

CONOCOPHILLIPS  
Form 10-Q  
November 04, 2014  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2014

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)

Edgar Filing: CONOCOPHILLIPS - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**01-0562944**  
(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 ☒ 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 ☒ 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 ☒ 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 ☒

The registrant had 1,230,912,872 shares of common stock, \$.01 par value, outstanding at September 30, 2014.

**Table of Contents**

**CONOCOPHILLIPS**

**TABLE OF CONTENTS**

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Income Statement</u>	1
<u>Consolidated Statement of Comprehensive Income</u>	2
<u>Consolidated Balance Sheet</u>	3
<u>Consolidated Statement of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Supplementary Information - Condensed Consolidating Financial Information</u>	25
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	51
<u>Item 4. Controls and Procedures</u>	51
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	52
<u>Item 1A. Risk Factors</u>	52
<u>Item 6. Exhibits</u>	53
<u>Signature</u>	54

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Consolidated Income Statement****ConocoPhillips**

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Revenues and Other Income</b>				
Sales and other operating revenues	\$ 12,080	13,643	41,316	41,159
Equity in earnings of affiliates	764	709	2,008	1,565
Gain on dispositions	4	1,069	20	1,222
Other income	69	49	322	317
<b>Total Revenues and Other Income</b>	<b>12,917</b>	<b>15,470</b>	<b>43,666</b>	<b>44,263</b>
<b>Costs and Expenses</b>				
Purchased commodities	4,703	5,708	17,325	17,063
Production and operating expenses	2,041	1,962	5,966	5,321
Selling, general and administrative expenses	203	249	603	607
Exploration expenses	459	313	1,272	911
Depreciation, depletion and amortization	2,096	1,902	6,058	5,541
Impairments	108	1	126	31
Taxes other than income taxes	493	664	1,756	2,198
Accretion on discounted liabilities	120	106	357	317
Interest and debt expense	149	151	475	420
Foreign currency transaction (gains) losses	(8)	9	17	(34)
<b>Total Costs and Expenses</b>	<b>10,364</b>	<b>11,065</b>	<b>33,955</b>	<b>32,375</b>
Income from continuing operations before income taxes	2,553	4,405	9,711	11,888
Provision for income taxes	904	1,966	3,880	5,359
<b>Income From Continuing Operations</b>	<b>1,649</b>	<b>2,439</b>	<b>5,831</b>	<b>6,529</b>
Income from discontinued operations*	1,078	57	1,131	183
Net income	2,727	2,496	6,962	6,712
Less: net income attributable to noncontrolling interests	(23)	(16)	(54)	(43)
<b>Net Income Attributable to ConocoPhillips</b>	<b>\$ 2,704</b>	<b>2,480</b>	<b>6,908</b>	<b>6,669</b>
<b>Amounts Attributable to ConocoPhillips Common Shareholders:</b>				
Income from continuing operations	\$ 1,626	2,423	5,777	6,486
Income from discontinued operations	1,078	57	1,131	183
Net income	\$ 2,704	2,480	6,908	6,669

**Net Income Attributable to ConocoPhillips Per Share of**
**Common Stock (dollars)**

Basic					
Continuing operations	\$	1.31	1.96	4.67	5.26
Discontinued operations		0.87	0.05	0.91	0.15

Net Income Attributable to ConocoPhillips Per Share of Common Stock	\$	<b>2.18</b>	2.01	<b>5.58</b>	5.41
---	----	-------------	------	-------------	------

**Diluted**

Continuing operations	\$	<b>1.31</b>	1.95	<b>4.63</b>	5.23
Discontinued operations		<b>0.86</b>	0.05	<b>0.91</b>	0.15

Net Income Attributable to ConocoPhillips Per Share of Common Stock	\$	<b>2.17</b>	2.00	<b>5.54</b>	5.38
---	----	-------------	------	-------------	------

<b>Dividends Paid Per Share of Common Stock (dollars)</b>	\$	<b>0.73</b>	0.69	<b>2.11</b>	2.01
---	----	-------------	------	-------------	------

**Average Common Shares Outstanding (in thousands)**

Basic	<b>1,238,234</b>	1,231,054	<b>1,236,431</b>	1,230,027
Diluted	<b>1,247,436</b>	1,240,365	<b>1,246,788</b>	1,238,943

*Net of provision (benefit) for income taxes on discontinued operations of: See Notes to Consolidated Financial Statements.	\$	<b>(6)</b>	136	<b>16</b>	215
--	----	------------	-----	-----------	-----

## Table of Contents

### Consolidated Statement of Comprehensive Income

ConocoPhillips

	Millions of Dollars			
	Three Months Ended September 30 2014	2013	Nine Months Ended September 30 2014	2013
<b>Net Income</b>	<b>\$ 2,727</b>	2,496	<b>6,962</b>	6,712
Other comprehensive income (loss)				
Defined benefit plans				
Reclassification adjustment for amortization of prior service credit included in net income	(2)	(1)	(5)	(4)
Net actuarial gain arising during the period		301		302
Reclassification adjustment for amortization of net actuarial losses included in net income	32	106	98	220
Nonsponsored plans*			5	1
Income taxes on defined benefit plans	(11)	(155)	(34)	(197)
Defined benefit plans, net of tax	19	251	64	322
Foreign currency translation adjustments	(1,947)	623	(1,501)	(1,705)
Reclassification adjustment for loss included in net income				(4)
Income taxes on foreign currency translation adjustments	15	(2)	20	12
Foreign currency translation adjustments, net of tax	(1,932)	621	(1,481)	(1,697)
<b>Other Comprehensive Income (Loss), Net of Tax</b>	<b>(1,913)</b>	872	<b>(1,417)</b>	(1,375)
<b>Comprehensive Income</b>	<b>814</b>	3,368	<b>5,545</b>	5,337
Less: comprehensive income attributable to noncontrolling interests	(23)	(16)	(54)	(43)
<b>Comprehensive Income Attributable to ConocoPhillips</b>	<b>\$ 791</b>	3,352	<b>5,491</b>	5,294

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

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Balance Sheet****ConocoPhillips**

