Financial liabilities				
Total debt, excluding capital leases	**27,824**	24,062	**31,001**	24,785
Commodity derivatives	**107**	199	**107**	199

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Note 15 Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss in the equity section of our consolidated balance sheet included:

	Millions of Dollars		
	Defined Benefit Plans	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
December 31, 2015	$ (443)	(5,804)	(6,247)
Other comprehensive income (loss)	**(83)**	**959**	**876**
June 30, 2016	**$ (526)**	**(4,845)**	**(5,371)**

Foreign Currency Translation increased due to the weakening of the U.S. dollar relative to the Canadian dollar, Australian dollar and Norwegian krone.

The following table summarizes reclassifications out of accumulated other comprehensive loss:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Defined benefit plans	**$ 42**	64	**105**	96
Above amounts are included in the computation of net periodic benefit cost and are presented net of tax expense of:	***$ 23***	*35*	***59***	*52*

See Note 17 Employee Benefit Plans, for additional information.

There were no items within accumulated other comprehensive loss related to noncontrolling interests.

Note 16 Cash Flow Information

	Millions of Dollars	
	Six Months Ended June 30	
	2016	2015
Cash Payments (Receipts)		
Interest	**$ 526**	399
Income taxes*	**(366)**	172

Net Sales (Purchases) of Short-Term Investments	
Short-term investments purchased	**$ (1,599)**
Short-term investments sold	**307**
	$ (1,292)

**Net of $569 million and $556 million in 2016 and 2015, respectively, related to refunds received from the Internal Revenue Service.*

In May 2015, we liquidated certain deferred compensation investments for proceeds of $267 million, which is included in the Other line within Cash Flows From Investing Activities on our consolidated statement of cash flows.

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Note 17 Employee Benefit Plans

Pension and Postretirement Plans

	Millions of Dollars					
	Pension Benefits				Other Benefits	
	2016		2015		**2016**	2015
	U.S.	Int l.	U.S.	Int l.		
Components of Net Periodic Benefit Cost						
Three Months Ended June 30						
Service cost	**$ 28**	**20**	36	31		
Interest cost	**32**	**32**	39	34	**4**	7
Expected return on plan assets	**(35)**	**(41)**	(53)	(43)		
Amortization of prior service cost (credit)	**1**	**(2)**	1	(2)	**(8)**	(2)
Recognized net actuarial loss (gain)	**23**	**7**	29	21	**(1)**	
Settlements	**45**		52			
Net periodic benefit cost	**$ 94**	**16**	104	41	**(5)**	5
Six Months Ended June 30						
Service cost	**$ 55**	**40**	72	63	**1**	1
Interest cost	**72**	**63**	79	68	**7**	14
Expected return on plan assets	**(78)**	**(82)**	(107)	(87)		
Amortization of prior service cost (credit)	**2**	**(3)**	3	(4)	**(17)**	(3)
Recognized net actuarial loss (gain)	**42**	**14**	57	42	**(1)**	1
Settlements	**127**		52			
Net periodic benefit cost	**$ 220**	**32**	156	82	**(10)**	13

During the first six months of 2016, we contributed $111 million to our domestic benefit plans and $61 million to our international benefit plans. In 2016, we expect to contribute approximately $260 million to our domestic qualified and nonqualified pension and postretirement benefit plans and $130 million to our international qualified and nonqualified pension and postretirement benefit plans.

In conjunction with the recognition of pension settlement expense, the fair market values of pension plan assets were updated, and the pension benefit obligations of the U.S. qualified pension plan and a U.S. nonqualified supplemental retirement plan were remeasured. At the measurement dates, the net pension liability increased by $69 million and $300 million for the three- and six-month periods ended June 30, 2016, respectively. This is primarily a result of a decrease in the discount rate from 4.5 percent at December 31, 2015, to 3.6 percent for the U.S. qualified pension plan and to 3.15 percent for a U.S. nonqualified supplemental retirement plan at June 30, 2016, resulting in a corresponding decrease to other comprehensive income (loss).

Severance Accrual

The following table summarizes our severance accrual activity for the six-month period ended June 30, 2016:

Millions of Dollars

Balance at December 31, 2015	$	156
Accruals		**7**
Accrual reversals		**(1)**
Benefit payments		**(115)**
Foreign currency translation adjustments		**2**
Balance at June 30, 2016	**$**	**49**

Of the remaining balance at June 30, 2016, $16 million is classified as short-term.

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Note 18 Related Party Transactions

Our related parties primarily include equity method investments and certain trusts for the benefit of employees.

Significant transactions with our equity affiliates were:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Operating revenues and other income	**$ 28**	27	**55**	52
Purchases	**25**	25	**49**	47
Operating expenses and selling, general and administrative expenses	**12**	17	**28**	35
Net interest (income) expense*	**(3)**	(2)	**(6)**	(4)

**We paid interest to, or received interest from, various affiliates. See Note 6 Investments, Loans and Long-Term Receivables, for additional information on loans to affiliated companies.*

Note 19 Segment Disclosures and Related Information

We explore for, produce, transport and market crude oil, bitumen, natural gas, LNG and natural gas liquids on a worldwide basis. We manage our operations through six operating segments, which are primarily defined by geographic region: Alaska, Lower 48, Canada, Europe and North Africa, Asia Pacific and Middle East, and Other International.

Effective November 1, 2015, the Other International and historically presented Europe segments were restructured to align with changes to our internal organization structure. The Libya business was moved from the Other International segment to the historically presented Europe segment, which is now renamed Europe and North Africa. Accordingly, results of operations for the Other International and Europe and North Africa segments have been revised for all prior periods presented. There was no impact on our consolidated financial statements, and the impact on our segment presentation is immaterial.

Corporate and Other represents costs not directly associated with an operating segment, such as most interest expense, corporate overhead and certain technology activities, including licensing revenues. Corporate assets include all cash and cash equivalents and short-term investments.

We evaluate performance and allocate resources based on net income (loss) 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 June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Sales and Other Operating Revenues				
Alaska	**$ 936**	1,338	**1,714**	2,388
Lower 48	**2,395**	3,176	**4,540**	6,315
Intersegment eliminations	**(5)**	(13)	**(12)**	(35)
Lower 48	**2,390**	3,163	**4,528**	6,280
Canada	**391**	653	**816**	1,356
Intersegment eliminations	**(30)**	(79)	**(65)**	(189)
Canada	**361**	574	**751**	1,167
Europe and North Africa	**736**	1,775	**1,659**	3,324
Intersegment eliminations		(1)		(1)
Europe and North Africa	**736**	1,774	**1,659**	3,323
Asia Pacific and Middle East	**897**	1,286	**1,734**	2,674
Corporate and Other	**28**	158	**83**	177
Consolidated sales and other operating revenues	**$ 5,348**	8,293	**10,469**	16,009
Net Income (Loss) Attributable to ConocoPhillips				
Alaska	**$ 147**	195	**145**	340
Lower 48	**(771)**	(293)	**(1,591)**	(698)
Canada	**(175)**	(166)	**(469)**	(324)
Europe and North Africa	**20**	36	**(31)**	672
Asia Pacific and Middle East	**72**	328	**67**	723
Other International	**(29)**	(147)	**(53)**	(239)
Corporate and Other	**(335)**	(132)	**(608)**	(381)
Consolidated net income (loss) attributable to ConocoPhillips	**$ (1,071)**	(179)	**(2,540)**	93

	Millions of Dollars	
	June 30	December 31
	2016	2015
Total Assets		

Alaska	**$ 12,612**	12,555
Lower 48	**24,271**	26,932
Canada	**18,400**	17,221
Europe and North Africa	**13,060**	13,703
Asia Pacific and Middle East	**21,769**	22,318
Other International	**375**	282
Corporate and Other	**5,567**	4,473
Consolidated total assets	**$ 96,054**	97,484

Note 20 Income Taxes

Our effective tax rates for the second quarter and first six months of 2016 were positive 36 percent and 35 percent, respectively, compared with negative 80 percent and positive 127 percent for the same periods of 2015. The increase in the effective tax rate for the second quarter of 2016 was primarily due to the effect of the recognition of state deferred tax assets and the absence of the effect of the 2015 Canadian tax law change generating a tax expense, both discussed below, partially offset by a shift in the mix of income between high and low tax jurisdictions. The decrease in the effective tax rate for the first six months of 2016 was primarily

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due to the absence of the effect of the 2015 U.K. tax law change, discussed below, partially offset by the recognition of state deferred tax assets and the second-quarter 2015 Canadian tax law change.

During the second quarter of 2016, previously unrecognized state deferred tax assets were recognized. As a result, a $68 million tax benefit is reflected in the Income tax provision (benefit) line on our consolidated income statement.

In the United Kingdom, legislation was enacted on March 26, 2015, to decrease the overall U.K. upstream corporation tax rate from 62 percent to 50 percent effective January 1, 2015. As a result, a $555 million net tax benefit for revaluing the U.K. deferred tax liability is reflected in the Income tax provision (benefit) line on our consolidated income statement.

In Canada, legislation was enacted on June 29, 2015, to increase the overall Canadian corporation tax rate from 25 percent to 27 percent effective July 1, 2015. As a result, a $129 million net tax expense for revaluing the Canadian deferred tax liability is reflected in the Income tax provision (benefit) line on our consolidated income statement.

