ConocoPhillips

2006 Sustainable Development Report

Global Values

Local Action

Sustainable Approach

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Additional information about ConocoPhillips and our sustainable development activities can be found at *http://www.conocophillips.com/sd* and in our Annual Report (*http://www.conocophillips.com/sd/annualreport*) and Fact Book (*http://www.conocophillips.com/sd/factbook*).

About the Report

This report covers the time period from mid-2005, the publication of our last report, to mid-2007. Select performance metrics are provided for 2006. The social and environmental data in this report covers businesses for which ConocoPhillips was the operator in 2005 and 2006.

Our report is titled "Global Values, Local Action, Sustainable Approach." Reflecting this theme, we have provided both companywide policies, positions and programs, and examples of local initiatives across our worldwide operations.

In developing this report, we have drawn upon the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting developed by the American Petroleum Institute and the International Petroleum Industry Environmental Conservation Association and many additional resources.

ConocoPhillips Operations

Letter to Stakeholders

As a major global oil and natural gas company, we at ConocoPhillips recognize that our responsibilities to society merely begin with our traditional and most important role of providing the energy that powers modern life.

Our responsibilities also extend to the manner in which we conduct our operations, our adherence to the highest legal and ethical standards, our environmental performance, the practice of good corporate citizenship in the communities in which we operate, and the quality of our interactions with our stakeholders – in effect, the public at large.

Consequently, in 2003 we established a formal set of commitments to the public, and we followed that by publishing our first baseline sustainable development report in 2005. As you will find in this 2006 report, we are making considerable progress toward meeting those commitments and are working to achieve further improvement. In fact, we believe that our ongoing business success depends on satisfying the varied expectations of our many external stakeholders.

Those expectations begin with reliable energy supplies. We believe that the key to building a secure energy future is the efficient use of a variety of sources. While these sources include the familiar fossil fuels – oil, natural gas and coal – they extend to such alternatives as oil sands and natural gas hydrates, nuclear power and renewable forms of energy such as wind and solar power. All must be intensively developed during the decades ahead.

We are working to develop a number of these potential resources, while also enhancing the world's capability to transport currently stranded energy supplies to new international markets. We focus these efforts in areas that offer us opportunities to leverage our technical expertise and build on our existing presence.

For example, since our last sustainable development report in 2005, we have matured into a much more substantial energy producer. We became North America's largest nongovernmental natural gas producer through the acquisition of Burlington Resources in March 2006. We also became one of the world's leading producers of heavy oil after forming a joint venture with EnCana Corporation in early 2007.

Elsewhere, gaining access to international resources has become increasingly difficult for publicly held companies. In many countries, there are political, legal, tax or economic barriers to entry. In others, social instability poses insurmountable risk. We have even faced government expropriation of our investments in some cases.

Additionally, such major projects as the proposed Alaskan and Mackenzie Delta natural gas pipelines have been slowed by regulatory and public policy issues, while proposed construction of liquefied natural gas receiving terminals has been delayed or abandoned due to local opposition.

While such factors are often beyond our control, we believe that our best opportunities to gain approval to operate in new areas must come through our performance and willingness to address environmental and social concerns. Consequently, sustainable development considerations are integrated into our decision-making and risk-management planning.

The broad public concern over global climate change serves as a good example. We believe this issue requires serious attention, and therefore in April 2007, we joined the

U.S. Climate Action Partnership in support of a mandatory national framework to reduce greenhouse gas emissions. We also pledged $1 million to support the Climate Change Policy Partnership, a four-year university-industry collaboration launched in 2006 to develop remedial policies.

In the meantime, we are working to address the environmental, technological and economic impact of greenhouse gases and other emissions in our operations. We incorporate the potential long-term cost of carbon into our capital spending plans. Additionally, we are improving the energy efficiency of our refineries and investigating the potential use of carbon capture and storage technology as a means to reduce emissions (see the Climate Change section, pages 25-29).

To improve the environmental performance of our products, we implemented a clean fuels program in the United States to meet tighter governmental standards on highway fuels that were enacted to improve air quality. An investment of more than $2 billion over five years led to the timely introduction of ultra-low-sulfur diesel fuel and low-sulfur gasoline. We also increased production of gasoline blended with ethanol in order to meet renewable fuels standards.

We currently are bringing second-generation renewable fuels to market. During 2006, we successfully commercialized our technology to transform soybean oil into renewable diesel fuel at a test at one of our refineries in Europe. In the United States, we subsequently announced a strategic alliance with Tyson Foods, the multinational food producer, to use by-product animal fat as a raw material in renewable diesel fuel.

Other research into biorenewable fuels includes the potential use of cornstalks and fast-growing crops such as switch grass to further supplement fuel supplies. We recently established an eight-year, $22.5 million research program at Iowa State University to develop these technologies and overcome their operational and environmental challenges.

In recognition that access to clean water poses an increasingly important environmental concern, in 2007 we began incorporating into our business planning each business unit's projections of water use and capital projects associated with water management. This enhances our focus on sound water management practices.

Throughout our company, we work to guard the environment against accidental releases. For example, we recently completed a major construction program to convert our entire fleet of ocean-going tankers to double-hulled vessels.

To move closer toward our goal of operating with zero injuries, occupational illnesses and safety incidents, we are striving to eliminate unplanned events by strengthening our mechanical and operating-integrity programs. As part of this effort, we are re-examining our process safety management systems to identify opportunities for improvement and to incorporate recent advances.

A key indicator of our safety performance is the total recordable rate for employees and contractors, which improved six percent in 2006 compared with the previous year. However, we still have a long way to go. During 2006, a number of serious incidents occurred and three people lost their lives at work. Consequently, we must redouble our efforts in the critical areas of personal and process safety.

In the external community, in order to gain better understanding of stakeholders' views and convey information on energy issues, we launched a "Conversation on Energy" public outreach program directed at communities across America. We are meeting with members of the general public, government and the media to discuss the challenges of satisfying growing energy demand in an environmentally responsible way.

The knowledge gained through such outreach efforts reaffirms our belief that our long-term success as a company depends on the choices we make today in not only growing our business but also in meeting the needs and expectations of our stakeholders. As this report will show, our commitments to sustainable development help guide those choices.

We recognize that this is a continuous journey, with new challenges facing us every step of the way. But we are determined to achieve ongoing progress. Please visit our sustainable development Web site at *http://www.conocophillips.com/sd* to let us know how we are doing.

Sincerely

J. J. Mulva
Chairman and Chief Executive Officer

1 http://www.conocophillips.com/sd/positions

2 http://www.conocophillips.com/sd/annualreport

3 http://www.conocophillips.com/sd/factbook

Policies and Positions

ConocoPhillips' sustainable development position is one of a number of corporate policies, positions and management systems that help to govern the sustainability aspects of our business. These are listed below; the full text can be found on our Web site: 1

- Code of Business Ethics and Conduct
- Corporate Governance Guidelines
- Economic Transparency Statement
- Health, Safety and Environment Policy
- Climate Change Position
- Renewable Energy Position
- Water Sustainability Position
- Equal Employment Opportunity Policy
- Diversity and Inclusion Position
- Human Rights Position
- HIV/AIDS Position
- Corporate Contributions Philosophy

Our position statements on economic transparency, water sustainability, diversity and inclusion, human rights and HIV/AIDS have all been adopted since the publication of our baseline report, and we recently revised our climate change position to include our support for mandatory frameworks to reduce greenhouse gas emissions (see page 25). This is not an exhaustive list of the company's policies, but represents those most relevant to sustainable development issues. In locations where the workforce is not fluent in English, key elements of many of these policies have been translated into the predominant local language. For example, the code of business ethics and conduct has been translated for operations in Azerbaijan, China, Norway, Venezuela and Indonesia, as well as countries in the Middle East.

About ConocoPhillips

Who We Are

ConocoPhillips is an international, integrated energy company – the third-largest such company in the United States based on market capitalization, oil and gas proved reserves and production – and the second-largest refiner in the United States. Worldwide, of nongovernment-controlled companies, ConocoPhillips has the sixth-largest total proved reserves and is the fifth-largest refiner.

ConocoPhillips is known worldwide for its technological expertise in exploration and production, reservoir management and exploitation, 3-D seismic technology, high-grade petroleum coke upgrading and sulfur removal.

Headquartered in Houston, Texas, ConocoPhillips operates in nearly 40 countries. As of June 30, 2007, the company had 32,700 employees worldwide and assets of $171 billion. ConocoPhillips' stock is listed on the New York Stock Exchange under the symbol "COP."

Our Businesses

The company has four core activities worldwide:

- Petroleum exploration and production.
- Petroleum refining, marketing, supply and transportation (refining and marketing business sector).
- Natural gas gathering, processing and marketing, including a 50 percent interest in DCP Midstream, LLC.
- Chemicals and plastics production and distribution through a 50 percent interest in Chevron Phillips Chemical Company LLC.

In addition, the company is investing in a number of emerging businesses – power generation; carbon-to-liquids; technology solutions such as sulfur removal; and alternative energy and programs – that are expected to provide current and future growth opportunities.

ConocoPhillips has grown significantly since our first sustainable development report in 2005. Key achievements include:

- Gaining a 20 percent equity interest in LUKOIL, an international energy company, allowing the joint development of a major Russian oil field.
- Acquiring Burlington Resources, which increased our energy production and reserves and made us North America's largest nongovernment producer of natural gas. New regions that Burlington added to the ConocoPhillips portfolio include Algeria, Peru, the East Irish Sea and the Dutch North Sea.
- Creating an integrated heavy oil venture with EnCana Corporation to produce Canada's oil sands resources.
- Returning to Libya after a 19-year absence, a measure that added to our reserves, production and exploration potential.
- Beginning operation of a liquefied natural gas (LNG) project in Australia and commencing construction of a world-scale LNG project in Qatar.
- Expanding our European refining presence through the purchase of a large refinery and associated assets in Wilhelmshaven, Germany.
- Acquiring partial interest in the planned 1,663-mile Rockies Express Pipeline (REX) project. The $4.4 billion pipeline, a joint venture of Kinder Morgan Energy Partners, Sempra Pipelines and Storage and ConocoPhillips, will be one of the largest natural gas pipelines constructed in North America.

More information about the company can be found in our Annual Report 2 and our Fact Book. 3

Our Approach to Sustainable Development

ConocoPhillips' approach to sustainable development stems from our fundamental intent to prosper as a business and to meet the energy needs of present and future generations. In doing so, we also will create value and improve living standards for our stakeholders.

Our approach to delivering on this objective is based on meeting nine specific commitments that lead to measurable actions across each of the three areas of sustainable development: environmental protection, economic growth and social improvement.

Our nine commitments are:

- **Increase the availability of ever-cleaner energy**
- **Be transparent and accountable by measuring and reporting both our financial and nonfinancial performance**
- **Operate to the highest safety standards**
- **Positively impact communities wherever we operate**
- **Minimize the environmental impact of our operations**
- **Invest in the well-being and development of our employees**
- **Constantly improve the energy and material efficiency of our operations**
- **Practice and uphold the highest ethical standards**
- **Ensure the long-term financial viability of the company**

Only by understanding and responding to the opportunities and risks associated with the changing needs and expectations of our stakeholders can we enhance current and long-term profitability.

This report uses the nine sustainable development commitments as the framework for discussing our performance. Our position also lays out five competencies that we believe a company must have in order to successfully promote sustainable development: integration, stakeholder engagement, life-cycle management, knowledge management and innovation. Examples of these capabilities at work within ConocoPhillips can be found throughout the report. See our Web site for the full sustainable development position and more about our nine commitments. 1

Progress Summary

This table provides an overview of our progress in implementing our sustainable development commitments from mid-2005 to mid-2007.

Ensure Long-Term Viability	P. 8	Increased use of employee networks for communicating lessons learned and good practices. Implemented a companywide knowledge sharing program.
	P. 9	Instituted sustainability assessment and cost-of-carbon requirements for major project development.
	P. 9	Developed our sustainable development scorecard – a sustainability risk-evaluation tool for project development. Use of the tool is required for funding approval of major projects.
Be Transparent and Accountable	P. 10	Developed principles for effective stakeholder engagement.
	P. 12	Added to the number of local sustainable development reports with the publication of our China business unit's report.
	P. 12-13	Initiated the Conversation on Energy – a public outreach program in the United States.
	P. 27; 67	External review of our greenhouse gas emissions (GHG) data presented in this report and our GHG data-collection processes.
Minimize Environmental Impact	P. 15-17	Invested in air emissions reduction technology and programs in refining and marine operations.
	P. 17; 19	Developed a position on water sustainability and announced a planned Water Sustainability Center for related research.
	P. 17-20	Assessed the water consumption of our refining assets to better understand our water usage. Improved our ability to clean by-product water through refining water consumption assessments and piloting advanced wastewater treatment and produced water handling technology.
	P. 21-24	Actively participated in research on marine mammals, the Arctic and other key areas important to biodiversity conservation.
	P. 25-26	Updated our position on climate change and joined the U.S. Climate Action Partnership.
	P. 17; 26	Added greenhouse gas emissions and water use forecasting and improvement projects to our long-range planning process.
	P. 27-28	Actively participated in research on carbon capture and storage.
	P. 28	Committed to flaring reduction initiatives in U.S. refineries.
	P. 28-29	Increased our North America Environmental Protection Agency Natural Gas STAR commitments.
Increase Availability of Ever-Cleaner Energy	P. 30-31	Continued research on enhanced oil recovery, fuel efficiency and other efforts to increase the sustainability of traditional energy sources.
	P. 30	Conducted research and development on potential uses of hydrogen and on more efficient batteries for hybrid cars.
	P. 30	Implemented an employee innovation Web site.
	P. 31-32	Advanced renewable diesel and biofuels capabilities and invested in biofuels research programs.
	P. 33	Implemented clean fuels sulfur reduction technology in refineries.
	P. 34-35	Made progress on natural gas developments, including start-up of our liquefied natural gas facility at Darwin, Australia.

Improve Energy and Material Efficiency	P. 36	Progressed energy efficiency commitment in U.S. refining.
	P. 36	Published energy consumption metrics.
	P. 37-38	Implemented a global waste management standard.
	P. 38	Continued realizing waste reduction through our annual Stamp Out Waste program.
Operate Safely	P. 41-42	Advanced safety leadership with new programs and further progress toward sites gaining U.S. Occupational Safety & Health Administration Voluntary Protection program STAR status.
	P. 43	Established a product stewardship leadership team and assigned product stewards for each business unit.
	P. 44-45	Conducted asset and operations integrity assessments, including pipeline integrity assessments, and incorporated findings of recent industry recommendations into asset and operating integrity programs.
	P. 45	Achieved 100 percent double-hulled tanker fleet.
	P. 47	Updated global business continuity plan.
Uphold Highest Ethics	P. 48	Conducted business ethics and conduct awareness training for all employees.
	P. 49	Developed a position on economic transparency.
	P. 49	Announced our endorsement of the Extractive Industries Transparency Initiative.
	P. 49	Developed a position on human rights.
Positively Impact Communities	P. 50	Developed U.S. Supplier Diversity program.
	P. 50-52	Continued engagement with indigenous communities.
	P. 52-57	Continued community investment.
Invest in Our Employees	P. 58-59	Updated employee opinion survey and published metrics.
	P. 59-60	Developed position on diversity and inclusion.
	P. 60	Published diversity metrics.
	P. 63	Developed position on HIV/AIDS.
	P. 63	Prepared pandemic response plans.

More information about these activities can be found in the following sections of the report. Each section addresses one of the commitments in our sustainable development position, and provides both companywide policies and programs and examples of local initiatives across our worldwide operations.

Ensure Long-Term Viability

Knowledge Sharing

We recognize the value of effective knowledge sharing among business units and functions as a means of driving continuous improvement and excellence. Collaboration delivers significant cost savings, productivity and cash flow benefits.

At ConocoPhillips, networks provide opportunities for employees to exchange information and expertise quickly across geographic, time and functional boundaries using intranet-based discussion forums and content management tools. Online networking is supported by symposiums, virtual and face-to-face meetings and local business unit events.

Within exploration and production, over 4,000 employees connect globally through more than 45 network groups. The focus remains on connecting people to meet the company's safety, environmental and operational challenges. In refining, more than 30 networks connect global operations, facilitating technical and operational excellence, energy reduction and process safety improvement. Within transportation and marketing, teams aid in the retrieval and exchange of information and share best practices broadly.

At the corporate level, a specialized team provides infrastructure and governance that enable our business units to excel in knowledge sharing.

An annual Archimedes Awards program rewards collaborative achievements adding significant value to the company. In 2006, the Archimedes Success Story of the Year recognized a group which successfully shared knowledge with a partner company, enabling the safe and speedy resumption of oil flow after an unexpected pipeline shutdown in the Greater Prudhoe Bay area of Alaska.

Corporate Governance

The ConocoPhillips board of directors oversees the company's policies, practices and performance. As of May 31, 2007, the board consisted of 16 independent directors and one employee director – the chairman of the board and chief executive officer (CEO).

The board appoints committees to work on specific issues in greater detail than would be possible at full board meetings. Further information about the audit and finance committee, compensation committee, public policy committee, committee on directors affairs and executive committee can be found on our Web site. 1

ConocoPhillips' corporate governance practices and financial controls meet the requirements of the Sarbanes-Oxley Act and the listing standards of the New York Stock Exchange.

Disclosure Committee

To strengthen corporate governance, a disclosure committee, comprising senior management and chaired jointly by the chief financial officer (CFO) and the general counsel, was formed in 2002 to oversee our system of disclosure controls and procedures and assist the board in providing information to the U.S. Securities and Exchange Commission and the investment community. The CEO and CFO meet with the disclosure committee to review each Securities and Exchange Commission filing prior to signing certifications of financial responsibility.

Public Policy Committee

The public policy committee oversees our positions on public policy issues and on matters that may impact the company's reputation as a responsible corporate citizen. The committee makes recommendations to the board on the company's policies, programs and practices regarding health, safety and environmental protection; ethical business conduct; consumer affairs; equal employment opportunity; business operations in sensitive countries; government relations and political contributions; corporate philanthropy; and corporate image advertising. It also approves the budget for political and charitable contributions and monitors compliance with public policies, programs, practices and budgets.

Accountability for Sustainability Issues

The company's various businesses are each responsible for integrating sustainability issues into their day-to-day operations, project development and decision-making and are held accountable through an annual goal-setting process. Progress is reported to the appropriate committees of the board of directors. Members of ConocoPhillips' senior management, each reporting directly to the CEO, have final responsibility for developing corporate strategy, reporting company performance and assisting the businesses with implementation of sustainability-related issues.

Integration of Sustainability Commitments Into Business Processes

ConocoPhillips' project authorization guidelines and due diligence standards require that any new business venture identifies health, safety, environmental and social risks, in addition to technical, commercial and political constraints. A new venture must demonstrate that those risks and constraints can be addressed in order for the project to be approved.

Early in a major project's life, our procedure makes it mandatory to complete an assessment of potential environmental and

social impacts, supported by stakeholder engagement. Major capital projects undergo a sustainable development evaluation to ensure that the social, economic and environmental issues are fully understood and have been addressed. In addition, projects with the potential to emit over 50,000 metric tons of carbon dioxide are subject to a greenhouse gas emissions cost-of-carbon evaluation.

The output from these activities helps shape the input for the risk-management and decision-making process of project planning and consequent project design.

Sustainable Development Scorecard

The sustainable development scorecard prompts proper evaluation and documentation of sustainability issues at key stages of each project and provides teams with a simple but thorough method of assessing whether potential risks and uncertainties have been fully addressed and resolved. All project teams are encouraged to use the scorecard to measure alignment with our sustainable development position, but it is mandatory for capital projects costing over $30 million. Such projects are not funded unless this evaluation has been completed.

The scorecard uses a qualitative risk-based scoring system to assess whether our nine sustainable development commitments have been properly addressed during project planning. It gives decision-makers a sustainable development perspective on a project's readiness to proceed to the next stage. During project development, the completed scorecard provides a concise visual summary of a project's continued alignment with our principles. It also encourages project teams to take a life cycle perspective, considering at the start of a project issues that will be relevant in operations and in eventual decommissioning.

Access to Resources

Some 60 percent of ConocoPhillips' oil and natural gas reserves and production are within Organization of Economic Cooperation and Development (OECD) nations. However, some of the most resource-rich areas are in countries that pose risks associated with political instability, rule of law or corruption. Consequently, in 2004 the ConocoPhillips board adopted a resolution that the company will not approve business ventures in sensitive countries unless they comply with both the letter and the spirit of all U.S. government restrictions on business activities in such areas. The board also regularly reviews the business activities of the company in sensitive countries.

The company has developed internal guidelines to assist employees in conforming with policies related to business activities in sensitive countries and to comply with applicable government regulations in areas subject to U.S. or international sanctions. Before entering a new country – or for other new developments, when warranted by the geopolitical environment – the company assesses the political risk of a potential investment.

On May 1, 2007, in accordance with the requirements of a Venezuelan presidential decree law issued on Feb. 26, 2007, Petroleos de Venezuela S.A. (PDVSA), the Venezuelan national oil company, assumed operational control of ConocoPhillips' interests in two Venezuelan onshore heavy oil projects, Petrozuata and Hamaca, and the offshore Corocoro project. ConocoPhillips cooperated with established transitional committees to ensure a safe, orderly transfer of operations. While discussions with the Venezuelan government are ongoing, as of June 2007, agreements had not been reached concerning appropriate compensation for the expropriation of the company's interests.

Throughout our six years of involvement in the Corocoro area, we have worked with stakeholders to understand their needs and concerns and to develop, in conjunction with the local community, national and international nongovernmental organizations and the national government, regional and national programs for biodiversity conservation and socio-economic development. We have provided advanced funding for five of these programs to ensure their continuation through the remainder of 2007. These five programs are for breastfeeding education, small-business microcredit financing, biodiversity participatory monitoring, handicraft training for the Warao (the local indigenous people) and leadership development for local entrepreneurs. After 2007, PDVSA will be responsible for determining whether these programs will continue.

We hold nonoperating interests in the Niger Delta of Africa, an area challenged by social upheaval and safety and security risk. We work with the operator and our fellow interest holders to address the sustainability risks faced by our projects and their potential impact on the region and to develop strategies to mitigate those impacts.

Be Transparent and Accountable

Our Approach to Stakeholder Engagement

We proactively engage with our stakeholders in order to understand their diverse and evolving expectations and to incorporate that understanding into our business plans and actions. Our key stakeholders include:

- **Employees.** We engage in dialogue with our employees and seek their input in many ways, including employee opinion surveys, town hall meetings and one-on-one employee development discussions. (See pages 59-62)
- **Shareholders.** We communicate with our shareholders through company reports and Securities and Exchange Commission filings, annual shareholders' meetings, information on our Web site and annual presentations to securities analysts. We also maintain a process for shareholders and interested parties to communicate with the board of directors, available on our Web site. 1
- **Governments.** We engage with governments in the key areas of public policy and regulatory oversight that affect existing company operations and business.
- **Communities.** Wherever we operate, our major projects and business units engage with local communities in a variety of ways, including consultations on specific projects and regular public forums. (See pages 50-57)
- **Customers, partners, suppliers and contractors.** We have a variety of avenues for communicating with these stakeholders, including secure extranet Web sites, where business partners can access financial information, interactive processes and fuel-purchasing procedures, and submit e-mail questions and feedback. Safety is an important issue, especially with our contractors, which our operations address by means of contractor safety training and education programs.
- **Nongovernmental organizations (NGOs) and interest groups.** In addition to the information available in company reports and on our Web site, we connect with project-specific interest groups as part of our engagement activities. For example, we are members of several sustainability-related partnerships, including:
  - World Business Council for Sustainable Development
  - International Petroleum Industry Environmental Conservation Association
  - Climate change partnerships (see pages 26-28)
  - Alternative energy partnerships (see page 31)
  - Partnerships to deliver social programs (see pages 50-57)

The Customer Supply Management team provides customers up-to-date allocation information via our customer extranet Web site, BizLink, 24 hours a day.

We endeavor to create an environment conducive to building trustworthy relationships. Such relationships can only be built through effective engagement, for which we have developed a set of principles. We seek out key stakeholders early in any business venture and include them in the design and implementation of the engagement process. We aim to communicate our intentions clearly, and listen, in order to understand their interests, concerns and culture. We seek solutions that create mutually beneficial and long-term value for the company and our stakeholders. We follow through on our commitments and are accountable for the results, both internally and externally.

Engaging With Communities

Our company-operated refineries created Community Advisory Councils (CACs) and Citizen Advisory Panels (CAPs) to foster and strengthen relationships with their neighborhoods. CACs and CAPs consist of local community representatives and members of the refinery management team, who meet regularly to discuss refinery plans and performance. The meetings give us an opportunity to meet our neighbors, to inform them about our operations, to consult with them on special issues or concerns and to gather their feedback on our performance.

Eleven of our 12 U.S. refineries and our Humber refinery in the United Kingdom have CACs or CAPs. The exception, the Ferndale refinery in Washington, engages its community by working through established local organizations. The Ferndale refinery recently hosted a visit by three members of the Los Angeles refinery's CAC who wanted to learn more about wet scrubber technology used to reduce air emissions.

While our marine business' stakeholders are typically geographically dispersed, in the state of Alaska, we participate in two multistakeholder groups developed as part of the Oil Pollution

Act of 1990. We work with the Prince William Sound Regional CAC primarily on oil spill prevention and response, as well as other issues of interest to those stakeholders. Similarly, we engage with the Washington State Advisory Council for Puget Sound, including serving on that group's board.

The Billings refinery in Montana was successfully nominated by its CAC for the 2005 Clean Air Excellence Award from the U.S. Environmental Protection Agency, underlining the relationship the refinery has with its community. The award recognized the refinery's local education and outreach work and its emissions reduction efforts.

"When I received the documentation from EPA, I realized that this was an opportunity for ConocoPhillips to be recognized for all of their efforts in reaching out to the community," said Candi Beaudry, the former CAC member who prepared a Clean Air Excellence Award nomination for the Billings refinery, pictured here (far right) with fellow CAC members and Billings refinery staff.

More than 70 community representatives have served on the Billings CAC since it was established in 1990. Their interest in air quality, coupled with the refinery's commitment to environmental care, has contributed to a reduction in sulfur dioxide emissions from 2,180 metric tons to 245 metric tons per year between 1992 and 2005. The CAC has worked with the refinery to develop a sustainable development scorecard, updated annually, to measure the plant's social, economic and environmental performance.

Our exploration and production businesses also have engagement strategies which vary according to the nature of the local community. In dispersed communities, they may identify key stakeholders and engage with them one-on-one, or in regions where there are opportunities to bring local stakeholders together, they work with multistakeholder groups similar to refinery CACs and CAPs. Below are a few examples.

In Alaska, we actively consult with North Slope communities to protect subsistence resources and to share information about current and planned operations. In 2006, such discussions led to an agreement with the Alaska Eskimo Whaling Commission and local village whaling associations that seismic operations in the Chukchi Sea offshore of Alaska would not interfere with native whaling and other subsistence hunting activities.

As part of a goal to be recognized as the industry leader in stakeholder engagement performance, ConocoPhillips Canada developed a Stakeholder Engagement Policy and has established guiding principles. We are actively involved with stakeholders through multistakeholder groups across Western Canada to share information about oil and gas development with community members, regulators and other industry representatives. We have collaborated with landowners and other industry members to develop tools to inform industry about potential impacts of oil and natural gas activities on key

Amanda Muench of ConocoPhillips Canada talks with members of the Dawson Creek, British Columbia community at Discover Energy, a multistakeholder forum sponsored by the Canadian Association of Petroleum Producers.

agricultural sectors, and we have sponsored initiatives to support safety in the agricultural industry. We also are actively engaged in education initiatives across Western Canada.

In the San Juan basin, we have endorsed the New Mexico Oil and Gas Association's Good Neighbor Policy to improve communication with ranchers, landowners, environmentalists and other stakeholders. The program commits us to protect the environment and minimize nuisance, respect private property, ensure site security and public safety, educate employees and contractors on good neighbor practices and inform the public on property and mineral rights issues.

In Indonesia, we have partnerships with regional universities and local business associations to develop environmental mitigation strategies and social development programs identified through community input. Our engagement plan includes regular conversations with researchers, town leaders, business groups, community members and program participants.