	Millions of Dollars	
	September 30 2014	December 31 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 5,408	6,246
Short-term investments*	374	272
Accounts and notes receivable (net of allowance of \$5 million in 2014 and \$8 million in 2013)	7,255	8,273
Accounts and notes receivable related parties	198	214
Inventories	1,330	1,194
Prepaid expenses and other current assets	1,688	2,824
Total Current Assets	16,253	19,023
Investments and long-term receivables	24,615	23,907
Loans and advances related parties	1,202	1,357
Net properties, plants and equipment (net of accumulated depreciation, depletion and amortization of \$70,117 million in 2014 and \$65,321 million in 2013)	75,790	72,827
Other assets	1,126	943
Total Assets	\$ 118,986	118,057
<b>Liabilities</b>		
Accounts payable	\$ 8,647	9,250
Accounts payable related parties	45	64
Short-term debt	1,688	589
Accrued income and other taxes	1,655	2,713
Employee benefit obligations	713	842
Other accruals	1,393	1,671
Total Current Liabilities	14,141	15,129
Long-term debt	19,499	21,073
Asset retirement obligations and accrued environmental costs	9,803	9,883
Deferred income taxes	16,084	15,220
Employee benefit obligations	2,219	2,459
Other liabilities and deferred credits	1,579	1,801
Total Liabilities	63,325	65,565
<b>Equity</b>		
Common stock (2,500,000,000 shares authorized at \$.01 par value)		
Issued (2014 1,773,143,545 shares; 2013 1,768,169,906 shares)		
Par value	18	18
Capital in excess of par	46,000	45,690
Treasury stock (at cost: 2014 542,230,673 shares; 2013 542,230,673 shares)	(36,780)	(36,780)
Accumulated other comprehensive income	585	2,002
Retained earnings	45,451	41,160
Total Common Stockholders' Equity	55,274	52,090

# Edgar Filing: CONOCOPHILLIPS - Form 10-Q

Noncontrolling interests	387	402
Total Equity	55,661	52,492
Total Liabilities and Equity	\$ 118,986	118,057
*Includes marketable securities of: See Notes to Consolidated Financial Statements.	\$	135



**Table of Contents****Consolidated Statement of Cash Flows****ConocoPhillips**

Millions of Dollars  
 Nine Months Ended  
 September 30  
**2014**      2013

**Cash Flows From Operating Activities**

Net income	\$ 6,962	6,712
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	6,058	5,541
Impairments	126	31
Dry hole costs and leasehold impairments	668	345
Accretion on discounted liabilities	357	317
Deferred taxes	1,024	1,142
Undistributed equity earnings	334	(585)
Gain on dispositions	(20)	(1,222)
Income from discontinued operations	(1,131)	(183)
Other	(536)	(280)
Working capital adjustments		
Decrease in accounts and notes receivable	634	822
Increase in inventories	(162)	(301)
Increase in prepaid expenses and other current assets	(189)	(172)
Increase (decrease) in accounts payable	(187)	324
Increase (decrease) in taxes and other accruals	57	(550)
Net cash provided by continuing operating activities	13,995	11,941
Net cash provided by discontinued operations	143	235
Net Cash Provided by Operating Activities	14,138	12,176

**Cash Flows From Investing Activities**

Capital expenditures and investments	(12,729)	(11,281)
Proceeds from asset dispositions	1,434	3,175
Net sales (purchases) of short-term investments	(109)	1
Collection of advances/loans related parties	143	130
Other	(454)	(51)
Net cash used in continuing investing activities	(11,715)	(8,026)
Net cash used in discontinued operations	(59)	(540)
Net Cash Used in Investing Activities	(11,774)	(8,566)

**Cash Flows From Financing Activities**

Repayment of debt	(505)	(946)
Change in restricted cash		748
Issuance of company common stock	27	12
Dividends paid	(2,618)	(2,481)
Other	(20)	(593)
Net cash used in continuing financing activities	(3,116)	(3,260)

# Edgar Filing: CONOCOPHILLIPS - Form 10-Q

## Net cash used in discontinued operations

Net Cash Used in Financing Activities	(3,116)	(3,260)
---------------------------------------	---------	---------

Effect of Exchange Rate Changes on Cash and Cash Equivalents	(86)	(85)
--	------	------

Net Change in Cash and Cash Equivalents	(838)	265
---	-------	-----

Cash and cash equivalents at beginning of period	6,246	3,618
--	-------	-------

Cash and Cash Equivalents at End of Period	\$ 5,408	3,883
--	----------	-------

See Notes to Consolidated Financial Statements.

## **Table of Contents**

### **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 2013 Annual Report on Form 10-K.

Effective April 1, 2014, the Other International segment was restructured to focus on enhancing our capability to operate in emerging and new country business units. As a result, we moved the Latin America and Poland businesses from the historically presented Lower 48 and Latin America segment and the Europe segment to the Other International segment. 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 18 Segment Disclosures and Related Information.

The results of operations for our interest in the North Caspian Sea Production Sharing Agreement (Kashagan) and our Algeria and Nigeria businesses have been classified as discontinued operations for all periods presented. See Note 2 Discontinued Operations, for additional information. Unless indicated otherwise, the information in the Notes to Consolidated Financial Statements relates to our continuing operations.

#### **Note 2 Discontinued Operations**

As part of our asset disposition program, we agreed to sell our interest in Kashagan and our Algeria and Nigeria businesses (collectively, the Disposition Group). The Disposition Group was previously part of the Other International operating segment. We completed the sales of Kashagan and our Algeria business in the fourth quarter of 2013 and the sale of our Nigeria business in the third quarter of 2014.

On December 20, 2012, we entered into agreements with affiliates of Oando PLC to sell our Nigeria business. The transaction originally included our upstream affiliates and Phillips (Brass) Limited, which owned a 17 percent interest in the Brass LNG Project. On July 30, 2014, we completed the sale of the upstream affiliates for \$1,359 million, inclusive of \$550 million deposits previously received. The deposits had been included in the Other accruals line on our consolidated balance sheet and in the Other line of cash flows from investing activities on our consolidated statement of cash flows. The deposits received included \$435 million in 2012, \$15 million in 2013, and \$100 million in 2014. At closing we also received a \$33 million short-term promissory note. We recognized a before-tax gain of \$1,052 million, which is included in the Income from discontinued operations line on the consolidated income statement. At the time of disposition, the net carrying value of the upstream assets was \$307 million, which included \$233 million of other current assets, \$1,211 million of properties, plants and equipment (PP&E), \$298 million of other current liabilities, \$14 million of asset retirement obligations (ARO), and \$825 million of deferred taxes.

In the first quarter of 2014, we and Oando agreed to terminate the sales agreement for Phillips (Brass) Limited. In July 2014 we transferred our interest in the Brass LNG Project to the remaining shareholders in Brass LNG Limited. The financial impact of the transfer was recorded in the second quarter of 2014 and did not have a material effect on our consolidated financial statements.