Note 21 New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU No. 2014-09), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This ASU supersedes the revenue recognition requirements in FASB ASC Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU sets forth a five-step model for determining when and how revenue is recognized. Under the model, an entity will be required to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. Additional disclosures will be required to describe the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

In August 2015, the FASB issued ASU No. 2015-14, Deferral of the Effective Date, which defers the effective date of ASU No. 2014-09. The ASU is now effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. Entities may choose to adopt the standard using either a full retrospective approach or a modified retrospective approach.

ASU No. 2014-09 was amended in March 2016 by the provisions of ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), in April 2016 by the provisions of ASU No. 2016-10, Identifying Performance Obligations and Licensing, and in May 2016 by the provisions of ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients. We are currently evaluating the impact of the adoption of ASU No. 2014-09, as amended, and continue to monitor proposals issued by the FASB to clarify the ASU.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU No. 2016-02), which establishes comprehensive accounting and financial reporting requirements for leasing arrangements. This ASU supersedes the existing requirements in FASB ASC Topic 840, Leases, and requires lessees to recognize substantially all lease assets and lease liabilities on the balance sheet. The provisions of ASU No. 2016-02 also modify the definition of a lease and outline requirements for recognition, measurement, presentation, and disclosure of leasing arrangements by both lessees and lessors. The ASU is effective for interim and annual periods beginning after December 15, 2018, and early adoption of the standard is permitted. Entities are required to adopt the ASU using a modified retrospective approach, subject to certain optional practical expedients, and apply the provisions of ASU No. 2016-02 to leasing arrangements existing at or entered into after the earliest comparative period presented in the financial statements. We are currently evaluating the impact of the adoption of this ASU.

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In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (ASU No. 2016-13), which sets forth the current expected credit loss model, a new forward-looking impairment model for certain financial instruments based on expected losses rather than incurred losses. The ASU is effective for interim and annual periods beginning after December 15, 2019, and early adoption of the standard is permitted. Entities are required to adopt ASU No. 2016-13 using a modified retrospective approach, subject to certain limited exceptions. We are currently evaluating the impact of the adoption of this ASU.

Note 22 Subsequent Events

In July 2016, we entered into an agreement to terminate our final Gulf of Mexico deepwater drillship contract. The drillship, used to drill our operated deepwater well inventory in the Gulf of Mexico through April 2016, was contracted on a shared, three-year term. We expect to record before-tax rig cancellation charges and third party costs of approximately $140 million in our third quarter 2016 earnings.

On July 1, 2016, APLNG changed its tax functional currency from Australian dollar to U.S. dollar and translated all APLNG assets and liabilities into U.S. dollar, utilizing the exchange rate as of that date. As a result of this change, we will record a reduction to our investment in APLNG for the deferred tax effect of approximately $200 million, to be recorded through equity earnings in the third quarter of 2016.

In July 2016, we announced our plan to sell our 35 percent interest in three exploration blocks offshore Senegal for $350 million plus net customary adjustments of approximately $80 million. The three blocks had a net book value of approximately $273 million as of June 30, 2016. The transactions are expected to close by year-end 2016, subject to governmental approvals and co-venturer preemption rights. Senegal results of operations are reported within our Other International segment.

In July 2016, we announced targeted workforce reductions in certain areas of our business. Approximately 6 percent of our global workforce will be affected. As the analysis is ongoing, it is not reasonably practicable to quantify the financial impact, but the impact could be material to our results of operations in the third quarter of 2016.

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Supplementary Information Condensed Consolidating Financial Information

We have various cross guarantees among ConocoPhillips, ConocoPhillips Company and ConocoPhillips Canada Funding Company I, with respect to publicly held debt securities. ConocoPhillips Company is 100 percent owned by ConocoPhillips. ConocoPhillips Canada Funding Company I is an indirect, 100 percent owned subsidiary of ConocoPhillips Company. ConocoPhillips and ConocoPhillips Company have fully and unconditionally guaranteed the payment obligations of ConocoPhillips Canada Funding Company I, with respect to its 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 and ConocoPhillips Canada Funding Company I (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.

In February 2016, ConocoPhillips received a $2.3 billion return of capital from ConocoPhillips Company to settle certain accumulated intercompany balances. The transaction had no impact on our consolidated financial statements.

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

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Millions of Dollars

Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
		Three Months Ended June 30, 2016				
Revenues and Other Income						
Sales and other operating revenues	$	2,284		3,064		5,348
Equity in earnings (losses) of affiliates	(1,003)	(21)		145	959	80
Gain on dispositions		63		65		128
Other income		1		18		19
Intercompany revenues	26	68	60	928	(1,082)	
Total Revenues and Other Income	(977)	2,395	60	4,220	(123)	5,575
Costs and Expenses						
Purchased commodities		1,998		682	(678)	2,002
Production and operating expenses		488		1,191	(234)	1,445
Selling, general and administrative expenses	2	136		29		167
Exploration expenses		551		59		610
Depreciation, depletion and amortization		306		2,023		2,329
Impairments		37		25		62
Taxes other than income taxes		39		158		197
Accretion on discounted liabilities		12		100		112
Interest and debt expense	126	164	57	135	(170)	312
Foreign currency transaction (gains) losses	2		(79)	60		(17)
Total Costs and Expenses	130	3,731	(22)	4,462	(1,082)	7,219
Income (loss) before income taxes	(1,107)	(1,336)	82	(242)	959	(1,644)
Income tax provision (benefit)	(36)	(333)	19	(236)		(586)
Net income (loss)	(1,071)	(1,003)	63	(6)	959	(1,058)
Less: net income attributable to noncontrolling interests				(13)		(13)
Net Income (Loss) Attributable to ConocoPhillips	$ (1,071)	(1,003)	63	(19)	959	(1,071)
Comprehensive Income (Loss) Attributable to ConocoPhillips	$ (1,296)	(1,228)	51	(215)	1,392	(1,296)

Income Statement						
		Three Months Ended June 30, 2015				
Revenues and Other Income						
Sales and other operating revenues	$	3,102		5,191		8,293
Equity in earnings (losses) of affiliates	(120)	215		138	25	258
Gain on dispositions		2		50		52
Other income		10		47		57
Intercompany revenues	18	82	63	952	(1,115)	
Total Revenues and Other Income	(102)	3,411	63	6,378	(1,090)	8,660
Costs and Expenses						
Purchased commodities		2,568		1,610	(948)	3,230
Production and operating expenses		395		1,405	(2)	1,798
Selling, general and administrative expenses	3	162		53		218
Exploration expenses		143		406		549
Depreciation, depletion and amortization		301		2,028		2,329

Impairments					78		78
Taxes other than income taxes			50		175		225
Accretion on discounted liabilities			15		107		122
Interest and debt expense		121	111	57	86	(165)	210
Foreign currency transaction (gains) losses		(16)	1	146	(139)		(8)
Total Costs and Expenses		108	3,746	203	5,809	(1,115)	8,751
Income (loss) before income taxes		(210)	(335)	(140)	569	25	(91)
Income tax provision (benefit)		(31)	(215)	(20)	339		73
Net income (loss)		(179)	(120)	(120)	230	25	(164)
Less: net income attributable to noncontrolling interests					(15)		(15)
Net Income (Loss) Attributable to ConocoPhillips	$	(179)	(120)	(120)	215	25	(179)
Comprehensive Income (Loss) Attributable to ConocoPhillips	$	769	828	(33)	988	(1,783)	769

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	Millions of Dollars					
	Six Months Ended June 30, 2016					
Income Statement	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Revenues and Other Income						
Sales and other operating revenues	$	4,356		6,113		10,469
Equity in earnings (losses) of affiliates	(2,430)	(771)		(299)	3,431	(69)
Gain on dispositions		85		66		151
Other income (loss)		(5)		44		39
Intercompany revenues	44	149	116	1,453	(1,762)	
Total Revenues and Other Income	(2,386)	3,814	116	7,377	1,669	10,590
Costs and Expenses						
Purchased commodities		3,846		1,561	(1,180)	4,227
Production and operating expenses		741		2,295	(237)	2,799
Selling, general and administrative expenses	5	290		64	(6)	353
Exploration expenses		982		133		1,115
Depreciation, depletion and amortization		563		4,013		4,576
Impairments		41		157		198
Taxes other than income taxes		96		281		377
Accretion on discounted liabilities		24		197		221
Interest and debt expense	250	298	112	272	(339)	593
Foreign currency transaction (gains) losses	(42)	2	233	(194)		(1)
Total Costs and Expenses	213	6,883	345	8,779	(1,762)	14,458
Loss before income taxes	(2,599)	(3,069)	(229)	(1,402)	3,431	(3,868)
Income tax provision (benefit)	(59)	(639)	1	(657)		(1,354)
Net loss	(2,540)	(2,430)	(230)	(745)	3,431	(2,514)
Less: net income attributable to noncontrolling interests				(26)		(26)
Net Loss Attributable to ConocoPhillips	$ (2,540)	(2,430)	(230)	(771)	3,431	(2,540)
Comprehensive Income (Loss) Attributable to ConocoPhillips	$ (1,664)	(1,554)	4	230	1,320	(1,664)

Income Statement	Six Months Ended June 30, 2015					
Revenues and Other Income						
Sales and other operating revenues	$	6,035		9,974		16,009
Equity in earnings of affiliates	261	1,028		716	(1,542)	463
Gain on dispositions		33		71		104
Other income		17		69		86
Intercompany revenues	37	180	127	1,795	(2,139)	
Total Revenues and Other Income	298	7,293	127	12,625	(3,681)	16,662
Costs and Expenses						
Purchased commodities		5,128		3,104	(1,765)	6,467
Production and operating expenses		795		2,839	(34)	3,600
Selling, general and administrative expenses	6	282		98	(9)	377
Exploration expenses		343		688		1,031
Depreciation, depletion and amortization		560		3,900		4,460