In the Gulf of Paria, Venezuela, since the beginning of our exploration activities in 1996, we started a proactive dialogue with local communities to better understand their concerns and needs, as well as those of fishermen, local governments and other stakeholders. Similarly, we talked with national and international stakeholders to understand their highest priorities in terms of environmental protection and sustainable development. From this dialogue, we crafted programs that protected the environment and helped build healthier and more prosperous local communities.

We have a companywide network to share best practices among employees whose main role is to engage external stakeholders. In April 2007, the network held its third global workshop attended by representatives from across our operations, including Peter Koning, Canada, and Tunde Folorunsho, Nigeria, pictured here.

Local Sustainable Development Reports

Several business units produce sustainable development reports to communicate performance and engage with local and regional stakeholders. This includes our exploration and operations groups in Alaska (which published its second report in 2006) and Canada (which published a report in 2005). In 2007, ConocoPhillips China released its first sustainable development report covering exploration and production operations in Bohai Bay and the South China Sea. Links to these reports can be found on our Web site. 1

Conversation on Energy

In 2006, we launched our Conversation on Energy, a public outreach program to address current energy challenges and provide an opportunity for people to discuss solutions. In an era of high gas prices and record profits, the program was prompted by a realization that the oil industry has done an extremely poor job of communicating with the public. This was corroborated by a research study showing that oil companies had the lowest credibility ranking of 25 major industries.

The basis of the program is a series of neighborhood meetings in cities across the United States, where we engage in a two-way dialogue with the public to better understand their views on energy issues and to share information on what we are doing to address those issues. Although the program is implemented in the United States, the issues discussed are key themes for our business across the globe.

The first Conversation on Energy event took place on November 28, 2006, in Billings, Montana, where an audience of approximately 300 local citizens was invited to ask questions and offer comments and suggestions. Similar-sized town hall

Panel at the Fort Wayne, Indiana, Conversation on Energy meeting. From left to right, Carin S. Knickel, vice president, human resources, ConocoPhillips; Patrick Bennett, vice president of environment, energy and infrastructure, Indiana Manufacturers Association; Christopher F. Moore, Indiana Coalition for Renewable Energy and Economic Development (ICREED); Merl Lindstrom, general manager, research and development, ConocoPhillips; and Brandon Seitz, manager, energy division, Indiana Office of Energy & Defense Development.

meetings and community events have taken place across the United States, bringing together energy experts, business and community leaders and concerned citizens. Thirty-five such meetings were planned for 2007, and the program will continue during 2008 through a combination of meetings in new markets and return visits to previous cities on the tour.

Each meeting is chaired by an independent moderator. ConocoPhillips is represented by a technology manager and a senior-level executive, who serve as panelists along with invited local academicians, environmentalists, and business and community leaders to represent different viewpoints. Introductory remarks are kept brief to allow maximum time for audience questions and discussion. Meeting attendees can submit written questions if they prefer or if time runs out.

Debate has tended to focus on alternative energy, the environment, government action and policies, energy conservation and industry operations. Among the most frequently asked questions, and the pages in this report where we address the topic, are:

- What energy alternatives are most promising for the future? (pages 30-35)
- How will the environment be protected as we pursue new forms of energy? (pages 14-29)
- How can we use energy more efficiently in our own communities? (pages 36-37)
- What is ConocoPhillips doing about global warming? (pages 25-29)

The responses to these and other questions can be seen at the Conversation on Energy Web site, 1 where the public is invited to join the discussion and offer views and feedback on energy issues.

Conversation on Energy meeting in Jackson, Mississippi. We are involved in discussion on a biofuels project with Mississippi State University.

The site includes meeting reports, press coverage, the full tour schedule and a form for individuals to register their interest in attending events or receiving future energy updates. It also features an information guide on energy types – from traditional sources such as oil and gas to alternative energy sources – and on other energy issues, including cost, availability, industry profits and environmental impact.

Continuing the Conversation

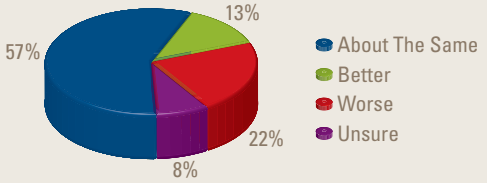
We plan to continue our energy dialogue with the public by growing and expanding the current Conversation on Energy program.

- **Energy Prize.** To demonstrate a commitment to new ideas and innovative energy solutions, ConocoPhillips and Penn State will be rewarding one American inventor for his or her contribution to alternative or renewable fuel development. Proposals will be accepted beginning fall 2007.
- **Education.** Feedback from meetings consistently has shown that the public desires an energy education program for the youth of America – tomorrow's issues-involved citizens. We are conducting focus groups with teachers in cities we visit on our Conversation on Energy tour to evaluate the most effective means to communicate this material before launching a formal program.
- **Energy Tour.** Conversation on Energy events will be held around the United States through 2008. We will be revisiting many of the cities on the 2007 tour and organizing meetings in new markets, including several in very large cities.

Benchmark Research

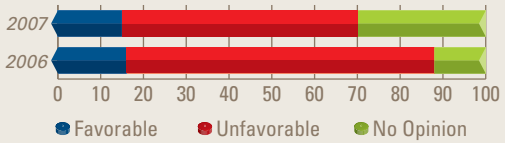
National opinion research was conducted on behalf of ConocoPhillips to gauge public opinion of the energy industry. Early results showed positive movement compared to the benchmark research undertaken one year earlier. The company embarked on a nationwide community outreach effort in 2006 to engage the American public in a dialogue on energy.

Energy Industry Communications vs. 2006



More than two-thirds of respondents stated that communication by energy companies with the American public in 2007 was the same as or better than in 2006.

Energy Industry Favorability vs. 2006



While favorability ratings of large energy companies did not change significantly from 2006 to 2007, the study showed a marked decrease in the percentage of respondents stating that they had an unfavorable opinion of the industry.

Source: 2007 research results based on 1002 telephone interviews conducted by Cherry Communications & Research from 08/20/07 to 09/04/07.

Source: 2006 research results based on 1000 telephone interviews conducted by Mercury Public Affairs from 08/09/06 to 08/20/06.

The margin of error for this survey is +/- 3%.

Minimize Environmental Impact

Health, Safety and Environment Policy, Management System and Audits

A comprehensive Health, Safety and Environment (HSE) policy underpins our determination to continuously improve health and safety performance and environmental stewardship. Everyone in ConocoPhillips has a duty to comply with the policy, which applies to all company-owned and -operated locations.

The policy sets the foundation for our companywide HSE programs. It also requires contractors and suppliers to manage HSE in line with our standards. We audit our facilities against the HSE policy at least once every five years, with large, complex facilities audited more frequently. Corporate auditors performed 47 HSE compliance audits and 17 management system audits in 2006, covering more than a quarter of our assets. Individual sites also performed their own HSE and management system self-assessments.

If any gaps in performance against HSE policy standards are found, businesses must develop a corrective action plan within 60 days. The corporate HSE audit group reviews and approves plans and tracks them to completion.

The corporate HSE audit group also conducts operational readiness reviews for selected new exploration and production assets to help ensure that they will be commissioned and operated correctly, that the work force has been properly trained and that effective inspection and maintenance programs are in place.

In 2006, we introduced a new system in which HSE regulatory compliance is audited simultaneously alongside management system procedures. Evaluating procedures and practices at the same time gives a better measure of HSE management effectiveness. At major operating facilities, the combined approach is conducted on a three-year cycle, with health and safety procedures and compliance audited in year one and environmental procedures and compliance in year two. The third year is devoted to continuing to close gaps. The system will be extended in 2007 to cover all company-operated refineries and most other major operating facilities worldwide.

We use a companywide compliance verification process to capture audit action items, risk assessments, process hazard analyses and incident investigations. All business managers must certify annually their compliance with regulatory requirements and company standards, and that adequate action plans exist for any corrective actions. The system is designed to drive all identified risk issues and HSE-related issues to conclusion.

In 2006, we benchmarked our corporate HSE auditing program against EPA audit standards, International Organization for Standardization (ISO) and Eco-Management & Audit Scheme (EMAS) guidelines, and our own internal procedures. Ten of the 11 elements assessed met or exceeded these standards. Measures have been put in place to address the one area of noncompliance, which related to training "guest" auditors participating in the program who are employees with specific expertise in the area being addressed, but who are not full-time auditors.

Clean Air

Air Emissions Performance

We continue to work on reducing air emissions from our operations. In addition to tracking our greenhouse gas emissions (see page 27), we track emissions of sulfur oxides (SO_x), nitrogen oxides (NO_x), particulate matter (PM) and volatile organic compounds (VOCs). SO_x, NO_x and PM originate from the combustion of hydrocarbons in our operations. SO_x and NO_x can contribute to the formation of acid rain. VOCs are hydrocarbons associated with natural gas and crude oil and represent lost product when released. They can serve as a precursor to smog, which in high concentrations can pose health risks.

For SO_x, NO_x and PM, we have seen a return from our investment in control technologies with reduced emissions. For VOC, we have made strides in reducing emissions from marine transport through new technology – however, our total emissions have grown along with our increased operations.

Overall, the company's SO_x emissions in 2006 ***(figs. 1 & 2, page 15)*** were about 59,600 metric tons, a decrease of 17 percent from 2005. The main source of our SO_x emissions is the refining and marketing business sector. Emissions were reduced in this business sector through installation of controls, asset dispositions and marine transport reductions, partly offset by an increase from our acquisition of the Wilhelmshaven refinery. In the exploration and production and midstream sector, SO_x emissions increased due to the acquisition of the Burlington Resources assets.

NO_x emissions in 2006 ***(figs. 3 & 4, page 15)*** were about 119,000 metric tons, an increase of 31 percent from 2005. The exploration and production and midstream sector contributed approximately two-thirds of our NO_x emissions. Increased drilling activity and the addition of the Burlington Resources assets accounted for an increase in NO_x emissions. In the refining and marketing business sector, NO_x emissions decreased due to installation of controls, marine transport reductions, asset dispositions and a refinery turnaround, partly offset by an increase from the addition of the Wilhelmshaven refinery.

ConocoPhillips' PM emissions in 2006 ***(figs. 5 & 6, page 16)*** were about 6,700 metric tons, a decrease of 14 percent from 2005. The refining and marketing business sector contributed the majority of

the company's PM emissions and decreased their emissions primarily through asset dispositions, as well as improved plant performance, installation of wet gas scrubbers at several facilities and improved measurement through stack testing. Emissions from the exploration and production and midstream sector increased due to the addition of the Burlington Resources properties.

ConocoPhillips' VOC emissions in 2006 ***(figs. 7 & 8, page 16)*** were approximately 193,000 metric tons, an increase of 24 percent from 2005. Over two-thirds of the company's VOC emissions were from exploration and production and midstream sector, which increased mainly due to the addition of the Burlington Resources assets, partly offset by a reduction in Indonesia offshore operations. The marine operations decreased VOC emissions due to marine transport reductions.

Refining Emissions Reductions

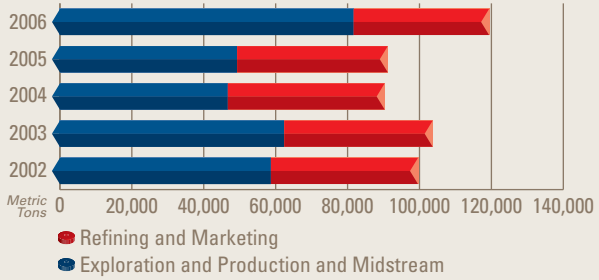
We are working diligently to meet and exceed the requirements of an agreement signed with the U.S. Environmental Protection Agency (EPA) in January 2005 to reduce air emissions at nine of our 12 U.S. refineries. Our other three U.S. refineries were included in a similar settlement reached in 2001.

The 2005 agreement requires us to invest more than $525 million in control technologies to reduce emissions from these refineries. However, our clean air initiatives will go beyond EPA requirements, and by 2011 we expect to have invested more than $1 billion in projects to reduce air emissions.

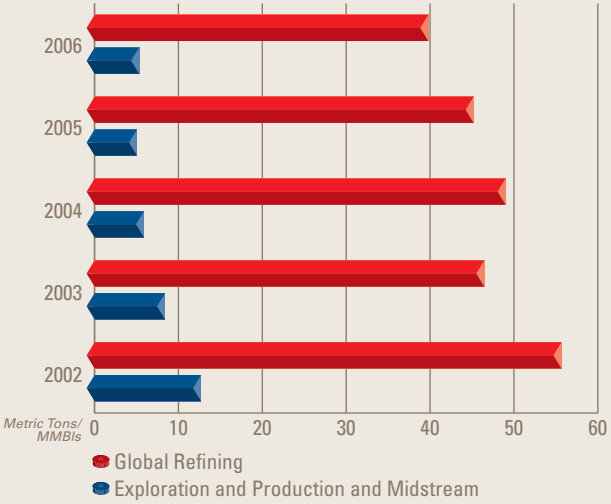
Between 2002 and 2012, we expect to achieve reductions in SO_x emissions from our U.S. refineries of 80 percent, or more than 33,600 metric tons per year; in NOx emissions by 40 percent, or more than 9,100 metric tons per year. We also expect a similar percentage reduction in PM emissions, or more than 1,800 metric tons per year.

Total Sulfur Oxide (SO_x) Emissions
(fig. 1)

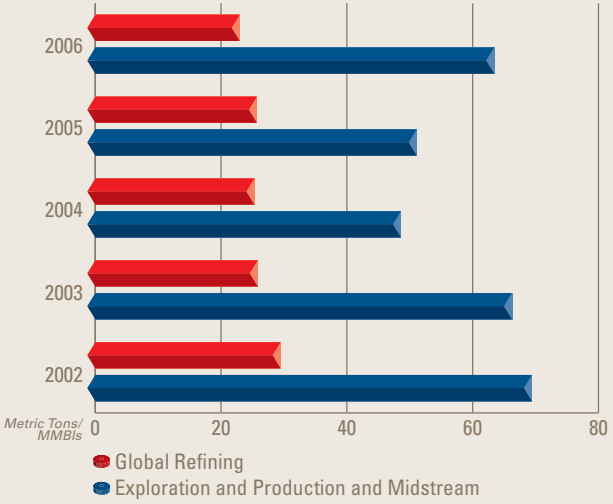
Total Nitrogen Oxide (NO_x) Emissions
(fig. 3)



SO_x Emmissions Per Unit of Production
(fig. 2)

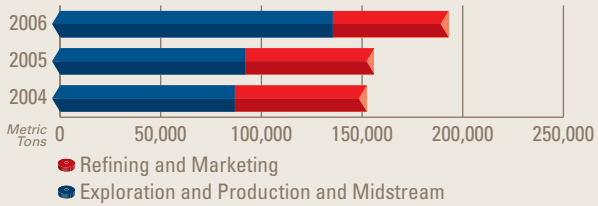


NO_x Emissions Per Unit of Production
(fig. 4)

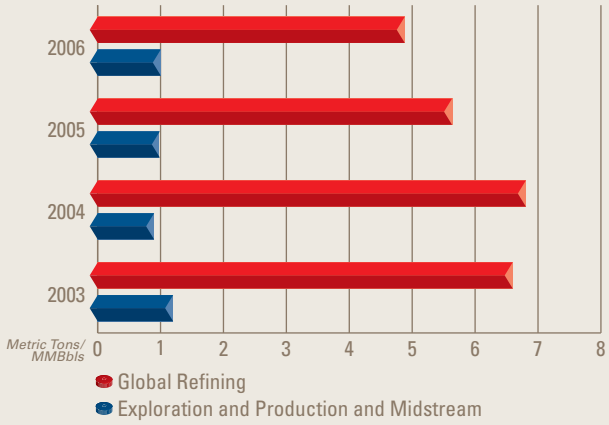


Total Particulate Matter (PM) Emissions
(fig. 5)

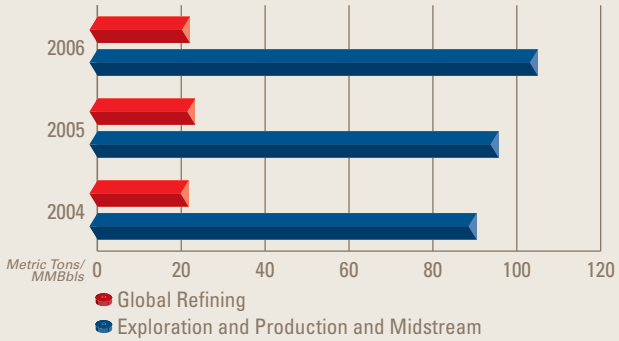
Total Volatile Organic Compounds (VOC) Emissions
(fig. 7)



PM Emissions Per Unit of Production
(fig. 6)



VOC Emissions Per Unit of Production
(fig. 8)



Marine Emissions Reductions

Our Polar Tankers fleet employs a program called E-Speed that enables our vessels to slow down and arrive in port on a just-in-time basis when safe and practical to do so, reducing fuel consumption and emissions. By reducing engine power by 50 percent, a tanker's speed can drop just 20 percent, leading to fuel savings of 30 percent and a corresponding reduction in air emissions. The E-Speed program also saves approximately $25,000 per trip. Since the program began in April 2006, we have cut emissions of SO_x, NO_x and PM from six tankers in the fleet by 25 percent per year and total fuel costs by $2 million per year. The program is being extended to other tanker operations when production, pipeline throughput, inventories and delivery schedules allow.

To reduce SO_x and PM emissions from our Polar vessels, especially in coastal areas, we are fitting slide valves, a type of fuel injector, to their engines. This effort particularly will benefit Prince William Sound on Alaska's south coast, where local atmospheric conditions tend to trap low-level smoke. Our tankers already complied with the International Convention for the Prevention of Pollution from Ships (MARPOL) Annex VI criteria for NO_x emissions, but the valves will enable the vessels to surpass those standards, as well as improving fuel consumption. In addition, we are fitting new engine lubrication systems to the Polar vessels to reduce lubricating oil consumption, which can be another cause of SO_x and PM emissions.

VOC Emissions Reductions

A significant source of VOC emissions is the loading and off-loading of crude oil tankers. To reduce these emissions, we are constructing a VOC recovery plant at our Teesside oil terminal in the United Kingdom. Each year some 25 million metric tons of crude oil are exported through the terminal, which in 2006

accounted for approximately 9 percent of exploration and production's total VOC emissions. Due for completion in 2007, the plant is expected to reduce annual VOC emissions more than 85 percent. It captures the light VOC gases that would otherwise be emitted from tanker vents during loading and returns the VOCs back to the crude oil cargo.

The *Randgrid* master on the bridge, overlooking the white VOC recovery unit.

In 2005, our *Randgrid* oil tanker, which serves the Heidrun field in the Norwegian North Sea, also was fitted with a system to recover light VOC gases that would otherwise be emitted during loading and transportation. Crude oil loading from offshore buoys accounts for about 40 percent of Norway's VOC emissions. The *Randgrid's* system captures VOCs during the loading operation at the buoy and from pressure vents on the storage tanks during shipment. The gas is filtered and cooled to a liquid, then returned to the cargo. The plant recovers some 100 metric tons of liquid per shipment, providing economic, as well as environmental, benefits. The *Randgrid's* engines also burn low-sulfur fuel oil, reducing sulfur dioxide emissions more than 200 metric tons per year compared to using regular fuel oil.

Clean Water

Water is vital to our business. Exploration and production operations yield three to four barrels of water per barrel of oil extracted. Refineries use about one barrel of water for every barrel of oil processed. As with any natural resource, we have an obligation to conserve and use water wisely.

In 2006, we published a water sustainability position 1 and issued guidance to our businesses on formulating responsible water management plans. These include requirements to monitor fresh-water consumption. The fresh-water data will be used to develop strategies to reuse selected waters, develop nonconventional sources where supplies are scarce and further improve the quality of water produced or discharged by our operations. Beginning in 2007, projections of each business unit's water use are being highlighted alongside conventional economic metrics in the company's annual planning cycle. This brings a new level of focus to water management as a fundamental component of our business planning.

In 2007-2008, we are mapping our global assets against a database of water availability. This will show which assets are in supply-constrained areas today, or could be in the future.

Produced Water

Oil reservoirs frequently contain large amounts of formation water, which comes to the surface along with oil or natural gas. This "produced water" can increase over time as the oil or natural gas is depleted.

Produced water is not fresh-water. It is usually highly saline and may contain hydrocarbons, minerals or metals from the

Monitoring water quality at Grissik gas plant in Indonesia.

Our Water Sustainability Position 1

As a responsible global energy company committed to sustainable development, we recognize that fresh-water is an essential natural resource for communities, businesses, and ecosystems. Global population growth will increase demand for fresh-water, and all users – domestic, agriculture and industry – will need to effectively manage supplies to meet demands.

ConocoPhillips produces and utilizes water in its operations. We are committed to the development of water management practices that conserve and protect fresh-water resources and enhance the efficiency of water utilization at our facilities. We will assess, measure and monitor our fresh-water usage and based on these assessments will manage our consumption and strive to reduce the potential impact to the environment from wastewater disposal.

Reducing Fresh-Water Use in Canada

In Canada, we are working to reduce water use for oil sands production in Alberta. Oil sands refer to a layer of sand that has become soaked in oil that migrated from deeper rock. Over time the oil's lighter hydrocarbons have dissipated, leaving behind heavy bitumen. This bitumen is typically extracted using steam or water to separate it from the sand. At our Surmont project, we are using steam-assisted gravity drainage (SAGD) technology that pumps steam into the sands, heating the bitumen until it flows to parallel producing wells. Such facilities are designed to recycle up to 90 percent of the water used for steam. We are looking at ways to increase our water recycle rate and use sources other than fresh-water.

In the Cessford area of Alberta's Southern Plains as of April 2005, we have eliminated fresh-water injection for pressure maintenance of oil reservoirs. Previously, water was drawn from the local river for injection into the Basal Colorado formation. We have replaced this fresh-water source with a saline source.

Elsewhere in Canada, we are minimizing fresh-water usage by reusing water for well completion work in the Brassey area of northeast British Columbia. Here we use a low-viscosity water-based fluid to pressurize and fracture the rock to stimulate gas flow. The fluid contains a sand additive to keep tiny fractures open and create pathways for the gas to reach the well bore. A typical treatment requires 1,900 barrels of water. We have reduced overall water consumption by reusing fluid recovered from the well for up to five further treatments. With a fluid recovery rate of over 50 percent, the practice not only reduces water usage but also saves up to $30,000 per well. Additionally, at locations far from water sources, this technique reduces the amount of water that must be brought in by truck.

reservoir and can have low oxygen content. It also can be relatively high in temperature because of the depth from which it has come. Managing its treatment and disposal is a challenge for the industry.

Due to particularly stringent regulations in the Norwegian sector of the North Sea, our local business unit has developed extensive experience in technologies for handling produced water. At the Ekofisk field in the North Sea for example, we are investing $145 million in a produced water handling plant to comply with the Norwegian government's goal of zero harmful emissions and discharges to the sea.

Instead of reinjecting produced water back into the Ekofisk reservoir, we have chosen to install the CTour® purification process, which removes hydrocarbons by injecting natural gas liquids (NGLs) into the produced water. The hydrocarbon components present in the water attach to the NGLs and are then extracted. CTour® is designed to return all the NGLs to the Ekofisk production stream, while enabling the discharge of purified water into the sea. The treatment reduces the hydrocarbon components in the water from 30 to only two to four parts per million – a substantial improvement in quality compared to that attainable with other technologies. The treatment works by removing poly aromatic hydrocarbons and alkylated phenols, as well as oil-soluble production chemicals.

Installation of the CTOUR® purification process onto the Ekofisk platform.

Although conventional reinjection of the water was technically feasible, it involved a high risk of reservoir destruction and loss of reserves. We met with stakeholders to explain why we preferred the CTour® process, which involved no risk to the Ekofisk reservoir and offered high cleaning efficiency at reasonable cost. Installation is expected to be completed in 2007.

In the U.K. North Sea, we have led a joint-industry project to sponsor development of a new system for cleaning produced water. During 2005 and 2006, we hosted the first successful offshore trial of the AquaPurge® system, invented by an Aberdeen-based company, Clean Water Systems Limited, to meet more stringent discharge regulations for the region.

AquaPurge® uses ozone to oxidize oil and other organic contaminants in produced water. It breaks down the contaminants into water, small amounts of carbon dioxide and mineral salts. In most cases, the carbon dioxide is dissolved into the water along with the salts, leaving just water as the effluent.

During the field trials, the prototype AquaPurge® unit was used for water treatment final polishing on our North Sea Judy platform and reduced oil-in-water content by as much as 60 percent, from around 30 ppm, the current regulatory standard, to less than 15 ppm. A commercial unit has been ordered to replace the trial equipment in 2008.

Company representatives from Norway, the United States, Venezuela, China and Indonesia discuss produced water handling at a company-wide symposium.

In 2006, our North Sea business unit shared its expertise and gained ideas from others through a symposium on produced water handling. The event was attended by more than 70 ConocoPhillips delegates from around the world, along with business partners and government officials.

Marine Water Management

Ballast Water

A major environmental issue for international shipping is the unintended transfer of marine species to non-native environments through ballast water. Unladen ships take on ballast water in port to enhance their stability at sea. When this water is discharged in another location, it can introduce invasive organisms which can harm native biodiversity.

To prevent this impact, our U.S. Gulf Coast tankers exchange ballast water for ocean water only when they are well outside coastal areas. This is in compliance with International Maritime Organization guidelines which state that marine species taken on at the source port are less likely to survive in the open sea. Our U.S. West Coast fleet discharges all ballast to an onshore treatment facility at Valdez in Alaska.

Bilge Water

In 2007, we installed EcoStream™ bilge-water treatment systems on all our tankers to reduce the oil content of potential discharges well below permitted limits. The new units replace oily-water separators that already meet international standards, and will thus take water treatment to new levels of cleanliness.

The new units separate oil and water in conjunction with existing oily-sludge treatment equipment. The recovered oil can be incinerated or stored for safe disposal onshore. The treatment reduces bilge water oil content to less than 10 parts per million, exceeding U.S. federal and international standards that allow discharges into the sea of water with up to 15 parts per million oil content.

Wastewater Treatment

In 2006, we began research at our technology center in Ponca City, Oklahoma, on applying fundamental water chemistry to further improve water reuse and recycling throughout our operations, with an initial focus on water treatment technologies for heavy oil production and refining. This effort includes a study to identify the effect of varying the steam temperatures and pressures used to recover bitumen from oil sands to minimize the extraction of unwanted contaminants from the formation and optimize treatment capabilities. The team also is evaluating durable filter media that can effectively remove persistent contaminants from water used in heavy oil production. Such media can be regenerated, which reduces the quantity of solid waste produced by conventional water treatment techniques.

In 2006, we hosted a two-day water management workshop at Qatar University's Environmental Studies Center in the capital city, Doha, to introduce the concept of the Water Sustainability Center to community and industry leaders. Presentations were made in both English and Arabic.

Water Sustainability Center

In Qatar, we are sponsoring a Water Sustainability Center (WSC) with the long-term vision that it will become a corporate center of excellence for water-related technologies, providing services to our businesses worldwide and to the Qatari people. Potential projects could include research into new technologies for produced and effluent water treatment and water supply for enhanced oil recovery projects (injecting water into mature fields to increase output). More general work could focus on industrial and municipal water reuse, desalination and agricultural water projects.

A longer-term goal of the WSC would be to sponsor sustainable development projects that benefit the local community, such as programs to encourage water conservation, exhibitions and public or industry workshops.

Refinery Wastewater Management

Our refineries already recycle and reuse water, and we strive to continually improve the effectiveness of our water treatment systems. We recently conducted studies at several refining facilities to better understand water-consumption patterns and to establish goals for more efficient water use and better effluent quality. Additional studies are planned for 2007 and 2008.

We invested more than $36 million on improved wastewater treatment at our refineries during 2005 and 2006. For example, major upgrades at Ferndale in Washington and Whitegate in Ireland feature Moving Bed Bio-Reactor (MBBR) biological treatment to achieve even higher standards of water purity. MBBR is an oxygenated process which uses natural oil-eating micro-organisms to clean the water by digesting contaminants. It differs from other systems by employing a plastic granular media which provides support for the bacteria to flourish, improving the treatment effectiveness.

Mike Corbett, a technician from the Bartlesville Technology Center, collects a water sample from the selenium removal equipment. We are testing this technology in our Rodeo refinery.