**Table of Contents**

The carrying amounts of the major classes of assets and liabilities associated with the Disposition Group as of December 31, 2013, were as follows:

	Millions of Dollars
<b>Assets</b>	
Accounts and notes receivable	\$ 376
Inventories	9
Prepaid expenses and other current assets	72
Total current assets of discontinued operations	457
Investments and long-term receivables	60
Loans and advances related parties	7
Net properties, plants and equipment	1,154
Other assets	1
Total assets of discontinued operations	\$ 1,679
<b>Liabilities</b>	
Accounts payable	\$ 419
Accrued income and other taxes	72
Total current liabilities of discontinued operations	491
Asset retirement obligations and accrued environmental costs	14
Deferred income taxes	765
Total liabilities of discontinued operations	\$ 1,270

Sales and other operating revenues and income from discontinued operations related to the Disposition Group were as follows:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Sales and other operating revenues from discontinued operations	\$ 161	353	480	892
Income from discontinued operations before-tax	\$ 1,072	193	1,147	398
Income tax expense (benefit)	(6)	136	16	215
Income from discontinued operations	\$ 1,078	57	1,131	183

**Note 3 Variable Interest Entities (VIEs)**

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

**Freeport LNG Development, L.P. (Freeport LNG)**

We have an agreement with Freeport LNG to participate in a liquefied natural gas (LNG) receiving terminal in Quintana, Texas. We have no ownership in Freeport LNG; however, we own a 50 percent interest in Freeport LNG GP, Inc. (Freeport GP), which serves as the general partner managing the venture. We entered into a credit agreement with Freeport LNG, whereby we agreed to provide loan financing for the construction of the terminal. We also entered into a long-term agreement with Freeport LNG to use 0.9 billion cubic feet per day of regasification capacity, which expires in 2033. When the terminal became operational in June 2008, we began making payments under the terminal use agreement. At September 30, 2014, the prepaid balance of the terminal use agreement was \$318 million, which is primarily reflected in the Other assets line on our consolidated

**Table of Contents**

balance sheet. Freeport LNG began making loan repayments in September 2008, and the loan balance outstanding was \$460 million at September 30, 2014, and \$506 million at December 31, 2013.

In July 2013 we reached an agreement with Freeport LNG to terminate our long-term agreement at the Freeport LNG Terminal, subject to Freeport LNG obtaining regulatory approval and project financing for an LNG liquefaction and export facility in Texas, in which we are not a participant. In July 2014 Freeport LNG received conditional approval from the Federal Energy Regulatory Commission (FERC), and in October 2014, Freeport LNG received FERC's permission to construct the facility. Upon satisfaction of their project financing conditions, currently expected to occur in the fourth quarter of 2014, we will pay Freeport LNG a termination fee of approximately \$520 million. Freeport LNG will repay the outstanding ConocoPhillips loan used by Freeport LNG to partially fund the original construction of the terminal. These transactions, plus miscellaneous items, will result in a one-time net cash outflow of approximately \$50 million for us. When the agreement becomes effective, we expect to recognize an after-tax charge to earnings of approximately \$520 million. At that time, our terminal regasification capacity will be reduced from 0.9 billion cubic feet per day to 0.4 billion cubic feet per day, until July 1, 2016, at which time it will be reduced to zero.

Freeport LNG is a VIE because Freeport GP holds no equity in Freeport LNG, and the limited partners of Freeport LNG do not have any substantive decision making ability. Since we do not have the unilateral power to direct the key activities which most significantly impact its economic performance, we are not the primary beneficiary of Freeport LNG. These key activities primarily involve or relate to operating and maintaining the terminal. We also performed an analysis of the expected losses and determined we are not the primary beneficiary. This expected loss analysis took into account that the credit support arrangement requires Freeport LNG to maintain sufficient commercial insurance to mitigate any loan losses. The loan to Freeport LNG is accounted for as a financial asset, and our investment in Freeport GP is accounted for as an equity method investment.

**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 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 September 30, 2014, 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 5 Investments, Loans and Long-Term Receivables, and Note 10 Guarantees, for additional information.

**Note 4 Inventories**

Inventories consisted of the following:

	Millions of Dollars	
	September 30 2014	December 31 2013
Crude oil and natural gas	\$ 536	452
Materials, supplies and other	794	742
	\$ 1,330	1,194

Inventories valued on the last-in, first-out (LIFO) basis totaled \$430 million and \$343 million at September 30, 2014 and December 31, 2013, respectively. The estimated excess of current replacement cost over LIFO cost

## **Table of Contents**

of inventories was approximately \$80 million and \$160 million at September 30, 2014 and December 31, 2013, respectively.

### **Note 5 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 September 30, 2014, \$8.0 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 10 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 (VIEs), for additional information.

At September 30, 2014, the book value of our equity method investment in APLNG was \$12,299 million, which included \$829 million of cumulative translation effects due to strengthening of the Australian dollar relative to the U.S. dollar over time, and is included in the Investments and long-term receivables line on our consolidated balance sheet.

#### **FCCL**

In the first quarter of 2014, we received a \$1.3 billion distribution from FCCL Partnership, our 50 percent owned business venture with Cenovus Energy Inc., which is included in the Undistributed equity earnings line on our consolidated statement of cash flows.

#### **Loans and Long-Term Receivables**

As part of our normal ongoing business operations and consistent with industry practice, we enter into numerous agreements with other parties to pursue business opportunities. Included in such activity are loans made to certain affiliated and non-affiliated companies. Significant loans to affiliated companies at September 30, 2014, included the following:

\$460 million in loan financing to Freeport LNG. See Note 3 Variable Interest Entities (VIEs), for additional information.

\$909 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 6 Suspended Wells and Wells in Progress**

The capitalized cost of suspended wells at September 30, 2014, was \$1,285 million, an increase of \$291 million from \$994 million at year-end 2013. No suspended wells were charged to dry hole expense during the first nine months of 2014 relating to exploratory well costs capitalized for a period greater than one year as of December 31, 2013.

In November 2014 we will plug and abandon the Kamoxi-1 exploration well, located in Block 36 offshore Angola. The cost of the well, which totaled \$183 million pre-tax at September 30, 2014, will be expensed as a dry hole in the fourth quarter of 2014.