Impairments					94		94
Taxes other than income taxes			119		330		449
Accretion on discounted liabilities			29		214		243
Interest and debt expense		242	212	114	175	(331)	412
Foreign currency transaction (gains) losses		47		(232)	161		(24)
Total Costs and Expenses		295	7,468	(118)	11,603	(2,139)	17,109
Income (loss) before income taxes		3	(175)	245	1,022	(1,542)	(447)
Income tax benefit		(90)	(436)	(9)	(34)		(569)
Net income		93	261	254	1,056	(1,542)	122
Less: net income attributable to noncontrolling interests					(29)		(29)
Net Income Attributable to ConocoPhillips	$	93	261	254	1,027	(1,542)	93
Comprehensive Income (Loss) Attributable to ConocoPhillips	$	(1,646)	(1,478)	(3)	(886)	2,367	(1,646)

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	Millions of Dollars June 30, 2016					
Balance Sheet	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Assets						
Cash and cash equivalents	$	265	10	2,588		2,863
Short-term investments				1,289		1,289
Accounts and notes receivable	11	1,401	24	4,622	(2,742)	3,316
Inventories		100		1,050		1,150
Prepaid expenses and other current assets	1	141	167	519	(187)	641
Total Current Assets	12	1,907	201	10,068	(2,929)	9,259
Investments, loans and long-term receivables*	40,356	61,672	3,501	27,849	(111,354)	22,024
Net properties, plants and equipment		6,994		56,691		63,685
Other assets	8	1,835	229	1,298	(2,284)	1,086
Total Assets	$ 40,376	72,408	3,931	95,906	(116,567)	96,054
Liabilities and Stockholders Equity						
Accounts payable	$	3,234	6	3,320	(2,742)	3,818
Short-term debt	(10)	(2)	1,256	87		1,331
Accrued income and other taxes		51		503		554
Employee benefit obligations		370		168		538
Other accruals	170	262	59	802	(186)	1,107
Total Current Liabilities	160	3,915	1,321	4,880	(2,928)	7,348
Long-term debt	9,120	13,635	1,713	2,878		27,346
Asset retirement obligations and accrued environmental costs		1,127		8,693		9,820
Deferred income taxes				11,360	(1,705)	9,655
Employee benefit obligations		2,034		499		2,533
Other liabilities and deferred credits*	114	6,877	811	16,099	(22,380)	1,521
Total Liabilities	9,394	27,588	3,845	44,409	(27,013)	58,223
Retained earnings (losses)	26,725	14,937	(619)	13,262	(21,057)	33,248
Other common stockholders equity	4,257	29,883	705	37,948	(68,497)	4,296
Noncontrolling interests				287		287
Total Liabilities and Stockholders Equity	$ 40,376	72,408	3,931	95,906	(116,567)	96,054

**Includes intercompany loans.*

	December 31, 2015					
Balance Sheet						
Assets						
Cash and cash equivalents	$	4	15	2,349		2,368
Accounts and notes receivable	21	2,905	21	7,228	(5,661)	4,514
Inventories		142		982		1,124
Prepaid expenses and other current assets	2	206	252	589	(266)	783
Total Current Assets	23	3,257	288	11,148	(5,927)	8,789
Investments, loans and long-term receivables*	43,532	64,015	3,264	27,839	(117,464)	21,186
Net properties, plants and equipment		8,110		58,336		66,446
Other assets	7	950	233	1,158	(1,285)	1,063
Total Assets	$ 43,562	76,332	3,785	98,481	(124,676)	97,484
Liabilities and Stockholders Equity						

Accounts payable	$	5,684	13	4,897	(5,661)	4,933
Short-term debt	(9)	1	1,255	180		1,427
Accrued income and other taxes		62		437		499
Employee benefit obligations		629		258		887
Other accruals	170	465	52	1,087	(264)	1,510
Total Current Liabilities	161	6,841	1,320	6,859	(5,925)	9,256
Long-term debt	7,518	10,660	1,716	3,559		23,453
Asset retirement obligations and accrued environmental costs		1,107		8,473		9,580
Deferred income taxes				11,814	(815)	10,999
Employee benefit obligations		1,760		526		2,286
Other liabilities and deferred credits*	2,681	7,291	667	15,181	(23,992)	1,828
Total Liabilities	10,360	27,659	3,703	46,412	(30,732)	57,402
Retained earnings (losses)	29,892	17,366	(389)	15,177	(25,632)	36,414
Other common stockholders equity	3,310	31,307	471	36,572	(68,312)	3,348
Noncontrolling interests				320		320
Total Liabilities and Stockholders Equity	$ 43,562	76,332	3,785	98,481	(124,676)	97,484

**Includes intercompany loans.*

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	Millions of Dollars					
	Six Months Ended June 30, 2016					
Statement of Cash Flows	ConocoPhillips	ConocoPhillips Company	ConocoPhillips Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
Cash Flows From Operating Activities						
Net Cash Provided by (Used in) Operating Activities	$ (153)	572	(5)	2,229	(963)	1,680
Cash Flows From Investing Activities						
Capital expenditures and investments		(823)		(2,532)	401	(2,954)
Working capital changes associated with investing activities		(76)		(287)		(363)
Proceeds from asset dispositions	2,300	160		227	(2,324)	363
Purchases of short-term investments				(1,292)		(1,292)
Long-term advances/loans related parties		(803)			803	
Collection of advances/loans related parties				1,626	(1,573)	53
Intercompany cash management	(3,190)	2,127		1,063		
Other		2		4		6
Net Cash Provided by (Used in) Investing Activities	(890)	587		(1,191)	(2,693)	(4,187)
Cash Flows From Financing Activities						
Issuance of debt	1,600	2,994		803	(803)	4,594
Repayment of debt		(1,573)		(827)	1,573	(827)
Issuance of company common stock	70				(115)	(45)
Dividends paid	(626)			(1,078)	1,078	(626)
Other	(1)	(2,319)		318	1,923	(79)
Net Cash Provided by (Used in) Financing Activities	1,043	(898)		(784)	3,656	3,017
Effect of Exchange Rate Changes on Cash and Cash Equivalents				(15)		(15)
Net Change in Cash and Cash Equivalents		261	(5)	239		495
Cash and cash equivalents at beginning of period		4	15	2,349		2,368
Cash and Cash Equivalents at End of Period	$	265	10	2,588		2,863

Statement of Cash Flows	Six Months Ended June 30, 2015					
Cash Flows From Operating Activities						
Net Cash Provided by (Used in) Operating Activities	$ (124)	348	1	3,623	194	4,042
Cash Flows From Investing Activities						
Capital expenditures and investments		(1,642)		(4,773)	676	(5,739)
Working capital changes associated with investing activities		(27)		(651)		(678)
Proceeds from asset dispositions	2,000	94		205	(2,005)	294
Long-term advances/loans related parties		(179)		(551)	730	
Collection of advances/loans related parties				152	(100)	52
Intercompany cash management	(231)	(574)		805		
Other		292		(1)		291
Net Cash Provided by (Used in) Investing Activities	1,769	(2,036)		(4,814)	(699)	(5,780)
Cash Flows From Financing Activities						
Issuance of debt		3,049		179	(730)	2,498

Repayment of debt		(100)		(62)	100	(62)
Issuance of company common stock	172				(218)	(46)
Dividends paid	(1,819)			(24)	24	(1,819)
Other	2	(1,996)		630	1,329	(35)
Net Cash Provided by (Used in) Financing Activities	(1,645)	953		723	505	536
Effect of Exchange Rate Changes on Cash and Cash Equivalents				(47)		(47)
Net Change in Cash and Cash Equivalents		(735)	1	(515)		(1,249)
Cash and cash equivalents at beginning of period		770	7	4,285		5,062
Cash and Cash Equivalents at End of Period	$	35	8	3,770		3,813

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

Management s Discussion and Analysis is the Company s analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the financial statements and notes. It contains forward-looking statements including, without limitation, statements relating to the Company s plans, strategies, objectives, expectations and intentions that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words anticipate, estimate, believe, budget, continue, could, intend, may, plan, potential, predict, seek, should, will, would, expect, objective, projection, forecast, goal, guidance, outlook, effort, target and similar expressions identify forward-looking statements. The Company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Company s disclosures under the heading: CAUTIONARY STATEMENT FOR THE PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, beginning on page 49.

The terms earnings and loss as used in Management s Discussion and Analysis refer to net income (loss) attributable to ConocoPhillips.

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

ConocoPhillips is the world s largest independent exploration and production (E&P) company, based on proved reserves and production of liquids and natural gas. Headquartered in Houston, Texas, we had operations and activities in 20 countries, approximately 15,400 employees worldwide and total assets of $96 billion as of June 30, 2016.

Overview

We are an independent E&P company focused on exploring for, developing and producing crude oil and natural gas globally. We have a diverse, low cost of supply resource base and a unique set of producing assets that includes legacy assets in North America, Europe and Asia; North American tight oil assets; resource-rich oil sands assets in Canada; and liquefied natural gas (LNG) assets in Asia Pacific, the Middle East and Alaska. Our value proposition combines unique portfolio attributes with capital allocation principles that include distributions to shareholders, a strong investment grade balance sheet, disciplined growth and a focus on returns. Our value proposition recognizes that future growth could be on an absolute or a per-share basis, consistent with a disciplined approach to business.

