ConocoPhillips

2008 Annual Report

Managing Global Challenges

Letter to Shareholders

Managing Global Challenges

To Our Shareholders:

James J. Mulva
Chairman and Chief Executive Officer

John A. Carrig
President and Chief Operating Officer

ConocoPhillips navigated through a challenging 2008, a year in which significant achievements by our company were overshadowed by a global economic crisis and unprecedented market volatility. We operated safely and reliably, expanded our global opportunity portfolio and returned substantial cash flow to shareholders through share repurchases and dividends.

Oil prices rose to record levels exceeding $140 per barrel in July, prompting intense public and political scrutiny and several governmental investigations and hearings. However, in the third quarter the rapidly worsening financial crisis triggered a severe global economic recession that quickly ended the strong commodity market. Oil prices declined rapidly by year end, with natural gas prices and refined product margins also weakening significantly. The impact of the decline was exacerbated by governmental actions taken earlier in several countries, including increased taxation and unilateral contract abrogation, that were based on mistaken assumptions that strong commodity prices would persist.

ConocoPhillips adapted to these conditions quickly. Early in the fourth quarter, we suspended repurchases of company stock, slowed our capital spending and began taking steps to lower our cost structure.

We support the concerted actions taken by governments worldwide to alleviate the distress in the financial markets and mitigate the economic downturn. Despite these actions, ConocoPhillips considers it possible that the recession could restrain world energy demand and prices for several years.

Consistent Strategies and a Strong Asset Portfolio

Although the recession prompted decisive near-term action by ConocoPhillips, it has not altered our long-term strategy. We are a self-sustaining and competitive international, integrated energy company with diligent financial management, strong operating expertise, and an intense focus on maximizing the value of our portfolio.

Through organic growth and prior business transactions, we have assembled the resources and opportunities required for long-term growth. Additionally, the strength of our portfolio gives us confidence in our ability to maintain current levels of production, while fully replacing reserves on an average annual basis over the long term.

With the 2008 and early 2009 sale of noncore company-owned retail marketing facilities in the United States and Europe, and mature producing properties in several countries, we are nearing completion of our asset rationalization program. We foresee no need for additional substantial asset divestments or acquisitions.

ConocoPhillips has developed plans to permit us to live within our means during 2009 by funding our capital program and dividends from cash flow, thus preserving financial capacity. For 2009, our capital program will total $12.5 billion, a 37 percent reduction from 2008 and well below initially planned levels. As a result, some attractive development projects will be slowed or deferred, but not lost. If economic conditions improve, priority would be given to dividend increases, debt reduction and additional capital spending, with share repurchases considered as conditions warrant.

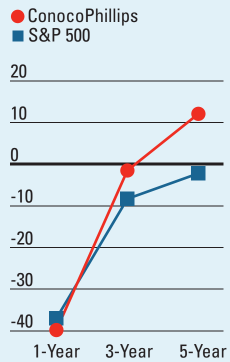
A number of developments progressed during 2008. Production startups were achieved in the Yuzhno Khylchuyu (YK) field in Russia, the Alvheim field in Norway, the Qannik field in Alaska, the Su Tu Vang field in Vietnam, the Bohai Bay field in China, and the United Kingdom's Britannia Satellite fields. Production increases were achieved from the Canadian oil sands, and we received government permits for a planned expansion of the Wood River refinery to process this type of oil. In addition, planning and permitting work continued on the proposed Keystone pipeline to transport heavy Canadian crude oil.

We optimized refining performance by achieving strong reliability, while addressing falling gasoline product margins by deferring gasoline-related refining capacity expansions while continuing expansions of distillate capacity.

To drive future growth, a number of major business development initiatives were undertaken. These included formation of a joint venture with Australia's Origin Energy to develop coalbed methane for conversion into liquefied natural gas for export to Asia, an interim agreement with Abu Dhabi to develop the major Shah field's sour natural gas, a Heads of Agreement to lease Kazakhstan's promising N Block in the Caspian Sea, and a Memorandum of Understanding with Brazil's Petrobras to explore possible joint business ventures. Additionally, preparation continued for an open season for the Denali pipeline, which would transport natural gas from Alaska's North Slope.

The retooling of our exploration program continued, with the long-term goals of expanding our acreage inventory,

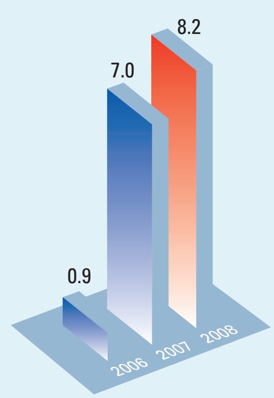
Total Shareholder Return
(Annual Average Percent)



The company's total shareholder return for 2008 was negative 40 percent, which was comparable to that of the S&P 500 index, but lagged that of our peers – a performance that we believe does not reflect our company's strength and potential.