**Table of Contents****Note 7 Impairments**

During the three- and nine-month periods ended September 30, 2014 and 2013, we recognized before-tax impairment charges within the following segments:

	Millions of Dollars			
	Three Months Ended September 30 <b>2014</b>		Nine Months Ended September 30 <b>2014</b>	
		2013		2013
Alaska	\$	3	3	
Lower 48		102	119	
Europe		1	1	28
Asia Pacific and Middle East			1	3
Corporate and Other		2	3	
	\$	108	1	126
				31

The three- and nine-month periods of 2014 included an impairment in our Lower 48 segment of \$102 million, primarily as a result of reduced volume forecasts. We also recorded a \$138 million impairment for the undeveloped leasehold costs associated with the same properties, which was included in the Exploration expenses line on our consolidated income statement.

The nine-month period of 2013 included an impairment in our Europe segment of \$28 million, primarily due to increases in the ARO for the U.K. Don Field, which has ceased production.

In June 2014 we decided not to pursue future development of the Amauligak discovery at this time. Accordingly, we recorded a \$145 million before-tax property impairment for the carrying value of capitalized undeveloped leasehold costs associated with our Amauligak, Arctic Islands and other Beaufort properties, located offshore Canada. This impairment is also included in the Exploration expenses line on our consolidated income statement.

**Note 8 Debt**

In June 2014 we refinanced our revolving credit facility from a total of \$7.5 billion to \$7.0 billion, with a new expiration date of June 2019. Our revolving credit facility may be used for direct bank borrowings, for 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 as administered by ICE Benchmark Administration 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.



## Table of Contents

We have two commercial paper programs supported by our \$7.0 billion revolving credit facility: the ConocoPhillips \$6.1 billion program, primarily a funding source for short-term working capital needs, and the ConocoPhillips Qatar Funding Ltd. \$900 million program, which is used to fund commitments relating to QG3. Commercial paper maturities are generally limited to 90 days.

At September 30, 2014 and December 31, 2013, we had no direct outstanding borrowings under the revolving credit facility, with no letters of credit as of September 30, 2014 or December 31, 2013. In addition, under the ConocoPhillips Qatar Funding Ltd. commercial paper program, there was \$860 million of commercial paper outstanding at September 30, 2014, compared with \$961 million at December 31, 2013. Since we had \$860 million of commercial paper outstanding and had issued no letters of credit, we had access to \$6.1 billion in borrowing capacity under our revolving credit facility at September 30, 2014.

At September 30, 2014, we classified \$752 million of short-term debt as long-term debt, based on our ability and intent to refinance the obligation on a long-term basis under our revolving credit facility.

During the first nine months of 2014, we repaid at maturity the aggregate principal amount of our \$400 million 4.75% Notes due 2014. In October 2014 we notified holders of the outstanding \$1.5 billion 4.60% Notes due January 2015 that early redemption will occur in November 2014.

During 2013 a lease of a semi-submersible floating production system (FPS) commenced for the Gumusut development, located in Malaysia, in which we are a co-venturer. As of September 30, 2014, the value of the capital lease asset and associated obligation for our proportionate interest in the FPS was \$930 million. Following the startup of the FPS, which occurred in October 2014, the capital lease asset will be depreciated over a period consistent with the estimated proved reserves of Gumusut using the unit-of-production method with the associated depreciation included in the Depreciation, depletion and amortization line on our consolidated income statement.

## Note 9 Noncontrolling Interests

Activity attributable to common stockholders' equity and noncontrolling interests for the first nine months of 2014 and 2013 was as follows:

	Millions of Dollars					
	Common Stockholders Equity	2014 Non- Controlling Interest	Total	Common Stockholders Equity	2013 Non- Controlling Interest	Total Equity
Balance at January 1	\$ 52,090	402	52,492	47,987	440	48,427
Net income	6,908	54	6,962	6,669	43	6,712
Dividends	(2,618)		(2,618)	(2,481)		(2,481)
Distributions to noncontrolling interests		(69)	(69)		(59)	(59)
Other changes, net*	(1,106)		(1,106)	(1,062)		(1,062)
Balance at September 30	\$ 55,274	387	55,661	51,113	424	51,537

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

## **Table of Contents**

### **Note 10 Guarantees**

At September 30, 2014, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantees and expect future performance to be either immaterial or have only a remote chance of occurrence.

#### **APLNG Guarantees**

At September 30, 2014, we have 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 September 2014 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 three years. Our maximum potential amount of future payments related to this guarantee is approximately \$110 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 would occur beginning in 2016. Our maximum exposure at September 30, 2014, is approximately \$3.0 billion based upon our pro-rata share of the facility used at that date. At September 30, 2014, the carrying value of this guarantee is \$114 million.

In conjunction with our original acquisition of an ownership interest in APLNG in October 2008, we agreed to guarantee an existing obligation of APLNG to deliver natural gas under several sales agreements with remaining terms of 2 to 27 years. Our maximum potential amount of future payments, or cost of volume delivery, under these guarantees is estimated to be \$1.4 billion (approximately \$2.4 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 31 years or the life of the venture. Our maximum potential amount of future payments related to these guarantees is approximately \$190 million and would become payable if APLNG does not perform.

#### **Other Guarantees**

We have other guarantees with maximum future potential payment amounts totaling approximately \$200 million, which consist primarily of guarantees of the residual value of leased corporate aircraft, guarantees to fund the short-term cash liquidity deficit of two joint ventures, a guarantee for our portion of a joint venture's debt obligations and a guarantee of minimum charter revenue for an LNG vessel. These guarantees have remaining terms of up to 10 years or the life of the venture 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 non-performance of contractual terms by guaranteed parties.

## **Table of Contents**

### **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 September 30, 2014, was approximately \$100 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 September 30, 2014, were approximately \$50 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 11 Contingencies and Commitments.

On April 30, 2012, the separation of our downstream businesses was completed, creating two independent energy companies: ConocoPhillips and Phillips 66. In connection with the separation, we entered into an Indemnification and Release Agreement, which provides for cross-indemnities between Phillips 66 and us and established procedures for handling claims subject to indemnification and related matters. We evaluated the impact of the indemnifications given and the Phillips 66 indemnifications received as of the separation date and concluded those fair values were immaterial.

### **Note 11 Contingencies and Commitments**

A number of lawsuits involving a variety of claims arising in the ordinary course of business have been made 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.

### **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

## **Table of Contents**

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.

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 September 30, 2014, our balance sheet included a total environmental accrual of \$366 million, compared with \$348 million at December 31, 2013, for remediation activities in the United States and Canada. We expect to incur a substantial amount of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

## **Legal Proceedings**

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 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

## **Table of Contents**

utilized. In addition, at September 30, 2014, we had performance obligations secured by letters of credit of \$700 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 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 is currently proceeding to determine the damages owed to ConocoPhillips for Ecuador's actions and to address Ecuador's counterclaims.