The energy landscape continues to be challenged. Global production oversupply caused continued weakness in commodity prices in the first half of 2016, following a year of weak prices in 2015. Ongoing uncertainty around the timing of a price recovery, coupled with tightening credit capacity across the industry, caused us to take actions to preserve our balance sheet strength and mitigate the impacts of possible weak prices in 2016 and 2017.

We reduced our quarterly dividend in February 2016 by 66 percent, to $0.25 per share. In April 2016, we revised our 2016 operating plan, reducing our capital expenditures guidance from $6.4 billion to $5.7 billion, primarily driven by reduced deepwater exploration activity, deferrals and lower costs across the portfolio. We further reduced our capital expenditures guidance to $5.5 billion in July 2016. These actions will allow us to conserve cash throughout the year. During the first quarter of 2016, we issued $3.0 billion of debt and obtained a $1.6 billion three-year term loan to secure sufficient cash and liquidity through the current downturn.

We continue to stay focused on safely executing our capital program and remaining vigilant on costs. We produced 1,546 thousand barrels of oil equivalent per day (MBOED) in the second quarter of 2016, a decrease

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of 49 MBOED compared with the same period of 2015, as normal field decline, impacts from dispositions, planned downtime and the impact of wildfires in Canada exceeded growth from major projects and development programs and improved well performance. When adjusted for 95 MBOED from dispositions and downtime, production increased 46 MBOED, or 3 percent, compared with the second quarter of 2015. We also saw continued strong operations from our APLNG project in Australia, achieved first production at Foster Creek Phase G, and continue to pursue sustainable operating cost reductions within our business. Operating costs include production and operating expense; selling, general and administrative expense; and exploration general and administrative, geological and geophysical, lease rental and other expense.

Our 2016 capital program is focused on maintaining our asset integrity, completing several projects that are underway and pursuing development programs, primarily around legacy conventional assets. We have significantly reduced activity levels in the North American tight oil plays, including the Eagle Ford, Bakken, Permian, Niobrara and Montney. However, we have retained the flexibility to adjust investment levels in these and other assets, as appropriate.

In the six-month period of 2016, we generated approximately $363 million in proceeds from non-core asset dispositions, including the completion of an asset sale in Alaska in the second quarter of 2016. We have stated an intention to exit deepwater exploration, as well as pursue other non-core dispositions. In July 2016, we signed a sale and purchase agreement for exploration blocks offshore Senegal. We continue to monitor the market and evaluate our assets for opportunities to optimize our portfolio. However, we are not willing to divest properties unless we achieve value.

In July 2016, we announced targeted workforce reductions in certain areas of our business. Approximately 6 percent of our global workforce will be affected. As the analysis is ongoing, it is not reasonably practicable to quantify the financial impact, but the impact could be material to our results of operations in the third quarter of 2016.

We believe we are taking judicious actions across the business to withstand uncertain prices and ongoing volatility. We have exercised significant capital flexibility, lowered our operating cost structure, reduced our dividend, and continued to optimize our asset base. We believe these actions, in combination with our strong execution of the business, will allow us to manage through this current period of low commodity prices and to deliver stronger performance when prices recover.

Basis of Presentation

Effective November 1, 2015, the Other International and historically presented Europe segments were restructured to align with changes to our internal organization structure. The Libya business was moved from the Other International segment to the historically presented Europe segment, which is now renamed Europe and North Africa. Accordingly, results of operations for the Other International and Europe and North Africa segments have been revised for all prior periods presented. There was no impact on our consolidated financial statements, and the impact on our segment presentation is immaterial. For additional information, see Note 19 Segment Disclosures and Related Information, in the Notes to Consolidated Financial Statements.

Business Environment

In the first half of 2014, strong crude oil prices were supported by geopolitical tensions impacting supplies, as well as global oil demand growth. This was followed by an abrupt decline in prices beginning in the third quarter of 2014, as surging production growth from U.S. tight oil and the decision by the Organization of Petroleum Exporting Countries (OPEC) to target market share outweighed fears of supply disruptions. These developments, combined with lower forecasts for global oil demand growth, caused crude oil prices to plummet to near five-year lows at the end of 2014. As global inventories grew due to the ensuing supply surplus, prices continued even lower, and reached a ten-year quarterly low average of $33.89 per barrel for Brent crude oil in the first quarter of 2016. Prices rebounded notably in the second quarter of 2016 due to supply disruptions, lower non-OPEC production, continued healthy demand growth and expectations of a seasonal improvement in demand, but remain lower than the corresponding period of 2015.

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The energy industry has periodically experienced this type of extreme volatility due to fluctuating supply and demand conditions. Commodity prices are the most significant factor impacting our profitability and the related reinvestment of operating cash flows into our business. Among other dynamics that could influence world energy markets and commodity prices are global economic health, supply disruptions or fears thereof caused by civil unrest or military conflicts, actions taken by OPEC or other producers, environmental laws, tax regulations, governmental policies and weather-related changes in demand. North America s energy landscape has been transformed from resource scarcity to an abundance of supply, primarily due to advances in technology responsible for the rapid growth of tight oil production, successful exploration, and rising production from the Canadian oil sands. Our strategy is to sustainably lower our cost structure and maintain a strong balance sheet while utilizing a diverse and low-cost portfolio that will provide the financial flexibility to withstand challenging business cycles.

Our earnings and operating cash flows generally correlate with industry price levels for crude oil and natural gas, the prices of which are subject to factors external to the company and over which we have no control. The following graph depicts the trend in average benchmark prices for West Texas Intermediate (WTI) crude oil, Dated Brent crude oil and U.S. Henry Hub (HH) natural gas:

Brent crude oil prices averaged $45.57 per barrel in the second quarter of 2016, a decrease of 26 percent compared with $61.92 per barrel in the second quarter of 2015. Industry crude prices for WTI averaged $45.48 per barrel in the second quarter of 2016, a decrease of 21 percent compared with $57.84 per barrel in the second quarter of 2015. Crude oil prices have remained under pressure in 2016 as global production continues to exceed global demand, as evidenced by continued high inventory levels.

Henry Hub natural gas prices averaged $1.95 per million British thermal units (MMBTU) in the second quarter of 2016, a decrease of 26 percent compared with $2.65 per MMBTU in the second quarter of 2015. Natural gas prices remained under pressure with strong production levels and a warmer-than-expected winter reducing demand below expectations. U.S. underground gas storage inventories have been at or above the top of the five-year range over the past few months.

Our realized bitumen price was $18.11 per barrel in the second quarter of 2016, a decrease of 45 percent compared with $32.84 per barrel in the second quarter of 2015, primarily due to the significant decline in the Western Canada Select benchmark as a result of falling WTI and Brent prices.

Our total average realized price was $27.79 per barrel of oil equivalent (BOE) in the second quarter of 2016, a decrease of 29 percent compared with $39.06 per BOE in the second quarter of 2015, reflecting lower average realized prices for crude oil, natural gas, bitumen and natural gas liquids.

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Key Operating and Financial Summary

Significant items during the second quarter of 2016 included the following:

- Exceeded second-quarter guidance with production of 1,546 MBOED; increasing full-year guidance.
- Lowering 2016 capital expenditures guidance from $5.7 billion to $5.5 billion.
- Safely executed second-quarter major turnaround activity in Europe and Alaska; activity ongoing in the third quarter.
- Achieved first production at Foster Creek Phase G in Canada; Surmont production restored to prior quarter levels after wildfires.
- On track for first cargo from APLNG Train 2 in Australia and first production from Alder in Europe in the fourth quarter of 2016.
- Lowered debt by $0.8 billion, compared to the first quarter of 2016.
- Completed non-core asset sales of $0.2 billion, bringing the six-month 2016 total to $0.4 billion; signed a sale and purchase agreement for exploration blocks offshore Senegal in July.

Outlook

Capital and Production Guidance

Guidance for full-year 2016 capital expenditures has been lowered to $5.5 billion versus prior guidance of $5.7 billion.

We are increasing our full-year 2016 production guidance to 1,540 to 1,570 MBOED reflecting strong year-to-date performance across most of our portfolio. Third-quarter 2016 production guidance is 1,510 to 1,550 MBOED, which reflects significant planned turnaround activity during the quarter.

Marketing Activities

In line with our objective to continuously optimize our portfolio, we are currently marketing certain non-core assets. We expect to generate up to $1 billion in proceeds in 2016 from asset sales.

Reserve Replacement

Proved reserve estimates require economic production based on historical 12-month, first-of-month, average prices and current costs. Therefore, as prices and cost levels change, the estimate of proved reserves also changes. Generally, our proved reserves decrease as prices decline and increase as prices rise. If commodity prices remain near recent levels, significant reductions to our proved reserves can be expected at year-end 2016, primarily related to proved undeveloped reserves associated with the oil sands assets in our Canada segment. However, we do not expect negative price-related reserve revisions to materially impact current plans for development of these assets. Reserve estimates are subject to change based on commodity prices for the remainder of 2016, as well as development and production costs, capital spending levels, timing of project approvals and other factors.

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RESULTS OF OPERATIONS

Unless otherwise indicated, discussion of results for the three- and six-month period ended June 30, 2016, is based on a comparison with the corresponding period of 2015.