Over the three-year period ending in 2008, ConocoPhillips repurchased more than 200 million shares of its common stock, valued at more than $16 billion. Share repurchases were suspended during the fourth quarter of 2008 in response to the economic downturn.

Share Repurchases
(Billions of Dollars)



We are a self-sustaining and competitive international, integrated energy company with diligent financial management, strong operating expertise, and an intense focus on maximizing the value of our portfolio.

increasing exposure to high-potential prospects and ramping up wildcat drilling. We added new acreage in the Gulf of Mexico, Chukchi Sea, Beaufort Sea and numerous onshore basins in North America, and in Indonesia and the North Sea.

ConocoPhillips' strategy continues envisioning diversification into energy production from sources other than oil and natural gas. Near term, however, in today's difficult operating environment, our primary focus remains on our core, traditional upstream and downstream businesses. Development of alternative and renewable energy is proceeding, but at a measured pace.

During 2008, we produced and marketed substantial amounts of renewable fuels, blended ethanol into more than half of our U.S. gasoline output, and facilitated marketing of E-85 and biodiesel fuels at some branded facilities. In conjunction with other companies and academic institutions, we also initiated research on such next-generation renewable fuels as cellulosic ethanol.

Development continued on raw materials for the lithium-ion batteries in electric vehicles, and on the proprietary E-Gas™ coal gasification technology, with a proposed project at a coal mine in Kentucky under consideration. An experimental process to produce methane from natural gas hydrates was tentatively scheduled for testing by the U.S. Department of Energy. Additionally, we continued evaluating opportunities to invest in other forms of energy.

Financial and Operating Highlights

Despite our progress, like the entire industry ConocoPhillips was severely impacted by falling commodity prices, tightening refining margins, and steep declines in share prices. The decline in market capitalization, as well as expectations for extended weakness in prices and margins, necessitated noncash impairments of goodwill related to our Exploration and Production (E&P) business, and to the carrying value of our LUKOIL investment.

These and other impairments in 2008 totaled $34.1 billion. As a result, despite record earnings through three quarters, we closed 2008 with a net loss of $17 billion, or $11.16 per share, compared with a profit during 2007 of $11.9 billion, or $7.22 per share. Our capital program during the year totaled $19.9 billion. Total debt increased to $27.5 billion, compared with $21.7 billion at year-end 2007.

We believe that the impairments are not indicative of the strength of our underlying earnings and cash flow, or the potential offered by our asset base. Exemplifying these attributes, if impairment charges and other similar items are excluded for both years, adjusted earnings during 2008 were $16.4 billion, or $10.66 per share, compared with $15.2 billion, or $9.21 per share, in 2007.

ConocoPhillips performed strongly from an operational standpoint. Safety performance improved as both employees and contractors recorded significantly fewer incidents, but several contractor deaths occurred. Environmental performance featured reductions in produced water spills and flaring volumes, but an increase in hydrocarbon spills. We are determined to further enhance our operational reliability and performance in the vital areas of health, safety and environmental stewardship.

Production volumes met expectations, excluding impacts from higher commodity prices on production sharing contracts, and weather-related shutdowns. The upstream business produced 2.2 million barrels of oil equivalent per day (BOED), including volumes from E&P and net production of 0.4 million BOED from our LUKOIL investment. Excluding the impact of Dec. 31, 2008, prices, the company's organic reserve replacement ratio totaled 84 percent. However, due to downward reserve revisions to adjust to the low year-end commodity prices, our overall reserve replacement rate was 31 percent. ConocoPhillips ended the year with total reserves of 10.0 billion barrels of oil equivalent.

Refining and Marketing achieved high operating reliability at our U.S. refineries, although hurricanes temporarily closed three facilities and reduced volumes elsewhere. Our U.S. refining crude oil capacity utilization rate of 92 percent exceeded the industry average for the seventh consecutive year, and the combined U.S. and international utilization rate was 90 percent.

Our adjusted return on capital employed improved, and E&P outperformed its peer group in cash generated per barrel of oil equivalent.

The global economic conditions and near-term energy environment are more challenging than we have seen for decades.