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. As of September 2014 ConocoPhillips paid, under protest, tax assessments totaling approximately \$237 million, which are primarily recorded in the Investments and long-term receivables line on our consolidated balance sheet. 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. Post-hearing briefs from both parties were filed in August 2014. We are now awaiting the Tribunal's decision. Future impacts on our business are not known at this time.

## **Note 12 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 the 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.

**Table of Contents**

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	
	September 30 2014	December 31 2013
<b>Assets</b>		
Prepaid expenses and other current assets	\$ 1,003	871
Other assets	79	64
<b>Liabilities</b>		
Other accruals	1,006	890
Other liabilities and deferred credits	71	58

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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Sales and other operating revenues	\$ (185)	61	236	(122)
Other income	1		3	3
Purchased commodities	163	(68)	(221)	103

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

	Open Position Long/(Short)	
	September 30 2014	December 31 2013
<b>Commodity</b>		
Natural gas and power (billions of cubic feet equivalent)		
Fixed price	(17)	(18)
Basis	24	(10)

**Foreign Currency Exchange Derivatives**

We have foreign currency exchange rate risk resulting from international operations. Our foreign currency exchange derivative activity primarily consists of transactions designed to mitigate 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.



## Table of Contents

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	
	September 30 2014	December 31 2013
<b>Assets</b>		
Prepaid expenses and other current assets	\$ 2	1

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 September 30 2014		Nine Months Ended September 30 2014	
		2013		2013
Foreign currency transaction (gains) losses	\$ 5	(57)	(2)	

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

		In Millions Notional Currency	
		September 30 2014	December 31 2013
Buy U.S. dollar, sell other currencies*	USD	36	6
Buy British pound, sell euro	GBP	50	17

\*Primarily Canadian dollar and Norwegian krone.

## 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



Edgar Filing: CONOCOPHILLIPS - Form 10-Q

	September 30 2014	December 31 2013	September 30 2014	December 31 2013
<b>Cash</b>	<b>\$ 713</b>	636		
<b>Money Market Funds</b>	<b>300</b>			
<b>Time deposits</b>				
Remaining maturities from 1 to 90 days	<b>3,752</b>	5,336	<b>374</b>	137
<b>Commercial paper</b>				
Remaining maturities from 1 to 90 days	<b>643</b>	274		135
	<b>\$ 5,408</b>	6,246	<b>374</b>	272

## **Table of Contents**

### **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; however, we will sometimes use letters of credit, prepayments and master netting arrangements to mitigate credit risk with counterparties that both buy from and sell to us, as these agreements permit the amounts owed by us or owed to others to be offset against amounts due us.

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 or IntercontinentalExchange.

The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position on September 30, 2014 and December 31, 2013, was \$81 million and \$57 million, respectively. For these instruments, no collateral was posted as of September 30, 2014 or December 31, 2013. If our credit rating had been lowered one level from its A rating (per Standard and Poor's) on September 30, 2014, we would be required to post \$1 million of additional collateral to our counterparties. If we had been downgraded below investment grade, we would be required to post \$81 million of additional collateral, either with cash or letters of credit.

### **Note 13 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

**Table of Contents**

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 2014 or 2013.

**Recurring Fair Value Measurement**

Financial assets and liabilities reported at fair value on a recurring basis primarily include commodity derivatives and certain investments to support nonqualified deferred compensation plans. The deferred compensation investments are measured at fair value using unadjusted prices available from national securities exchanges; therefore, these assets are categorized as Level 1 in the fair value hierarchy. 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 that are long term in nature and 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.

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							
	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Deferred compensation investments	\$ 300			300	306			306
Commodity derivatives	873	197	12	1,082	744	177	10	931
Total assets	\$ 1,173	197	12	1,382	1,050	177	10	1,237
<b>Liabilities</b>								
Commodity derivatives	\$ 871	190	16	1,077	765	172	7	944
Total liabilities	\$ 871	190	16	1,077	765	172	7	944

## Table of Contents

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 offset exists.

Millions of Dollars						
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Cash Collateral	Gross Amounts without Right of Setoff	Net Amounts
<b>September 30, 2014</b>						
Assets	\$ 1,082	955	127	2	15	110
Liabilities	1,077	955	122	10	13	99
<b>December 31, 2013</b>						
Assets	\$ 931	827	104	6	12	86
Liabilities	944	827	117	26	9	82

At September 30, 2014 and December 31, 2013, 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 shows the values of assets, by major category, measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

Millions of Dollars			
	Fair Value	Fair Value Measurements Using Level 3 Inputs	Before-Tax Loss
<b>September 30, 2014</b>			
Net PP&E (held for use)	\$ 12	12	102
Net PP&E (unproved property)	38	38	138

Net PP&E held for use was written down to fair value, less costs to sell. The fair value was determined by internal discounted cash flow models using estimates of future production, prices from futures exchanges and pricing service companies, costs and a discount rate believed to be consistent with those used by principal market participants.

Net PP&E unproved property was written down to fair value less costs to sell based on a risk-weighted assessment of indicative offers received.

## 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.

## Edgar Filing: CONOCOPHILLIPS - Form 10-Q

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.

## Table of Contents

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 5 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 September 30 2014	December 31 2013	Fair Value September 30 2014	December 31 2013
<b>Financial assets</b>				
Deferred compensation investments	\$ 300	306	300	306
Commodity derivatives	125	99	125	99
Total loans and advances related parties	1,376	1,528	1,509	1,680
<b>Financial liabilities</b>				
Total debt, excluding capital leases	20,221	20,740	23,672	23,553
Commodity derivatives	112	92	112	92

## Note 14 Accumulated Other Comprehensive Income

Accumulated other comprehensive income 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, 2013	\$ (824)	2,826	2,002
Other comprehensive income (loss)	64	(1,481)	(1,417)
September 30, 2014	\$ (760)	1,345	585

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

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

# Edgar Filing: CONOCOPHILLIPS - Form 10-Q

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	<b>2014</b>	2013	<b>2014</b>	2013
Defined benefit plans	\$ 19	65	59	133
<i>Above amounts are included in the computation of net periodic benefit cost and are presented net of tax expense of:</i>	\$ 11	40	34	83
<i>See Note 16 Employee Benefit Plans, for additional information.</i>				

