UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM** **10-Q**

|  |  |  |
| --- | --- | --- |
| (Mark One) | | |
| [X] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 | |
|  |  |  |
| For the quarterly period ended **June 30, 2021** | | |
|  | | |
| or | | |
|  |  |  |
| [ ] | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 | |
|  |  |  |
| For the transition period from  to | | |
| Commission file number:  **001-32395** | | |

**ConocoPhillips**

*(Exact name of registrant as specified in its charter)*

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

**925 N. Eldridge Parkway**

**Houston,** **TX** **77079**

*(Address of principal executive offices) (Zip Code)*

**281-****293-1000**

*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

|  |  |  |
| --- | --- | --- |
| **Title of each class** | **Trading symbols** | **Name of each exchange on which registered** |
| Common Stock, $.01 Par Value | COP | New York Stock Exchange |
| 7% Debentures due 2029 | CUSIP—718507BK1 | New York Stock Exchange |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

The registrant had 1,339,082,083 shares of common stock, $.01 par value, outstanding at June 30, 2021.

**CONOCOPHILLIPS**

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**Comm****only Used Abbreviations**

The following industry-specific, accounting and other terms, and abbreviations may be commonly used in this report.

|  |  |  |  |
| --- | --- | --- | --- |
| **Currencies** |  | **Accounting** |  |
| $ or USD | U.S. dollar | ARO | asset retirement obligation |
| CAD | Canadian dollar | ASC | accounting standards codification |
| EUR | Euro | ASU | accounting standards update |
| GBP | British pound | DD&A | depreciation, depletion and |
|  |  |  | amortization |
| **Units of Measurement** |  | FASB | Financial Accounting Standards |
| BBL | barrel |  | Board |
| BCF | billion cubic feet | FIFO | first-in, first-out |
| BOE | barrels of oil equivalent | G&A | general and administrative |
| MBD | thousands of barrels per day | GAAP | generally accepted accounting |
| MCF | thousand cubic feet |  | principles |
| MBOD | thousand barrels of oil per day | LIFO | last-in, first-out |
| MM | million | NPNS | normal purchase normal sale |
| MMBOE | million barrels of oil equivalent | PP&E | properties, plants and equipment |
| MMBOD | million barrels of oil per day | SAB | staff accounting bulletin |
| MBOED | thousands of barrels of oil | VIE | variable interest entity |
| MMBOED | equivalent per day  millions of barrels of oil equivalent per day |  |  |
| MMBTU | million British thermal units | **Miscellaneous** |  |
| MMCFD | million cubic feet per day | EPA | Environmental Protection Agency |
|  |  | ESG | Environmental, Social and Corporate Governance |
| **Industry** |  | EU | European Union |
| CBM | coalbed methane | FERC | Federal Energy Regulatory |
| E&P | exploration and production |  | Commission |
| FEED | front-end engineering and design | GHG | greenhouse gas |
| FPS | floating production system | HSE | health, safety and environment |
| FPSO | floating production, storage and | ICC | International Chamber of |
|  | offloading |  | Commerce |
| G&G | geological and geophysical | ICSID | World Bank’s International |
| JOA | joint operating agreement |  | Centre for Settlement of |
| LNG | liquefied natural gas |  | Investment Disputes |
| NGLs | natural gas liquids | IRS | Internal Revenue Service |
| OPEC | Organization of Petroleum | OTC | over-the-counter |
|  | Exporting Countries | NYSE | New York Stock Exchange |
| PSC | production sharing contract | SEC | U.S. Securities and Exchange |
| PUDs | proved undeveloped reserves |  | Commission |
| SAGD | steam-assisted gravity drainage | TSR | total shareholder return |
| WCS | Western Canada Select | U.K. | United Kingdom |
| WTI | West Texas Intermediate | U.S. | United States of America |
|  |  |  |  |
|  |  |  |  |