However, the performance of ConocoPhillips stock was disappointing. After setting share price records in mid-2008, its subsequent decline caused a negative 40 percent shareholder return for the year. The year's return was comparable to that of the Standard & Poor's (S&P) 500 index, but lagged that of our peers – a performance that we believe does not reflect our company's potential. Even with the 2008 results, over the past five years ConocoPhillips shareholders have realized an average return exceeding 12 percent annually, compared with a 9 percent average for our peers and a 2 percent annual average decline in the S&P 500 index.

During 2008, we increased our dividend by 15 percent, the seventh consecutive year of increases, and repurchased $8.2 billion in company shares, concluding $15.2 billion in repurchases over the past two years. We remain committed to enhancing shareholder value.

Corporate Citizenship

ConocoPhillips is determined to meet the highest legal and ethical standards, and to practice sound environmental stewardship and good corporate citizenship. We believe in sustainable development, which we define as operating in a manner that promotes ongoing economic growth, a healthy environment, and vibrant communities.

We strive to improve the well-being of the communities in which we operate by making contributions that help support vital community services. During 2008, our philanthropic investments totaled $70 million for education and youth services, health and social services, civic and arts initiatives, environmental and industrial safety programs, and emergency relief.

Key contributions were made for disaster relief in communities impacted by the three hurricanes that struck the U.S. Gulf Coast during the year.

Working with Government

As a U.S.-based company, we anticipate a broad range of governmental energy initiatives to emerge as a result of the new administration in Washington, D.C. We continue urging enactment of a comprehensive national energy policy. This policy should expand industry access to the nation's abundant undeveloped oil and natural gas resources, while encouraging greater energy efficiency, innovation and environmental care. It also should ease the regulatory and permitting hurdles that currently impede energy infrastructure construction.

Further, we continue calling for passage of a climate change policy that establishes a mandatory national framework to address greenhouse gas emissions. Such a policy has been proposed by the U.S. Climate Action Partnership, of which ConocoPhillips is a member.

Even as we position our company to withstand today's recession, we believe that the national and global economies will recover in time, that growth in energy demand will resume, and that oil and natural gas will remain society's primary energy sources far into the future.

The global economic conditions and near-term energy environment are more challenging than we have seen for decades. Yet we are convinced that ConocoPhillips is pursuing the right strategies for long-term success.

As we manage the global challenges that confront our industry, the commitment and involvement of ConocoPhillips employees will be essential. They contributed immeasurably to our progress in the past, and will help lead the way to the future. We sincerely appreciate their efforts, as well as the support of our shareholders.

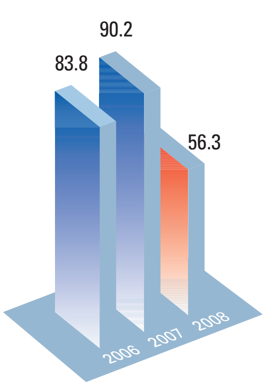
James J. Mulva
Chairman and Chief Executive Officer

John A. Carrig
President and Chief Operating Officer
March 1, 2009

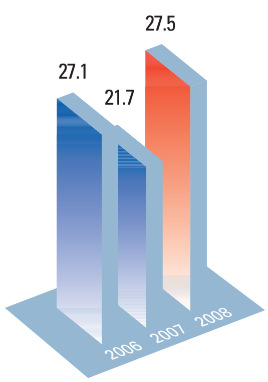
Financial Review

Adapting to Market Conditions

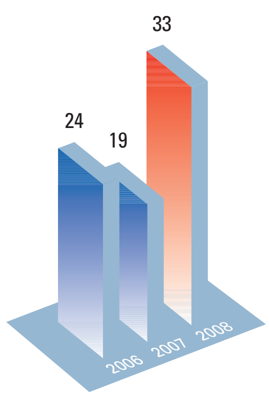
Equity*
(Billions of Dollars)



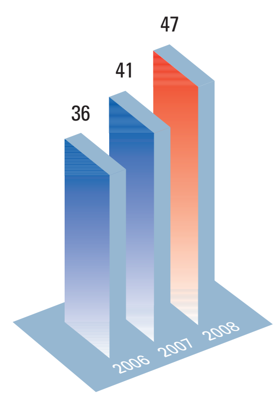
Balance Sheet Debt
(Billions of Dollars)



Debt to Capital
(Percent)



Quarterly Dividend Rate
(Cents per Share)



** Includes minority interest.*

Sigmund L. Cornelius
Senior Vice President,
Finance, and
Chief Financial Officer

ConocoPhillips applies a proven investment strategy that allocates capital in a balanced manner to achieve growth, enhance shareholder returns, and manage debt.