## Table of Contents

### Note 15 Cash Flow Information

	Millions of Dollars Nine Months Ended September 30	
	2014	2013
<b>Cash Payments</b>		
Interest	\$ 491	448
Income taxes	3,359	4,050
<b>Net Sales (Purchases) of Short-Term Investments</b>		
Short-term investments purchased	\$ (876)	(97)
Short-term investments sold	767	98
	\$ (109)	1

### Note 16 Employee Benefit Plans

#### Pension and Postretirement Plans

	Millions of Dollars				Other Benefits	
	Pension Benefits				2014	2013
	2014		2013			
	U.S.	Int l.	U.S.	Int l.		
<b>Components of Net Periodic Benefit Cost</b>						
Three Months Ended September 30						
Service cost	\$ 31	27	35	25	1	
Interest cost	42	42	35	35	8	8
Expected return on plan assets	(53)	(45)	(47)	(40)		
Amortization of prior service cost (credit)	1	(2)	2	(2)	(1)	(1)
Recognized net actuarial loss (gain)	19	14	38	18	(1)	
Settlements			50			
Net periodic benefit cost	\$ 40	36	113	36	7	7
Nine Months Ended September 30						
Service cost	\$ 93	83	104	76	2	2
Interest cost	124	126	107	108	22	20
Expected return on plan assets	(159)	(137)	(140)	(120)		
Amortization of prior service cost (credit)	4	(6)	5	(6)	(3)	(3)
Recognized net actuarial loss (gain)	57	43	113	55	(2)	2
Settlements			50			
Net periodic benefit cost	\$ 119	109	239	113	19	21



## Edgar Filing: CONOCOPHILLIPS - Form 10-Q

During the first nine months of 2014, we contributed \$304 million to our domestic benefit plans and \$111 million to our international benefit plans. In 2014 we expect to contribute approximately \$320 million to our domestic qualified and nonqualified pension and postretirement benefit plans and \$210 million to our international qualified and nonqualified pension and postretirement benefit plans.

During the three months ended September 30, 2013, we concluded that lump-sum benefit payments would exceed the sum of service and interest costs for the plan year for the U.S. qualified pension plan. As a result, we recognized a proportionate share of prior actuarial losses, or pension settlement expense, of \$50 million. In

**Table of Contents**

conjunction with the recognition of pension settlement expense, the assets and pension benefit obligation of the U.S. qualified pension plan were remeasured. At the measurement date, the net pension liability decreased \$301 million to \$725 million, resulting in a corresponding increase to other comprehensive income.

**Note 17 Related Party Transactions**

We consider our equity method investments to be related parties. Significant transactions with related parties were:

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Operating revenues and other income	\$ 32	35	89	74
Purchases	47	48	147	138
Operating expenses and selling, general and administrative expenses*	21	10	53	25
Net interest (income) expense**	(12)	6	(36)	22

\*2013 has been restated to eliminate certain non-related party transactions.

\*\*We paid interest to, or received interest from, various affiliates. See Note 5 Investments, Loans and Long-Term Receivables, for additional information on loans to affiliated companies.

**Note 18 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, Asia Pacific and Middle East, and Other International.

Effective April 1, 2014, the Other International segment was restructured to focus on enhancing our capability to operate in emerging and new country business units. As a result, we moved the Latin America and Poland businesses from the historically presented Lower 48 and Latin America segment and the Europe segment to the Other International segment. Results of operations for the Lower 48, Europe and Other International segments have been revised for all periods presented. There was no impact on our consolidated financial statements, and the impact on our segment presentation was immaterial.

In 2012 we agreed to sell our Nigeria and Algeria businesses and our interest in Kashagan. We sold our Nigeria business in the third quarter of 2014, and we sold Kashagan and our Algeria business in the fourth quarter of 2013. Results for the Disposition Group have been reported as discontinued operations in all periods presented. For additional information, see Note 2 Discontinued Operations.

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 attributable to ConocoPhillips. Intersegment sales are at prices that approximate market.

**Table of Contents****Analysis of Results by Operating Segment**

	Millions of Dollars			
	Three Months Ended September 30 <b>2014</b>		Nine Months Ended September 30 <b>2014</b>	
		2013		2013
<b>Sales and Other Operating Revenues</b>				
Alaska	\$ 2,094	2,102	6,687	6,375
Lower 48	5,082	4,938	17,196	14,661
Intersegment eliminations	(28)	(24)	(88)	(79)
Lower 48	5,054	4,914	17,108	14,582
Canada	1,086	1,264	4,113	3,924
Intersegment eliminations	(128)	(135)	(618)	(448)
Canada	958	1,129	3,495	3,476
Europe	2,241	3,024	8,195	8,885
Intersegment eliminations	(3)		(47)	
Europe	2,238	3,024	8,148	8,885
Asia Pacific and Middle East	1,658	2,196	5,758	6,500
Other International	60	262	65	1,202
Corporate and Other	18	16	55	139
Consolidated sales and other operating revenues	\$ 12,080	13,643	41,316	41,159
<b>Net Income Attributable to ConocoPhillips</b>				
Alaska	\$ 473	494	1,698	1,719
Lower 48	32	209	621	547
Canada	307	642	845	780
Europe	213	288	819	1,005
Asia Pacific and Middle East	749	741	2,336	2,676
Other International	(18)	283	74	328
Corporate and Other	(130)	(234)	(616)	(569)
Discontinued operations	1,078	57	1,131	183
Consolidated net income attributable to ConocoPhillips	\$ 2,704	2,480	6,908	6,669

Millions of Dollars  
**September 30** December 31  
**2014** 2013

**Total Assets**

Alaska	\$ 12,667	11,662
Lower 48	30,749	29,552
Canada	21,963	22,394
Europe	16,968	17,223
Asia Pacific and Middle East	26,276	25,473
Other International	2,190	1,705
Corporate and Other	8,062	8,367
Discontinued operations	111	1,681
Consolidated total assets	\$ 118,986	118,057

## **Table of Contents**

### **Note 19 Income Taxes**

Our effective tax rates from continuing operations for the third quarter and first nine months of 2014 were 35 percent and 40 percent, respectively, compared with 45 percent for the same periods of 2013. The lower rates were primarily due to a smaller proportion of income in higher tax jurisdictions in 2014 and the election of the fair market value method of apportioning interest expense in the United States. The effective tax rate for the first nine months of 2013 was favorably impacted by the tax resolution associated with the sale of certain western Canada properties which occurred in a prior year.

For the first nine months of 2014, the effective tax rate in excess of the domestic federal statutory rate of 35 percent was primarily due to foreign taxes.