At the Rodeo refinery in California, we are testing a more efficient technology to further reduce selenium levels in certain refinery wastewater streams. Selenium is a naturally occurring trace mineral found in crude oil. But its presence in high concentrations in water can impact aquatic habitats. Laboratory-scale tests showed the new technology may be more effective than existing systems, which can be expensive and difficult to operate. The ongoing pilot-scale tests at Rodeo have reduced the selenium content of wastewater significantly, with the added benefit of reducing other solid waste contaminants. Data from the trial is being evaluated to determine the feasibility of commercial applications in other refineries.

Other efforts look at ways to reuse water. At the Rodeo refinery, we are working with the local water utilities to explore the reuse of municipal wastewater by using micro-filtration and reverse osmosis technologies to provide high-purity water for various refinery processes. Successful implementation would lower the demand for additional water. In the United Kingdom, we have started construction of a water treatment unit that will purify wastewater from our Humber refinery for cooling purposes at the neighboring Immingham combined heat and power plant.

Remediation

We take seriously our duty to restore properties impacted by our operations. Our responsibility for remediation can arise from prior contamination on properties we subsequently acquired, contamination of properties we currently own or contamination of previously owned properties for which we have assumed individual or joint responsibility for cleanup.

We currently are restoring more than 3,000 properties in various locations around the world and have accrued about $1 billion for the resulting environmental liabilities. Following are some examples of our approach to remediation.

In Russia, where we have a joint venture with LUKOIL to develop oil and gas resources in the northern part of the Timan-Pechora province, we are involved in ongoing remediation of well sites that were among the assets included in company acquisitions. The work involves removal of old, abandoned equipment and structures, remediation of contaminated soil and reseeding where natural regrowth does not occur in order to assist the tundra's return to its natural state.

At the Whitegate refinery in Ireland, we have completed remediation of two landfill sites within the grounds that existed when we acquired the facility in 2001. In 2005, we removed 9,000 metric tons of oil-contaminated soil from one site and shipped it to a specialist contractor in Germany for treatment. In 2006, a second site containing building rubble and other inert waste was capped with a waterproof membrane and covered with topsoil. Both sites now have been landscaped. Whitegate's waste is no longer managed on site. Material that cannot be reused or recycled is sent to licensed facilities for treatment or disposal in accordance with Irish and European Union legislation.

In 2005, we received an Earth Day Award from the Utah Board of Oil, Gas and Mining for our restoration of a former drill site in Reese Canyon at the Grand Staircase National Monument in Escalante, Utah. We drilled an exploratory well at the site in 1997 before the area became a national monument. Since the well was a dry hole, work began in the late 1990s to restore and replant the drill site. After the first plantings were unsuccessful due to drought, the area was successfully replanted in 2004.

Environmental Fines and Penalties

In 2006, ConocoPhillips' total environmental fines and penalties were approximately $4.6 million. We also paid approximately $342,000 for supplemental environmental projects.

Operating in Sensitive Environments

Our Approach to Biodiversity Conservation

We recognize the importance of protecting and promoting biodiversity, particularly in sensitive areas. During 2007, we are developing a corporate biodiversity conservation position.

We follow widely accepted guidelines from the International Petroleum Industry Environmental Conservation Association (IPIECA) and the International Association of Oil and Gas Producers (OGP) in our approach to biodiversity conservation. We also have been working with IPIECA's biodiversity working group to develop tools and materials to help companies across our industry enhance their biodiversity conservation activities.

We are a founding member of the OGP's Sound and Marine Life program, which is investigating the possible impact of sound produced by offshore exploration and production on marine mammals, fish, turtles, seabirds, invertebrates and other marine life. The joint industry program is researching a range of sound sources, including seismic air guns, drilling, dredging, pile-driving, construction and decommissioning.

We are chairing a workgroup of the Environmental Studies Research Fund, which is conducting laboratory tests of the potential impact of seismic surveys on monkfish eggs. Monkfish are of great commercial importance in the Newfoundland area, but little is known of their biology. This study will not only help industry learn how to avoid impacting the monkfish population, but also advance knowledge of monkfish biology.

Many of our global oil reserves are located north of the Arctic Circle.

We have developed the SPIRIT of Conservation program, which builds on our long-term partnership with the National Fish and Wildlife Foundation and aims to preserve and protect the habitats of birds all over the world. (See Community Investment section, page 55.)

Environmental Conservation in the Arctic

Many of our global oil reserves are located north of the Arctic Circle. We believe it is important to balance our presence in Arctic ecosystems with responsible conservation measures to protect them. This requires open dialogue between environmentalists, industry, governments and other interested parties.

We are participating in the International Polar Year, a 24-month scientific research program focused on the Arctic and the Antarctic. Organized by the International Council for Science and the World Meteorological Organization, the program involves over 200 projects from March 2007 to March 2009, with thousands of scientists from over 60 nations examining a wide range of physical, biological and social research topics.

In January 2007, we sponsored the first annual Arctic Frontiers conference in Tromsø, Norway, which provided a forum for communication and collaboration among Arctic stakeholders to promote sustainable development in Arctic regions based on scientific knowledge and cultural sensitivity.

In 2006, we participated in an IPIECA/OGP biodiversity workshop in Tromsø, Norway, which brought together environmental experts from the oil industry, government and nongovernment organizations, as well as representatives from indigenous communities, to share information and improve understanding of biodiversity conservation issues in the Arctic.

Within ConocoPhillips, we formed an Arctic Technology Council in 2005 to exchange best practices among our businesses in Russia, Norway, Canada and Alaska. One of the council's key tasks is to compile a computer-based geographic information system of environmental data to serve as a management planning tool for the Arctic region.

Barents Sea – In Norway and Russia, we are investing $2 million a year on Arctic environmental research projects in the Barents Sea region. Among them is a study to monitor the effect of oil and gas activities on polar cod in the Barents Sea. Polar cod is a key species for environmental risk assessment because it is the only fish whose life cycle is closely associated with the ice-edge ecosystem.

Another project is exploring the feasibility of transferring environmental information to a central laboratory from remote biological sensors on marine life. One idea is to monitor the heart rate of crabs using noninvasive infrared light to detect signs of stress caused by oil pollution and to transmit this information in real time back to the laboratory. The experiment is being conducted at the Ny-Ålesund marine research laboratory

A tribeswoman of the Nenets, an indigenous group located in the Arctic regions of Russia. We are investing in the creation of an environmental database for the Nenets region for use in impact assessment and oil pollution prevention planning in the region.

on the west coast of Spitzbergen in Norway. We donated $1 million to build the laboratory, which opened in 2005 to provide Arctic marine research facilities to the international research community.

We are creating an environmental database for the Nenets region on the east coast of Russia. The database will be used for impact assessment and oil pollution prevention planning in the region, which has significant hydrocarbon reserves and exceptional wildlife habitat, including walrus rookeries and coastal marsh areas.

Another project will assess the long-term impact of pollution on the Pechora River, a unique Arctic fresh-water ecosystem, which was affected by an industry pipeline oil spill in the 1990s. The information will be used to develop contingency plans in the event of a future incident.

Alaska – We conduct multidisciplinary environmental studies to support exploration, development and operations activities on the North Slope. The most extensive program is the documentation of baseline conditions prior to new developments in environmentally sensitive areas. An archaeological survey is always conducted to ensure that we avoid culturally important sites or artifacts.

Key wildlife species are studied and their habitats mapped to help project engineers plan the routing and placement of gravel roads and drilling pads to minimize environmental impact. For example, to comply with federal regulations that require us to avoid polar bear dens during winter activities, we provide support to the U.S. Geological Survey's polar bear team to place satellite or GPS transmitters on the animals. These biologists then conduct aerial surveys to locate polar bear dens in the early winter. In addition to data from monitoring the tagged bears, we use infrared equipment mounted on our fixed wing aircraft to detect a heat signature from the bears in the den. With all these data in hand, we can direct our ground crews to stay at least a mile away from a polar bear den.

Several fish species found in the streams, rivers and lakes, and along the Arctic coastline, support subsistence, commercial, and recreational fisheries. We have conducted and supported numerous fisheries studies since 1985. We work closely with the Alaska Department of Natural Resources' Habitat Division and other interested agencies, such as the National Marine Fisheries Service, during development or exploration in new areas to avoid impacting any of these important fisheries.

One of the ways we mitigate our impact on the delicate tundra is by reducing our "footprint" – the amount of land needed for operations. Today our sites are significantly smaller than those of early North Slope developments. On the western North Slope, for example, the Nanuq drill site in our Alpine oil field was constructed with rounded contours, which the local community felt would make it less of an obstacle to migrating caribou than the traditional square configuration. To minimize its footprint, the Alpine field has been constructed without a permanent access road to the rest of the state and other North Slope infrastructure. Instead, equipment and supplies are brought in by aircraft for most of the year. At Fiord, a roadless drill pad located in the Colville Delta, flights are restricted during key nesting periods to minimize disturbance to the area's spectacled eider population.

Since heavy or bulky loads can only be transported over land, during the winter we build ice roads, ice bridges and ice pads to protect the tundra. Drilling rigs are modified for disassembly into many loads for transport using low-ground-pressure vehicles and are then reassembled at the drill site. We open our

In Alaska, we conduct aerial surveys of various bird species, such as spectacled eiders (an endangered species of sea duck, pictured here), tundra swans and yellow-billed loons.

temporary roads for use by indigenous North Slope residents each winter to bring in essential supplies.

We operate air-monitoring stations on the North Slope to measure pollutants, and their results show that air quality is consistently better than national standards. In 2005, we signed an agreement with the state of Alaska to reduce sulfur dioxide emissions on the North Slope. Under the agreement, we will use ultra-low-sulfur diesel fuel in virtually all combustion sources beginning in June 2010 or before. The agreement is expected to reduce sulfur dioxide emissions on the North Slope by 363 metric tons per year.

Our Alpine development will also supply natural gas to the indigenous Inupiat community of Nuiqsut through a utility system built and operated by the North Slope Borough. The gas will replace expensive heating oil, reducing the annual utilities expense for the borough and providing clean, convenient and economic fuel to village residents.

Canada – In 2006, we contributed $45,000 to a regional caribou collaring program as part of our predevelopment monitoring activities for the proposed Parsons Lake gas field in the Northwest Territories. GPS collars were placed on caribou so that the herd's movements and numbers could be monitored. The information will be used to help plan the proposed gas field development, which overlaps with the over-wintering area of the Cape Bathurst and Blue-nose West caribou herds.

Environmental Conservation Across the Globe

Venezuela – We have left a legacy of biodiversity conservation through our contributions to research, knowledge dissemination and management of aquatic biodiversity, birdlife and threatened species in the Gulf of Paria and the Orinoco Delta.

Woodland Caribou in Canada's Boreal Forests

ConocoPhillips recognizes that the Woodland Caribou are a threatened species in Canada. Contributing factors to the decline of the caribou in Canada's boreal forests include predation by wolves, coyotes and bears; habitat disturbance caused by human development; hunting; and disease. Stakeholders have expressed concerns to ConocoPhillips about our presence in areas of caribou habitat and our efforts to protect caribou near our operations, particularly the Little Smoky Caribou herd, whose numbers have been declining.

We have been working collaboratively with a broad group of stakeholders, including government, research organizations, aboriginal communities, environmental organizations and our industry peers, for over 15 years to address the issue of caribou protection. We began our formal caribou protection program in 2004, which continues today.

Our commitments include restoration of habitat in already disturbed areas, minimizing our footprint for new projects and research into helping the herd expand its numbers. For example, we recently needed to lay a 60-mile pipeline through caribou habitat. We defined a route that followed existing rights-of-way for more than 90 percent of its length and had the fewest critical water crossings. With project partner Suncor Energy, we also committed $1.5 million to assess, and where needed, restore and replant some 250 miles of former oil industry "cutlines" – long, straight clearings through the trees to facilitate seismic surveys.

The restoration, which received a Steward of Excellence Award from the Canadian Association of Petroleum Producers in 2005, was conducted in consultation with other land users such as forestry industry representatives, recreational users and importantly, wildlife scientists from the Biological Sciences and Renewable Resources Departments of the University of Alberta.

In early 2007, we met with a panel of experts to seek their input, specifically on the Little Smoky Caribou herd. We are a founding member of the Caribou Landscape Management Association, in which we collaborated with other oil and natural gas companies, forestry companies and regulators to develop a cooperative access-and-restoration plan for caribou habitat in Alberta and fund the first captive caribou calf birthing program in the province of Alberta, aiming to reverse the decline of the Little Smoky caribou herd.

Seismic lines are now laid in a narrower zigzag pattern and felled trees left in the cutline to protect the caribou (inset) from line-of-sight attacks by wolves and to discourage the lines' adoption as pathways and trails.

As part of this effort, we partnered with Conservation International to promote biodiversity conservation and sustainable development in the Gulf of Paria, one of the Caribbean's richest areas of aquatic life. This included a study which showed that the Gulf of Paria and adjacent Orinoco Delta sustain a unique variety and abundance of aquatic species, including some new to science and many of which were previously not known to exist in the region. This resulted in the launch of a biodiversity action plan in 2004 to promote environmental protection and regional economic development. We continued to work in consultation with key stakeholders to generate interest and support for the plan and to implement its recommendations, including the establishment in 2005 of an ongoing pilot biodiversity community participatory monitoring program.

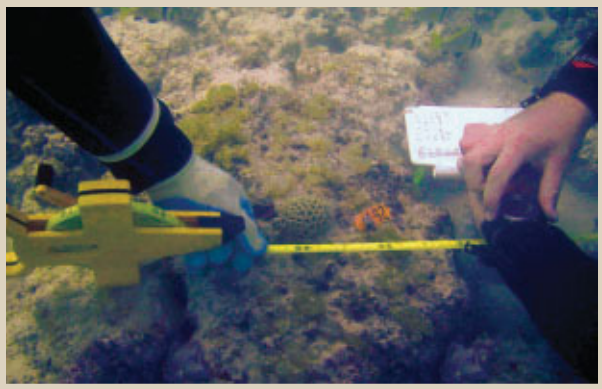
Indonesia – We are working closely with local stakeholders on a revegetation project in Sumatra, Indonesia, designed to reduce land erosion, improve soil stability and decrease illegal land use. During a 16-month program, 450 acres of land along the route of the Sakernan pipeline were replanted with quick-growing native evergreen plants suited to the acidic soil and sloping terrain.

The Sakernan pipeline route in Indonesia before and after revegetation.

We also are collaborating with the Indonesian government and the Zoological Society of London to survey the Bentayan and Dangku forests of South Sumatra, which adjoin our onshore operating areas, for signs of the endangered Sumatran tiger, whose numbers are threatened by deforestation and poaching. Early results show that the Dangku forest supports at least five adult tigers. Other forest conservation projects include mapping disturbed areas and revegetating old roads to restore habitat for tigers, birds and other wildlife. Support has been financial, as well as in-kind. These efforts will help us plan future operations in this area of rich biodiversity and focus our revegetation programs where they will do the most good.

Qatar – In 2006 and 2007, ConocoPhillips, along with Qatargas and Shell, took part in a major environmental initiative to relocate more than 4,500 coral colonies off the coast of Qatar. The corals were discovered as plans were being developed for the future pipeline corridors of the Qatargas 3 and Qatargas 4 projects. Coral preservation is of great importance because natural "hot water" events in 1998 and 2002 had decimated the coral population in these shallow waters.

Removal and relocation operations began in October 2006 and continued for five months. First, the coral colonies were carefully detached by scientists from the seafloor and placed in basket-shaped storage containers that remained at the bottom until ready for transport. The baskets were then lifted aboard a ship and placed in large, circulating seawater pools. The corals then were transported to the new location and reattached to the seafloor, where scientists numbered and tagged the sites for future monitoring.



Scientists number and tag relocated coral off the coastline of Qatar for future monitoring.

At six and 12 months after the relocation, an environmental survey will be conducted to determine the project's success. The corals' color and health, as well as any major changes to the surrounding habitat, will be monitored. Qatargas has recommended that the new area be designated as a natural marine reserve.

Environmental Responsibility in Oil Sands

Anticipating future growth in production from oil sands, in 2006, we conducted analysis of potential environmental impacts that could arise both from our development and from that of industry as a whole. From this, we identified a number of environmental issues that need management, including carbon dioxide emissions, water quality and impact on caribou. We also identified mitigation measures for these issues that we believe will enable us to produce oil sands in a responsible manner.

Our Climate Change Position 1

ConocoPhillips recognizes that human activity, including the burning of fossil fuels, is contributing to increased concentrations of greenhouse gases in the atmosphere that can lead to adverse changes in global climate. While uncertainties remain over the extent of human contributions and the timing and magnitude of future impacts, we are committed to taking action to expand our business planning processes to address greenhouse gas (GHG) emissions and to develop greenhouse gas targets for our operations. Our commitment to sustainable development will provide the foundation for our actions.

Concerns continue to grow regarding the possible environmental and financial impacts of climate change. We recognize these concerns, and in the context of our business we face uncertain costs and outcomes associated with:

- Developing technology, products and operating practices which reduce or avoid GHG emissions.
- Responding to altered patterns of demand for products due to regulations designed to combat climate change, actual climate changes or changes in consumer attitudes toward products based on their associated GHG emissions.
- Complying with government-mandated action.
- Adapting our facilities or operational practices due to the physical consequences of changing climate.

No one entity can address these issues on its own, but ConocoPhillips will show leadership in finding pragmatic and sustainable solutions. In addition to taking actions within our own sphere of influence, we intend to play a constructive role in public policy dialogue to devise practical, equitable and cost-effective approaches to stabilize the concentration of GHG in the atmosphere. It is our view that mandatory national regulatory frameworks which link to international ones are most likely to achieve meaningful global GHG reductions. We will seek to encourage policy measures which deliver the following principles:

Image courtesy of the Image Science & Analysis Laboratory, NASA Johnson Space Center *(http://eol.jsc.nasa.gov)*.

- Slow, stop and ultimately reverse the rate of growth in global GHG emissions.
- Establish a value for carbon emissions, which is transparent and relatively stable and sufficient to drive the changed behaviors necessary to achieve targeted emissions reductions.
- Provide long-term certainty for investment decisions.
- Encourage the development and deployment of innovative technology to help avoid or mitigate GHG emissions at all stages of the product life cycle.
- Realistically match the pace and stringency of policy to the rate at which new technology or infrastructure changes can be developed and deployed.
- Encourage energy efficiency at all stages of the product life cycle.
- Inform and influence consumer preference toward less GHG-intensive consumption.
- Encourage the deployment of carbon capture and storage as a practical near-term solution.
- Avoid placing a disproportionate burden on any one business sector or consumer segment.
- Support equitable international competition.
- Ensure that early actions are not disadvantaged.
- Avoid undue harm to the economy.

As economies around the world continue to develop, the growing global demand for energy must be met in concert with responsible actions on climate change. Balancing supply and demand will require more efficient use of energy and the full utilization of both conventional and innovative sources of energy into the foreseeable future. This will include renewable sources such as wind, solar, hydro, thermal and biomass, together with nuclear power and continued use of hydrocarbons in ways that lower the GHG impacts of oil, gas and coal.

Meeting the twin challenges of taking action on climate change and providing adequate and reliable supplies of energy will require technical innovation, resource commitments and responsible stewardship by energy producers and consumers alike. ConocoPhillips intends to meet these challenges.

1 http://www.us-cap.org

2 http://www.nicholas.duke.edu/institute/ccpp

Trainees review maps of the region.

Reducing Greenhouse Gases in Australia

In Australia, we are working with the West Arnhem Land Fire Management Project to help provide local employment for indigenous people, while addressing a pressing environmental issue. Savannah fires are a significant source of greenhouse gas emissions in the region, which the program combats with a scheduled controlled-burn approach. This minimizes the intensity of the fires, decreases the buildup of underbrush and creates effective firebreaks, which substantially reduce the fires' greenhouse gas emissions, biodiversity impacts and the amount of actual area burned. We invest approximately $850,000 annually in the program and can record the emissions reductions as offsets to emissions from our Darwin LNG operations. The approach draws upon traditional knowledge of fire management, and indigenous community members are employed in the program and receive training.

Climate Change

ConocoPhillips announced in April 2007 our support for a mandatory national framework to address greenhouse gas emissions. We joined the U.S. Climate Action Partnership (USCAP), 1 a business-environmental leadership group dedicated to the quick enactment of strong national legislation to require significant reductions of greenhouse gas emissions. We also have pledged $1 million to support the Climate Change Policy Partnership (CCPP), 2 a four-year university-industry collaboration launched in 2006 by Duke University and Duke Energy to pool the expertise of the university's Nicholas Institute for Environmental Policy Solutions, Nicholas School of the Environment and Earth Sciences, and Center on Global Change with other concerned partners in the corporate and academic worlds. ConocoPhillips' gift will support research and policy analysis on a range of issues critical to climate change and energy.

Within our operations, projects with the potential to emit over 50,000 metric tons of carbon dioxide are subject to an evaluation which considers the potential impact of the cost of carbon on the project economics based on the forecast GHG emissions over the life of the project. Typically, a range of options to mitigate emissions will be considered before the final project design is selected.

We also support these other organizations, universities and research efforts:

- The Alberta Research Council's Enhanced Coalbed Methane Consortium.
- The U.S. Department of Energy's Freedom Car and Fuel partnership, providing technical expertise on funding hydrogen economy projects.
- Sponsorship of start-up companies involved in hydrogen production.
- Membership in California Climate Action Registry.
- Assistance with California's Low Carbon Fuel Standard.
- Work with Detroit automakers on developing energy-saving lubricants.
- Work with Virginia Tech on membranes to separate CO_2 from methane.
- World Business Council for Sustainable Development Energy and Climate Working Group.
- American Petroleum Institute Climate Change Steering Committee.
- International Emissions Trading Association.

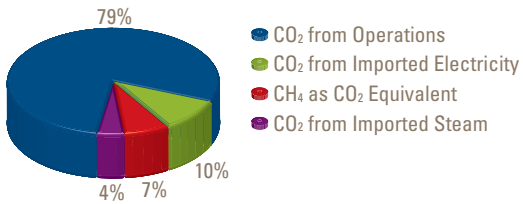
Adaptation

"Adaptation" refers to the need to respond to actual changes in climate, which might affect landscapes, biodiversity or physical assets, which could in turn impact agricultural and manufacturing productivity, living or working conditions and human behavior. The publication of the U.K. government-sponsored "Stern Report" in late 2006 and the International Panel on Climate Change (IPCC) report on adaptation in 2007 has heightened awareness of this topic. The potential future physical risks of climate change are uncertain, but ConocoPhillips continues to study the issue both on its own and in participation with others. For example, we co-chair the adaptation workstream of the World Business Council for Sustainable Development's Energy and Climate focus area.

Greenhouse Gas (GHG) Emissions Performance*

Growth in operations has increased our total GHG emissions, although our levels of GHG emissions per unit of production have remained steady. The company's total 2006 CO_2 equivalent GHG emissions ***(figs. 9-11)*** were approximately 62.3 million metric tons, an increase of 13 percent from 2005, mostly due to the company's growth through acquisitions. Refining contributes over half of the company's emissions. See pages 36-37 for U.S. refining's energy efficiency efforts, to help address GHG emissions. The addition of the Wilhelmshaven refinery in 2006 increased total refining and marketing emissions, partly offset by a reduction from 2005 asset dispositions. Emissions from exploration and production and midstream operations increased largely due to the addition of the former Burlington Resources assets and the start-up of the Darwin liquefied natural gas plant in Australia.

2006 Greenhouse Gas Emissions
Company
(fig. 9)



Carbon Capture and Storage

Controlling CO_2 emissions from large-point sources like power plants, refineries, cement plants and steel mills will require solutions that can deal with enormous volumes of gas. CO_2 capture and storage refers to the integrated process of separation and capture of CO_2 from industrial-scale emitters, followed by pipeline transport to carefully selected locations where it can be injected directly into the pores of rocks deep underground. It can remain stored for geologic time.

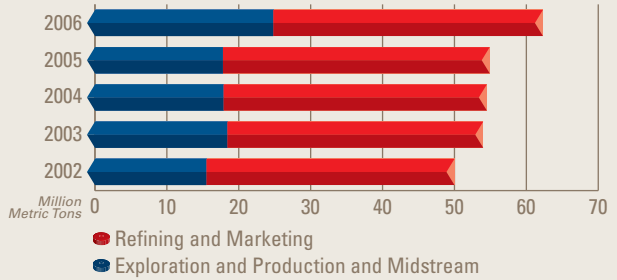
CO_2 capture and storage has the potential to remove 5 percent of current annual global CO_2 emissions or about 1 billion metric tons per year by 2050. It could indirectly increase energy security by enabling the continued use of coal and heavy oils as fuel, mitigating their negative impact on the atmosphere. It also can encourage gasification, and ultimately enhance the diversity of energy sources available to consumers.

ConocoPhillips is actively pursuing advances in the technology components of CO_2 capture and storage and making detailed studies of specific opportunities to demonstrate the process on a large scale.

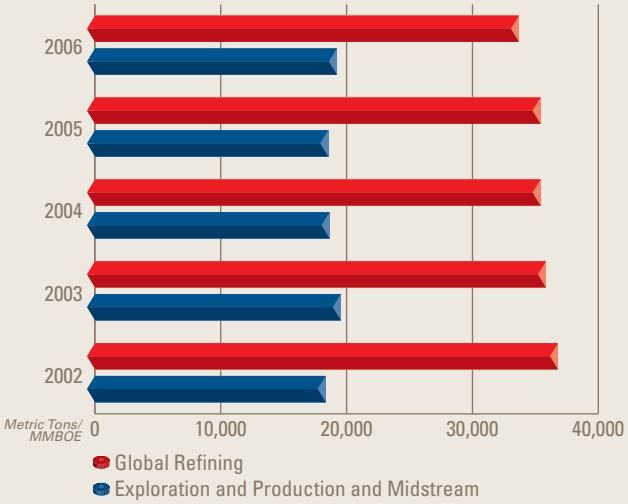
The company financially supports and intellectually engages with many external research programs funded by industry and government. We provide major support to:

- CO_2 Capture project, which aims to lower the cost of carbon capture and storage.
- CO_2ReMoVe, a European Union project for studying carbon dioxide storage and monitoring and verification of the security of CO_2 storage.
- Cachet, which seeks to reduce the cost of CO_2 capture.
- CO_2CRC, a significant Australian effort which studies capture and storage in all aspects.

Total Greenhouse Gas (GHG) Emissions (CO_2 Equivalent)
(fig. 10)

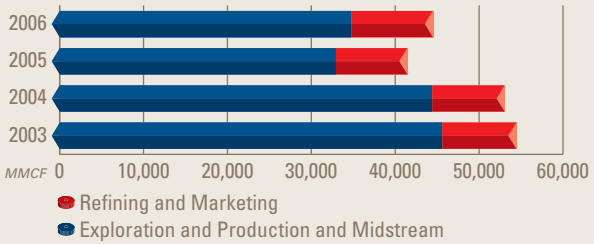


GHG Emissions Per Unit of Production
(fig. 11)

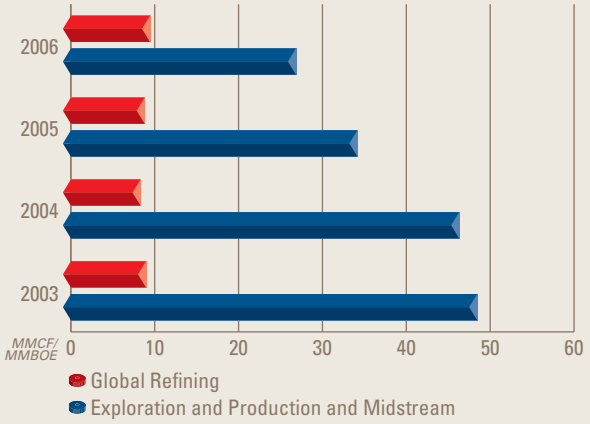


*See the Appendix for more information on GHG scope, emissions calculation methodology and GHG data internal and external review.

Flaring Volume
(fig. 12)



Flaring Volume Per Unit of Production
(fig. 13)



Other programs we support include:

- U.S. DOE Regional Partnerships, which seek to understand all aspects of carbon capture and storage from public acceptance through the technical details of carbon storage.
- CO_2Net, the European network of CO_2 researchers, developers and users of CO_2 mitigation technology.
- The Integrated CO_2 Network (ICON), a multi-industry coalition of 14 companies focusing on policy and infrastructure development to encourage CO_2 capture and storage in Canada.

In addition, ConocoPhillips directly supports major university research projects in the United States, Canada, United Kingdom and Norway.