Consolidated Results

A summary of the Company s net income (loss) attributable to ConocoPhillips by business segment follows:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Alaska	**$ 147**	195	**145**	340
Lower 48	**(771)**	(293)	**(1,591)**	(698)
Canada	**(175)**	(166)	**(469)**	(324)
Europe and North Africa	**20**	36	**(31)**	672
Asia Pacific and Middle East	**72**	328	**67**	723
Other International	**(29)**	(147)	**(53)**	(239)
Corporate and Other	**(335)**	(132)	**(608)**	(381)
Net income (loss) attributable to ConocoPhillips	**$ (1,071)**	(179)	**(2,540)**	93

Earnings for ConocoPhillips decreased $892 million in the second quarter and $2,633 million in the six-month period of 2016, primarily as a result of lower commodity prices.

In addition, earnings were negatively impacted by:

- The absence of a $555 million net deferred tax benefit resulting from a change in the U.K. tax rate in the first quarter of 2015.
- Higher exploration expenses in the second quarter of 2016, including a $162 million after-tax dry hole expense and a $132 million after-tax unproved leasehold impairment for our Gibson and Tiber prospects in deepwater Gulf of Mexico.
- Lower equity earnings.
- Higher interest and debt expense, mainly in the second quarter of 2016.
- Higher depreciation, depletion and amortization (DD&A) expense, mainly in the first quarter of 2016 from price-related reserve revisions at year-end 2015.

These items were partially offset by:

- Lower operating expenses.
- The absence of 2015 dry hole costs associated with the Omosi-1 and Vali-1 wells in offshore Angola and the Harrier well in the Gulf of Mexico, as well as undeveloped leasehold impairments in Angola and Poland.
- Lower production taxes from reduced commodity prices.
- Reduced feedstock cost at Darwin LNG.
- The absence of a $129 million deferred tax charge from increased corporate tax rates in Canada in the second quarter of 2015.

See the Segment Results section for additional information.

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Income Statement Analysis

Sales and other operating revenues decreased 36 percent in the second quarter and 35 percent in the six-month period of 2016, mainly as a result of lower prices across all commodities. Additionally, sales and other operating revenues were decreased due to lower natural gas and natural gas liquid (NGL) sales volumes in both periods of 2016 and lower crude oil sales volumes, mainly in the second quarter of 2016.

Equity in earnings (losses) of affiliates decreased 69 percent in the second quarter and 115 percent in the six-month period of 2016, primarily as a result of lower earnings from the FCCL Partnership, Qatar Liquefied Gas Company Limited (3) (QG3) and Australia Pacific LNG Pty Ltd (APLNG) given reduced commodity prices, as well as increased DD&A expense. APLNG tax-related foreign exchange impacts in the first quarter of 2016 also contributed to the earnings decrease in the six-month period of 2016. The decrease in earnings was partly offset by lower production taxes at QG3.

Purchased commodities decreased 38 percent in the second quarter and 35 percent in the six-month period of 2016, largely as a result of lower natural gas prices.

Production and operating expenses decreased 20 percent in the second quarter and 22 percent in the six-month period of 2016, primarily as a result of lower operating expense activity levels, reduced headcount, dispositions of non-core assets and favorable foreign currency impacts.

Impairments increased by $104 million in the six-month period of 2016. For additional information, see Note 8 Impairments, in the Notes to Consolidated Financial Statements.

Interest and debt expense increased 49 percent in the second quarter and 44 percent in the six-month period of 2016, primarily due to lower capitalized interest and increased debt in 2016.

See Note 20 Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our income tax provision (benefit) and effective tax rate.

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Summary Operating Statistics

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Average Net Production				
Crude oil (MBD)*	**592**	608	**605**	615
Natural gas liquids (MBD)	**145**	160	**145**	158
Bitumen (MBD)	**160**	138	**163**	147
Natural gas (MMCFD)**	**3,893**	4,136	**3,894**	4,098
Total Production (MBOED)	**1,546**	1,595	**1,562**	1,603
		Dollars Per Unit		
Average Sales Prices				
Crude oil (per barrel)	**$ 42.72**	58.00	**36.78**	53.00
Natural gas liquids (per barrel)	**16.55**	19.62	**14.45**	19.61
Bitumen (per barrel)***	**18.11**	32.84	**9.49**	24.36
Natural gas (per thousand cubic feet)	**2.49**	3.90	**2.74**	4.30
		Millions of Dollars		
Exploration Expenses				
General administrative, geological and geophysical, lease rental, and other	**$ 147**	147	**292**	318
Leasehold impairment	**214**	245	**394**	285
Dry holes	**249**	157	**429**	428
	$ 610	549	**1,115**	1,031

**Thousands of barrels per day.*

***Millions of cubic feet per day. Represents quantities available for sale and excludes gas equivalent of natural gas liquids included above.*

****2015 has been restated to conform to current period presentation.*

We explore for, produce, transport and market crude oil, bitumen, natural gas, LNG and natural gas liquids on a worldwide basis. At June 30, 2016, our operations were producing in the United States, Norway, the United Kingdom, Canada, Australia, Timor-Leste, Indonesia, China, Malaysia, Qatar and Libya.

Total production from operations decreased 3 percent in the second quarter and six-month period of 2016. The decrease in total average production primarily resulted from normal decline, the loss of 72 MBOED mainly attributable to the dispositions of several non-core assets in the Lower 48, western Canada and the sale of our interest in the Polar Lights Company, as well as planned turnarounds in Norway in the second quarter of 2016. The decrease in production was partly offset by additional production from major developments, including tight oil plays in the Lower 48; APLNG in Australia; the Western North Slope in Alaska; the Greater Ekofisk Area in Norway; and the Greater Britannia projects in the U.K. in the first quarter of 2016. Improved drilling and well performance in Canada, the Lower 48, Norway, and China, as well as improved recoveries from production sharing contracts in Asia Pacific and Middle East also partly offset the decrease in production. In the second quarter of 2016, we achieved production of 1,546 MBOED. Adjusted for downtime and dispositions of 95 MBOED, our production increased 46

MBOED, or 3 percent, compared with the second quarter of 2015.

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Segment Results

Alaska

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Income Attributable to ConocoPhillips (millions of dollars)	**$ 147**	195	**145**	340
Average Net Production				
Crude oil (MBD)	**163**	154	**167**	159
Natural gas liquids (MBD)	**11**	13	**12**	13
Natural gas (MMCFD)	**27**	41	**33**	46
Total Production (MBOED)	**179**	174	**185**	180
Average Sales Prices				
Crude oil (dollars per barrel)	**$ 44.39**	61.51	**37.85**	55.99
Natural gas (dollars per thousand cubic feet)	**4.82**	4.50	**4.83**	4.38

The Alaska segment primarily explores for, produces, transports and markets crude oil, natural gas liquids, natural gas and LNG. As of June 30, 2016, Alaska contributed 20 percent of our worldwide liquids production and 1 percent of our worldwide natural gas production.

Earnings from Alaska decreased 25 percent in the second quarter and 57 percent in the six-month period of 2016. The decrease in earnings in both periods of 2016 was primarily due to lower crude oil prices. Earnings were further decreased in both periods of 2016 due to higher DD&A expense as a result of capital additions, price-related reserve revisions and increased production volumes. The reduction in earnings was partly offset by a $57 million after-tax impact for the recognition of state deferred tax assets and a $36 million after-tax gain on the sale of our interest in the Alaska Beluga River Unit natural gas field, both in the second quarter of 2016; reduced production and operating expenses from lower general and administrative expense and reduced activity in both periods of 2016; as well as higher crude oil sales volumes in the first quarter of 2016.

Average production increased 3 percent in the three- and six-month periods of 2016, compared with the corresponding periods of 2015, primarily due to new production from the Alpine CD5 drill site and strong well performance in the Greater Prudhoe Area. Lower planned downtime in the first quarter of 2016 also contributed to the production increase in the first half of 2016. The production increase in both periods of 2016 was partly offset by normal field decline.

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Lower 48

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Loss Attributable to ConocoPhillips (millions of dollars)	**$ (771)**	(293)	**(1,591)**	(698)
Average Net Production				
Crude oil (MBD)	**206**	209	**204**	204
Natural gas liquids (MBD)	**90**	97	**88**	95
Natural gas (MMCFD)	**1,244**	1,501	**1,230**	1,503
Total Production (MBOED)	**503**	556	**497**	549
Average Sales Prices				
Crude oil (dollars per barrel)	**$ 39.50**	52.01	**33.33**	46.58
Natural gas liquids (dollars per barrel)	**14.59**	15.29	**12.07**	15.41
Natural gas (dollars per thousand cubic feet)	**1.70**	2.38	**1.75**	2.49

The Lower 48 segment consists of operations located in the U.S. Lower 48 states and exploration activities in the Gulf of Mexico. As of June 30, 2016, the Lower 48 contributed 32 percent of our worldwide liquids production and 32 percent of our worldwide natural gas production.

Earnings from Lower 48 decreased $478 million in the second quarter and $893 million in the six-month period of 2016. The decrease in earnings was primarily due to:

- Lower commodity prices.
- Increased unproved property impairment expense in 2016, including after-tax charges in the Gulf of Mexico of $132 million for our Gibson and Tiber leaseholds in the second quarter and $62 million for the Melmar prospect in the first quarter.
- Higher dry hole costs including after-tax charges in the Gulf of Mexico of $162 million in the second quarter for our Gibson and Tiber wells in deepwater Gulf of Mexico and $83 million, mainly in the first quarter, associated with our Melmar well.
- Higher DD&A, primarily from price-related reserve revisions.
- Lower volumes, mainly natural gas.

These decreases were partly offset by lower operating costs in both periods from reduced activity and general and administrative spend, the absence of a $61 million after-tax dry hole charge in the first quarter of 2015 for the Harrier well in the Gulf of Mexico, and a $38 million after-tax gain from the disposition of non-core assets and lease exchanges in the second quarter of 2016.