"We can manage through economic downturns while still funding opportunities that will benefit shareholders over the long term," says Sig Cornelius, senior vice president, Finance, and chief financial officer. "Despite the world banking and financial crisis, ConocoPhillips enjoys favorable access to capital due to our strong balance sheet and solid investment-grade credit rating. Our plans are designed to enable us to adapt to the currently unfavorable market conditions while prudently managing our debt."

2008 Financial Results

ConocoPhillips had a net loss of $17 billion during 2008, or $11.16 per share, compared with a profit of $11.9 billion, or $7.22 per share, in 2007. The loss was due to fourth-quarter noncash impairments necessitated by substantial declines in energy prices and equity markets late in the year. Approximately $25.4 billion of the impairments was related to goodwill in our Exploration and Production (E&P) business; the carrying value of our LUKOIL investment was reduced by $7.4 billion; and other asset impairments totaled $1.3 billion after-tax.

"These noncash charges did not impact the strategic value of our assets, or our ongoing ability to generate substantial cash flow from operations," says Cornelius. "They were necessitated by the unique market events during the fourth quarter of 2008."

Excluding these charges and other similar items, the company's adjusted earnings during 2008 were $16.4 billion, or $10.66 per share.

Overall, the company's performance was comparable with that of its industry peers on key per-share and per-barrel metrics.

Debt Management

Total debt was $27.5 billion at year-end 2008, a $5.8 billion increase from the year before. ConocoPhillips generated $24.3 billion in cash flow from operations and asset sales; spent $19.9 billion in its capital program, including an investment in a new coalbed methane and liquefied natural gas venture with Origin Energy in Australia; and distributed $11.1 billion to shareholders through dividends and share repurchases.

ConocoPhillips ended the year with a debt-to-capital ratio of 33 percent, reflecting the impact of the fourth-quarter impairments and the debt increase, compared with its 20 percent to 25 percent target range.

"We are committed to maintaining financial flexibility through careful management of the balance sheet," says Cornelius. "Our debt-ratio target remains unchanged."

Stockholders' equity and minority interests at year-end 2008 were $56.3 billion, compared with $90.2 billion at year-end 2007.

Dividends and Share Repurchases

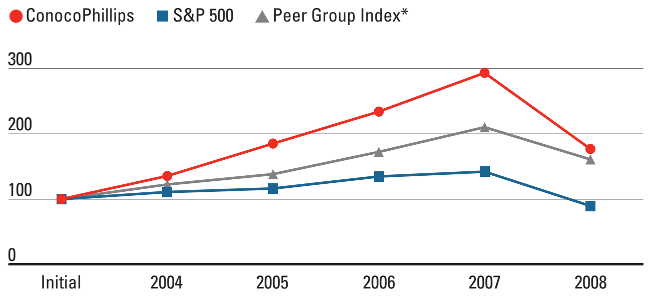
ConocoPhillips increased quarterly dividends on its common stock by 15 percent during 2008 to 47 cents per share, the seventh consecutive annual increase since the company's formation in 2002. The company also expended $8.2 billion on share repurchases, reducing total shares outstanding to 1,480 million at year end.

"Future dividend increases, debt reduction, additional capital spending and share repurchases will be considered as conditions warrant," says Cornelius.

Capital Program

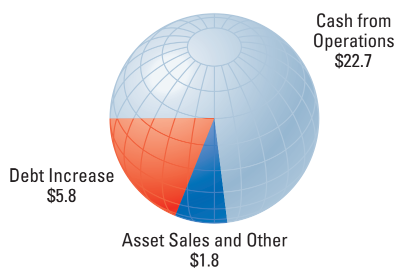
The company's capital program during 2008 totaled $19.9 billion, compared with $12.9 billion in 2007. The increase was attributable to the Australian investment and expanded drilling and development opportunities.

Five-Year Cumulative Total Stockholder Returns
(Dollars; Comparison assumes $100 was invested on Dec. 31, 2003)

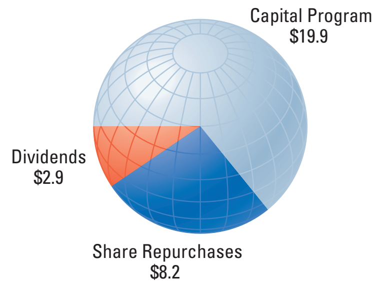


* BP, Chevron, ExxonMobil, Royal Dutch Shell, Total

Sources of Cash in 2008
(Billions of Dollars)



Uses of Cash in 2008
(Billions of Dollars)



The planned 2009 capital program totals $12.5 billion, including capitalized interest. Loans to affiliates and contributions to fund the EnCana venture are expected to total $0.8 billion, and capital expenditures are expected to total $11.7 billion.