Flaring

Flaring is a safety mechanism to burn off excess gases. Refining units use flares to maintain safe operating pressures during the production process. Exploration and production flaring primarily results from burning excess field gas that cannot be used to fuel operations. The flaring of this gas is most common in areas of the world lacking sufficient infrastructure to transport the excess natural gas to market.

Our flaring volume increased slightly with the growth of our operations. In 2006, the company's total volume flared ***(figs. 12 & 13)*** was 44.5 billion standard cubic feet (BCF), an increase of 7 percent from 2005. Exploration and production and midstream operations accounted for the majority of the company's flaring, and for much of the increase, primarily due to addition of the Burlington Resources assets. Although refining reported increased flaring volumes, this was primarily due to installation of flow meters on existing flares at a refinery, resulting in more accurate reporting.

We are committing $150 million to reduce by one-half the volume of gas flared from our U.S. refineries. We are installing compressors at 13 locations to recover gas that would otherwise have been flared and recycle it for processing into fuels and other products. In exploration and production, we are studying opportunities to reduce existing flaring and have instituted a standard that new projects should be designed to avoid continuous flaring.

In Vietnam's Rang Dong field, a gas recovery and utilization project will reduce CO_2 emissions by an estimated 6.77 million metric tons over a 10-year period from 2001 to 2011. The project captures associated gas which is produced along with crude oil and which would previously have been flared. Now this associated gas is being supplied as fuel for power plants, a fertilizer plant and several nearby industrial users through a specially built pipeline. LPGs also are being extracted from the gas to help meet domestic demand and reduce imports. The Rang Dong CO_2 project is the world's first associated gas capture project to be approved as a Clean Development Mechanism (CDM) project under the Kyoto Protocol.

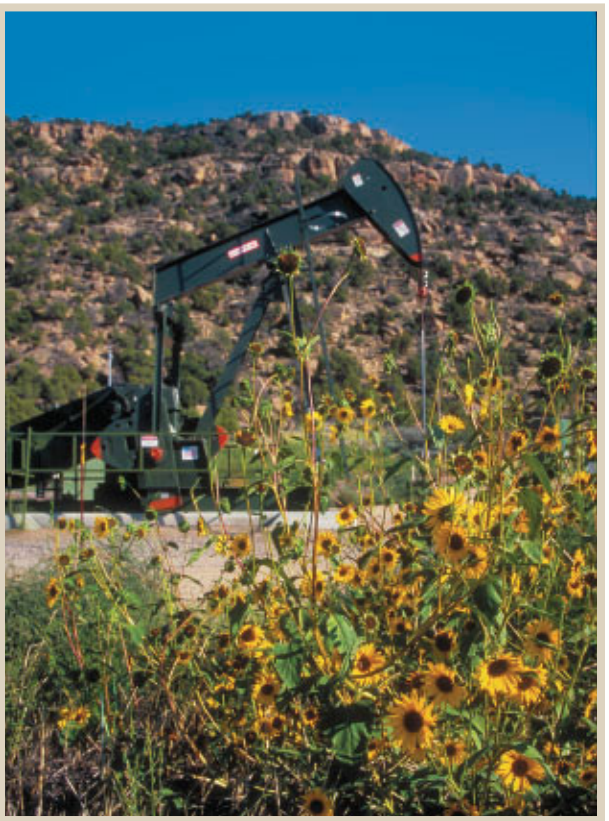
Methane

Methane, the primary component of natural gas, is a greenhouse gas with more than 20 times the global warming potential of CO_2. The industry's main sources for methane emissions are fugitive emissions from onshore wells and the venting of gas from offshore facilities.

In 2006, we stepped up our commitment to reduce methane emissions through participation in the U.S. Environmental Protection Agency's (EPA) Natural Gas STAR program. This voluntary program encourages natural gas companies to reduce methane emissions by adopting cost-effective technologies and

practices that often improve operational efficiency. In North America, our Canadian, Alaskan and Lower 48 business units are all partners in the program.

The acquisition of Burlington Resources in 2006, which more than doubled the size of our Lower 48 operations, presents opportunities to reduce methane emissions still further.



In the San Juan Basin, we have joined VISTAS, a voluntary emissions control program.

Burlington already had saved more than 7.3 BCF in methane emissions as a Natural Gas STAR partner through cost-effective technologies and practices.

In the San Juan Basin, New Mexico, where we have significant coalbed methane production as well as conventional natural gas production, we have joined Voluntary Innovative Strategies for Today's Air Standards (VISTAS), a voluntary emissions control program administered by the New Mexico Environment Department. The program, which is modeled on the EPA Natural Gas STAR program, aims to identify, promote and implement voluntary cost-effective technologies and best practices to improve air quality in northwest New Mexico.

Companies participating in the program submit an action plan for emissions reduction and report on progress annually. Our actions include measures to optimize our compressor fleet to reduce energy use, insulation of vessels such as water tanks and separators, and measures to reduce gas venting from well-plunger lift controllers. We also will be replacing internal combustion engines with electric motors, using clean-burn engines to power gas compressors and installing microturbines to generate the electrical power needed at our salt water disposal facilities.

In ConocoPhillips Canada, new leak-detection equipment was used to identify hydrocarbon emissions during a recent pilot study of 22 gas processing facilities. In the pilot study, an infrared video camera allows operators to scan large areas at processing facilities and even miles of pipeline, delivering real-time images of gas leaks more quickly and accurately than conventional leak-discovery methods.

After detection of the leak, another device called the "Hi-Flow Sampler" is used to measure the rate of the leak and determine a cost/benefit analysis of proposed repairs. Some repairs are as simple as tightening a bolt; others require capital projects. Often, since these projects recover methane that would otherwise be lost, they quickly pay for themselves. In some instances, operations crews following the detection team can make immediate repairs. During a recent trial, 144 fugitive sources were found and 92 percent proved economical to fix, recovering gas valued at an estimated $2 million per year. In 2007, ConocoPhillips Canada plans to expand this program from the pilot stage to the full business unit.

Roxanne Pettipas and Terence Trefiak survey pipelines in Canada with an infrared camera.

Carbon Trading

Since 2005, ConocoPhillips facilities across Europe have been subject to the European Union's emissions-trading program. We also have been active in emissions trading in Canada. The company's commercial organization trades CO_2 allowances in order to optimize ConocoPhillips' net emissions position for businesses in Europe and Canada.

Increase Availability of Ever-Cleaner Energy

Employee Innovation

In 2007, we launched Frontier, a global Web-based program to encourage employees to suggest ideas for evaluation and development. The program is designed to capture and share innovative ideas related to technology development, technology application or new-to-field technologies. It is based on the principle that the best ideas frequently come from those in the field, because they are closest to the problems. Submitted ideas will be evaluated and, if successful, developed by corporate technology.

Russell Moffett

The program already has attracted over 580 new users, with over 80 bright ideas submitted. The program includes awards for "Idea of the Quarter," three of which have been awarded to date. Russell Moffett, in our specialty chemicals business, suggested applying the same chemistry used to make water-resistant paper to treat shale formation swelling. Mike Timmcke, in Alaska, suggested developing a downhole pump for the injection of water into tight formations using the proven principles of the hydraulic ram pump. Hans-Jacob Lund, in Norway, suggested enhancements to a downhole tool to provide more reliable, accurate data for improved efficiency and decision-making.

Mike Timmcke

Hans-Jacob Lund

Energy Technology and Research

While ConocoPhillips invests billions of dollars each year to develop the conventional oil and natural gas supplies that consumers need today, we also are stepping up our research and development programs and investments intended to develop new sources of energy that will be increasingly needed in the years ahead. For example, during 2007, we plan to invest $150 million on projects to develop alternative and renewable sources of energy.

Additionally, part of our work focuses on improving the recovery of existing oil resources. Typically, as much as 50 percent of the oil originally in place in a reservoir is left behind when production ends, trapped in pores in the rock because it cannot be economically recovered. We currently are implementing and developing improvements to a number of technologies to address this issue, including the use of horizontal drilling (which offers greater penetration of oil-bearing formations); multilateral drilling (many wellbores branching off from the main well); and injection of water, steam and carbon dioxide (all of which help wash oil from the rock and sweep it toward producing wells).

We also are addressing the challenges and opportunities posed by the fact that oil and natural gas occur in many different "unconventional" forms, including oil sands, heavy oil, coalbed methane, oil shale and gas hydrates. In many cases, these unconventional hydrocarbons have been uneconomical to produce and bring to market. Now, we are developing successful new technologies to better extract these resources.

Much of our research and development is focused on projects which build on our strengths and complement existing businesses. For example, we are using our carbon upgrading expertise to develop a new anode material, CPreme™ Graphite Powder, for more efficient, cost-effective lithium-ion batteries for use in hybrid and all-electric vehicles. We applied our petroleum coke experience to engineer the material to meet vehicle battery manufacturers' requirements for a product that can be rapidly charged and discharged. A pilot plant at our Ponca City refinery in Oklahoma manufactures several metric tons of the material each month from a petroleum coke by-product and supplies a number of battery manufacturers worldwide.

The use of hydrogen as a fuel has long-term potential to reduce the environmental impact of transportation, if the energy intensity of the manufacturing process – and by association, greenhouse gas emissions – can be reduced. We are continually evaluating alternative methods to generate hydrogen to help meet current and future refinery needs. We also participate in the Department of Energy's FreedomCAR and Fuel Partnership, in which the U.S. government, the energy industry and automakers are working together to determine the feasibility of, and possible ways to introduce, a hydrogen-based transportation system in the United States.

Our lubricants group is working with the auto industry to develop low-viscosity motor oils and driveline oils to improve auto fuel economy and support the introduction of more fuel-efficient vehicles.

Having led the way in developing fuel-saving 5W-20 grade motor oils in the early 2000s, we continue to investigate even lower-viscosity engine oils, as well as low-viscosity gear lube formulations to improve the energy efficiency of vehicle transmissions and axle drive mechanisms. We also are evaluating alternative lubricant additives to extend the durability of catalytic converters in vehicle exhaust systems. As auto manufacturers strive to reduce the weight of vehicles, we

are developing new oil formulations better suited to lighter engine metallurgies, such as aluminum alloys.

We are responding to customer demand for energy-saving lubricants for other applications, such as synthetics lubricants and blends of synthetics and oil for off-highway construction, mining and earth-moving equipment, and lubricants which allow industrial equipment to run more efficiently. In 2006, we launched a lubricant specifically designed to meet the special demands of wind turbine gearboxes. We also are developing a range of lubricants for recreational vehicles such as motorcycles, snowmobiles, outboard motors and jet skis, which in order to reduce exhaust emissions are being powered increasingly by four-stroke engines, rather than two-stroke engines.

In the United States, our gasoline qualifies as a "Top Tier" product under voluntary standards which recognize its superior engine-cleaning and emissions-reduction qualities. This gasoline detergent standard was developed by BMW, General Motors, Honda and Toyota (and now also is sponsored by Volkswagen and Audi) to promote development and production of fuels with enhanced detergency for cleaner engines, better fuel economy and reduced emissions.

Clean Fuels

Renewable Fuels

Ethanol

In 2006, we substantially increased our use of ethanol as a renewable oxygenate in reformulated gasoline (RFG) produced for the U.S. market. This fuel comprises over 30 percent of the U.S. gasoline market and is mandatory for use in certain urban areas that currently do not meet EPA standards for ground-level air quality.

The widespread introduction of ethanol as a renewable oxygenate component also helped ConocoPhillips and other refiners achieve a 2006 requirement that nearly 3 percent of gasoline supplied in the United States be renewable fuel. We met that target and are also on track to meet a somewhat higher 2007 requirement for the content of renewable components in our gasoline products.

Ethanol must be blended into gasoline at the distribution terminal in order to ensure product quality. Consequently, many ConocoPhillips terminals have been equipped with special ethanol tanks, corrosion-resistant pipes, pumps and metering equipment. Others will be equipped similarly in the future.

Renewable Diesel Fuel

In April 2007, we announced a strategic alliance with Tyson Foods, the largest protein producer in the United States, to manufacture and market the next generation of renewable diesel fuel for the U.S. market. The alliance will use beef, pork and poultry by-product fat to create a high-quality ultra-low-sulfur diesel fuel that meets all federal standards. Production is expected to begin in late 2007, increasing to as much as 175 million gallons per year.

Unlike biodiesel, renewable diesel fuel is produced using existing refinery equipment and can be blended and transported with petroleum-based fuel. The addition of animal fat also improves the fuel's combustion properties, while the processing step improves its storage stability and handling characteristics when compared to biodiesel. Our refining process also can be used to convert rapeseed and other vegetable oils to renewable diesel fuel.

We developed the technology at our Bartlesville, Oklahoma, research center and tested it successfully at our Whitegate refinery in Cork, Ireland, in 2005. Commercial production of renewable diesel fuel using soybean oil began at Whitegate in 2006. The refinery fuel currently is producing up to 1,000 barrels per day of this fuel for the Irish market.

We also are working to develop the processing technology needed to make second-generation renewable fuels by thermochemically converting cellulosic biomass such as wood, corn stalks and switchgrass.

Biofuels Research

We announced two significant biofuels research agreements in 2007, including an eight-year, $22.5 million program at Iowa State University to develop new technologies for producing biofuels. The program will include research on converting biomass to fuel through fast pyrolysis, a process that uses heat in the absence of oxygen to decompose biomass into a liquid product. This bio-oil can be used as a heating oil or can potentially be converted into transportation fuel at petroleum refineries. The program also will explore other thermochemical technologies to produce biofuels, and we will fund research to understand and support environmental sustainability and rural economies. Studies will emphasize crop improvement and production, the harvesting and transportation of biomass and the impacts of biofuels on economic policy and rural sociology.

We also are sponsoring research at the Colorado Center for Biorefining and Biofuels (C2B2), to develop technologies for the production of transportation fuels and other products from biomass, such as agricultural fertilizers, synthetic fibers for clothing and other uses, plastics and commercial chemicals.

Awards will be granted to other universities in the United States and Europe to work on a variety of projects, including thermochemical and biological processing of biomass and the conversion of carbon to liquids.

Biofuel Benefits and Challenges

Biofuels are produced from biomass such as plants or organic waste and can be used as direct fuels or blended into gasoline or diesel fuel. The most commonly used biofuel in the United States is ethanol (ethyl alcohol), produced by fermenting plant sugars extracted from corn.

Currently, most U.S. ethanol production is blended into a reformulated gasoline (RFG) that contains 10 percent ethanol. RFG is used primarily in areas that require an oxygenated fuel in order to meet air quality standards. The Environmental Protection Agency prohibits the use of higher concentrations of ethanol in conventional vehicles due to the risk of damage to engine and fuel system components. Specially equipped flexible-fuel vehicles are permitted to use higher concentrations of ethanol, such as E-85, a blend of 85 percent ethanol and 15 percent gasoline by volume.

ConocoPhillips is expanding the accessibility and potential use of E-85 by allowing marketers to offer an unbranded product at fueling stations in the states of Iowa, Illinois, Nebraska and Colorado. The pilot program is available to about 1,300 sites in these states, which were selected in response to marketer requests as well as the improving local availability of ethanol supply.

In Europe, ConocoPhillips markets E-85 in Jet-branded sites in Sweden, where demand is high due to government financial incentives that encourage the public to buy cars equipped to run on the fuel. Sweden's tax subsidies also make E-85 cheaper than gasoline. Swedish law requires almost all service stations to offer renewable fuel by 2008. High-volume sites are being converted first, with our Jet-branded sites in the vanguard. The new fuel will be available at all Jet service stations in Sweden by the end of 2007.

In our Bartlesville Technology Center, Jane Yao evaluates a sample of renewable diesel fuel made from soybean oil.

However, in other countries only a small number of passenger vehicles currently can use E-85, because of its incompatibility with some automotive fuel system components.

Ethanol contains less energy than gasoline, so E-85 achieves only about 75 percent of the fuel economy of gasoline. Since E-85 currently is more expensive to manufacture, it requires tax subsidies to compete with regular oil-based fuels. Additionally, we are working with the American Society of Testing and Materials, which sets U.S. fuel standards, on revising E-85 specifications to address concerns over its detergency, high-sulfate content and corrosiveness.

Currently, the ethanol blended into gasoline can be produced from crops such as corn, sugar cane, cereals, soybeans, rapeseed oil and palm oil. Like any fuel, ethanol burned in an engine results in emissions of carbon dioxide. However, these emissions were offset by the amount of carbon dioxide that was originally absorbed from the atmosphere by the plants used to create the ethanol, making biofuels theoretically carbon neutral. However, substantial energy is needed to grow and harvest the plants, convert them to biofuels and distribute the finished products.

In the United States, where most ethanol is distilled from corn, about 14 percent of the nation's corn crop currently is used to make the fuel. This has raised concerns that larger-scale corn-based ethanol production would divert potential food supplies and encourage the intensive planting of energy crops on the best farmlands. This could in turn intensify the pressure placed on valuable ecosystems, such as rainforests in which more land would be cleared in order to grow more food for people and livestock.

However, ethanol need not be made from potential food sources. It also can be made from any organic source containing sugar or starch. Potentially, current biofuel production methods could be replaced by second-generation fuels derived from nonfood sources, such as woody biomass, agricultural waste or plants grown on land not suitable for food crops.

Sulfur Reduction

In the United States and Europe, we are producing low-sulfur gasoline (LSG) and ultra-low-sulfur diesel fuel (ULSD) which not only reduces vehicular sulfur emissions but also allows the introduction of advanced emissions control systems that would otherwise be damaged by sulfur.

Our U.S. clean fuels program will total $2.9 billion from 2002 through 2008, when our refineries will be removing more than 18,144 metric tons of sulfur per year from refined products. Two-thirds of the investment is on diesel-fuel production and the rest on gasoline production.

In January 2006, the allowable sulfur content of gasoline was substantially reduced to an average of no more than 30 parts per million (ppm), from former maximums of 500 ppm in reformulated gasoline and 1,000 ppm in conventional gasoline. Following major investment and construction efforts, several of our refineries began producing the new clean fuel blends before the deadline, and we also met the 30 ppm standard across our impacted refineries for the year.

In June 2006, our U.S. refineries also met the EPA's new ULSD standard of 15 ppm for at least 80 percent of all production of diesel fuel for highway use, a 97 percent reduction from the 500 ppm limit previously allowed. Nine refineries beat the EPA deadline, and our Rodeo refinery in California began producing ULSD a full year in advance.

We also were on schedule to meet the next sulfur reduction target of 500 ppm for non-road diesel fuel in June 2007 and are preparing for further phased reductions through 2012, when all highway and non-road diesel fuel must meet a uniform 15 ppm standard.

At the Borger refinery in Texas, our clean fuels investment was expanded to include installation of a new coking unit, due online in 2007. While enabling ULSD production, it also will allow the processing of heavier Canadian crude oil and a reduction in SO_2 emissions.

In addition to major projects at our refineries, significant modifications were made to pipelines and terminals across the United States to ensure ULSD product quality throughout the distribution system. Work included the installation of piping to segregate the new fuels and analyzers to measure quality.

Our refineries outside the United States also meet the regulatory requirements of the markets where their products are sold consistently achieving clean fuels standards ahead of regulation.

Combined Heat and Power

We plan to invest $400 million to expand our Immingham combined heat and power (CHP) plant in the United Kingdom. CHP technology enables the production of electricity and steam at higher levels of energy efficiency and with lower carbon dioxide (CO_2) emissions than traditional methods of power generation.

Due on line in 2009, the 450-megawatt expansion – which will raise output to 1.18 gigawatts – will make Immingham CHP one of the world's largest and most efficient CHP stations, contributing 12 percent toward the United Kingdom's target to achieve 10 gigawatts of low carbon CHP energy by 2010.

Immingham CHP began commercial operation in 2004 and is already one of the largest, cleanest and most efficient power plants of its type in Europe. It uses 20 percent less fuel and produces 25 percent less CO_2 than the alternative of producing heat and power separately. In addition to being a clean source of electricity, the plant burns surplus fuel gas produced by our neighboring Humber refinery, which was previously flared.

Immingham CHP provides steam and electricity to the Humber refinery and steam to an adjacent refinery owned by another company. It also feeds electricity to the U.K. national grid and is well placed to supply low-carbon energy to a wide range of local industrial customers. If current studies demonstrate economic feasibility, the enlarged plant could be modified to utilize our E-Gas gasification technology to operate as a "clean coal" facility, with CO_2 stored or used for enhanced oil recovery.

Renewable Power

We are evaluating opportunities and technologies to provide low-carbon or carbon-free power at our facilities where they can economically fit our needs. Some of these efforts are small in scale, specially designed to meet a local need. For example, in North Louisiana, we are installing solar-powered chemical injection units in place of gas-powered pumps on wells. Photovoltaic panels charge a battery that drives a small motor to inject foaming agents into the wells. This enhances natural gas recovery by reducing hydrostatic pressure in the well. The system eliminates the need to siphon off natural gas from well

production and then burn it to power an injection pump, and therefore helps reduce emissions and maximize output. The solar unit also achieves more consistent application of the foamer, increasing gas production and reducing chemical use per well. The combination of benefits has boosted the average payout per well by almost $90,000 per year.

To test another potential energy source, we are sponsoring a full-scale pilot plant to generate electricity from waves using new technology developed by a Norwegian company, WAVEenergy. The patented concept captures the energy of incoming waves in concrete reservoirs. The seawater then flows out through turbines, generating electricity. The pilot project at Kvitsøy on the west coast of Norway will have the capacity to generate up to 200 kilowatts of electricity.

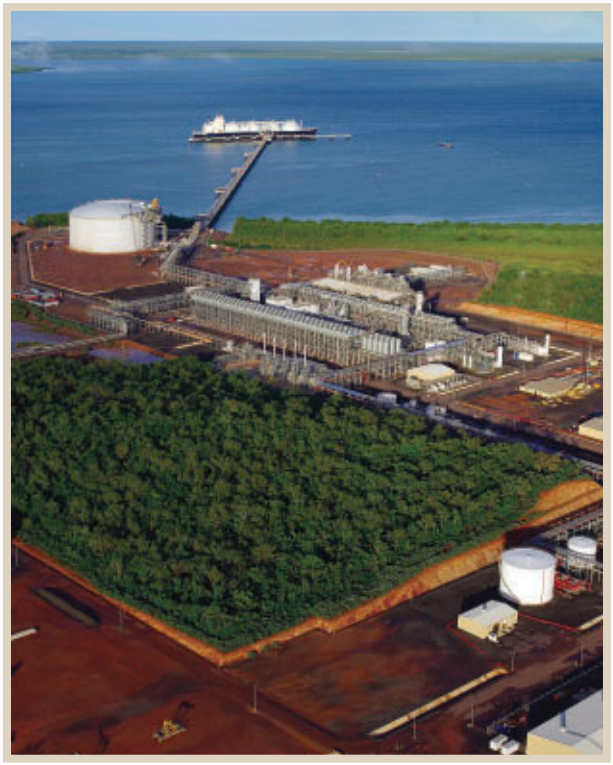
Natural Gas

Liquefied Natural Gas (LNG)

More than a third of the world's natural gas resources are classified as "stranded" – they are located too far from a market or are too economically challenged to support development. Historically, much of the stranded gas produced in conjunction with crude oil was simply disposed of by flaring if it could not be reinjected into the producing reservoir.

We are exploring ways of applying our liquefied natural gas (LNG) expertise to unlock stranded gas in remote regions and supply markets in North America, Asia and Europe, where it can play an important role in satisfying future energy needs.

LNG is natural gas that has been cooled to minus 161 degrees Celsius (minus 256 degrees Fahrenheit), at which point it condenses to a liquid. This process, called liquefaction, reduces its volume to one-600th of the original volume, making it economical to ship LNG over long distances in specially designed oceangoing LNG tankers. At its destination, the LNG is converted back to gas and piped to customers for power generation, industrial, residential and commercial use.



The Darwin LNG Facility.

ConocoPhillips has been an industry leader in LNG technology and project management for more than four decades. Our proprietary ConocoPhillips Optimized Cascade^{SM} Process was developed in the 1960s for use at our LNG facility in Kenai, Alaska, which is still an industry model for safety, efficiency and reliability. We began marketing our liquefaction technology to other operators in the 1990s and have sold licenses to the owners of plants in Trinidad and Tobago, Egypt and Equatorial Guinea.

In 2006, we began producing LNG at a new liquefaction plant near Darwin, Australia, to supply customers in Japan. It is the first LNG plant to use high-efficiency gas turbines to power the refrigeration compressors which, combined with waste heat recovery units, reduce greenhouse gas emissions.

We are pursuing plans for two other liquefaction plants to supply U.S. markets – Brass LNG in Nigeria and Qatargas 3 in Qatar, the latter proceeding toward a 2009 start-up. We own 30 percent of the Qatargas 3 project, one of the world's largest LNG developments, which is expected to generate approximately 7.1 million metric tons of LNG per year. ConocoPhillips signed an interim agreement to acquire an interest in the Golden Pass LNG import terminal under construction near Sabine, Texas, to receive and regasify LNG from Qatargas 3.

Also in Texas, we are overseeing construction of the Freeport terminal, which is on schedule to start-up in 2008. Freeport, which is located in one of the United States' highest gas-consuming regions, is the country's first new LNG terminal in more than 30 years. Located on the island of Quintana close to open water, it was designed to handle the world's largest LNG tankers and will have an initial capacity of 1.5 billion cubic feet per day.

LNG has been transported safely around the world for more than 45 years. It is shipped in special double-hulled tankers and does not need to be stored under pressure. We currently co-own two LNG tankers, the *Polar Eagle* and the *Arctic Sun*, which operate between Alaska and Japan. The Qatargas 3

Rigo Rodriguez pauses from construction of the Freeport LNG terminal, the country's first new LNG terminal in more than 30 years.

project will use a new class of LNG supertanker substantially larger than current carriers, to make transporting LNG to the United States from the Middle East economically feasible. The tankers will be the first with onboard equipment to reliquefy gas that vaporizes inside the tanks in transit, resulting in zero losses during shipment.

Natural Gas Pipelines

We continue to pursue natural gas pipeline projects with co-venturers in Alaska and Canada. In Alaska, we are seeking agreement on commercial terms that would enable construction of a pipeline from the North Slope to markets in the Lower 48 states. Meanwhile, another proposed pipeline from the Mackenzie Delta in Canada's Northwest Territories to established gas markets in North America is undergoing regulatory review.

We also have acquired an interest in the planned 1,663-mile Rockies Express Pipeline project, our first large-scale interstate natural gas pipeline. The $4.4 billion pipeline will transport gas produced in New Mexico, Colorado and Wyoming to markets in the Midwest and Eastern United States. The first phase of the project is already in service, and the pipeline is expected to be fully operational by mid-2009.

Clean Coal

We are developing proprietary technologies to convert coal and other widely available carbon sources to a variety of useful products, such as substitute natural gas, fertilizer, diesel fuel, steam and hydrogen. One such method is with E-Gas™ Gasification Technology, a process which converts coal and other low-grade feedstocks, such as petroleum coke, into clean, synthetic gas.

The E-Gas technology is an efficient commercial process for producing synthesis gas from carbon solids. The resulting hydrogen-rich synthesis gas is ideally suited for use as a clean-burning fuel in gas turbines to produce electricity and steam for refining and power generation applications. Alternatively, the synthesis gas can be further processed to pure hydrogen, substitute natural gas or chemicals. The process can be adapted for carbon dioxide (CO_2) removal from the gas prior to combustion or further processing – the purity of the resulting CO_2 stream being ideally suited to integrated carbon capture and sequestration projects.

In power generation applications, the gasification process is more efficient in converting coal to energy. It also produces less CO_2 per megawatt than conventional coal-fired power stations, even without carbon capture. Carbon capture in gasification processes is achieved with proven commercial technologies, with less impact on plant output and efficiency than post-combustion carbon capture.

E-Gas systems can achieve over 99 percent sulfur removal, while also generating low NO_x emissions and near-zero particulate emissions. Virtually all impurities are removed from coal, including mercury, and the minimal ash by-product can be used as a construction material. The sulfur from the feedstock is recovered as 99.99 percent pure elemental sulfur which can be used in fertilizer applications.