In the second quarter of 2016, our average realized crude oil price of $39.50 per barrel was 13 percent less than WTI of $45.48 per barrel. The differential is driven primarily by local market dynamics in the Gulf Coast and Bakken, and may remain relatively wide in the near term.

Total average production decreased 10 percent in the second quarter and 9 percent in the six-month period of 2016, while average crude oil production decreased 1 percent and remained flat, respectively, in the same periods. The decrease in both periods was mainly attributable to field decline and the disposition of non-core properties in East Texas and North Louisiana, as well as South Texas. The reduction was partly offset by new production and well performance, primarily from Eagle Ford, Bakken and the Permian Basin.

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Exploration Update

In July 2016, we entered into an agreement to terminate our final Gulf of Mexico deepwater drillship contract. The drillship, used to drill our operated deepwater well inventory in the Gulf of Mexico through April 2016, was contracted on a shared, three-year term. We expect to record after-tax rig cancellation charges and third party costs in our third quarter 2016 earnings of approximately $90 million.

Canada

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Loss Attributable to ConocoPhillips (millions of dollars)	**$ (175)**	(166)	**(469)**	(324)
Average Net Production				
Crude oil (MBD)	**8**	13	**8**	14
Natural gas liquids (MBD)	**22**	26	**24**	26
Bitumen (MBD)				
Consolidated operations	**19**	12	**23**	12
Equity affiliates	**141**	126	**140**	135
Total bitumen	**160**	138	**163**	147
Natural gas (MMCFD)	**532**	768	**549**	752
Total Production (MBOED)	**279**	306	**286**	312
Average Sales Prices				
Crude oil (dollars per barrel)	**$ 37.70**	46.58	**31.74**	41.72
Natural gas liquids (dollars per barrel)	**13.70**	19.23	**12.65**	18.77
Bitumen (dollars per barrel)				
Consolidated operations*	**13.76**	34.60	**7.34**	26.97
Equity affiliates	**18.74**	32.66	**9.84**	24.11
Total bitumen*	**18.11**	32.84	**9.49**	24.36
Natural gas (dollars per thousand cubic feet)	**0.95**	1.88	**1.08**	2.04

**2015 has been restated to conform to current period presentation.*

Our Canadian operations mainly consist of natural gas fields in western Canada and oil sands developments in the Athabasca Region of northeastern Alberta. As of June 30, 2016, Canada contributed 21 percent of our worldwide liquids production and 14 percent of our worldwide natural gas production.

Earnings from Canada decreased 5 percent in the second quarter and 45 percent in the six-month period of 2016, primarily due to lower bitumen and natural gas prices. The decrease was partly offset by the absence of the $136 million impact of a 2 percent increase in Alberta corporate tax rates on deferred taxes in the second quarter of 2015; lower operating expense in the first half of 2016, mainly due to the absence of costs from disposed non-core assets in western Canada and reduced general and administrative expense; as well as lower exploration expense.

Total average production decreased 9 percent in the second quarter and 8 percent in the six-month period of 2016, while bitumen production increased 16 percent and 11 percent over the corresponding periods of 2016. The decrease in total production was mainly attributable to the

disposition of non-core assets in western Canada, normal decline and unplanned downtime from the precautionary shut down of Surmont for nearby forest fires in the second quarter of 2016. The production decrease was partly offset by strong well performance in western Canada, combined with new production from Surmont 2.

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Europe and North Africa

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Income (Loss) Attributable to ConocoPhillips (millions of dollars)	**$ 20**	36	**(31)**	672
Average Net Production				
Crude oil (MBD)	**105**	120	**114**	119
Natural gas liquids (MBD)	**6**	6	**6**	7
Natural gas (MMCFD)	**458**	483	**482**	489
Total Production (MBOED)	**187**	206	201	208
Average Sales Prices				
Crude oil (dollars per barrel)	**$ 45.77**	62.35	**39.78**	58.44
Natural gas liquids (dollars per barrel)	**22.16**	29.54	**20.67**	29.69
Natural gas (dollars per thousand cubic feet)	**4.30**	7.23	**4.68**	7.78

The Europe and North Africa segment consists of operations principally located in the Norwegian and U.K. sectors of the North Sea, the Norwegian Sea, as well as in Libya. As of June 30, 2016, our Europe and North Africa operations contributed 13 percent of our worldwide liquids production and 12 percent of our worldwide natural gas production.

Earnings for Europe and North Africa operations decreased $16 million in the second quarter and $703 million in the six-month period of 2016, compared to the corresponding periods of 2015. The earnings decrease was primarily due to the absence of a $555 million net deferred tax benefit as a result of a change in the U.K. tax rate, effective at the beginning of 2015, lower crude oil and natural gas prices in both periods, higher proved property impairments in the United Kingdom mainly in the first quarter of 2016, and lower sales volumes in the United Kingdom and Norway. The decrease in earnings was partly offset by lower DD&A expense, mainly as a result of the Brodgar H3 tie-back well being fully depreciated in 2015, and reduced operating expenses in Norway and the United Kingdom in both periods of 2016.

Average production decreased 9 percent in the second quarter and 3 percent in the six-month period of 2016. The decrease in both periods of 2016 was mainly due to normal decline and increased planned downtime for turnarounds in Norway and the United Kingdom. The production decrease was partly offset by new production from the Greater Ekofisk Area and the Greater Britannia Area, as well as improved drilling and well performance in Norway and lower unplanned downtime. Libya production remains largely shut in, as the Es Sider crude oil export terminal closure continued throughout the second quarter of 2016. Near-term operating and drilling activity remains uncertain as a result of the ongoing civil unrest.

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Asia Pacific and Middle East

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Income Attributable to ConocoPhillips (millions of dollars)	**$ 72**	328	**67**	723
Average Net Production				
Crude oil (MBD)				
Consolidated operations	**95**	93	**98**	100
Equity affiliates	**15**	15	**14**	15
Total crude oil	**110**	108	**112**	115
Natural gas liquids (MBD)				
Consolidated operations	**8**	10	**8**	9
Equity affiliates	**8**	8	**7**	8
Total natural gas liquids	**16**	18	**15**	17
Natural gas (MMCFD)				
Consolidated operations	**730**	721	**749**	716
Equity affiliates	**902**	622	**851**	592
Total natural gas	**1,632**	1,343	**1,600**	1,308
Total Production (MBOED)	**398**	349	**393**	350
Average Sales Prices				
Crude oil (dollars per barrel)				
Consolidated operations	**$ 43.55**	60.55	**38.35**	55.47
Equity affiliates	**46.35**	63.49	**40.40**	58.07
Total crude oil	**43.91**	60.97	**38.60**	55.82
Natural gas liquids (dollars per barrel)				
Consolidated operations	**29.67**	40.35	**28.64**	40.62
Equity affiliates	**29.18**	38.24	**28.38**	38.51
Total natural gas liquids	**29.42**	39.45	**28.51**	39.72
Natural gas (dollars per thousand cubic feet)				
Consolidated operations	**3.96**	6.48	**4.10**	6.85
Equity affiliates	**2.32**	4.42	**2.90**	5.85
Total natural gas	**3.06**	5.53	**3.47**	6.40

The Asia Pacific and Middle East segment has operations in China, Indonesia, Malaysia, Australia, Timor-Leste and Qatar, as well as exploration activities in Brunei. As of June 30, 2016, Asia Pacific and Middle East contributed 14 percent of our worldwide liquids production and 41 percent of our worldwide natural gas production.

Earnings decreased 78 percent in the second quarter and 91 percent in the six-month period of 2016. The decrease in earnings in the second quarter of 2016 was mainly due to lower prices across all commodities and higher DD&A expense in APLNG, mainly due to Train 1 coming online. Tax-related foreign exchange impacts at APLNG in the first quarter of 2016 also contributed to the earnings decrease in the first half of 2016. The earnings decrease was partly offset in both periods by lower production taxes; reduced feedstock cost at Darwin LNG; higher sales volumes; and lower maintenance costs, general and administrative spend, and transportation expenses, across the segment.

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Average production increased 14 percent in the second quarter and 12 percent in the six-month period of 2016. The production increase in both periods of 2016 was mainly attributable to new production from the ramp-up of APLNG in Australia and the Kebabangan gas field in Malaysia, improved drilling and well performance in China, the absence of the Gumusut 60-day turnaround in the second quarter of 2015, and increased recoveries from production sharing contracts in the Timor Sea Joint Petroleum Development Area between Timor-Leste and Australia. The production increases were partially offset by normal field decline across the segment and a planned turnaround at QG3 in March 2016.

APLNG Tax Functional Currency Change

On July 1, 2016, APLNG changed its tax functional currency from Australian dollar to U.S. dollar and translated all APLNG assets and liabilities into U.S. dollar, utilizing the exchange rate as of that date. As a result of this change, we will record a reduction to our investment in APLNG for the deferred tax effect of approximately $200 million, to be recorded through equity earnings in the third quarter of 2016.

Other International

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Loss Attributable to ConocoPhillips (millions of dollars)	**$ (29)**	(147)	**(53)**	(239)
Average Net Production				
Crude oil (MBD)				
Equity affiliates		4		4
Total Production (MBOED)		4		4
Average Sales Prices				
Crude oil (dollars per barrel)				
Equity affiliates		45.44		40.50

The Other International segment consists of exploration activities in Colombia, Chile, Senegal and Angola. As of June 30, 2016, Other International did not contribute to our worldwide liquids production due to the sale of our 50 percent interest in the Polar Lights Company in the fourth quarter of 2015.