### **Note 20 New Accounting Standards**

In May 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, 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 Accounting Standards Codification (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. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early adoption is not permitted. Entities may choose to adopt the standard using either a full retrospective approach or a modified retrospective approach. We are currently evaluating the impact of the adoption of this ASU.

## **Table of Contents**

### **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. During 2013 ConocoPhillips Australia Funding Company's guaranteed, publicly held debt was repaid. Beginning in the first quarter of 2014, financial information for ConocoPhillips Australia Funding Company is presented in the All Other Subsidiaries column of our condensed consolidating financial information.

In April 2014 ConocoPhillips received a \$32 billion dividend from ConocoPhillips Company to settle certain accumulated intercompany balances. This consisted of a \$15 billion distribution of earnings and a \$17 billion return of capital. The transaction was reflected in the second quarter 2014 Condensed Consolidating Financial Information for ConocoPhillips and ConocoPhillips Company and 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.

## Table of Contents

Millions of Dollars						
Three Months Ended September 30, 2014						
ConocoPhillips						
Canada						
	ConocoPhillips	ConocoPhillips Company	Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>Income Statement</b>						
<b>Revenues and Other Income</b>						
Sales and other operating revenues	\$	4,672		7,408		12,080
Equity in earnings of affiliates	1,722	2,098		975	(4,031)	764
Gain on dispositions		2		2		4
Other income	1	15		53		69
Intercompany revenues	20	104	72	1,444	(1,640)	
<b>Total Revenues and Other Income</b>	<b>1,743</b>	<b>6,891</b>	<b>72</b>	<b>9,882</b>	<b>(5,671)</b>	<b>12,917</b>
<b>Costs and Expenses</b>						
Purchased commodities		4,036		2,139	(1,472)	4,703
Production and operating expenses		414		1,617	10	2,041
Selling, general and administrative expenses	2	136	1	65	(1)	203
Exploration expenses		331		128		459
Depreciation, depletion and amortization		273		1,823		2,096
Impairments		104		4		108
Taxes other than income taxes		69		424		493
Accretion on discounted liabilities		14		106		120
Interest and debt expense	134	77	58	57	(177)	149
Foreign currency transaction (gains) losses	33	3	(208)	164		(8)
<b>Total Costs and Expenses</b>	<b>169</b>	<b>5,457</b>	<b>(149)</b>	<b>6,527</b>	<b>(1,640)</b>	<b>10,364</b>
Income from continuing operations before income taxes	1,574	1,434	221	3,355	(4,031)	2,553
Provision (benefit) for income taxes	(52)	(288)	9	1,235		904
<b>Income From Continuing Operations</b>	<b>1,626</b>	<b>1,722</b>	<b>212</b>	<b>2,120</b>	<b>(4,031)</b>	<b>1,649</b>
Income from discontinued operations	1,078	1,078		61	(1,139)	1,078
Net income	2,704	2,800	212	2,181	(5,170)	2,727
Less: net income attributable to noncontrolling interests				(23)		(23)
<b>Net Income Attributable to ConocoPhillips</b>	<b>\$ 2,704</b>	<b>2,800</b>	<b>212</b>	<b>2,158</b>	<b>(5,170)</b>	<b>2,704</b>
<b>Comprehensive Income Attributable to ConocoPhillips</b>	<b>\$ 791</b>	<b>887</b>	<b>29</b>	<b>255</b>	<b>(1,171)</b>	<b>791</b>

Millions of Dollars							
Three Months Ended September 30, 2013							
ConocoPhillips							
	ConocoPhillips	ConocoPhillips Company	Australia Funding Company	Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>Income Statement</b>							
<b>Revenues and Other Income</b>							
Sales and other operating revenues	\$	4,625			9,018		13,643
Equity in earnings of affiliates*	2,502	2,548			647	(4,988)	709
Gain on dispositions		418			651		1,069
Other income		29			20		49
Intercompany revenues*	21	106		75	1,338	(1,540)	
Total Revenues and Other Income	2,523	7,726		75	11,674	(6,528)	15,470

# Edgar Filing: CONOCOPHILLIPS - Form 10-Q

## Costs and Expenses

Purchased commodities		3,993		3,047	(1,332)	5,708
Production and operating expenses		385		1,580	(3)	1,962
Selling, general and administrative expenses	3	193	1	53	(1)	249
Exploration expenses		158		155		313
Depreciation, depletion and amortization		245		1,657		1,902
Impairments				1		1
Taxes other than income taxes		55		609		664
Accretion on discounted liabilities		14		92		106
Interest and debt expense*	156	86	58	55	(204)	151
Foreign currency transaction (gains) losses	(15)	(1)	72	(47)		9
<b>Total Costs and Expenses</b>	<b>144</b>	<b>5,128</b>	<b>131</b>	<b>7,202</b>	<b>(1,540)</b>	<b>11,065</b>
Income (loss) from continuing operations before income taxes	2,379	2,598	(56)	4,472	(4,988)	4,405
Provision (benefit) for income taxes	(44)	96	7	1,907		1,966
<b>Income (Loss) From Continuing Operations</b>	<b>2,423</b>	<b>2,502</b>	<b>(63)</b>	<b>2,565</b>	<b>(4,988)</b>	<b>2,439</b>
Income from discontinued operations	57	57		57	(114)	57
Net income (loss)	2,480	2,559	(63)	2,622	(5,102)	2,496
Less: net income attributable to noncontrolling interests				(16)		(16)
<b>Net Income (Loss) Attributable to ConocoPhillips</b>	<b>\$ 2,480</b>	<b>2,559</b>	<b>(63)</b>	<b>2,606</b>	<b>(5,102)</b>	<b>2,480</b>
<b>Comprehensive Income Attributable to ConocoPhillips</b>	<b>\$ 3,352</b>	<b>3,431</b>	<b>17</b>	<b>3,212</b>	<b>(6,660)</b>	<b>3,352</b>

\* Interest and debt expense for ConocoPhillips was revised to reflect contractually agreed interest rates, with offsetting adjustments in the Equity in earnings of affiliates and Intercompany revenues lines for ConocoPhillips, ConocoPhillips Company and All Other Subsidiaries. There was no impact to Total Consolidated balances.