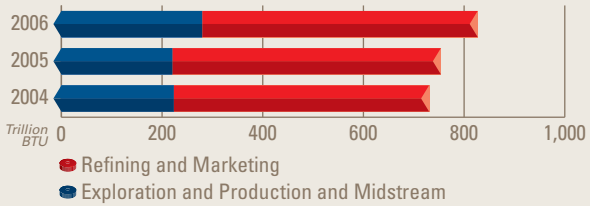
In refining, the E-Gas technology can process high-sulfur petroleum coke in generating power, steam and hydrogen for the refinery and surrounding industrial users. We are exploring opportunities to integrate the technology within our existing operations to improve efficiency and facilitate carbon capture.

We also have licensed the technology to build an integrated-gasification combined-cycle (IGCC) power station for Excelsior Energy in the Iron Range of northeastern Minnesota. The Mesaba Energy project will be one of the cleanest and most efficient coal-fired power plants in the world. The project's first unit will be capable of producing a net output of approximately 600 megawatts of electricity and is expected to be operational in 2012. The project features a hybrid particulate removal system, as well as enhanced sulfur and mercury removal technologies.

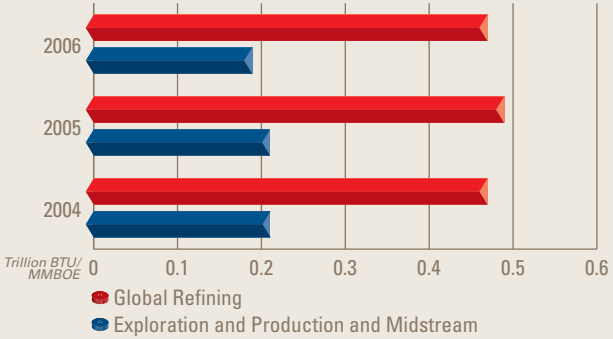
E-Gas technology also is being used to develop a commercial-scale coal gasification project for Rentech Energy Midwest Corporation in Illinois that will refuel an existing ammonia fertilizer plant. A portion of the carbon in the coal feedstock is used to produce another fertilizer product. This project also will demonstrate the production of transportation fuels from coal syngas using the owner's proprietary catalyst process.

Improve Energy and Material Efficiency

Total Energy Used
(fig. 14)



Energy Used Trillion BTU Per Unit of Production
(fig. 15)



Energy Efficiency

Since the combustion of energy is a primary contributor to greenhouse gas emissions, we continually strive to make our operations more energy efficient, thus providing an environmental benefit through reduced air emissions, as well as an economic benefit by lowering the cost of production.

Growth in operations has increased our total energy use, although our energy use per unit of production has remained steady. Total energy consumption by ConocoPhillips in 2006 ***(figs. 14 & 15)*** was approximately 827 trillion British Thermal Units (BTUs), an increase of 10 percent from 2005 attributable to the company's larger scale. The refining and marketing sector, which represents two-thirds of the company's energy consumption, increased its energy use primarily due to the addition of the Wilhelmshaven refinery and resumption of normal operations at the Alliance refinery following a lengthy shutdown due to hurricane damage in 2005, partly offset by reductions from asset dispositions. The exploration and production and midstream sector increased its energy use primarily due to the addition of the Burlington Resources assets, the start-up of the Darwin liquefied natural gas plant in Australia and increases at a gas plant in Indonesia.

Refining Efficiency

We are making progress in response to the American Petroleum Institute's Climate Action Challenge, for which we committed to improve the energy efficiency of our U.S. refineries by 10 percent between 2002 and 2012, as measured by the Solomon Energy Efficiency Index. This will require some $300 million of investments in three project categories:

- Adopting energy management best practices.
- Small capital projects, such as replacing older pumps with more efficient models.

Billy Eakin, left, the State of Louisiana Department of Environment Quality SWLA office manager, presents the Energy Star award to John Gott, Lake Charles refinery general manager.

- Large capital projects such as power generation and power recovery.

In addition to improving energy efficiency, we will minimize CO_2 emissions associated with capacity expansion, additional clean fuels processing and the challenge of refining the heavier, more sulfurous crude feedstock that constitutes a rising percentage of world crude oil supplies.

Substantial effort is focused on preserving and reusing heat in our refineries. For example, we use exhaust gases from furnaces to preheat the air entering the furnaces. We also recover waste steam, using it for preheating. We are conducting energy-efficiency reviews at each refinery and are developing specific energy conservation plans for each.

In 2007, the Billings refinery in Montana became the first U.S. refinery to receive the Environmental Protection Agency's Energy Star award for superior energy efficiency, based on the Energy Intensity Index, as defined by Solomon Associates, an industry consultant specializing in comparative performance analysis, which placed the refinery in the top quartile of energy efficiency for similarly sized facilities. Our Lake Charles refinery also received the Energy Star award in mid-2007.

Transportation Efficiency

Our Transportation business has been using sophisticated drag-reduction agents and high-efficiency pumps to improve liquid pipeline operations with the goal of achieving $2.5 million in annual energy savings by 2008. Computer programs are being employed to model individual pipeline segments to determine the most energy-efficient way to move products and crude oil. A study of one pipeline segment forecast – the potential for $300,000 in annual savings. A total of 45 additional pipeline segments will be studied by the end of 2008 to identify additional savings opportunities.

The control center in Ponca City, Oklahoma, uses a computerized system to monitor more than 12,000 miles of pipe from one central location.

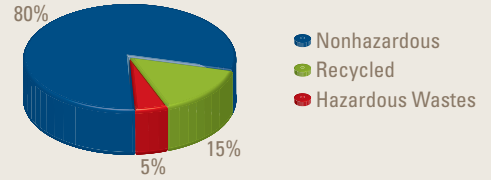
ConocoPhillips Specialty Products Inc. is the market leader in flow-improvement technologies to help transport crude oils and refined products long distances by pipeline. Our Liquid-Power™ Flow Improvers enhance pipeline efficiency by reducing pipeline turbulence, increasing throughput and saving energy at pump stations. ConocoPhillips Specialty Products Inc. offers a range of flow improvers for crude oil, refined products and non-potable water pipeline operations, including specially formulated products for very cold climates. Drag reduction improvements of more than 80 percent are achievable, depending on the pipeline, crude oil or product type. In addition to the energy-savings and throughput benefits, the use of flow improvers can often avoid the capital cost of installing a larger pipeline or more pumps.

Material Efficiency

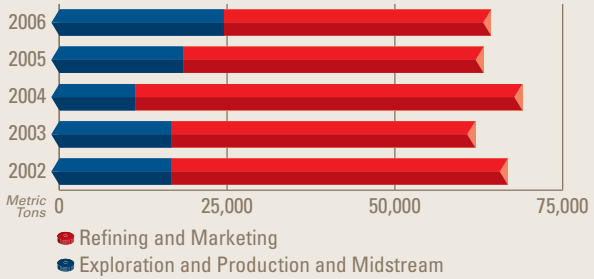
Our approach to waste management is based on a simple set of priorities: first, eliminate waste where possible, then reuse, recover, recycle and, as a last resort, dispose of it safely.

In 2006, we introduced a global Waste Management Standard which requires all operations to evaluate the waste they generate and the suitability of the waste facilities they use. Businesses can only use commercial waste contractors that meet our standards for operational integrity, have environmental protection measures in place, implement monitoring and institutional controls, and comply with relevant regulations. The Waste Management Standard also requires businesses to develop comprehensive management plans for company-owned or -operated waste units. The standard applies to all our operations worldwide. In ventures where we are not the operator or hold a minority interest, we will strive to influence our partners to implement similar programs.

2006 Waste Profile
Metric Tons
(fig. 16)



Total Hazardous Wastes Generated
(fig. 17)



In implementing our standard, we developed a commercial waste management program to track our waste-disposal activity. In the United States, we have compiled a list of company-approved commercial waste management facilities. We inspect potential new waste sites and periodically audit those we choose. We prefer contractors that provide cost-effective commercial alternatives to landfill disposal, but when this is the only option, we use sites that are operated to strict environmental standards.

The amount of waste we generated is relatively similar to years past, increasing slightly with our growth in operations. In 2006, 5 percent of our total waste was categorized as hazardous – this includes any material that is potentially harmful, toxic or requires special treatment. ***(figs. 16 & 17, page 37)*** The quantity of hazardous waste managed by ConocoPhillips' businesses in 2006 was 64,318 metric tons, an increase of 2 percent from 2005. The increase was mainly in the exploration and production sector due to the addition of the Burlington Resources assets, partially offset by refining's reduction in maintenance-related waste, increased reclamation of residuals and reclassification of some waste streams as recycled waste.

Of the remaining 2006 waste, 80 percent was nonhazardous and 15 percent was recycled material. Waste that is designated as nonhazardous by a regulatory agency is disposed of conventionally. Recycled materials are the residual materials that are not sold as product or disposed of as waste, but reused, reclaimed or recovered for beneficial use.

We generate most waste from our refining operations, in which major shutdowns and varying maintenance schedules can result in significant fluctuations in waste generation from year to year. This business sector also is where the biggest opportunities for waste reduction and elimination occur. For example, during 2006 our U.S. refineries recycled 6,177 metric tons of spent processing catalyst for metals recovery.

In exploration and production, changes in drilling activity levels also can cause periodic variations in the quantity of waste generated.

In 2005, waste management experts from our U.S. refineries attended a Best Waste Practices Conference in Ponca City, Oklahoma, to share ideas for new procedures and potential cost reductions on environmental issues related to air emissions, management of solid waste and wastewater, and remediation techniques.

Our annual Stamp Out Waste campaign, first launched in 2003, rewards employees who come up with good ideas to reduce waste. Ideas are then shared throughout the company. In 2006, the campaign attracted 69 submissions from individuals and teams worldwide and generated one-time savings of $12.5 million and annual recurring savings of $6.7 million.

The projects were rated against the pollution prevention hierarchy of waste reduction, recycling, reuse or safe disposal, with waste reduction the priority. Cost benefit, risk reduction, innovation and applicability to other facilities also were considered. A higher value was placed on projects that already had been implemented, although four awards were given for good ideas.

The winning submissions were projects already implemented to recover oil from refinery tank bottom sludge, reduce fuel consumption in ocean tankers and company aircraft, optimize gas field operations, recover unpumpable crude oil and recycle obsolete electronic equipment. Awards also were given for ideas to recover drilling mud, recycle scrap steel, conserve and recycle print-shop materials and use refinery facilities to clean up water from marketing and transportation operations.

In Shenzhen, China, we sponsored a local school-based campaign to collect used batteries. In just a month, students from seven schools collected 50,000 batteries for specialized disposal. Battery collection bins were subsequently placed in the schools and communal living areas.

Around the world, we manage the disposal of surplus or obsolete electronic equipment in a process known as e-cycling. As part of this process, we negotiate contracts with vendors for the remarketing and recycling of electronic equipment, such as computers, televisions, microwave ovens, copiers, fax machines and telephones which no longer have value to ConocoPhillips but may have for others.

In many locations, we have partnered with our recycling contractor to provide similar services for the public using our locations as collection points. Our employees help their local communities collect household waste and recyclable material that cannot be disposed of in regular household garbage.

Many of our refineries host household hazardous waste collection events for their local communities.

For example, the Lake Charles refinery in Louisiana holds an annual "Trash Bash" where items collected included computers, paint, used tires, old oil, car batteries, antifreeze and small appliances. Discarded paint is separated by type, mixed together onsite and donated to local schools and charities. In Bartlesville, Oklahoma, 50 volunteers took part in a similar event which filled two tractor-trailers with discarded electronic equipment and helped collect over 9 metric tons of hazardous waste from the community. And, at the Wood River refinery in Illinois, more than 400 carloads of waste, such as used oil, household chemicals, paint and electronic equipment were brought in by the public.

Decommissioning

We aim to manage all projects, products and processes throughout their life cycles in a way that protects safety and health and minimizes environmental impact. In doing so, we strive to find new uses for obsolete or redundant assets.

When we retired the *Polar Alaska* and *Polar California* – the last single-hulled tankers in our fleet – they were converted to floating production, storage and offloading vessels, extending their lives by at least 15 years. The tankers will be converted to work in Asia at offshore fields, separating water and gas from crude oil production and offloading the oil for shipment in tankers.

Ekofisk I Cessation

Although our Ekofisk field in the North Sea will remain in production for many years, we already have started decommissioning redundant structures. Stakeholder consultation was a key part of the decision-making process in determining the Ekofisk I cessation plan.

The plan involves the removal of 15 steel platforms, including the Ekofisk Tank topsides. Removal of gangways, flares, tripods and other light structures already has begun and is due for completion in 2009. The Ekofisk Tank topsides, some 25,000 metric tons, have been removed and approximately 98 percent have been recycled. The larger platforms should be removed by the end of 2013.

The material is sorted, then processed in a facility equipped to handle any chemicals and residual oil. Vessels are scanned for potential radioactivity before further processing. Most of the steel is sent to a local works for smelting to make reinforcing steel. Other metals and grades of steel are sent for specialist processing at facilities throughout Northern Europe. The goal is to recycle 96 percent of the material.

Reviewing the Ekofisk Tank cessation activity are a panel of scientists. Pictured here are Jacob de Boer, Institute for Environmental Studies (IVM) at the Vrije Universiteit (VU) in Amsterdam; Eileen Arctander Vik, Aquateam, Norway; Paul E. Kingston, Herriot-Watt University, United Kingdom; Günter F. Clauss, Berlin University of Technology; and Torgeir Bakke, NIVA, Norway.

Involving Stakeholders in Cessation Plans

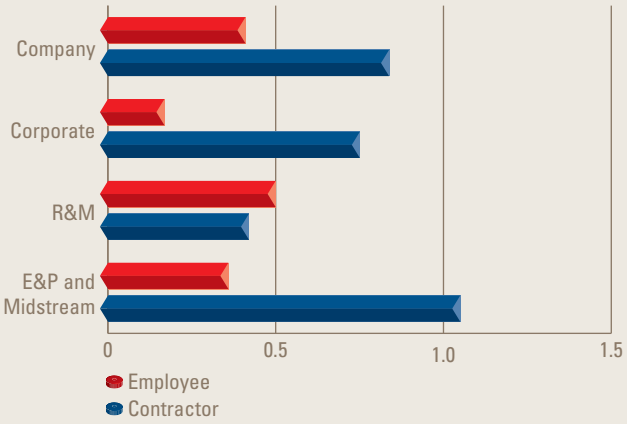
In developing the Ekofisk Tank cessation plans, we involved key stakeholders, including academia, environmental nongovernmental organizations, government, industry groups and the media. To facilitate dialogue, we produced presentations, newsletters and a Web site explaining the proposals.

TRR Metrics

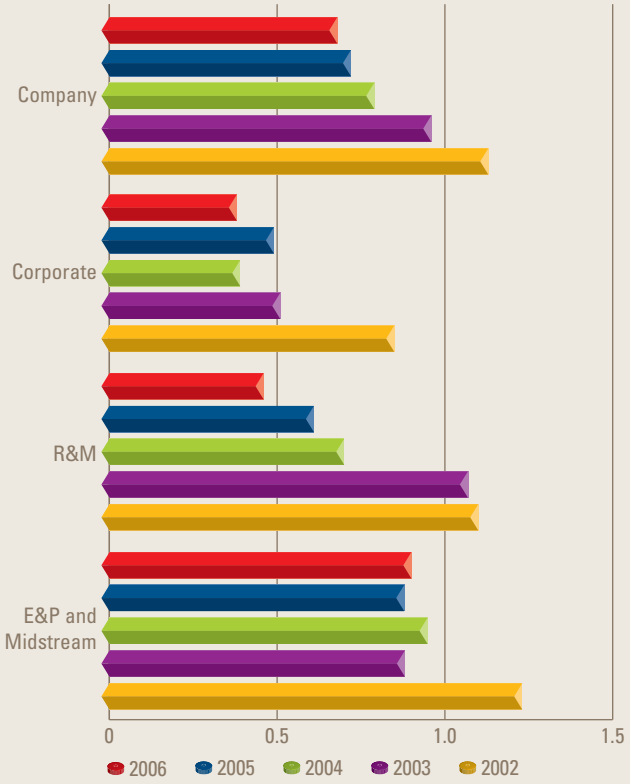
A standard measure of workplace safety is the Total Recordable Rate (TRR), which tracks the number of recordable incidents per 200,000 work hours. A recordable injury is a work-related injury that resulted in death, time lost from work, loss of consciousness, or required medical treatment; required a restriction of work; or the transfer of the worker to other tasks.

The refining and marketing sector reduced combined workforce TRR by almost 60 percent in the four years from 2002 to 2006. While exploration, production and midstream operations saw a slight increase in TRR between 2005 and 2006, they achieved a 27 percent reduction during the 2002 to 2006 period. Overall, the company reduced its TRR by almost 40 percent in those four years.

2006 Employee and Contractor TRR
by Company Sector
(fig. 18)



Work Force TRR
by Company Sector
(fig. 19)



Company refers to all of ConocoPhillips. *Corporate* refers to employees working in corporate functions as opposed to the refining and marketing (R&M) or exploration, production (E&P) and midstream business sectors.

Operate Safely

Our Safety Commitment

ConocoPhillips is committed to protecting the health and safety of everyone who plays a part in our operations, lives in the communities in which we operate or uses our products. We will not be satisfied until we succeed in eliminating all injuries, occupational illnesses, unsafe practices and incidents of environmental harm from our activities. Our full Health, Safety and Environment Policy is available on our Web site. 1

Safety Performance

Our safety goal is operating each day with zero injuries, illnesses and incidents. We have made substantial progress toward this goal but continue to suffer serious incidents and recognize that safety performance must improve further. While the number of safety incidents has decreased, more of those have resulted in lost workdays.

During 2006, three people died while working for us. That is two more fatalities than in 2005. We deeply regret these incidents and will use the lessons learned from them to enhance the future safety of our operations. For example, a contractor died when the roof of a storage tank collapsed. The learnings from the incident have been incorporated into our requirements for working in storage tanks so that a repeat incident does not occur.

In 2006, nearly half of the ConocoPhillips business units and support organizations for which safety statistics are reported achieved the goal of zero recordable employee injuries. More than one-quarter achieved zero recordable contractor injuries.

Contractor safety remains an important area of emphasis. In the refining and marketing sector, the contractor TRR

was reduced by more than 30 percent in 2006 compared with the previous year, following the introduction of a companywide Contractor Health and Safety Standard in 2004. However, in exploration and production operations, the rate increased slightly.

We are re-examining our process safety indicators, both on company and facility levels, to better recognize our operational performance and to incorporate recommendations from recent industry guidance on operations and asset integrity.

Implementing Our Safety Commitment

A key to improving safety performance is focusing on safe behavior. Our businesses develop programs that emphasize personal responsibility for working safely and encourage a culture of people watching out for each other. If a potential risk is identified, it is not enough simply to report the problem. We expect everyone to take responsible leadership and actively intervene.

All employees and contractors have our full support to take the actions necessary to ensure safety in the workplace. Facilities are accountable for following a high standard of safety and environmental care and promoting leadership visibility, commitment and responsibility toward safety matters. Managers and supervisors are encouraged to reinforce safety messages to ensure that their behavior sets positive examples.

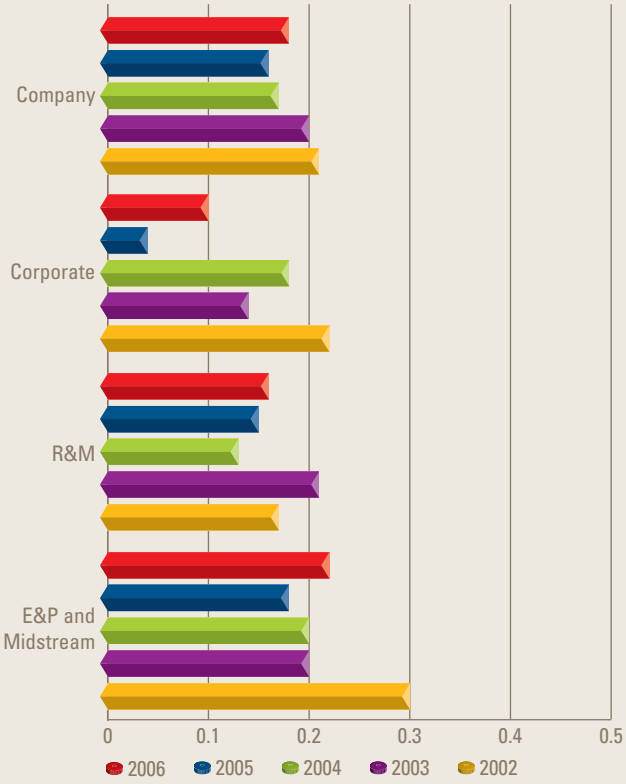
The following are examples of how we are implementing our safety commitment, both through companywide programs and local initiatives.

LWC Metrics

Another safety measure is the Lost Workday Case (LWC) rate – the number of incidents resulting in days away from work through occupational injury or illness per 200,000 hours worked. In the four years from 2002 to 2006, we reduced our refining and marketing sector's LWC rate by 6 percent; our exploration, production and midstream operations rate by more than 26 percent; and our overall company rate by almost 15 percent.

2006 Employee and Contractor LWC Rate
by Company Sector
(fig. 20)

Work Force LWC Rate
by Company Sector
(fig. 21)



Company refers to all of ConocoPhillips. *Corporate* refers to employees working in corporate functions as opposed to the refining and marketing (R&M) or exploration, production (E&P) and midstream business sectors.

HSE Excellence

In mid-2007, we introduced a new Health, Safety and Environment (HSE) Excellence process to enable our businesses to further identify and eliminate work hazards and risks. The process builds on the principle that all incidents are preventable and that HSE considerations must be embedded into every task and business decision. It includes an assessment tool to guide continuous improvement and ultimately achieve the highest standards of HSE excellence.

In the United States, we strongly support the Department of Labor's Occupational Safety & Health Administration Voluntary Protection Program (VPP), which distinguishes worksites that achieve exemplary occupational safety and health standards. Several sites have achieved VPP "Star" recognition for addressing unique safety and health issues. In Oklahoma, the Bartlesville Technology Center received a "Star Among Stars" award and the Ponca City Technology Center received a "Star of Excellence" award. In 2007, the Bryan, Texas, Flow Improver Facility was awarded VPP Star status. The goal is for all refineries to be VPP-approved by 2009. Exploration and production also is participating in the VPP process. The Beluga River Unit in Alaska was awarded Star status in 2006, while in 2007, the Kuparuk Unit in Alaska and the San Juan Gas Plant in New Mexico were awarded Star status.

ConocoPhillips Alaska employees and the state Department of Labor celebrated together the award of VPP Star stauts at the Beluga River Unit.

At least annually, all business units must review their management systems against corporate HSE standards, as well as the key elements of the program.

A self-assessment tool helps businesses to determine conformity with the process and identify opportunities for improvement. It includes detailed information to assist the assessment team in managing every stage of the HSE excellence process, from communicating HSE values, policies and standards to measuring current performance, identifying opportunities to improve, conducting assessments, developing and implementing action plans to close gaps and monitoring progress.

To encourage ownership and companywide commitment, the HSE excellence process is linked to the company's performance-related cash-incentive program. Key improvement actions must be incorporated into business unit goals and objectives, which become a factor in determining management and employee compensation.

Corporate HSE auditing independently verifies business unit compliance to the HSE Excellence process as part of its regular management system audits.

Journey to Zero

Our exploration and production operations have a continuous improvement program named "Journey to Zero," designed to improve safety performance by stimulating safety leadership at all levels of the organization.

In 2007, we conducted a companywide confidential survey, involving over 14,000 exploration and production employees and contractors, to give the workforce the opportunity to provide opinions on leadership and safety culture. A series of focus groups and strategy workshops also were held to fully understand the results and agree how to address areas of concern. In addition, a number of leaders who work in key operational areas undertook 360-degree reviews that were focused on safety performance and coaching. The outcome of the 2007 safety leadership program will be shared with the organization, and the survey will be repeated in 2009 to measure improvements.

Local Safety Initiatives

Individual businesses develop safety initiatives tailored to local needs to further embed the company's safety expectations.

For example, our North Sea business improved its 2003 total recordable rate by 54 percent in 2006, by developing a set of fundamental safety rules, sharing knowledge through twice-yearly safety conferences, working with contractors to develop zero-injury strategies and developing awareness campaigns.

In South Texas, Spanish is the first language for many people. To ensure effective communication, employee and contractor safety leadership seminars are provided by trainers who are fluent in both Spanish and English.

We have been working to improve employee security at our service stations. In the United States, this has involved the installation of bullet-resistant glass at the highest risk sites,

interactive security, armored courier service, cash-counting safes and electronic door locks. Over the past four years, we also have focused on instilling a culture of safety and environmental excellence among store employees. As a result, recordable injuries decreased from a rate of more than 2.0 in 2002 to 0.22 in 2006.

To encourage the exchange of ideas and best practices between operations, U.S. refining conducted a health and safety conference for all its facilities in 2005. The conference focused on cultural safety issues, occupational health, improvement programs and lessons learned from incidents. In 2007, refining is holding a five-day conference in which union and management health and safety representatives will receive training and exchange ideas.

Occupational Health

ConocoPhillips recognizes the importance of monitoring occupational health of our workers. A healthier workforce has less illness-related absenteeism and is a more productive workforce. We conduct risk-based pre-placement and periodic medical examinations for employees in higher health-risk situations, either due to the remoteness of their locations (such as offshore) or the potential for exposure to hazards (such as emergency response personnel).

The company has more than 40 clinics in 10 countries in order to respond to employee health needs that arise during the workday. In countries where we have clinics but community medical facilities are lacking, we make our services available to the public. At our desert operation in Algeria, for example, onsite medics provide health services to adjacent contractors' camps and to Bedouin groups and others passing through the area.

Employee health clinic at the Lake Charles refinery. We have more than 40 health clinics in facilities around the globe.

Our industrial hygiene and occupational medicine standard requires the assessment and control of workplace health hazards, medical surveillance to monitor and validate the effectiveness of the control measures employed and the determination of occupational exposure limits for our workers. The standard, which is applied and audited globally, meets or exceeds the highest standards of the countries in which we operate and includes many chemicals not covered by government regulations.

Product Stewardship

We strive continuously to improve the HSE information provided on our products at every stage of their life cycles. We aim to provide rapid, accurate product information and advice so that our products are properly handled, distributed and used by our customers. We also help our partners and industrial customers meet their HSE obligations by providing rapid, accurate information and advice and practical assistance in the event of incidents involving our products.

We have appointed product stewards in most business units. These managers meet regularly as a global product safety leadership team to communicate product regulatory information within the company.

We are committed to investigating potential product or process problems early and sharing the outcome with those who use our products or who have similar processes. For example, when an employee raised concerns about petroleum coke fibers presenting a possible occupational health hazard, we instigated an investigation involving almost 1,000 air quality samples at eight coke production plants worldwide. Although the investigation found no problems in our facilities, we alerted the U.S. Environmental Protection Agency (EPA); published our conclusions in two technical papers; presented the data at an international occupational health conference; and also informed competitors, partners and customers of our findings.

We play an active role in the EPA's voluntary High Production Volume Challenge Program for chemical testing. The program provides information on potential health and environmental impacts of chemicals produced in large volumes in the United States. This information is being provided to the public in a single format on one Internet location. Through testing groups established by the American Petroleum Institute and the American Chemistry Council, we sponsor health and environmental effects testing on nearly 400 products and refinery intermediate streams.

1 http://www.hse.gov.uk/comah/conocophillips.pdf

This has helped us prepare to meet stringent new European chemicals regulations, which came into effect in June 2007. The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation gave greater responsibility to industry to manage risks from chemicals and provide safety information on products. Companies which manufacture or import more than one tonne of a chemical substance a year into the European Union must register details in a central database administered by a new E.U. Chemicals Agency, which consumers and safety professionals can access for hazard information.

Asset and Operations Integrity

We focus on continually improving asset integrity by raising standards, developing more effective measurement and auditing programs, strengthening management systems and enhancing training. In refining, we have developed required standards for process and personal safety, with clear direction on critical elements such as asset integrity inspections, facility siting, change management and incident investigations. Our exploration and production operations conducted a global assessment of asset and operational integrity in 2006 and developed action plans for improvement in 2007.

While following industry standards on managing equipment, we have established additional internal standards for fixed assets and equipment. Our company-operated refineries and many exploration and production assets are participating in a peer assist program in which employees inspect other plants and share best practices.

Although process safety has been central to how we operate our assets, we are reviewing our process safety management systems to identify opportunities for improvement in the light of recent industry recommendations.

The Humber refinery conducted over 200,000 pipe inspections as part of our asset integrity efforts.