Other International operations reported losses of $29 million in the second quarter and $53 million in the six-month period of 2016, compared with losses of $147 million and $239 million in the same periods of 2015. The second quarter increase in earnings was primarily due to lower exploration expenses driven by the absence of the $75 million after-tax Angola Block 37 leasehold impairment, the $59 million after-tax dry hole expense for the Vali-1 well, and the $32 million after-tax Poland leasehold impairment, partially offset by the absence of a $28 million tax deduction associated with ceasing operations in Peru, all in the second quarter of 2015. The absence of the $81 million after-tax dry hole expense for the Omosi-1 well in the first quarter of 2015 also contributed to the earnings increase for the six-month period of 2016.

Exploration Update

In June 2016, we entered into an agreement with Empresa Nacional Del Petroleo (ENAP) to acquire an additional 44 percent participating interest in the onshore Coiron block located in the Magallanes Basin in southern Chile where we already had 5 percent participation. Assignment of the additional participating interest to ConocoPhillips is subject to approval by the Chilean Ministry of Energy. ENAP holds the remaining 51 percent participating interest and will continue to be the operator.

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In July 2016, we announced our plan to sell our 35 percent interest in three exploration blocks offshore Senegal for $350 million plus net customary adjustments of approximately $80 million. The three blocks had a net book value of approximately $273 million as of June 30, 2016. The transactions are expected to close by year-end 2016, subject to governmental approvals and co-venturer preemption rights.

Corporate and Other

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Net Loss Attributable to ConocoPhillips				
Net interest	**$ (234)**	(161)	**(456)**	(316)
Corporate general and administrative expenses	**(72)**	(71)	**(157)**	(92)
Technology	**1**	88	**22**	72
Other	**(30)**	12	**(17)**	(45)
	$ (335)	(132)	**(608)**	(381)

Net interest consists of interest and financing expense, net of interest income and capitalized interest. Net interest increased 45 percent in the second quarter and 44 percent in the six-month period of 2016, primarily due to lower capitalized interest on projects and increased debt in both periods of 2016.

Corporate general and administrative expenses increased 1 percent in the second quarter and 71 percent in the six-month period of 2016, mainly due to increased compensation and benefits expenses and higher first-quarter 2016 pension settlement costs, partially offset by lower general Corporate Staffs costs.

Technology includes our investment in new technologies or businesses, as well as licensing revenues. Activities are focused on tight oil reservoirs, heavy oil and oil sands, as well as LNG, with an underlying commitment to environmental responsibility. Earnings from Technology decreased $87 million in the second quarter and $50 million in the six-month period of 2016, compared with the same period of 2015, primarily due to lower licensing revenues in the second quarter of 2016.

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. Other expenses increased $42 million in the second quarter and decreased $28 million in the six-month period of 2016, compared to the corresponding periods of 2015. Other expenses increased in the second quarter of 2016 primarily due to unfavorable foreign currency impacts. In the six-month period of 2016, other expenses decreased primarily due to the absence of $31 million in after-tax restructuring expenses, mainly in the first quarter of 2015, and favorable foreign currency impacts in the first quarter of 2016.

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CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

	Millions of Dollars	
	June 30 2016	December 31 2015
Short-term debt	**$ 1,331**	1,427
Total debt	**28,677**	24,880
Total equity	**37,831**	40,082
Percent of total debt to capital*	**43%**	38
Percent of floating-rate debt to total debt	**9%**	7

**Capital includes total debt and total equity.*

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources. Cash generated from operating activities is a source of funding. During the first six months of 2016, we issued $4,594 million of new debt consisting of a three-year term loan and fixed rate notes. The primary uses of our available cash were $2,954 million to support our ongoing capital expenditures and investments program, $1,292 million net purchases of short-term investments, $803 million to repay outstanding commercial paper, and $626 million to pay dividends. During the first six months of 2016, cash and cash equivalents increased by $495 million to $2,863 million.

We rely on cash flows from operating activities, proceeds from asset sales, our commercial paper and credit facility programs, and our shelf registration statement to support short- and long-term liquidity requirements. We believe current cash 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 and required debt payments.

Significant Sources of Capital

Operating Activities

Cash provided by operating activities was $1,680 million for the first six months of 2016, compared with $4,042 million for the corresponding period of 2015, a 58 percent decrease. The decrease was primarily due to lower prices across all commodities. Cash flows from operating activities were positively impacted by the $569 million and $556 million tax refunds received from the Internal Revenue Service during the first six months of 2016 and 2015, respectively.

While the stability of our cash flows from operating activities benefits from geographic diversity, our short- and long-term operating cash flows are highly dependent upon prices for crude oil, bitumen, natural gas, LNG and natural gas liquids. Prices and margins in our industry have historically been volatile and 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 absolute production volumes, as well as product and location mix, impacts our cash flows. Production levels are impacted by such factors as the volatile crude oil and natural gas price environment, which may impact investment decisions; the effects of price changes on production sharing and variable-royalty contracts; acquisition and disposition of fields; field production decline rates; new technologies; operating efficiencies; timing of startups and major turnarounds; political instability; weather-related disruptions; and the addition of proved reserves through exploratory success and their timely and cost-effective development. While we actively manage these factors, production levels can cause variability in cash flows, although generally this variability has not been as significant as that caused by commodity prices.

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To maintain or grow our production volumes, we must continue to add to our proved reserve base. In the event we undertake any cash conservation efforts, our reserve replacement efforts could be delayed thus limiting our ability to replace depleted reserves.

Investing Activities

Proceeds from asset sales for the first six months of 2016 were $363 million compared with $294 million for the corresponding period of 2015. We continue to optimize our asset portfolio by focusing on assets which offer the highest returns and growth potential, while selling non-core assets. For additional information regarding proceeds from asset sales, see the Outlook section within Management s Discussion and Analysis.

In May 2015, we liquidated certain deferred compensation investments for proceeds of $267 million, which is included in the Other line within Cash Flows From Investing Activities on our consolidated statement of cash flows. We do not expect further material liquidations associated with deferred compensation investments.

Commercial Paper and Credit Facilities

On March 28, 2016, we reduced our revolving credit facility, expiring in June 2019, from $7.0 billion to $6.75 billion. Our revolving credit facility may be used for direct bank borrowings, the issuance of letters of credit totaling up to $500 million, or as support for our commercial paper programs. The revolving credit 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 credit ratings. The facility 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 any of its consolidated subsidiaries.

Credit facility borrowings may bear interest at a margin above rates offered by certain designated banks in the London interbank market or at a margin above the overnight federal funds rate or prime rates offered by certain designated banks in the United States. The agreement calls for commitment fees on available, but unused, amounts. The agreement also contains early termination rights if our current directors or their approved successors cease to be a majority of the Board of Directors.

Our primary funding source for short-term working capital needs is the ConocoPhillips $6.25 billion commercial paper program. Commercial paper maturities are generally limited to 90 days. We also have the ConocoPhillips Qatar Funding Ltd. $500 million commercial paper program, which is used to fund commitments relating to QG3. At both June 30, 2016 and December 31, 2015, we had no direct borrowings or letters of credit issued under the revolving credit facility. Under the ConocoPhillips Qatar Funding Ltd. commercial paper program, no commercial paper was outstanding at June 30, 2016, compared with $803 million at December 31, 2015. Since we had no commercial paper outstanding and had issued no letters of credit, we had access to $6.75 billion in borrowing capacity under our revolving credit facility at June 30, 2016.

Due to the significant decline in commodity prices and the expectation these prices could remain depressed in the near future, the major ratings agencies conducted a review of the oil and gas industry. As a result of this review, our credit ratings, along with several other companies in the oil and gas industry, were downgraded. In the first quarter of 2016, Moody s Investors Service downgraded our senior long-term debt ratings to Baa2 from A2, with a negative outlook and our short-term commercial paper ratings to Prime-2 from Prime-1 and Fitch downgraded our long-term debt ratings to A- from A with a negative outlook and our short-term commercial paper ratings to F2 from F1. On April 29, 2016, Standard and Poor s downgraded our senior long-term debt ratings to A- from A, with a negative outlook and our short-term commercial paper ratings to A-2 from A-1. We do not have any ratings triggers on any of our corporate debt that would cause an automatic default, and thereby impact our access to liquidity, in the event of a further downgrade of our credit rating. If our credit rating were to deteriorate to a level prohibiting us from accessing the commercial paper market, we would still be able to access funds under our revolving credit facility.

Certain of our project-related contracts, commercial contracts and derivative instruments contain provisions requiring us to post collateral. Many of these contracts and instruments permit us to post either cash or letters

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of credit as collateral. At June 30, 2016 and December 31, 2015, we had direct bank letters of credit of $290 million and $340 million, respectively, which secured performance obligations related to various purchase commitments incident to the ordinary conduct of business. In the event of further credit ratings downgrades, we may be required to post additional letters of credit.

Shelf Registration

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.

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.

For 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 Expenditures section.

Our debt balance at June 30, 2016, was $28.7 billion, an increase of $3.8 billion from the balance at December 31, 2015, primarily as a result of obtaining a $1.6 billion three-year term loan and the issuance of $3.0 billion in new fixed rate notes, both in March 2016, partially offset by the $803 million repayment of outstanding commercial paper. Our short-term debt balance at June 30, 2016, decreased $96 million compared with December 31, 2015, primarily as a result of the timing of scheduled maturities. For more information, see Note 9 Debt, in the Notes to Consolidated Financial Statements.