## Table of Contents

Millions of Dollars						
Nine Months Ended September 30, 2014						
ConocoPhillips						
Canada						
	ConocoPhillips	ConocoPhillips Company	Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>Income Statement</b>						
<b>Revenues and Other Income</b>						
Sales and other operating revenues	\$	15,920		25,396		41,316
Equity in earnings of affiliates	6,053	7,063		2,235	(13,343)	2,008
Gain on dispositions		3		17		20
Other income	1	60		261		322
Intercompany revenues	59	369	214	4,685	(5,327)	
<b>Total Revenues and Other Income</b>	<b>6,113</b>	<b>23,415</b>	<b>214</b>	<b>32,594</b>	<b>(18,670)</b>	<b>43,666</b>
<b>Costs and Expenses</b>						
Purchased commodities		13,984		8,060	(4,719)	17,325
Production and operating expenses		1,255		4,751	(40)	5,966
Selling, general and administrative expenses	8	416	1	193	(15)	603
Exploration expenses		713		559		1,272
Depreciation, depletion and amortization		776		5,282		6,058
Impairments		122		4		126
Taxes other than income taxes		233		1,523		1,756
Accretion on discounted liabilities		43		314		357
Interest and debt expense	441	209	174	204	(553)	475
Foreign currency transaction (gains) losses	36	5	(196)	172		17
<b>Total Costs and Expenses</b>	<b>485</b>	<b>17,756</b>	<b>(21)</b>	<b>21,062</b>	<b>(5,327)</b>	<b>33,955</b>
Income from continuing operations before income taxes	5,628	5,659	235	11,532	(13,343)	9,711
Provision (benefit) for income taxes	(149)	(394)	7	4,416		3,880
<b>Income From Continuing Operations</b>	<b>5,777</b>	<b>6,053</b>	<b>228</b>	<b>7,116</b>	<b>(13,343)</b>	<b>5,831</b>
Income from discontinued operations	1,131	1,131		114	(1,245)	1,131
Net income	6,908	7,184	228	7,230	(14,588)	6,962
Less: net income attributable to noncontrolling interests				(54)		(54)
<b>Net Income Attributable to ConocoPhillips</b>	<b>\$ 6,908</b>	<b>7,184</b>	<b>228</b>	<b>7,176</b>	<b>(14,588)</b>	<b>6,908</b>
<b>Comprehensive Income Attributable to ConocoPhillips</b>	<b>\$ 5,491</b>	<b>5,767</b>	<b>24</b>	<b>5,730</b>	<b>(11,521)</b>	<b>5,491</b>

Millions of Dollars							
Nine Months Ended September 30, 2013							
ConocoPhillips							
	ConocoPhillips	ConocoPhillips Company	Australia Funding Company	Canada Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>Income Statement</b>							
<b>Revenues and Other Income</b>							
Sales and other operating revenues	\$	13,710			27,449		41,159
Equity in earnings of affiliates*	6,771	7,234			1,803	(14,243)	1,565
Gain on dispositions		419			803		1,222
Other income	1	237			79		317
Intercompany revenues*	62	341	13	229	3,723	(4,368)	
Total Revenues and Other Income	6,834	21,941	13	229	33,857	(18,611)	44,263

# Edgar Filing: CONOCOPHILLIPS - Form 10-Q

## Costs and Expenses

Purchased commodities		11,901			8,868	(3,706)	17,063
Production and operating expenses		1,106			4,238	(23)	5,321
Selling, general and administrative expenses	9	443		1	173	(19)	607
Exploration expenses		491			420		911
Depreciation, depletion and amortization		674			4,867		5,541
Impairments					31		31
Taxes other than income taxes		180			2,018		2,198
Accretion on discounted liabilities		42			275		317
Interest and debt expense*	467	246	12	176	139	(620)	420
Foreign currency transaction (gains) losses	26	8		(209)	141		(34)
<b>Total Costs and Expenses</b>	<b>502</b>	<b>15,091</b>	<b>12</b>	<b>(32)</b>	<b>21,170</b>	<b>(4,368)</b>	<b>32,375</b>
Income from continuing operations before income taxes	6,332	6,850	1	261	12,687	(14,243)	11,888
Provision (benefit) for income taxes	(154)	79		28	5,406		5,359
<b>Income From Continuing Operations</b>	<b>6,486</b>	<b>6,771</b>	<b>1</b>	<b>233</b>	<b>7,281</b>	<b>(14,243)</b>	<b>6,529</b>
Income from discontinued operations	183	183			183	(366)	183
Net income	6,669	6,954	1	233	7,464	(14,609)	6,712
Less: net income attributable to noncontrolling interests					(43)		(43)
<b>Net Income Attributable to ConocoPhillips</b>	<b>\$ 6,669</b>	<b>6,954</b>	<b>1</b>	<b>233</b>	<b>7,421</b>	<b>(14,609)</b>	<b>6,669</b>
<b>Comprehensive Income Attributable to ConocoPhillips</b>	<b>\$ 5,294</b>	<b>5,579</b>	<b>1</b>	<b>88</b>	<b>5,747</b>	<b>(11,415)</b>	<b>5,294</b>

\* Interest and debt expense for ConocoPhillips was revised to reflect contractually agreed interest rates, with offsetting adjustments in the Equity in earnings of affiliates and Intercompany revenues lines for ConocoPhillips, ConocoPhillips Company and All Other Subsidiaries. There was no impact to Total Consolidated balances.

## Table of Contents

<p style="text-align: right;">Millions of Dollars September 30, 2014</p> <p style="text-align: center;">ConocoPhillips Canada</p>						
	ConocoPhillips	ConocoPhillips Company	Funding Company I	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>Balance Sheet</b>						
<b>Assets</b>						
Cash and cash equivalents	\$	1,182	239	3,987		5,408
Short-term investments				374		374
Accounts and notes receivable	22	3,102	17	7,266	(2,954)	7,453
Inventories		248		1,082		1,330
Prepaid expenses and other current assets	11	626	12	1,086	(47)	1,688
<b>Total Current Assets</b>	33	5,158	268	13,795	(3,001)	16,253
Investments, loans and long-term receivables*	60,564	75,338	4,105	36,674	(150,864)	25,817
Net properties, plants and equipment		9,554		66,236		75,790
Other assets	42	289	144	1,419	(768)	1,126
<b>Total Assets</b>	\$ 60,639	90,339	4,517	118,124	(154,633)	118,986
<b>Liabilities and Stockholders' Equity</b>						
Accounts payable	\$ 1	4,114	6	7,525	(2,954)	8,692
Short-term debt	1,498	6	6	178		1,688
Accrued income and other taxes		83		1,572		1,655
Employee benefit obligations		496		217		713
Other accruals	115	330	99	896		