Refining recently has established a manager of process safety to lead efforts to continuously improve in this important area of operations. Refining also has established an internal team that will conduct in-depth process safety audits at all domestic and international refineries within the next 18 months. This effort will focus on identifying improvement opportunities, as well as best process safety practices and programs.

Humber Refinery Incident

The U.K. Health and Safety Executive (HSE) in 2006 published the results of its investigation into an explosion and fire which occurred following a pipe failure in the saturate gas plant at our Humber refinery in 2001. The 30-page public report on the Internet 1 included recommendations for improvements to pipe inspection procedures; management of change systems; corrosion monitoring; and recording and sharing of inspection information.

We already had implemented these and other measures ahead of the HSE report, following our own investigation in 2001 which identified 12 key action areas. These included the formation of a new division with special responsibility for asset integrity and reliability, and the introduction of a rigorous program of process hazard analysis for all refinery units.

The first five-year cycle of process hazard analysis studies will be completed in 2009. Every pipe onsite already has been examined in a program involving over 200,000 inspections completed within schedule. This was followed by a detailed review of all piping systems, applying the most appropriate assessment techniques. Further inspections were conducted in a three-year program, completed in 2006, which has increased the inspection find rate, eliminated overdue inspections, halved the number of minor leaks and introduced a piping retirement philosophy that has resulted in more than 600 lines being replaced. This effort is being maintained with some 10,000 piping test points inspected each year.

Pipeline Integrity

Our program of pipeline inspection, integrity assessment and remediation goes beyond mandatory requirements to include crude oil gathering systems that are not covered by current regulations. The program includes hydrostatic testing and internal inspection of gathering lines, upgrading lines with external corrosion prevention systems, cleaning lines to minimize internal corrosion and decommissioning or converting low-flow systems to truck delivery. We also have increased the frequency of aerial pipeline patrols of crude oil gathering lines to several times a week so that, should a leak occur, it will be detected more promptly.

By mid-2007, we had assessed over 85 percent of our U.S. cross-country pipeline system. Pipeline assessments include

Smart pigs, like the one pictured above, can precisely locate internal or external defects, such as cracks, dents or corrosion.

both hydrostatic testing and internal inspection using devices called "smart pigs." The goal is to have the entire 10,800-mile company-operated main line system tested by 2010.

These efforts reduced the number of pipeline spills measuring more than one barrel in size from 97 in 2005 to 40 in 2006.

Informing the public about our pipelines is vital to the safe operation of the system and the prevention of damage by third parties, such as excavators. During 2005 and 2006, we mailed almost two million brochures to stakeholders along our U.S. pipeline routes to encourage the use of "call before you dig" underground utility location services and to inform them what to do in the event of an incident. In 2007, the program will be expanded to include stakeholder audiences near storage terminals. We also will participate in an industry-sponsored survey to measure the effectiveness of the communications.

In Alaska, we execute thorough inspection programs for production and water injection pipelines to meet our goal to identify potential problems early. This helps ensure that pipelines can be repaired or replaced before severe damage occurs.

Since the mid-1990s, we have met or exceeded our targets for external inspection and repair of our pipeline systems in Alaska. Where significant corrosion or corrosion potential exists, we repair the pipe and insulation. This program also has led to improved insulation designs that provide better protection against water damage.

Although most pipelines on the North Slope are supported above ground to protect the delicate tundra against thawing, there are some locations where pipelines must be routed underground, such as at intersections with surface roads and drilling pad locations and caribou crossings. At these locations, we use remote inspection methods involving ultrasound to determine if any pipe requires replacement.

Caribou using a pipeline crossing in Alaska.

Marine Integrity

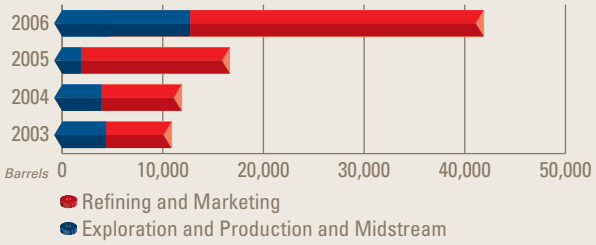
ConocoPhillips achieved its goal of operating an all double-hulled tanker fleet in 2007, a year ahead of plan. With the addition of the latest tanker, the *Polar Enterprise*, and the sale of our remaining double-bottom, single-hulled vessel, all 12 tankers in the fleet have double-hull protection. ConocoPhillips' 26 coastal tankers and barges also are double-hulled.

Polar Enterprise, the fifth Endeavour Class tanker in the fleet, was designed specifically for the transport of crude oil from Valdez to the U.S. West Coast. Endeavour Class tankers are built with double hulls which exceed regulatory requirements, as well as two independent engine rooms, twin propellers and twin rudders. Cargo, fuel and lubricating oils are isolated from the ship's outer hull by ballast tanks or void spaces.

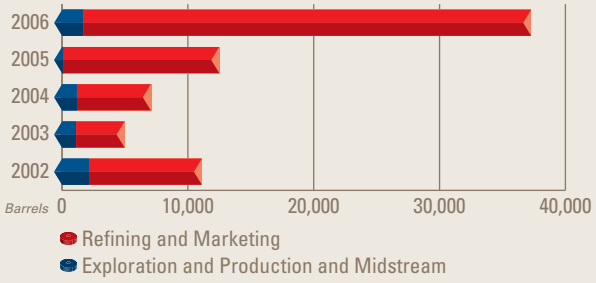
We work closely with our shipping contractors to achieve the highest standards of environmental and safety performance, and we strongly recommend chartering double-hulled vessels wherever possible. We vet every ship we charter – reviewing its safety management, security and maintenance history and procedures – before it carries our product. A key stipulation is the capability to store and dispose of oily wastes in strict compliance with the International Convention for the Prevention of Pollution from Ships (MARPOL) and local regulations.

In 2006, we created the position of quality assurance officer for each of our vessels. This officer is responsible for handling regulatory, environmental compliance and auditing matters, freeing the master and other officers to focus on the safe operation of the ship. Experience in this position will be a future requirement for officers seeking promotion to the rank of captain or chief engineer. The company also trains the crew on vessel handling via ship simulators.

Volume of Spills Greater Than One Barrel
by Company Sector
(fig. 22)



Volume of Spills Greater Than 100 Barrels
by Company Sector
(fig. 23)



Spill Response and Crisis Management

ConocoPhillips has an integrated global emergency response process, which includes response capabilities and crisis management plans at the corporate, regional and local levels. All plans incorporate regular training, equipment maintenance and review of procedures. We also are members of oil spill response organizations that cover the regions of the world in which we operate.

Membership in these cooperatives extends our access to resources – both equipment and trained personnel – that can provide immediate emergency assistance. We periodically participate in and help to coordinate Spill of National Significance (SONS) drills that are mandated by the Oil Pollution Act of 1990 and which are conducted every three years under the direction of the U.S. Coast Guard. SONS drills are designed to foster significant improvements in the oil spill preparedness, prevention and response efforts of the U.S. government and the petroleum industry. The drills, funded jointly by government and industry, typically involve a year of planning by the major public and private sector participants. We participated in the 2007 SONS drill, involving a major earthquake scenario.

We participate in SONS drills to maintain oil spill response readiness.

Our crisis management and emergency response planning extends to the community. We invite local people, representing the community and regulatory agencies, to observe and participate in training events involving oil spill recovery, fire fighting and first-aid drills.

Emergency Response in Action

In December 2005, a major explosion and fire occurred at the Buncefield oil distribution terminal in the United Kingdom, which supplies oil products to consumers in Southeast England and aviation fuel to Heathrow Airport. Although we do not own or operate from the terminal, we assisted with the response effort and worked to help alleviate the resulting supply disruption. Our Humber refinery provided fire-fighting supplies and assistance, while our marketing operations group helped to relieve the aviation fuel shortfall with deliveries from our own terminals.

In July 2006, two severe thunderstorms struck our Wood River refinery in Illinois. Their high winds cut electrical power to the refinery and caused widespread damage in the area, leaving more than a million people without electricity. Refinery access was hampered by fallen trees and power lines, and major repairs to cooling towers and electrical systems were needed. Despite the damage, the first process units were restarted within only a week, and within only two weeks, all units resumed operations or were being restarted. During this effort, 141,000 hours were worked safely with no recordable injuries.

Emergency Response Team in action in the aftermath of Hurricane Katrina. This experience gave us new insights into how to respond to emergency situations that hugely impact both the community and our facilities simultaneously.

Liquid Hydrocarbon Spills

ConocoPhillips reports liquid hydrocarbon spills from primary containment that are greater than one barrel. Spills greater than 100 barrels are considered significant incidents that trigger immediate management reporting, extensive investigation and corrective action to mitigate recurrence.

We had two large spills that greatly increased our spill volume from primary containment. However, the majority of the product was captured in secondary containment and did not reach the environment. In 2006, there were 19 significant liquid hydrocarbon spills resulting in the release of 37,254 barrels from primary containment, compared to 11 such spills in 2005 from which 12,522 barrels were released. ***(figs. 22 & 23, page 46)*** Two of the 2006 significant spills resulted in 78 percent of the released volume. Both were related to tank leaks that were mostly contained. Eleven of the 2006 significant spills occurred in the refining and marketing sector, which accounts for 95 percent of the volume released from primary containment.

Of the volume released from primary containment, 30,319 barrels, or 81 percent, were captured in secondary containment such as tank dikes and did not reach the environment. Of the 6,935 barrels that did reach the environment, 3,767 barrels, or 54 percent, were recovered during initial spill response. Longer-term remedial projects strive to recover additional lost hydrocarbons.

In 2006, Polar Tankers, Inc. and ConocoPhillips resolved matters relating to a spill of an estimated 1,000 gallons of crude oil into Washington State's Dalco Passage in Puget Sound. The oil was purportedly from the *Polar Texas* oil tanker, which has since been decommissioned. Settlements were reached with the Washington State Department of Ecology, U.S. Department of Justice, U.S. Coast Guard and National Pollution Funds Center for reimbursement of cleanup costs and a civil penalty associated with the incident, which occurred in October 2004. While there was no admission of liability, the settlement reflects Polar Tankers, Inc.'s and ConocoPhillips' commitment to good corporate and environmental stewardship.

Business Continuity

We have reviewed the ability of our emergency response plans to prepare us for any type of incident or event that poses the potential to seriously disrupt business operations. The focus is on maintaining business continuity during and after a major disaster (such as hurricanes or earthquakes) or a potential pandemic (such as the widespread incidence of avian influenza). Comprehensive plans are in place that are intended to ensure the safety and welfare of employees and their families, as well as the continued availability of our products to consumers. Essential skills and personnel, business processes, suppliers, contractors and vendors have been identified, and contingency measures have been drafted. Our revised global business continuity plan will be fully prepared by year-end 2007.

Security

Although security risks cannot be eliminated, we believe they can be managed. ConocoPhillips has invested millions of additional dollars to respond to potential threats to our operations around the world. Through systematic security audits by specially trained personnel, ConocoPhillips continuously monitors and assesses possible threats arising from malicious action and implements a variety of preventive measures for the safety and security of our personnel and operations.

As an operator of critical infrastructure in many challenging locations around the world, ConocoPhillips works closely with governmental agencies, nongovernmental organizations and local communities on initiatives to identify, prevent, detect, deter and mitigate potential terrorist attacks and other threats to company personnel and facilities. ConocoPhillips' facilities are compliant with the Maritime Transportation Security Act, the International Ship and Port Facility Security Code, U.S. Customs Trade Partnership Against Terrorism standards and all other applicable governmental security requirements.

Consistent with our view that the security of our operations is directly tied to the security of the communities in which we operate, ConocoPhillips helped draft the Voluntary Principles on Security and Human Rights and continues to aspire to its dual goals of advancing security and human rights. (see page 49)

1 http://www.conocophillips.com/sd/ethics

2 http://www.conocophillips.com/sd/politicalpolicy

Uphold Highest Ethics

Business Ethics

ConocoPhillips is committed to a work environment in which our business is conducted with integrity, in accordance with the highest ethical standards and free from all forms of unlawful conduct.

Our code of business ethics and conduct summarizes the standards of ethical conduct and compliance with the law expected of directors, employees, contractors and other individuals who work on the company's behalf. The code is available on our Web site 1 and has been translated into multiple languages. It has been distributed to all current and newly hired employees.

Employees are obligated to report suspected violations of company policies or the law to the company's ethics office, which initiates a confidential investigation. Ethical concerns may be reported anonymously, either via a toll-free international telephone hotline or by e-mail. The company's corporate compliance and ethics committee, composed of senior executives and attorneys, provides regular reports to the chief executive officer, as well as to the audit and finance committee of the board of directors. These reports cover the results of annual code certifications, the state of compliance activities and the handling of reports of violations. We are committed to follow through on any findings with measures that address the situation and uphold our standards.

On an annual basis, employees are required to certify their personal compliance with the code. In addition, ethics reminders are sent to all employees periodically. To help employees familiarize themselves with the code, ConocoPhillips provides an online video, which reviews the code and reaffirms that employees are expected to comply with the law and conduct all business to the highest ethical standards, and courses on a wide range of compliance and ethical issues relative to the company and its operations. These courses provide background information on each issue, answer frequently asked questions and offer self-administered quizzes to test employees' understanding of the information.

In 2006, all employees worldwide were required to complete a business ethics and conduct awareness training module designed to increase awareness of how and when the code of business ethics and conduct applies to their actions.

Supervisors or managers may recommend or require completion of additional courses, especially for employees whose work requires training for a particular compliance area, such as the U.S. Foreign Corrupt Practices Act (FCPA), insider trading, sanctions, export controls, or antitrust or antiboycott concerns.

Foreign Corrupt Practices Act

ConocoPhillips is opposed to corruption in all of its forms. We comply with the FCPA and similar anticorruption statutes. The FCPA prohibits corruptly giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It strictly prohibits illegal payments to government officials of any country. In addition, the U.S. government has a number of laws and regulations regarding business gratuities that may be accepted by U.S. government personnel.

ConocoPhillips provides online compliance training to personnel who may be exposed to issues relating to anticorruption laws, export and import compliance and U.S. sanctions regulations. Additionally, company attorneys provide yearly in-person lecture sessions for personnel dealing with anticorruption issues in high-risk locations.

Ethics Training for Development Partners

One example of our ethics policy in action is in Indonesia. To build local capacity on good program administration and to help align delivery of community development programs in Indonesia with our values, the company conducted five business ethics and good administration training sessions for local development committees, local government representatives and the technical consultants involved in our programs. The training emphasizes the importance of ethical, economic and legal compliance in the implementation of our programs. It also highlights the importance of good records management and transparency.

Public Policy

ConocoPhillips' code of business ethics and conduct regulates our interactions with public officials. Our public policy committee of the board of directors approved policies and guidelines, available on our Web site, 2 for employees to ensure corporate compliance with politically related laws and regulations.

U.S. federal laws strictly forbid the use of corporate funds for candidates campaigning for federal office, but do allow companies to establish an employee political action committee (PAC) and fund the cost of administration. Contributions from Spirit PAC, our U.S. employee PAC, are guided by the following criteria: the candidate's integrity and character; leadership potential; positions on issues and voting record; relevance to company operations; nature and strength of the candidate's election opposition; and the candidate's access to other sources of financial assistance.

Contributions go directly to the candidate, generally avoiding independent expenditures in support or opposition of a candidate; out-of-election cycle contributions; contributions to presidential campaigns, leadership PACs or national political parties; and large contributions to trade association PACs.

All corporate political contributions to candidates are approved by the executive vice president with responsibility for government affairs or his or her designee, reviewed by either internal or outside counsel prior to being issued and are

1 http://www.conocophillips.com/sd/politicalpolicy
2 http://www.eitransparency.org
3 http://www.conocophillips.com/sd/eiti
4 http://www.conocophillips.com/sd/humanrights

reported quarterly to the public policy committee of the board of directors.

All Spirit PAC political contributions are reviewed by a 10-member board of employee volunteers representing a cross section of the business units within the company. The Spirit PAC treasurer or assistant treasurer reports all receipts and disbursements to the Federal Election Commission and appropriate state agencies.

An audit of corporate political contributions and of Spirit PAC receipts and disbursements is conducted each year. In addition, the articles of organization of Spirit PAC require that all employee contributors receive a complete listing of the contributions made by the PAC by March 31 of each year.

All political contributions are reported twice a year to the compliance and ethics committee. Further details of these contributions can be found on our Web site. 1

In 2006, corporate contributions to state and local candidates in the United States and Canada (the only countries in which ConocoPhillips makes political contributions) totaled $291,970. Spirit PAC contributions totaled $478,500. ConocoPhillips also makes corporate political contributions in states where it is allowed to address issues significantly impacting our operations. These contributions totaled $5.6 million during 2006.

ConocoPhillips also has a number of employee lobbyists and retained lobbyists. These individuals represent the company at the state and federal government level in the United States. These employees and retained lobbyists file the necessary lobbying disclosure forms with the appropriate state and federal agencies.

Economic Transparency

In 2007, we announced our endorsement of the Extractive Industries Transparency Initiative (EITI), 2 which seeks to ensure that revenues paid to governments by companies working in resource-rich countries contribute to sustainable development and poverty reduction. See our Web site for our statement on economic transparency. 3

The EITI supports sound governance of revenues from extractive industries through the publication and verification of company payments and government receipts from oil, gas and mineral development as the first step to holding decision-makers accountable for the use of revenues. The publication of how revenues from extractive resource developments are spent is an important next step to be added to the process. We are eager to see that obligation adopted in future EITI programs.

More than 20 countries have committed to EITI principles which are intended to encourage voluntary multi-stakeholder partnerships involving companies, governments, investors and civil organizations. We have resource interests in five of the participating countries – Azerbaijan, Kazakhstan, Nigeria, Peru and Timor Leste – although only those investments in Nigeria and Timor Leste currently involve production. We supported the Nigerian EITI audit covering six accounting years, and we also are supporting the government of Timor Leste in fulfilling its obligations for operations conducted within the Joint Petroleum Development Area of the Timor Sea. We will cooperate with the governments of other countries where we have assets who commit to address transparency and accountability matters.

We currently are developing guidelines for our international business units and functional support organizations to incorporate EITI goals into our business practices and operations.

Human Rights

ConocoPhillips has adopted a position statement on human rights, available on our Web site. 4 This position includes our intent to conduct business consistent with the human rights philosophy expressed in the Universal Declaration of Human Rights and the International Labour Organization Declaration on Fundamental Principles and Rights at Work. The position also states our commitment to participate in the Voluntary Principles on Security and Human Rights. Prior to this statement, our actions were guided by our code of business ethics and conduct.

Our sustainable development scorecard (see page 9), which measures alignment of all capital projects over $30 million with our sustainable development position, includes a discussion question on security and human rights. This helps project teams determine whether the issue has been effectively considered in their plans, and assists peer review.

In support of our human rights position, we currently are developing human rights training materials adapted from the training tool kit developed by the International Petroleum Industry Environmental Conservation Association. One module of that training is devoted to the Voluntary Principles on Security and Human Rights. That module draws on our current good practices from the field and has been piloted with the corporate security staff. It is available to employees on our company intranet to further their awareness of the importance of implementing the Voluntary Principles on Security and Human Rights.

ConocoPhillips is an active participant in the Overseas Security Advisory Council of the U.S. Department of State (OSAC) and recently sponsored an OSAC seminar at our corporate headquarters. Governmental officials, academics and security professionals provided their perspectives on the challenges facing companies operating in the Niger Delta. ConocoPhillips led a discussion on the process we employed to facilitate adoption of the Voluntary Principles on Security and Human Rights by the multinational joint venture developing a liquefied natural gas project at Brass Island, Nigeria.

Positively Impact Communities

Contributing to the Global Economy

Our global operations contribute substantially to social and economic development in the communities in which we operate. For example, our direct economic contributions during 2006 included:

- **Taxes** – $31 billion in total tax revenue to governments was generated by our continuing operations.
- **Shareholder dividends** – $2.3 billion in cash dividends were paid on ConocoPhillips common stock. Additionally, repurchases of company common stock totaled $925 million.
- **Capital investments** – ConocoPhillips reinvested $15.6 billion in capital expenditures and investments into our businesses.
- **Expenses from various vendors and suppliers incurred:**
  - $10.4 billion for production and operating expenses;
  - $2.5 billion for selling, general and administrative expenses; and
  - $834 million in exploration expenses.
- **Interest expense** – we incurred $1.1 billion in interest and debt expense.

Local Content and Supplier Diversity

We place a high priority on purchasing goods and services locally and are committed to giving local contractors and suppliers the opportunity to participate in projects through a competitive bid process. As an example, in Alaska during 2006, we spent over $1 billion on goods and services with local companies, which in turn employ thousands of Alaskan workers. Other regions in which we work also employ local purchase strategies.

Throughout the United States, we calculate the amounts spent with local suppliers. In 2004, we set a goal to raise our local supplier spending by 10 percent a year. We have averaged an 18 percent year-on-year increase, and in 2006 achieved a 22 percent increase. Our 2007 goal is to raise our local spending by 20 percent.

We use a similar approach in other countries. For example, we received an award from the Australian Petroleum Production and Exploration Association for achieving 53 percent Australian industry supplier involvement in our Darwin LNG project. Australian residents comprised 95 percent of the construction work force and now make up 95 percent of the operational staff.

Supplier Diversity Program

In all our operations, we seek to do business with small-, minority- or woman-owned enterprises. We are committed to giving equal and impartial opportunity to such companies. This approach stimulates local economic development and also enhances our own long-term business performance by improving supplier responsiveness and sustainability. Smaller suppliers also can make significant contributions by offering customized products and services and flexibility.

To encourage the inclusion of diversity suppliers in our procurement activities, we have built a network of 22 employees to champion supplier diversity at key locations across the United States. We also launched the companywide Supplier Diversity Leadership Awards in 2006 to promote a more inclusive approach to procurement in our operations.

Our supplier diversity program extends to active participation in organizations that support the development of smaller local businesses in the United States. For example, we are members of several regional affiliates of both the National Minority Supplier Development Council and the Women's Business Enterprise National Council. Our commitment to supplier diversity was recognized in 2006 when we were named corporation of the year by the Oklahoma Minority Supplier Development Council and received a similar nomination by the National Minority Supplier Development Council.

Robert Thomas (center) of Alaska accepts the 2006 Supplier Diversity Leadership award from Debbie Adams, general manager, Global Procurement and Luc Messier, senior vice president, Project Development.

Indigenous Communities

We partner with indigenous communities to diminish the negative aspects of our operations and maximize the social and economic benefits we can bring. In doing so, we recognize and respect the knowledge they have in managing their local environment and conserving biodiversity. When engaging with indigenous people, we seek first to understand their social hierarchy, culture and traditions, as well as their priorities, expectations and preferences for dialogue.

We engage with indigenous communities at the regional, local and individual level by meeting regularly with local leaders, community associations and regional governments to hear their views so that we can respond to the issues and concerns they care about most.

These meetings provide us with an opportunity to share information on our plans, seek local input and learn the views of our neighbors before we undertake activities that could impact their lives.

Alaska – On Alaska's North Slope, our operations occur in close proximity to eight indigenous Inupiat communities of subsistence hunters and whalers. We consult with native landowners before commencing operations and seek the traditional knowledge of local elders in helping us plan our activities. We respect their culture and, if appropriate, we offer to conduct meetings in their native language. With insights provided by local residents on the North Slope, we were able to develop a science-based solution that enabled us to achieve a 25 percent longer winter tundra travel season, which is important because this is the only season when off-road work is allowed.

At Alpine, the first Alaskan oil development partially located on native land, we negotiated a surface-use agreement with the indigenous community to access the oilfield. Now we employ a field manager on-site to ensure that we comply with the agreement and to deal immediately with any concerns raised locally. In 2006, when we sought to expand drilling at our Alpine oilfield in the Colville River Delta – an area recognized internationally for its biological diversity – we worked closely with community representatives and regulatory agencies to obtain permits. As a result, the project moved from discovery to development approval in six months, a record for any North Slope project.

We also signed an agreement with the Alaska Eskimo Whaling Commission and North Slope Village whaling association to ensure that our seismic surveys in the Chukchi Sea offshore Alaska were compatible with subsistence whaling and hunting and would not interfere with native harvests.

We hire community representatives to monitor our operations. We frequently take elders, native corporation board members and community residents on tours of our facilities by road and air. In the spring, we invite them to inspect the sites of ice roads and ice pads after they thaw for tundra damage.

We issue guidance to expatriate employees and contractors working in indigenous communities on respecting local culture and values. We regularly involve the indigenous population in exercises to promote health, safety and environmental care. Members of the North Slope community's emergency response teams have joined us for fire fighting, oil spill response, first-aid and automobile crash rescue training. As well as teaching lifesaving skills, the sessions help strengthen relations between our workforce and the community.

North Slope community and company emergency response teams often work together in fire-fighting training.

When we are commercially active in an area, we try to partner with local native corporations. For example in 2007, a project approximately 25 miles from Barrow, Alaska, engaged UIC (the local native corporation) for support with ice road, ice pad and ice airstrip construction and maintenance, as well as lodging. Construction and followup activities were performed by local residents with greater than 90 percent of the staffing from the local native population.

We hire traditional hunters to help guide our activities both onshore and offshore. Tyonek Athabascan and Inupiat Marine Mammal Observers (MMOs), who are knowledgeable of marine mammal behavior on ice and offshore, scan the horizon for walrus, seal and beluga or bowhead whale during seismic data collection. Inupiat subsistence representatives provide guidance and advice regarding onshore exploration, construction and development activities.

Canada – In Canada's northwest territories, we work with elders, youth, schools, community organizations and local governments to identify and implement partnership programs that respect and preserve traditional culture and a subsistence lifestyle. We also help communities prepare for and engage the oil and gas industry and the wage economy. One example of our support in the Mackenzie River Delta region is a $5,000 contribution to the local government's Bear Fence program, which encourages local residents to clean up cabin and camp areas. Trash can attract bears searching for food, resulting in property damage or even animals being shot to protect humans. Residents are given electric fences to keep bears away in return for better housekeeping. We also provide support to the local Jamboree celebration, promoting indigenous culture in the area.

In Canada's Athabasca oil sands region, students selected from neighboring indigenous communities are participating in a ConocoPhillips-sponsored community-based Environmental Monitoring Training program, combining scientific method with local indigenous knowledge. Having completed modules on a range of topics, including GIS data collection, reclamation, traditional land use, planning and conflict management, graduates of the eight-month curriculum will serve as skilled technicians and interpreters during environmental assessments. Following summer fieldwork placements, the first 10 environmental technicians are expected to complete the program in fall 2007.

In our Western Canadian Gas operations, we are partnering with indigenous communities to build their local capacity. On an annual basis, we partner with specific communities in British Columbia and Alberta to deliver our Stay-in-School program.

ConocoPhillips Canada promotes educational opportunities for Aboriginal youth through a variety of programs.

The program encourages students from kindergarten to high school to complete their education by providing recognition and awards for achievement in academics, attendance, athletics, culture and other topics. ConocoPhillips also is a major sponsor of the Sunchild E-Learning program, a cyber-school initiative that provides remote indigenous communities access to quality online education. Many communities have attributed increased high school graduation rates directly to their participation in the E-Learning program. We also promote access to post-secondary education through our Aboriginal Awards program, in which cash awards are granted to students who demonstrate hard work and dedication in pursuit of higher learning. The award amounts vary based on the academic program. During 2006, 12 indigenous students in Western Canada were each granted awards ranging from $1,000 to $3,000.

Lower 48 region of the United States – Before drilling in our Madden field in Wyoming, we are conducting surveys of the area to identify any cultural sites related to the heritage of the local Arapaho and Shoshone tribes. We receive assistance from the Bureau of Land Management and tribal elders to assess all cultural sites to determine if we need to adjust our drilling locations. In the San Juan Basin of northwest New Mexico and southwest Colorado, we operate on Tribal lands of the Navajo, Jicarilla Apache, Southern Ute and Mountain Ute nations. We consult with these tribal nations and the State Historic Preservation Office in order to minimize the impact of our operations on sensitive cultural sites and native flora and fauna. We also are looking to assist the tribal nations in strengthening their capacity to participate in the oil industry economically through jobs and contract opportunities.