In the first quarter of 2016, we announced a reduction in the quarterly dividend. We believe this effort will contribute to our balance sheet strength and provide financial flexibility through the current downturn. Additionally, in May 2016, we announced a dividend of $0.25 per share. The dividend was paid June 1, 2016, to stockholders of record at the close of business on May 20, 2016. In July 2016, we announced a dividend of $0.25 per share. The dividend will be paid September 1, 2016, to stockholders of record at the close of business on July 25, 2016.

Capital Expenditures

	Millions of Dollars Six Months Ended June 30	
	2016	2015
Alaska	**$ 503**	781
Lower 48	**817**	2,254
Canada	**468**	727
Europe and North Africa	**574**	867
Asia Pacific and Middle East	**485**	920
Other International	**78**	126
Corporate and Other	**29**	64
Capital expenditures and investments	**$ 2,954**	5,739

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During the first six months of 2016, capital expenditures and investments supported key exploration and development programs, primarily:

- Oil and natural gas development and exploration activities in the Lower 48, including Eagle Ford, Bakken and the Permian Basin.
- Major project expenditures associated with the APLNG joint venture in Australia.
- Continued oil sands development, ongoing liquids-rich plays in Canada, and exploration activities in Nova Scotia.
- Alaska activities related to development in the Greater Kuparuk Area, the Greater Prudhoe Area and Western North Slope, as well as exploration activities in the National Petroleum Reserve-Alaska.
- In Europe, development activities in the Greater Ekofisk, Aasta Hansteen, Clair Ridge and Greater Britannia areas.
- Exploration and appraisal drilling in deepwater Gulf of Mexico.
- Continued development in Malaysia, Indonesia and China.
- Exploration and appraisal drilling activities in Senegal.

In April 2016, we revised our 2016 operating plan, reducing our capital expenditures guidance from $6.4 billion to $5.7 billion, primarily driven by reduced deepwater exploration activity, deferrals and lower costs across the portfolio. We further reduced our capital expenditures guidance to $5.5 billion in July 2016.

Contingencies

A number of lawsuits involving a variety of claims arising in the ordinary course of business have been filed against ConocoPhillips. 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. With respect to 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. For information on other contingencies, see Note 12 Contingencies and Commitments, in the Notes to Consolidated Financial Statements.

Legal Matters

We are subject to various lawsuits and claims including but not limited to matters involving oil and gas royalty and severance tax payments, gas measurement and valuation methods, contract disputes, environmental damages, personal injury, and property damage. Our primary exposures for such matters relate to alleged royalty and tax underpayments on certain federal, state and privately owned properties and claims of alleged environmental contamination from historic operations. We will continue to defend ourselves vigorously in these matters.

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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, is required.

Environmental

We are subject to the same numerous international, federal, state and local environmental laws and regulations as other companies in our industry. 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 62 64 of our 2015 Annual Report on Form 10-K.

We occasionally receive requests for information or notices of potential liability from the Environmental Protection Agency (EPA) 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 waste attributable to our past operations. As of June 30, 2016, there were 14 sites around the United States in which we were identified as a potentially responsible party under CERCLA and comparable state laws.

At June 30, 2016, our balance sheet included a total environmental accrual of $262 million, compared with $258 million at December 31, 2015, for remediation activities in the United States and Canada. We expect to incur a substantial amount 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 concerns 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 upon our results of operations or financial position as a result of compliance with current environmental laws and regulations.

Climate Change

There has been a broad range of proposed or promulgated state, national and international laws focusing on greenhouse gas (GHG) reduction. These proposed or promulgated laws apply or could apply in countries where we have interests or may have interests in the future. Laws in this field continue to evolve, and while it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation, such laws, if enacted, could have a material impact on our results of operations and financial condition. Examples of legislation and precursors for possible regulation that do or could affect our operations include the EPA s announcement on March 29, 2010 (published as Interpretation of Regulations that Determine Pollutants Covered by Clean Air Act Permitting Programs, 75 Fed. Reg. 17004 (April 2, 2010)) and the EPA s and U.S. Department of Transportation s joint promulgation of a Final Rule on April 1, 2010, that trigger regulation of GHGs under the Clean Air Act, may trigger more climate-based claims for damages, and may result in longer agency review time for development projects.

For other examples of legislation or precursors for possible regulation and factors on which the ultimate impact on our financial performance will depend, see the Climate Change section in Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 64 66 of our 2015 Annual Report on Form 10-K.

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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. All statements other than statements of historical fact included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans, and objectives of management for future operations, are forward-looking statements. Examples of forward-looking statements contained in this report include our expected production growth and outlook on the business environment generally, our expected capital budget and capital expenditures, and discussions concerning future dividends. You can often identify our forward-looking statements by the words anticipate, estimate, believe, budget, continue, could, intend, may, plan, potential, predict, seek, should, will, wo projection, forecast, goal, guidance, outlook, effort, target and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about ourselves and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties 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, but not limited to, the following:

- Fluctuations in crude oil, bitumen, natural gas, LNG and natural gas liquids prices, including a prolonged decline in these prices relative to historical or future expected levels.
- The impact of recent, significant declines in prices for crude oil, bitumen, natural gas, LNG and natural gas liquids, which may result in recognition of impairment costs on our long-lived assets, leaseholds and nonconsolidated equity investments.
- Potential failures or delays in achieving expected reserve or production levels from existing and future oil and gas developments, including due to operating hazards, drilling risks and the inherent uncertainties in predicting reserves and reservoir performance.
- Inability to maintain reserves replacement rates consistent with prior periods, whether as a result of the recent, significant declines in commodity prices or otherwise.
- Unsuccessful exploratory drilling activities or the inability to obtain access to exploratory acreage.
- Unexpected changes in costs or technical requirements for constructing, modifying or operating exploration and production facilities.
- Legislative and regulatory initiatives addressing environmental concerns, including initiatives addressing the impact of global climate change or further regulating hydraulic fracturing, methane emissions, flaring or water disposal.
- Lack of, or disruptions in, adequate and reliable transportation for our crude oil, bitumen, natural gas, LNG and natural gas liquids.
- Inability to timely obtain or maintain permits, including those necessary for drilling and/or development, construction of LNG terminals or regasification facilities; failure to comply with applicable laws and regulations; or inability to make capital expenditures required to maintain compliance with any necessary permits or applicable laws or regulations.
- Failure to complete definitive agreements and feasibility studies for, and to timely complete construction of, announced and future exploration and production and LNG development.
- Potential disruption or interruption of our operations due to accidents, extraordinary weather events, civil unrest, political events, war, terrorism, cyber attacks or infrastructure constraints or disruptions.
- Changes in international monetary conditions and exchange controls, including changes in foreign currency exchange rates.
- Reduced demand for our products or the use of competing energy products, including alternative energy sources.

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Substantial investment in and development of alternative energy sources, including 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, bitumen, natural gas, LNG and natural gas liquids pricing, regulation or taxation; and other political, economic or diplomatic developments.
Volatility in the commodity futures markets.
Changes in tax and other laws, regulations (including alternative energy mandates), or royalty rules applicable to our business.
Competition in the oil and gas exploration and production industry.
Any limitations on our access to capital or increase in our cost of capital related to illiquidity or uncertainty in the domestic or international financial markets.
Our inability to execute asset dispositions or delays in the completion of any asset dispositions we elect to pursue.
Our inability to obtain economical financing for development, construction or modification of facilities and general corporate purposes.
The operation and financing of our joint ventures.
The ability of our customers and other contractual counterparties to satisfy their obligations to us.
Our inability to realize anticipated cost savings and expenditure reductions.
The factors generally described in Item 1A Risk Factors in our 2015 Annual Report on Form 10-K and any additional risks described in our other filings with the SEC.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the six months ended June 30, 2016, does not differ materially from that discussed under Item 7A in our 2015 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. As of June 30, 2016, with the participation of our management, our Chairman and Chief Executive Officer (principal executive officer) and our Executive Vice President, Finance, Commercial and Chief Financial Officer (principal financial officer) carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, 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 Executive Vice President, Finance, Commercial and Chief Financial Officer concluded our disclosure controls and procedures were operating effectively as of June 30, 2016.

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 second quarter of 2016 and any material developments with respect to matters previously reported in ConocoPhillips 2015 Annual Report on Form 10-K. While it is not possible to accurately predict the final outcome of these pending proceedings, if any one or more of such proceedings were to be decided adversely to ConocoPhillips, we expect there would be no material effect on our consolidated financial position. Nevertheless, such proceedings are reported pursuant to U.S. Securities and Exchange Commission regulations.

New matters ConocoPhillips

On July 13, 2016, ConocoPhillips received a Notice of Violation and Settlement Offer from the Southern Ute Indian Tribe s Environmental Programs Division (Division) alleging violations of certain regulations, permit conditions and a previous Consent Decree governing the operation of two glycol dehydration units at our Ute Compressor Station in La Plata County, Colorado. Specifically, the Division alleges that we failed to meet emission control system requirements and to conduct quarterly performance testing. The Division seeks a penalty of $127,000. We will work with the Division to resolve these matters.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A of our 2015 Annual Report on Form 10-K.

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Item 6. EXHIBITS

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.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Schema Document.
101.CAL*	XBRL Calculation Linkbase Document.
101.LAB*	XBRL Labels Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.

*Filed herewith.

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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/ Glenda M. Schwarz
Glenda M. Schwarz

Vice President and Controller

(Chief Accounting and Duly Authorized Officer)

August 2, 2016