"We have budgeted prudently in response to the current market," says Cornelius. "Our existing portfolio allows us the flexibility to adjust to changing market conditions while also advancing the company's strategic investments."

Approximately $10.3 billion, or 82 percent of the company's total capital program, will fund ongoing E&P drilling and development programs in the United States, Canada, the North Sea, the Asia Pacific region, the Middle East, Russia and the Caspian Sea. Of this, $1.4 billion will be allocated to exploration.

Refining and Marketing will receive $2 billion in capital, or 16 percent of the total program, for investments to enhance safety, regulatory compliance and reliability, and increase conversion capability, clean-product yields and transportation capacity. Plans for the Wilhelmshaven refinery upgrading project are progressing. Other projects, including the proposed Yanbu refinery venture in Saudi Arabia, have been slowed or deferred as warranted.

Approximately $0.2 billion in capital is allocated to Corporate and Emerging Businesses, with the majority planned to enable the 2009 completion of the Immingham Combined Heat and Power expansion project.

We can manage through economic downturns while still funding opportunities that will benefit shareholders over the long term.

Financial Highlights

	Millions of Dollars Except as Indicated		
	2008	2007	% Change
Financial			
Total revenues and other income	**$ 246,182**	194,495	27%
Net income (loss)	**$ (16,998)**	11,891	(243)
Net income (loss) per share of common stock — diluted	**$ (11.16)**	7.22	(255)
Net cash provided by operating activities	**$ 22,658**	24,550	(8)
Capital expenditures and investments	**$ 19,099**	11,791	62
Total assets	**$ 142,865**	177,757	(20)
Total debt	**$ 27,455**	21,687	27
Minority interests	**$ 1,100**	1,173	(6)
Common stockholders' equity	**$ 55,165**	88,983	(38)
Percent of total debt to capital*	**33%**	19	74
Common stockholders' equity per share (book value)	**$ 37.27**	56.63	(34)
Cash dividends per common share	**$ 1.88**	1.64	15
Closing stock price per common share	**$ 51.80**	88.30	(41)
Common shares outstanding at year end (in thousands)	**1,480,179**	1,571,430	(6)
Average common shares outstanding (in thousands)			
Basic	**1,523,432**	1,623,994	(6)
Diluted	**1,523,432**	1,645,919	(7)
Employees at year end (in thousands)	**33.8**	32.6	4

**Capital includes total debt, minority interests and common stockholders' equity.*

	2008	2007	% Change
Operating*			
U.S. crude oil production (MBD)	**335**	363	(8)%
Worldwide crude oil production (MBD)	**806**	854	(6)
U.S. natural gas production (MMCFD)	**2,091**	2,292	(9)
Worldwide natural gas production (MMCFD)	**4,847**	5,087	(5)
Worldwide natural gas liquids production (MBD)	**153**	155	(1)
Worldwide Syncrude production (MBD)	**22**	23	(4)
LUKOIL Investment net production (MBOED)**	**445**	444	–
Worldwide production (MBOED)***	**2,234**	2,324	(4)
Natural gas liquids extracted — Midstream (MBD)	**188**	211	(11)
Worldwide refinery crude oil throughput (MBD)	**2,416**	2,560	(6)
Worldwide refinery utilization rate	**90%**	94	(4)
U.S. automotive gasoline sales (MBD)	**1,128**	1,244	(9)
U.S. distillates sales (MBD)	**893**	872	2
Worldwide petroleum products sales (MBD)	**3,040**	3,245	(6)
LUKOIL Investment refinery crude oil throughput (MBD)**	**229**	214	7

**Includes ConocoPhillips' share of equity affiliates, except LUKOIL, unless otherwise indicated.*
***Represents ConocoPhillips' net share of its estimate of LUKOIL's production and processing.*
****Includes Syncrude and ConocoPhillips' estimated share of LUKOIL's production.*

Certain disclosures in this Annual Report may be considered "forward-looking" statements. These are made pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The "Cautionary Statement" in Management's Discussion and Analysis on page 52 should be read in conjunction with such statements.

Use of Non-GAAP Financial Information – This Annual Report includes the terms "adjusted earnings" and "adjusted earnings per share." These are non-GAAP financial measures and are included to help facilitate comparisons of company operating performance across periods. A reconciliation of adjusted earnings to net income determined in accordance with U.S. generally accepted accounting principles (GAAP) is shown on page 112.

"ConocoPhillips," "the company," "we," "us" and "our" are used interchangeably in this report to refer to the businesses of ConocoPhillips and its consolidated subsidiaries.

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