Venezuela – We developed a code of conduct for establishing relationships with indigenous people, which was used not only by our employees, but also shared with project contractors as expected behavior. We have worked with Fundefir, an organization with wide experience in developing *bankomunales* – small neighborhood banks in low-income areas where there are no formal financial services. This initiative, which encourages communities to fund micro-businesses cooperatively, has created four bankomunales in the Gulf of Paria area, with almost 500 members in total (including 300 women). These bankomunales have given more than $250,000 in loans to local businesses, many of which focus on traditional handicrafts and candies, providing opportunities to promote both economic development and the Warao culture.

Since 2001, we have worked with the Venezuelan government and local organizations to implement a training program for a small-scale fishermen's association in the Gulf of Paria. With our help, the fishermen have transformed the association into a successful enterprise benefiting 600 people. In addition, we have trained more than 400 fishermen to support the community in the event of an oil spill. In designing our emergency response plans for this remote, environmentally sensitive region, we drew on the fishermen's navigational skills and local knowledge.

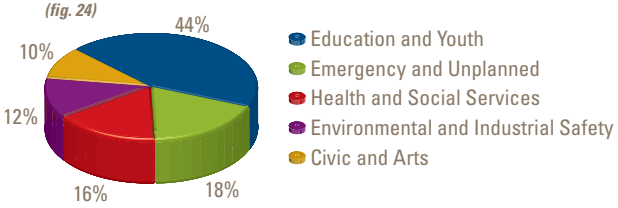
In 2007, we were compelled by decree to relinquish operational control of our Venezuelan oil interests to the country's government. The microcredit and handicraft training programs have been fully funded through the rest of 2007, after which the operator will determine whether the programs will continue.

Community Investment

We have a long tradition of investing in the communities in which we operate. During 2006, we donated an estimated $50.6 million to charitable programs in the areas of education and youth, health and social services, environment, civic

programs and the arts and assisting with emergency events. Of that total, 14 percent was given outside the United States.

2006 Philanthropic Contributions
Estimated $50.6 million allotted (fig. 24)



Education and Youth

Contributing to quality education in our areas of operation helps to build vibrant, self-sustaining communities and represents an investment in developing local talent to join our industry. A key contribution to education in the United States is ConocoPhillips' SPIRIT Scholars program, which is described further on page 60.

One institution where we have a long history of student support is the University of Oklahoma's School of Geology and Geophysics – which was the first in the United States to offer a petroleum geology degree. In 2007, we pledged $6 million to the school, the largest corporate gift in its history. More than half of the gift will provide graduate fellowships and undergraduate scholarships; the remainder will endow a visiting faculty position and be used to modernize classrooms, laboratories and equipment.

We also fund programs which encourage careers in engineering and technology. We are a long-time supporter of National Engineers Week, which increases awareness and appreciation of the profession through activities directed at middle-school students. Other U.S. programs, such as Mathcounts, encourage interest and proficiency in mathematics and related careers. Teachers' skills are enhanced through programs like the ConocoPhillips Summer Science Institute, which exposes teachers to imaginative and challenging possibilities in the study of mathematics and science.

Internationally, our higher-education contributions are directed to recruiting top talent in such critical skill areas as engineering and project management; supporting corporate strategy in growth regions, such as Russia and the Asia-Pacific region; and strengthening community relations in countries in need of education infrastructure. For example, in Arkhangelsk, Russia, we awarded scholarships to 12 students and six professors at Pomorsk State University for the 2006-2007 semesters. The grants not only increase access to education, but also invest in the continued growth of the educators themselves. We have launched similar scholarship programs at Moscow State University and Gubkin State Oil and Gas University in Moscow.

Special Needs Schools

In addition to investing in universities and educational programs globally, many of our community investments focus on special-needs schools in disadvantaged areas. For example, in 2006, we donated more than $7,000-worth of teaching equipment to Yuanping Special School in Shenzhen, southern China, the only facility in the city for students with disabilities. We also are one of several companies that donate to the Ky Quang Orphanage for the blind in Ho Chi Minh City, Vietnam, where young adults are taught self-sufficiency.

In northern Russia, our Polar Lights joint venture has sponsored several local organizations through a project called Children of Arkhangelsk. One project uses speech-visualization software to teach deaf children to speak; another gives orphaned children basic self-reliance skills. Polar Lights also purchased a horse for the Arkhangelsk Rehabilitation Center for Disabled Children, where riding on horseback helps stimulate neurological function and sensory processing for children with infantile cerebral paralysis.

In Lagos, Nigeria, we funded the construction and furnishing of an eight-classroom block for pupils of Wesley School for the Hearing Impaired. The school, established in 1962 with a student population of 30, now has more than 600 pupils in the same facilities. ConocoPhillips has assisted the government by improving water and sanitation services for the school. We are committed to maintaining and sustaining these improvements, and periodically meet with the school's staff and other stakeholders to ensure that the facilities provided are running efficiently.

Youth Programs

Programs such as U.S.A. Swimming, Junior Achievement, Boys and Girls Clubs and the Special Olympics demonstrate

ConocoPhillips supports Special Olympics at many of our locations around the world, including Russia pictured here.

our commitment to youth. Many of these programs are supported in regions across the globe. For example, some of the locations where we support the Special Olympics include Houston, Texas, where we sponsor the Athlete Village; Colorado, supported for more than 20 years by our U.S. Marketing Group with cumulative donations exceeding $250,000 and many thousands of employee volunteer hours; and Russia, where we have donated an estimated $60,000 over the past six years. In 2006, the Russia program included students who have received scholarships from the company serving as volunteers for Special Olympics events.

Health and Social Services

About half of our donations to social service organizations is channeled through the United Way to strengthen communities both in the United States and worldwide. The rest is contributed directly to the Red Cross, community centers, the Salvation Army and other service organizations such as the Shunyi Orphanage outside Beijing, which houses approximately 30 children, many of whom are handicapped.

Many of our businesses hold regular events to share their health and safety knowledge with the public. At the Sweeny refinery in Texas, for example, we organize an annual Health and Safety Fair offering free health checks and medical services to the local community. More than 500 people attended the 2006 event.

In many instances, our employees have developed programs to educate local communities on safety, such as the Fire Safety House, which has taught more than a million schoolchildren across the United States how to protect themselves and their families from fire. In the United Kingdom, our JET fuel brand has focused on road safety for children with a number of innovative national campaigns. We also address safety concerns through organizations such as the Progressive Agriculture Foundation, which conducts camps to teach safety to thousands of children growing up on farms and ranches across North America.

In developing countries, our efforts are directed toward such fundamental needs as clean water and good hygiene. In Southeast Asia, we partnered with WorldVision to construct two hydraulic water pumps in rural communities near Dili, Timor-Leste. Community members, women and children in particular, had traditionally fetched water by laboriously climbing steep slopes up to four times a day over relatively long distances. The two water pumps will assist 1,650 people in the villages of Ferik-Katuas and Laulara by improving hygiene and supporting local agriculture, which in turn improves nutrition. Using very few moving parts, the pumps utilize the momentum from flowing streams in the valleys. The labor for the project is carried out primarily by the villagers themselves.

In Venezuela, we helped the people of Pedernales and Capure create a civic association to provide a clean water treatment and distribution system for their communities, replacing their reliance on rain for drinking water. On Matak Island, Indonesia, we found a lack of knowledge among the local community about public health issues, with garbage disposed on the beach and in the sea. We worked with community leaders to promote health awareness and create systems to help the community manage its waste properly.

Construction of water pumps in rural Timor-Leste gives these communities easier access to clean water.

Civic Programs and the Arts

We participate in a variety of projects that support the arts and celebrate cultural history and diversity.

Since 1999, we have worked with the Norwegian Academy of Music in Oslo to present an annual music award, which allows students to further their professional development and specialization. In Bartlesville, Oklahoma, we support OkMozart, a music festival showcasing world renown musicians.

In support of Alaska's traditional whaling culture, we provided funding for the International Whaling Conference and the activities of the Alaska Eskimo Whaling Commission, as well as the Kivgiq festival, a traditional Inupiat celebration held by the outlying villages of the North Slope to celebrate a successful whaling season. Other cultural projects supported include housing for native elders, funding for sinew sewers who repair skin whaling boats, dancing and drumming performances and the traditional Kivgiq and Nalukataq gatherings.

We also support many museums, foundations and exhibits worldwide, including the Pushkin Museum of Fine Arts in Moscow; the Museum of Natural Science and the Children's Museum of Houston, Texas; the Farmington Museum in New Mexico; and the National Oil Museum in Stavanger, Norway.

Environment

Some of our key objectives in investing in environmental programs is enhancing wildlife habitat and environmental education.

In the United States, we are a longtime participant in the Playa Lakes Joint Venture, a partnership of federal and state natural resource agencies and conservation groups dedicated to protecting wetlands and prairies in the western Great Plains. The company has contributed more than $1.3 million over 15 years to support hundreds of habitat conservation, research and education projects.

At the Humber refinery in the United Kingdom, we are creating a 120-acre woodland called Mayflower Wood, 1 the largest project of its kind in the country. Since 2005, more than 67,000 trees and shrubs from a variety of native species have been planted. Employees worked with a community partnership to develop the project, which includes family picnic areas, nature trails, educational boards and a looped walkway connecting local villages. The wood is adjacent to the 15-acre Houlton's Covert deer park and nature reserve, which we developed for school and community visits and which is run by refinery volunteers.

In China, we are the sole sponsor of the International Friendship Forest, a national park at the Badaling gate of the Great Wall, one of the country's most popular tourist sites. The park's objective is to create a natural environment which complements the wall's historical heritage, cultural essence and ecological environment. ConocoPhillips has funded restoration and development of the park since 2000, and our employees help with tree planting and maintenance.

Also in China since 1998, ConocoPhillips has donated more than $715,000, in partnership with the State Environmental Protection Bureau and Municipal Environmental Protection Bureau, to promote the Search for Solutions initiatives with the goal of helping Chinese elementary- and secondary-school students become better environmental citizens. The program provides students with specific educational information on the environmental conditions that affect their lives, hands-on experience through field studies and experiments and workshops to creatively express their concern for the environment or their own environmental solutions.

Employee Volunteerism

The benefit of ConocoPhillips' charitable giving is often accompanied and leveraged by the voluntary efforts of our employees, who give thousands of hours of their personal time to worthy causes.

The company supports their efforts and involvement in community projects through the Employee Volunteer Grant Program. U.S. employees can apply for grants of up to $3,000 for capital improvements and up to $500 for planning projects for charitable organizations in which they volunteer their time. In 2006, $371,000 was awarded to charitable organizations via 301 employee volunteer grants.

In 2006, the Employee Volunteer Grant Program was introduced in China, where volunteer activities include tree planting, orphanage visits and interactive teaching in elementary schools.

The company's Matching Gift Plan is available to employees who wish to support their communities by making contributions to accredited educational institutions. Eligible contributions from employees are matched dollar-for-dollar to an annual maximum of $10,000. Eligible retiree contributions are matched at 50 cents to the dollar to an annual maximum of $5,000. In 2006, the company matched a total of $2.2 million of program participants' contributions.

In Canada, voluntary activities included a program to provide school backpacks to children in Louisiana impacted by Hurricane Katrina; help with teaching reading at Connaught Community School in Calgary; and participation in the national Commuter Challenge, an event which encourages people to commute to work on foot, via bicycle, public

1 http://www.mayflowerwood.co.uk

2 http://www.nfwf.org

The Attwater's prairie chicken has increased in numbers due to habitat restoration and protection and captive breeding.

SPIRIT of Conservation

We launched the SPIRIT of Conservation program in 2005 to protect threatened migratory birds and their habitats worldwide, especially in regions where we have operations. The program builds on our 15-year partnership with the National Fish and Wildlife Foundation, which has funded more than 50 projects with a total value in excess of $6 million. Conservation initiatives have included establishing a breeding program for the endangered Attwater's prairie chicken, replanting migratory bird habitat in Louisiana and along the hurricane-damaged Gulf Coast, restoring wetlands in New Jersey and Delaware Bay and rejuvenating prairie nesting grounds in Texas.

A feature of the program is bird conservation projects in countries where we have a presence. In Siberia and China, for example, we are helping the International Crane Foundation undertake a three-year effort to save endangered Siberian and red-crowned cranes. The project includes tracking Siberian crane migration by satellite to identify and conserve their wetland habitats. Organizations may apply for SPIRIT of Conservation grants online. 2

http://www.thestandrewsprize.com

St. Andrews Prize

We sponsor the St. Andrews Prize for the Environment, an annual competition conducted in conjunction with the University of St. Andrews, Scotland, which encourages development of practical, original and sustainable solutions to environmental challenges worldwide. Since its launch in 1998, it has attracted entries from throughout the world on diverse topics including sustainable development in the Amazon rainforest, urban regeneration, recycling, health and water issues and renewable energy.

Submissions for the prize are assessed by a panel of eminent trustees representing science, industry and government, with the $50,000 first prize going to the project displaying the best combination of good science, economic realism and political acceptability.

Coconut husk farmers can trade their fiber for sustainable lighting.

Dr. David Manalo won the St. Andrews Prize in 2007.

The 2007 winner was an innovative project to provide sustainable lighting and a new source of income for poor coconut farmers in remote, mountainous areas of the Philippines. The project generates clean electricity from water power to recharge batteries and light the homes of farmers who trade coconut husk fibers for the service. The fibers are sold for use in environmental projects such as erosion control and the protection of tree saplings, and income from the fiber sales is reinvested in the project.

Two runners-up in the 2007 awards, which each received $10,000, were a project which uses solar energy and seawater to cultivate crops in hot, dry coastal regions, and a project which uses satellite images to support conservation initiatives in developing countries.

transport or carpools, rather than driving alone. In 2006, nearly 600 employees and contractors cycled a total of 50,000 miles for the challenge, farther than any other corporation in Canada.

In Beijing, China, the company matched money raised by employees for the Light and Love School, for children of the city's migrant workers, to bring the total donation to more than $12,500.

Since the company's return to Libya in 2006, employees have been helping the community, lending a hand to renovate elementary school washrooms that had been out of service for five years. Employees also delivered and installed refrigerators, stoves and water heaters to 30 needy families.

In Texas, Houston employees help Habitat for Humanity build homes for the needy; while at the Sweeny refinery, the work force holds an annual barbecue and auction to raise money for colleagues in need of financial assistance for medical or other reasons. In 2006, the event raised $77,600 and benefited 106 people; and in 2007, the event raised $80,000, with awards to beneficiaries determined throughout the year.

In Ponca City, Oklahoma, an Employee Environmental Action Committee initiates and supports activities that promote environmental awareness and responsibility. Funding is provided to help volunteers work in partnership with schools on environmental grants, the city of Ponca City on household hazardous waste collection, the state on an adopt-a-highway program (cleaning up designated areas of roadside trash), and other environmental activities initiated by ConocoPhillips employees and/or retirees to benefit the community.

Disaster Relief

Employees in Indonesia began collecting donations immediately after the devastating earthquake in Java in May 2006, in

addition to a contribution made by the company to the Red Cross for $100,000. Within a week, two representatives traveled to Yogyakarta, the epicenter of the earthquake, to distribute clothes, food, toiletries, blankets and medicine. The company-matched employee donations and subsequently supported local agencies working to reconstruct Yogyakarta. In addition, we have pledged $1 million to United States Agency for International Development (USAID) for rebuilding and rehabilitating schools in the region.

In 2004, we contributed more than $2.8 million to assist those affected by the tsunami in the Indian Ocean. Employees, retirees and contractors donated more than $800,000, while the company gave $1 million in matching contributions, plus an additional $1 million pledged the week after the disaster occurred. Our aid included working with USAID to rebuild five villages in Aceh on the northern tip of the island of Sumatra.

Following Typhoon Billis in July 2006, local employees initiated a fund-raising effort among oil companies in the region to make donations for flood relief in Guangdong province on the south coast of China, one of the areas most severely damaged.

Hurricane Response

ConocoPhillips has provided $10 million, with another $6 million pledged, in hurricane-related contributions to rebuild and support communities on the U.S. Gulf Coast that were devastated by hurricanes Katrina and Rita in 2005.

These donations included over $11 million for projects in communities close to our Alliance and Lake Charles refineries in Louisiana, including $5 million to build a new community center in Plaquemines Parish, $1 million for new science laboratories at Belle Chasse High School, $2 million for a new industrial technology building at the Sowela Technical Community College in Lake Charles and $3 million for other relief work in Louisiana. Our donations also include $1 million to the Alabama Governor's Emergency Relief Fund, $1 million to the Mississippi Hurricane Recovery Fund, just over $2 million to Texas relief efforts and $1 million to the Laura Bush Foundation for America's Libraries Gulf Coast School Library Recovery Initiative.

Alliance refinery volunteers helped homeowners affected by Katrina in the Rebuilding Together Energy-Efficient Homes program.

Hurricane Katrina severely damaged the 247,000 barrel-per-day Alliance refinery in Belle Chase in August that year. The following month Hurricane Rita struck the 239,000 barrel-per-day Lake Charles refinery and our 229,000 barrel-per-day Sweeny refinery in Texas. Lake Charles suffered wind damage and was shut down for a month; however, the Sweeny facility was undamaged and restarted immediately.

Recovery workers at Alliance had to repair damage caused by eight-foot-deep storm waters and extensive wind damage. The refinery's central control system, instrumentation and electrical infrastructure were badly damaged. Employees and contractors logged more than 2.5 million work hours over a period of 235 days to restore normal operations in April 2006.

Refined products supply, including gasoline and diesel fuel, was significantly impacted by the industry's refinery shut-downs along the coast. Oil and gas production was also shut-in at offshore fields in the Gulf of Mexico and even at onshore fields in Louisiana and Texas.

We worked to maximize the capabilities of our U.S. refining and transportation system and also imported refined products to supply customers. A week after Hurricane Rita, we were able to reopen our Houston-area terminal in Pasadena, Texas, to provide fuel to retail sites in the greater Houston area.

Overall, 1,100 employees along the Gulf Coast were affected by the hurricanes. At Alliance, every employee's home suffered wind or water damage – more than 80 properties were uninhabitable and many were completely destroyed. The company made an immediate $5,000 payment and offered interest-free loans to those whose homes were damaged. Despite their personal difficulties, many employees worked long hours to re-establish refinery operations.

Others opened their homes to those displaced by the hurricanes or donated money, food and clothing to help their neighbors and co-workers in the days that followed. A fund established by employees to help co-workers raised more han $105,000, which was distributed in 74 grants to victims of the disaster.

1 http://www.conocophillips.com/sd/ethics

2 http://www.conocophillips.com/careers

Invest in Our Employees

Promoting a Positive Work Environment

We are committed to providing a workplace free of harassment that values employees and respects their rights. Our code of business ethics and conduct, 1 along with our equal employment opportunity policy, sets consistent global standards for providing equal opportunities and fair treatment in recruiting, compensation, professional development and advancement. Regional policies determine how these standards are implemented in compliance with local law.

All employees have access to the company's ethics hotline through which they may anonymously share information, raise questions or lodge complaints regarding any violation of policy. We provide training programs to help employees and supervisors understand workplace policies and handle sensitive situations. We also have training courses online to educate employees on our equal employment opportunity and anti-harassment policies. These issues also are covered in our Supervisor's Toolkit, a training program for new supervisors.

We investigate and track allegations of discrimination and harassment, including internal complaints, ethics hotline complaints and formal charges/complaints filed with outside agencies.

We have an open-door policy for resolving workplace issues, which outlines the steps available to employees to involve their supervisors, and as needed, human resources personnel and company management. If an employee prefers not to discuss an issue with a supervisor, it may be discussed with a human resources representative.

The company prefers to deal directly with its employees regarding their needs and the needs of the business. However, where a labor organization has been certified as the representative of a group of employees, the company will strive to build a relationship based on mutual integrity, respect and open communications.

Metrics from our 2006 Employee Opinion Survey indicate that a majority of employees find their supervisors to be highly accessible and that they feel free to report any ethics violations without fear of retaliation. We believe that these attributes are essential to building a positive work environment. ***(fig. 25, page 59)***

ConocoPhillips provides competitive compensation and benefits packages that recognize good performance and provide options for individual needs and lifestyles. The careers page on our Web site provides more information. 2

Employee Dialogue

We encourage employees to provide feedback through a variety of channels, including town hall meetings, intranet forums and staff appraisals. We also conduct regular companywide opinion surveys of our employees to gather their views and perspective of the company; our most recent survey questionnaire was made available in 16 languages and responses are confidential.

Seventy-eight percent of employees (not including retail store employees) participated in the 2006 survey. Almost two-thirds of survey participants added written comments beyond the survey point scale responses. Results were compared with a previous survey conducted in 2004 to gain an understanding of employee views on the progress of ConocoPhillips in key areas of focus.

Overall results for 2006 were generally positive, as shown in the responses to questions related to employee satisfaction. ***(fig. 26, page 59)*** Strongly favorable responses also are shown in the areas of our core values, particularly in safety, local teamwork, environmental responsibility and ethics. ***(fig. 27, page 59)***

Several business units use town hall meetings to connect with employees. In mid-2007, the Indonesia town hall meeting attracted about 600 employees.

Additional areas where we have continued to improve include:

- Creating an environment where diverse backgrounds can succeed.
- Reporting an ethics violation without retaliation.
- Senior leadership encouraging reporting important information up the line.

Areas that require continuous improvement focus are:

- Development and recognition.
- Clear sense of direction and strategy.
- Attracting and retaining the best employees.

To maximize the benefit of the survey and to encourage employees to continue to provide feedback, managers communicated the companywide and individual business level results of the survey to employees. Managers and employees then work together to identify the top priorities for improvement and develop plans to address areas of concern in their immediate work group.

Diversity and Inclusion

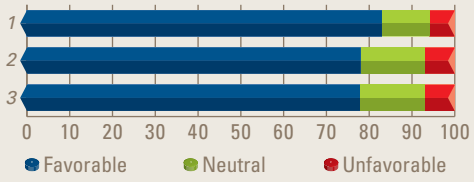
A diverse and inclusive environment brings together and values a variety of talents, backgrounds and experiences that stimulate new ideas and innovation.

In 2006, we published a corporate diversity and inclusion statement on our Web site 1 that captures our commitment to creating a diverse and inclusive work environment. We also are building a diversity intranet site with resources for employees and supervisors, including tools which help to address diversity issues and challenges.

Representatives from some of our diversity networks attended the 2007 Diversity Summit in Houston, Texas, sponsored by ConocoPhillips and other area companies.

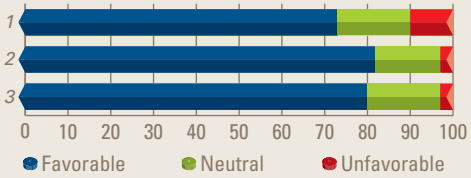
2006 Employee Opinion Survey

Questions Related to Promoting a Positive Work Environment
(fig. 25)



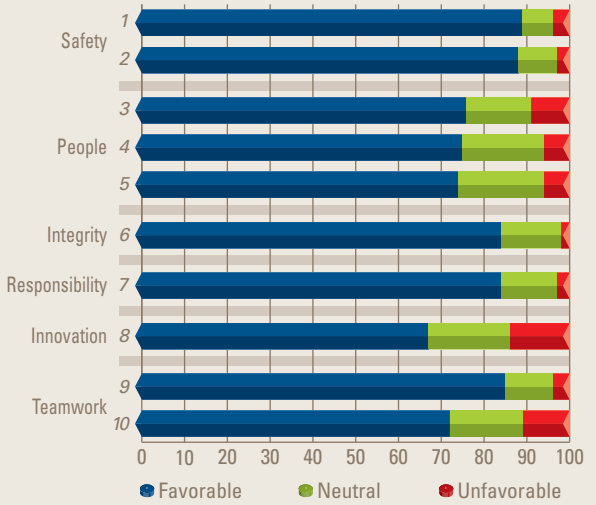
1. Supervisor accessible
2. Supervisor open and honest
3. Can report an ethics violation without fear of retaliation

Questions Related to Employee Satisfaction
(fig. 26)



1. Overall satisfaction
2. Company has bright financial future
3. Proud to work for ConocoPhillips

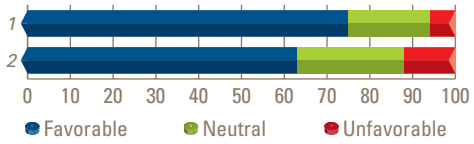
Questions Related to Core Values
(fig. 27)



1. *Can address unsafe practices*
2. *Safety a major group focus*
3. *Treated with respect*
4. *Environment where diverse backgrounds can succeed*
5. *Interest in welfare of communities*
6. *Company conducts business ethically*
7. *Environmental responsibility*
8. *Encouraged to find new and better ways of doing things*
9. *Fellow employees committed to quality*
10. *Part of team that works together*

Managers and supervisors are instrumental in developing and progressing global inclusion initiatives. The work force also plays a key role in ensuring that its personal behaviors create an inclusive work environment. Self-directed employee network groups exist globally. For example, in our headquarters in Houston, Texas, such groups as the Women's Informal Network Group, the Network Group for people of African descent, the Asian-American Network and the Hispanic Network meet regularly to network internally, learn from outside speakers and volunteer in the community. To measure our progress toward building a workforce that is representative and reflective of the communities in which we live and work, our latest employee opinion survey in 2006 included questions about our diversity and inclusion efforts. ***(fig. 28)***

Questions Related to Diversity and Inclusion From the 2006 Employee Opinion Survey
(fig. 28)



1 Environment where diverse backgrounds can succeed
2 Work group values differences in ideas, perspectives, and working styles

2006 Global Diversity Metrics

	Leadership	Total Employees
Women	11.4%	23.5%
Non-U.S. Employees	13.3%	35.4%

2006 U.S. Equal Employment Opportunity Commission Statistics

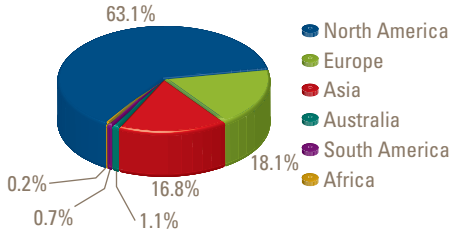
	Officials and Managers	Professionals	Total Employees
Women	14.0%	29.0%	27.0%
Minorities	11.5%	15.6%	19.7%

Work Force Development

Work Force Planning, Recruitment and Development

We continue to develop a strong global work force with the right skills locally available to achieve the company's strategic objectives. Today, the energy industry has a high number of skilled employees approaching tradititonal retirement age. One of the industry's challenges is to retain and transfer existing knowledge to new talent.

Percent of Work Force in Regions
(fig. 29)



At the end of 2006, we employed 38,400 people worldwide, compared with 35,600 in 2005. This increase was largely attributable to the addition of employees through the acquisitions of Burlington Resources and the Wilhelmshaven refinery. ***(fig. 29)***

As part of our focus to help retain and attract employees, in early 2007, we implemented a global exit survey of people who voluntarily leave the company. The results of this survey help us to understand reasons why employees choose to leave and to identify ways to better retain and attract employees.

Our business and staffing groups have planning tools that provide ready access to data characterizing current workforce skills and demographics and forecasting future work force needs in conjunction with the business processes of budgeting and long-range planning. Programs that supplement our college recruiting effort include a strong internship program, scholarship support and a heavy focus on early-year development.

Investing in the Future Work Force

As part of our future work force planning, we are actively working to increase student interest in key professions. In the United States for example, our SPIRIT Scholars Program provides educational and financial support to top students majoring in business administration, engineering, science and geosciences. The program helps us identify, develop and build relationships with the best students in vital disciplines. Eight U.S. universities participate in the program, which provides financial support; offers students mentoring partnerships with ConocoPhillips employees; summer internships involving participation in leadership, team-building and other self-development activities; and ultimately, the opportunity of full-time employment with the

Students play the Ignite board game developed by ConocoPhillips' U.K. employees. The game challenges their business and decision-making skills.

company. Employee mentors meet with their student partners several times a year, participate in scholar activities and offer counsel, guidance and real-world experiences.

In Scotland, our employees mentored young students in a new industry project to demonstrate how science, technology, engineering and mathematics can be applied to oil and gas industry challenges. The students took an active part in geology, drilling, production and financial workshops, and were given the task of producing a development plan for an oil field.

In the United Kingdom, a group of recent graduates newly hired by the company developed a board game for students considering a career in the energy industry. The game, called Ignite, exposes students to exploration, economics, drilling, production, marketing and trading scenarios, and challenges their business and decision-making skills. It encourages them to work in teams and think about issues such as available resources, risk assessment and environmental responsibility.

Graduates of the Energy Pathways program at the Los Angeles refinery.

The Los Angeles refinery (LAR) partnered with the United Steelworkers Union, South Bay Center for Counseling and Los Angeles Harbor College to offer scholarships and refinery employment opportunities for graduates of local high schools through a program called Energy Pathways. Students work part-time as interns while attending school at night; after graduation, they work full-time as interns until supervision determines they are ready to be hired as employees. From the 2006 class, LAR hired 14 operators. Over half came from the surrounding neighborhoods. From the 2007 class, LAR hired 12 operations interns and 10 maintenance interns, also primarily from local neighborhoods.

The Ferndale refinery in the state of Washington sponsors the Road Less Graveled, an event to encourage more women to consider careers in the oil and gas industry. Now in its 16th year, the event invites women to explore trade and technology careers at a half-day trade show. Women currently working in these fields offer guidance at seminars. Educators display available training programs and employers share tips on applying for available jobs. Refinery representatives talk with attendees about the types of tasks undertaken by operators at the plant and encourage women to attend the local technical college's process technology degree program.

Managing Work Force Talent

At all of our locations across the globe, we seek to attract and develop local talent, build capability and identify local and global leaders. To support this, we have Talent Management Teams (TMTs) for key disciplines. More than 20 TMTs help identify future business needs for their discipline, assess current gaps in skills and recommend actions to close those gaps. The teams create career maps that outline the critical skill sets and expectations required for each career path. They evaluate staffing on a global basis and consider qualified candidates from all regions. For the past three years, exploration and production TMTs, with representatives from around the globe, have met to share best practice.

For employees in disciplines not covered by a Talent Management Team, procedures are in place to achieve developmental goals by working with supervisors through the performance management process.

In 2005, the company introduced the Global Recruitment and Development (GRADS) program, which provides short-term development assignments in global locations for exploration and production recent graduate new hires. This program allows the "GRAD" to experience a different work environment and culture early in his/her career and partners established business units with growth areas to provide the relevant work experience needed to meet future growth needs.

Project Development College

ConocoPhillips launched a Project Development College in mid-2007. The college is targeted toward members of project management teams and employees working in major capital projects. The curriculum develops current and future managers of major capital projects. In the training, attendees of all experience levels work together to share best practices with their peers and learn updated processes and trends.

Career Development

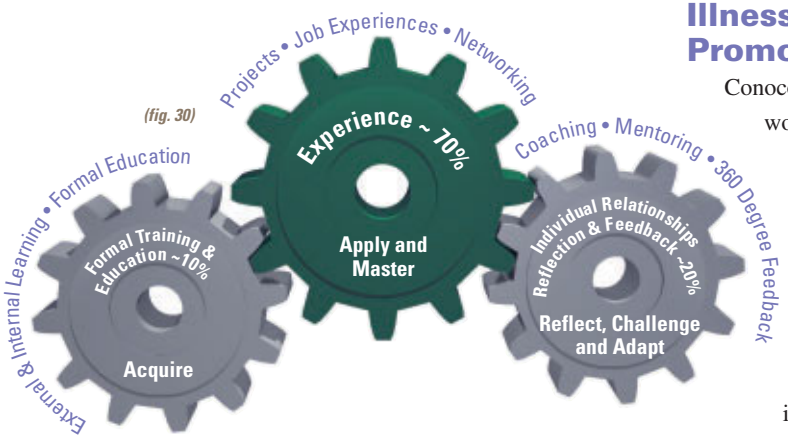
We believe employees learn and grow largely through their work experiences, along with coaching, feedback and formal development programs. ***(fig. 30, page 62)***

We develop employees by providing diverse experiences through job rotations or assignments, supplementing these assignments with feedback and coaching that enhance

self-awareness and reflection, and formal learning programs that provide critical knowledge at the right time. By offering targeted courses that contain consistent, yet locally adaptable content across the organization, our learning programs foster a strong company culture and common language on employee performance and development.

Supervisors are the key to successfully motivating and retaining employees, and we have invested significantly in learning programs to build solid people management skills in our current and next generation of leaders. One-third of all our supervisors participated in a variety of developmental training courses in 2006.

Global online staffing tools are available to assist employees in sourcing internal job opportunities to continue their career development. There also are online tools that allow employees and managers to work together on performance management and development planning.



(fig. 30)

An online learning management system facilitates delivery and tracking of participation in all our learning programs. Employees and managers can stay up-to-date with required training and track their development-driven training. This technology also enables us to gather global information on the time and money invested in training. In 2006, we invested over $40 million in training for our employees.

Our development programs also accommodate local efforts. In China for example, employees expressed a strong interest in improving English-language skills. Therefore, the business unit expanded the English-language training program beyond the corporate office to offshore locations. During a three-year span, more than 100 employees were trained by two experienced English-speaking instructors who worked on 28-day offshore rotations, teaching English to individuals or small groups eight hours a day, six days a week. In addition to improved English skills, participating employees also have gained confidence, both of which can help career advancement.

Illness Prevention and Health Promotion

ConocoPhillips believes in the importance of a healthy workforce and the benefits that good health can have on work, family and the company. We encourage employees to be healthy through preventive medical care, regular exercise and good nutrition. This impacts worker productivity and also can help to reduce health care costs for employer and employee alike.

For example in 2007, we updated our U.S. health insurance benefits and wellness programs to include Your Life Choices, an online tool that provides a health-risk appraisal and individual recommendations for preventive health care, physical fitness and positive lifestyle choices. After completing the health assessment, the program may suggest one or more of the voluntary, online, six-week programs, offering employees strategies for developing and/or maintaining good health habits.

ConocoPhillips Limited employees accept the 2006 Warwickshire Employer of Choice award for the office's work-life balance policies. Pictured here are ConocoPhillips employees Sue Pattison, Nicky Spare and Rupert Turner; the Lord Mayor of Warwickshire; and Dave Short of ConocoPhillips.

Health awareness events, exercise programs and competitive events at many locations serve to better integrate the relationship between fitness and good health.

In China, for example, the company hosted its first health fair at its Beijing office in 2006. The fair attracted about 200 people – including employees, contractors and family members – who were offered health checks and guidance on a healthier, more balanced lifestyle. Alongside the health promotion, competitions and games were arranged for children.

Our North Sea Business Unit holds an annual Health Challenge to encourage healthy eating and regular exercise. Three-quarters of the workforce took part in the 2006 challenge as members of four-to-eight person teams. An $18,600 company donation on behalf of the winning team was made to the team's charity of choice, the Salvation Army in Stavanger, Norway.

In 2006, our U.K. marketing headquarters in Warwick, England, was recognized for its work-life policies in the Warwickshire Employer of Choice awards. According to the judges, Warwick-based employees benefit from "an exceptional working environment where trust and flexibility work together to create a dynamic organization." The judges also were impressed by the flexible working hours, enhanced maternity provision, benefits package and opportunities for personal and career development.

Employee Assistance Program

Our Employee Assistance Program (EAP) provides a resource and mental health benefit for employees, their dependents and retirees who are experiencing personal, family or workplace problems. In the United States, in-house coordinators are available for consultation about issues such as conflict or stress which could have an impact on the workplace environment. During periods of reorganization, counselors also are available to help employees with the emotional effects of change.

The EAP is also designed to help expatriate and international employees and their families adapt to life away from home. Foreign assignments can be challenging, as well as rewarding, and the medical clearance process for an overseas assignment includes a cross-cultural adaptability assessment to help prepare employees and their families for the move and the possible culture shock of living in a new country.

We recognize that EAP services also are of benefit to the local workforce and, where resources are available, we provide local counselors who speak the native language and understand the area's culture.

HIV and AIDS

In 2006, we developed and published a HIV/AIDS position. 1 In operating regions where HIV/AIDS represents a significant public health risk, we support community-based resources and programs that recognize and seek to mitigate the social stigma and adverse impact of the disease, emphasize preventive education and provide early intervention and long-term treatment.

ConocoPhillips' Nigerian business unit, in partnership with the Nigerian Business Coalition Against AIDS (NIBUCAA) to which we belong, conducted an awareness campaign among its workforce with the theme "in unity we mitigate stigma." The theme was chosen because the stigma of HIV/AIDS has many negative impacts for people beyond the effect of the virus itself. The awareness program included a company presentation on our HIV/AIDS position, presentations on HIV/AIDS by NIBUCCA, presentations by people living with HIV/AIDS about their experiences, and the distribution of condoms and a demonstration of the proper use of condoms.

Nigeria HIV/AIDS training, with a theme of "in unity we mitigate stigma."

The feedback on the awareness sessions was generally positive. One participant, Temitope Ariyibi, said, "It was enlightening. The knowledge of how the victims live with the virus and still maintain a normal life is needed by all. People must change the mindset that HIV/AIDS is only contracted by sex."

Pandemic Planning

Planning was undertaken during 2006 to prepare for a possible pandemic event, such as avian influenza. A corporate pandemic planning team has developed processes designed to significantly reduce the impact that a pandemic event might have on our employees and businesses.

Every business unit and staff group has a plan in place in the event that a pandemic occurs, and many operations and facilities have engaged in desktop exercises to simulate how operations would be impacted. An intranet site also has been established to provide employees with additional information and resources. The plans and processes are subject to continuous review and update in order to ensure business continuity while preparing for potential disruptions.

Employee education and information regarding a possible influenza pandemic are communicated, and annual influenza vaccinations are encouraged and made available at many company locations.

Appendix

Health, Safety and Environment (HSE) Data Assumptions

The HSE metrics presented in this report are based on the following assumptions:

In the environmental, safety and spills data tables in this appendix, data are presented for three geographic regions: North America, Europe and Asia Pacific/Other. "Other" includes Venezuela, Middle East and Africa. The top contributing business sectors columns show the top three sectors in the company for that parameter, plus a category named "Other," which includes all other sectors combined. For each indicator, the top three sectors may be different, as can the sectors in the "Other" category.

The HSE pro forma data for 2002 is presented as if the Conoco/Phillips merger had occurred on January 1, 2002.

Data reflecting operation of Burlington Resources assets in the United States, Canada, China, United Kingdom and Algeria are included for nine months of 2006, as these assets were acquired March 31, 2006. Data reflecting operation of the Wilhelmshaven refinery in Germany are included for 10 months of 2006, as this asset was acquired in February 2006.

All reported HSE data are based on operated assets only. Environmental data are represented as 100 percent ownership interest regardless of actual share owned by ConocoPhillips. Data is reported in metric tons.

Reported data for air emissions, hydrocarbon spills and waste are broken down into two business sectors: Exploration and Production (E&P) and Midstream, and Refining and Marketing (R&M). Select environmental data for 2003 through 2006 is provided.

Total E&P and Midstream emissions are normalized using barrels of oil equivalent (BOE) as a factor of production operations. For gas production and liquefied natural gas, 6,000 cubic feet of gas is assumed to be equal to one BOE. For gas processing plants, the BOE normalizer includes only liquid production of ethane, propane, butane and condensate.

The R&M normalized data are presented for refining only, which is the major sector of R&M operations. Refining data are normalized based on million barrels of oil equivalent (MMBOE), which represents the number of barrels of crude oil and other hydrocarbon feedstock input to the refineries.

Various restatements to previously reported data for prior years have been reflected to provide the most accurate data. For example, carbon dioxide emissions that are contractually owned, but do not result from assets operated by the company, were included in prior years. All periods have been restated to exclude these emissions from our accounting of operated emissions and are being accounted for as equity emissions, which will be included in future reports.

Environmental Data Quality and Assurance

Guidelines, calculation tools and training are provided to ConocoPhillips business units for calculating and reporting environmental incidents, releases and emissions. The businesses are accountable for reported data completeness and accuracy and for consistency with accepted reporting practices. A business-level data submission, review and approval process is implemented to provide accountability for the results and to ensure the best possible data quality.

Ernst & Young reviewed the data processes used for gathering the 2006 greenhouse gas data, including guidelines, calculation tools, database systems, training materials and quality assurance processes employed, and provided a statement of their findings on page 67 of this report.

In addition, the corporate health, safety and environment (HSE) function verifies and validates the reported data. Internal reviews of 2003 and 2006 metrics and data collection processes employed have been performed by the company's corporate HSE auditors.

Greenhouse Gas Data Scope

All reported HSE data are based on operated assets only. Environmental data are represented as 100 percent ownership interest regardless of actual share owned by ConocoPhillips. The company intends to also report equity greenhouse gas emissions in future years and has undertaken the collation of this data from nonoperated joint ventures in which it has a 20 percent or greater equity interest or from joint ventures in which our equity share of GHGs equal or exceed 50,000 metric tons on a CO_2 equivalent basis, regardless of equity ownership percentage.

ConocoPhillips reported total greenhouse gas emissions include carbon dioxide (CO_2) emissions from operations (which includes the emissions associated with electricity and steam sold by the company), CO_2 emissions from purchased electricity, CO_2 emissions from purchased steam, and methane (CH_4) emissions from operations in terms of CO_2 equivalent. Carbon dioxide from operations, the major component of total GHG emissions, includes emissions from process operations such as exhaust from combustion sources and vented CO_2. The scope of CO_2 reporting does not include emissions associated with products sold and company-operated transports, except for marine vessels.

Additional gases that are considered GHGs under the Kyoto Protocol are accounted for by the company but are not included in the total greenhouse gas emissions reported because such emissions are negligible. Businesses have reported small quantities of nitrous oxide (N_2O) and sulfur hexafluoride (SF_6) from their operations. Businesses report no emissions of the other Kyoto gases hydrofluorocarbons (HFC) and perfluorocarbons (PFC).

Reported greenhouse gas emissions do not include any adjustments for intracompany transfer of steam and electricity generated by one plant and transferred to another. Therefore, CO_2 from imported electricity and steam reported by the receiving plant also was accounted for by the plant which exported it. This condition exists in two known situations with the potential of 1.25 million metric tons of GHG emissions being counted by two operated facilities. This represents 2 percent of total company GHG emissions. A method of accounting for intercompany transfers is being considered.

Emissions Calculations

The approaches used by the company's businesses in reporting emissions data for greenhouse gases and other compounds are selected from combinations of the following principles that are listed in order of accuracy.

- Undertake continuous emission monitoring, and with measured exhaust gas flow, compute instantaneous mass emission rate and integrate over the reporting period.
- Undertake periodic monitoring of exhaust gas flow and composition and estimate mass emission over the reporting period using plant operating records.
- Estimate emissions using a mass balance and process flow knowledge.
- Estimate emissions using factors provided by the manufacturer's specifications, local regulatory authority, AP-42, API Compendium or other industry standard.

Businesses are assisted in moving to more accurate methodologies, which may result in variances due to improved data quality from year to year.

Data Tables

Environmental Metrics	2006 Geographic			2006 Top Contributing Business Sectors*				Company-Operated Total		
	North America	Europe	Asia Pacific/ Other	Exploration and Production	Gas Processing	Refining	Other	2006	2005	2004
Greenhouse Gas (GHG) Emissions (Million Metric Tons)										
CO_2 from operations	34.2	8.4	6.3	14.4	4.2	25.8	4.5	48.8	44.8	44.8
CO_2 from imported electricty	5.8	0.4	0.04	1.2	0.5	3.9	0.5	6.2	5.6	5.8
CO_2 from imported steam	1.7	1.0	0.0	0.0	0.0	2.7	0.0	2.7	2.7	2.1
Methane (CO_2 equivalent)	4.1	0.1	0.3	4.0	0.6	0.04	0.0	4.6	1.9	1.8
Total GHG Emissions	*45.8*	*9.9*	*6.7*	*19.5*	*5.3*	*32.5*	*5.0*	*62.3*	*54.9*	*54.4*
Percentage of Company Total	*73%*	*16%*	*11%*	*31%*	*8%*	*52%*	*8%*			
Gas Flared (Billion Cubic Feet)										
Total Flaring Volume (routine and nonroutine)	15.1	4.4	25.0	29.0	9.5	5.8	0.3	44.5	41.5	53.0
Percentage of Company Total	*34%*	*10%*	*56%*	*65%*	*21%*	*13%*	*1%*			
Energy Use (Trillion BTUs)										
Combustion Energy	457.4	148.8	82.2	210.2	53.0	354.5	70.8	688.5	623.0	610.0
Imported Electricity	78.6	6.7	0.7	12.0	4.9	61.4	7.8	86.0	79.2	80.8
Imported Steam	34.7	18.0	0.0	0.0	0.0	52.8	0.0	52.8	52.1	40.8
Total Energy Use	*570.7*	*173.5*	*82.9*	*222.1*	*57.8*	*468.7*	*78.7*	*827.3*	*754.2*	*731.5*
Percentage of Company Total	*69%*	*21%*	*10%*	*27%*	*7%*	*57%*	*10%*			

*Top three sectors in the company for that metric. "Other" includes all other sectors combined.

Environmental Metrics	2006 Geographic			2006 Top Contributing Business Sectors*				Company-Operated Total		
	North America	Europe	Asia Pacific/ Other	Exploration and Production	Transportation	Refining	Other	2006	2005	2004
Criteria Air Pollutant Emissions (Thousand Metric Tons)										
Volatile Organic Compounds (VOC)	129.7	25.0	38.2	131.4	30.5	22.0	9.0	192.9	156.1	152.4
Sulfur Oxides (SO_x)	49.7	8.8	1.1	2.6	11.3	39.9	5.8	59.6	71.9	84.5
Nitrogen Oxides (NO_x)	90.2	12.7	16.5	72.6	12.7	23.0	11.2	119.4	91.3	90.4
Particulate Matter (PM)	6.1	0.3	0.3	1.0	0.4	4.9	0.4	6.7	7.8	9.6
Total Criteria Air Pollutant Emissions	*275.8*	*46.8*	*56.1*	*207.6*	*54.8*	*89.7*	*26.4*	*378.6*	*327.1*	*336.8*
Percentage of Company Total	*73%*	*12%*	*15%*	*55%*	*14%*	*24%*	*7%*			
Waste Generated (Thousand Metric Tons)										
Hazardous Wastes	37.1	7.7	19.5	24.4	1.3	34.0	4.6	64.3	63.2	69.0
Nonhazardous Wastes	975.0	5.3	7.5	218.8	8.6	746.9	13.4	987.7	666.9	447.2
Recycled Wastes	161.9	18.2	1.5	70.3	6.1	100.7	4.5	181.6	136.8	228.9
Total Waste Generated	*1,174.0*	*31.2*	*28.5*	*313.6*	*16.0*	*881.5*	*22.5*	*1,233.7*	*866.9*	*745.1*
Percentage of Company Total	*95%*	*3%*	*2%*	*25%*	*1%*	*71%*	*2%*			

*Top three sectors in the company for that metric. "Other" includes all other sectors combined.

Safety and Spills Metrics	2006 Geographic			2006 Top Contributing Business Sectors*				Company-Operated Total		
	North America	Europe	Asia Pacific/ Other	Exploration and Production	Transportation	Refining	Other	2006	2005	2004
Liquid Hydrocarbon Spills										
Spills Greater Than 100 Barrels (Number of Spills)	15	3	1	8	5	6	0	19	11	15
Volume Spilled From Spills										
Greater Than 100 Barrels (Thousand Barrels)	21.2	15.6	0.5	1.7	19.5	16.1	0.0	37.3	12.5	7.1
Spills Greater Than 1 Barrel (Number of Spills)	388	34	41	298	40	101	24	463	503	581
Volume Spilled From Spills										
Greater Than 1 Barrel (Thousand Barrels)	25.4	15.8	0.7	4.6	19.8	17.1	0.3	41.9	16.8	11.9
Volume Recovered From Spills										
Greater Than 1 Barrel (Thousand Barrels)	20.4	15.7	0.6	3.2	16.2	17.0	0.2	36.6	14.9	6.3
Percentage Recovered	*80%*	*99%*	*79%*	*69%*	*82%*	*99%*	*69%*	*87%*	*89%*	*53%*
Safety Performance**										
Workforce Fatalities (Number of Fatalities)	2	1	0	2	0	1	0	3	1	0
Workforce Total Recordable Rate	0.90	0.60	0.29	0.90	0.76	0.55	0.33	0.68	0.72	0.79
Workforce Lost Workday Rate	0.18	0.33	0.08	0.22	0.21	0.12	0.15	0.18	0.16	0.17
Employee Total Recordable Rate	0.48	0.44	0.20	0.36	0.81	0.66	0.24	0.41	0.53	0.54
Employee Lost Workday Rate	0.11	0.19	0.06	0.08	0.26	0.14	0.09	0.11	0.12	0.10
Contractor Total Recordable Rate	1.23	0.66	0.33	1.05	0.67	0.45	0.62	0.84	0.86	0.99
Contractor Lost Workday Rate	0.23	0.38	0.09	0.25	0.13	0.11	0.24	0.22	0.18	0.22

*Top three sectors in the company for that metric. "Other" includes all other sectors combined.
**Total Recordable Rate = Occupational injuries and illnesses per 200,000 hours worked.

Social and Operating Metrics	2006	2005	2004
Employees at year-end	38,400	35,600	35,800
Estimated philanthropic investment (millions of dollars)	50.6	48.8	37.1
Worldwide production on a BOE basis, excluding Syncrude (MBD)	2,337	1,789	1,582
Production from natural gas and natural gas liquids	43%	36%	40%
Total proved reserves at year-end (billion BOE, excluding Syncrude)	11.2	9.4	8.5
R&M refinery utilization rate	92%	93%	94%
Worldwide petroleum products sales (MBD)	3,476	3,251	3,141

Independent Assurance Statement to ConocoPhillips Management Regarding Greenhouse Gas Emissions Data Processes

ConocoPhillips' Sustainable Development Report 2006 (the Report) has been prepared by the management of ConocoPhillips who are responsible for the collection and presentation of the information within it. Our responsibility, in accordance with ConocoPhillips management's instructions, is to carry out a limited assurance engagement on ConocoPhillips' corporate level processes for collating and reporting the 2006 Greenhouse Gas (GHG) data presented in the Report. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Report is entirely at its own risk.

What did we do to form our conclusions?

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000). The GHG reporting processes have been evaluated against completeness, consistency and accuracy criteria agreed with the management of ConocoPhillips as follows:

Completeness

- Whether all material reporting units have been included in the aggregated data for 2006.

Consistency

- Whether the corporate level guidance and tools provided to reporting units provide a basis for consistent reporting of GHG emissions across the reporting units.

Accuracy

- Whether reporting unit GHG data have been accurately collated at corporate level.
- Whether corporate level quality reviews have been completed and outstanding issues resolved or reported.
- Whether data have been accurately transposed from corporate level systems to the Report and assumptions and limitations to the data have been correctly reported.

In order to form our conclusions, we undertook the steps outlined below:

1. **Interviewed specialists responsible for managing, collating and reviewing GHG data** at a corporate level for internal and public reporting purposes.
2. **Reviewed relevant documentation and reporting systems at corporate level,** including collation tools, templates used, guidance documents and training materials.
3. **Reviewed the GHG data reported to corporate level from the reporting entities** to test completeness of coverage of reporting entities and to examine for selected reporting entities the checks which have been applied at corporate level.
4. **Interviewed corporate level collation staff to review the application of the QA processes,** to examine selected evidence received for variance explanations and the records maintained of these checks. We also discussed the results of previous internal data reviews with corporate HSE audit staff.
5. **Reviewed the Report for the appropriate presentation of the GHG data,** including the discussion of limitations and assumptions relating to the GHG data presented.

Level of assurance

Our evidence-gathering procedures have been designed to obtain a sufficient level of evidence to provide a limited level of assurance in accordance with ISAE3000.

Limitations of our review

Our scope of work was limited to the corporate-level processes for collating and reporting GHG emissions for 2006. We, therefore, provide no conclusions on the processes or accuracy of GHG data reported at a site or sector level.

Our Conclusions

Based on our review:

- We are not aware of any material reporting units which have been excluded from the scope of the 2006 GHG data reported.
- With the exception of those items highlighted within the report, we are not aware of any errors or gaps in the corporate-level guidance document and reporting tools which would materially affect the consistency and completeness of the 2006 GHG data reported.
- We are not aware of any errors in the collation of the 2006 GHG data at corporate level or the transposition of these data from the corporate-level systems to the Report.
- We are not aware of any outstanding items from the corporate-level quality review which would materially affect the accuracy of the 2006 GHG data reported.

Our Observations

Our observations and areas for improvement will be raised in a report to ConocoPhillips management. Selected observations are provided below. These observations do not affect our conclusions on the Report set out above.

- Documented records are maintained at corporate level of the quality-review procedures performed on the GHG data received from operations and changes made to the reported data.
- The collation of data from operations worksheets is automatic, which reduces the risk of transposition errors. There is, however, scope for transposition errors in the transfer of data from look-up tables to reporting templates. Automating this transfer would reduce this risk.
- Where intracompany transfers of energy occur, there is scope for further clarification of reporting responsibilities to avoid the risk of double counting.
- Consideration in the future could be given to reporting GHG emissions for nonoperated activities where ConocoPhillips has influence. If such data were reported, further guidance may be required on appropriate methodologies for doing so.

Our Independence

As auditors to ConocoPhillips, Ernst & Young are required to comply with independence requirements which prohibit any financial interests that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's independence policies. We confirm annually to ConocoPhillips whether there have been any events, including the provision of services, that could impair our independence or objectivity. There were no such events, or services, in 2006.

Our Assurance Team

Our assurance team has been drawn from our global environment and sustainability network, which undertakes similar engagements to this with a number of significant multinational businesses.

Ernst & Young LLP
London
31 July 2007

Index to Reporting Guidance Indicators

This table provides the location to find information reported that completely or partially relates to the indicators from sustainability reporting guidance published by the American Petroleum Industry and International Environmental Conservation Association (API/IPIECA) and the Global Reporting Initiative (GRI).

Report Section		API/IPIECA	GRI	Location Reported*
About This Report			3.1-3.4; 3.6	IFC
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About ConocoPhillips			2.1-2.9; 3.11	IFC; P. 4; AR & FB
Our Approach to Sustainable Development			4.8	P. 5
Ensure Long-Term Viability	Corporate Governance		4.1-4.4; 4.6; 4.7; 4.9; 4.10	P. 8; PS; CGG
	Accountability for Sustainability Issues	SOC-8	4.9; SO1	P. 8-9
Be Transparent and Accountable	Our Approach to Stakeholder Engagement		4.13; 4.14	P. 10
	Engaging With Communities	SOC-8	4.16	P. 10-12
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	Clean Air	ENV-A6	EN20	P. 14-16; 65
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	Local Content and Supplier Diversity	SOC-A5	EC6	P. 50
	Indigenous Communities	SOC-A6; SOC-8		P. 50-51
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	Illness Prevention and Health Promotion		LA8	P. 62-63
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*IFC= Inside Front Cover; AR= Annual Report; FB=Fact Book; PS= Proxy Statement; CGG=Corporate Governance Guidelines; CAR=Careers Web site

Safe Harbor Statement

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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. You can identify our forward-looking statements by words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates," and similar expressions. Forward-looking statements relating to ConocoPhillips' operations are based on management's expectations, estimates and projections about ConocoPhillips and the petroleum industry in general on the date the presentations are given. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements.

Factors that could cause actual results or events to differ materially include, but are not limited to, crude oil and natural gas prices; refining and marketing margins; potential failure to achieve, and potential delays in achieving expected reserves or production levels from existing and future oil and gas development projects due to operating hazards, drilling risks, and the inherent uncertainties in interpreting engineering data relating to underground accumulations of oil and gas; unsuccessful exploratory drilling activities; lack of exploration success; potential disruption or unexpected technical difficulties in developing new products and manufacturing processes; potential failure of new products to achieve acceptance in the market; unexpected cost increases or technical difficulties in constructing or modifying company manufacturing or refining facilities; unexpected difficulties in manufacturing, transporting or refining synthetic crude oil; international monetary conditions and exchange controls; potential liability for remedial actions under existing or future environmental regulations; potential liability resulting from pending or future litigation; general domestic and international economic and political conditions, as well as changes in tax and other laws applicable to ConocoPhillips' business.

Other factors that could cause actual results to differ materially from those described in the forward-looking statements include other economic, business, competitive and/or regulatory factors affecting ConocoPhillips' business generally as set forth in ConocoPhillips' filings with the Securities and Exchange Commission (SEC). ConocoPhillips is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

ConocoPhillips

2006 Sustainable Development Report

www.conocophillips.com/sd

We welcome your questions, comments and suggestions.

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