**PART I. FINAN****CIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

|  |  |
| --- | --- |
| **Consolidated Income Statement** | **ConocoPhillips** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | Millions of Dollars | | | | | | | |
|  |  |  |  |  | Three Months Ended | | |  | Six Months Ended | | |
|  |  |  |  | June 30 | | | June 30 | | |
|  |  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
| **Revenues and Other Income** | | | |  |  |  |  |  |  |  |  |
| Sales and other operating revenues | | | | **$** | **9,556** |  | 2,749 |  | **19,382** |  | 8,907 |
| Equity in earnings of affiliates | | | |  | **139** |  | 77 |  | **261** |  | 311 |
| Gain on dispositions | | | |  | **59** |  | 596 |  | **292** |  | 554 |
| Other income (loss) | | | |  | **457** |  | 594 |  | **835** |  | (945) |
|  |  |  | Total Revenues and Other Income |  | **10,211** |  | 4,016 |  | **20,770** |  | 8,827 |
|  | | | | | | | | | | | |
| **Costs and Expenses** | | | |  |  |  |  |  |  |  |  |
| Purchased commodities | | | |  | **2,998** |  | 1,130 |  | **7,481** |  | 3,791 |
| Production and operating expenses | | | |  | **1,379** |  | 1,047 |  | **2,762** |  | 2,220 |
| Selling, general and administrative expenses | | | |  | **117** |  | 156 |  | **428** |  | 153 |
| Exploration expenses | | | |  | **57** |  | 97 |  | **141** |  | 285 |
| Depreciation, depletion and amortization | | | |  | **1,867** |  | 1,158 |  | **3,753** |  | 2,569 |
| Impairments | | | |  | **2** |  | (2) |  | **(1)** |  | 519 |
| Taxes other than income taxes | | | |  | **381** |  | 141 |  | **751** |  | 391 |
| Accretion on discounted liabilities | | | |  | **63** |  | 66 |  | **125** |  | 133 |
| Interest and debt expense | | | |  | **220** |  | 202 |  | **446** |  | 404 |
| Foreign currency transaction (gain) loss | | | |  | **10** |  | 7 |  | **29** |  | (83) |
| Other expenses | | | |  | **37** |  | (7) |  | **61** |  | (13) |
|  |  |  | Total Costs and Expenses |  | **7,131** |  | 3,995 |  | **15,976** |  | 10,369 |
| Income (loss) before income taxes | | | |  | **3,080** |  | 21 |  | **4,794** |  | (1,542) |
| Income tax provision (benefit) | | | |  | **989** |  | (257) |  | **1,721** |  | (109) |
| Net income (loss) | | | |  | **2,091** |  | 278 |  | **3,073** |  | (1,433) |
| Less: net income attributable to noncontrolling interests | | | |  | **-** |  | (18) |  | **-** |  | (46) |
| **Net Income (Loss) Attributable to ConocoPhillips** | | | | **$** | **2,091** |  | 260 |  | **3,073** |  | (1,479) |
|  | | | | | | | | | | | |
|  | | | | | | | | | | | |
| **Net Income (Loss) Attributable to ConocoPhillips Per Share** | | | | | | | | | | | |
|  | **of Common Stock** *(dollars)* | | |  |  |  |  |  |  |  |  |
| Basic | | | | **$** | **1.55** |  | 0.24 |  | **2.32** |  | (1.37) |
| Diluted | | | |  | **1.55** |  | 0.24 |  | **2.31** |  | (1.37) |
|  | | | | | | | | | | | |
| **Average Common Shares Outstanding** *(in thousands)* | | | |  |  |  |  |  |  |  |  |
| Basic | | | |  | **1,348,637** |  | 1,076,659 |  | **1,324,639** |  | 1,080,610 |
| Diluted | | | |  | **1,353,201** |  | 1,077,606 |  | **1,329,507** |  | 1,080,610 |
| *See Notes to Consolidated Financial Statements.* | | | | | | | | | | | |

|  |  |
| --- | --- |
| **Consolidated Statement of Comprehensive Income** | **ConocoPhillips** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | Millions of Dollars | | | | | | | |
|  |  |  |  |  |  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  |  |  |  |  | June 30 | | | | June 30 | | |
|  |  |  |  |  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net Income (Loss)** | | | | | | | **$** | **2,091** |  | 278 |  | **3,073** |  | (1,433) |
| Other comprehensive income (loss) | | | | | | |  |  |  |  |  |  |  |  |
|  |  | Defined benefit plans | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  | Reclassification adjustment for amortization of prior | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  | service credit included in net income (loss) | |  | **(10)** |  | (8) |  | **(19)** |  | (16) |
|  |  |  |  | Net actuarial gain arising during the period | | |  | **30** |  | - |  | **105** |  | 5 |
|  |  |  |  | Reclassification adjustment for amortization of net actuarial | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  | losses included in net income (loss) | |  | **63** |  | 18 |  | **88** |  | 36 |
|  |  |  |  | Income taxes on defined benefit plans | | |  | **(19)** |  | (3) |  | **(40)** |  | (7) |
|  |  |  |  | Defined benefit plans, net of tax | | |  | **64** |  | 7 |  | **134** |  | 18 |
|  |  | Unrealized holding gain (loss) on securities | | | | |  | **-** |  | 6 |  | **(1)** |  | 3 |
|  |  | Income taxes on unrealized holding gain on securities | | | | |  | **-** |  | (2) |  | **-** |  | (1) |
|  |  |  |  | Unrealized holding gain (loss) on securities, net of tax | | |  | **-** |  | 4 |  | **(1)** |  | 2 |
|  |  | Foreign currency translation adjustments | | | | |  | **96** |  | 309 |  | **165** |  | (490) |
|  |  | Income taxes on foreign currency translation adjustments | | | | |  | **-** |  | - |  | **-** |  | 2 |
|  |  |  |  | Foreign currency translation adjustments, net of tax | | |  | **96** |  | 309 |  | **165** |  | (488) |
| **Other Comprehensive Income (Loss), Net of Tax** | | | | | | |  | **160** |  | 320 |  | **298** |  | (468) |
| **Comprehensive Income (Loss)** | | | | | | |  | **2,251** |  | 598 |  | **3,371** |  | (1,901) |
| Less: comprehensive income attributable to noncontrolling interests | | | | | | |  | **-** |  | (18) |  | **-** |  | (46) |
| **Comprehensive Income (Loss) Attributable to ConocoPhillips** | | | | | | | **$** | **2,251** |  | 580 |  | **3,371** |  | (1,947) |
| *See Notes to Consolidated Financial Statements.* | | | | | | | | | | | | | | |

|  |  |
| --- | --- |
| **Consolidated Balance Sheet** | **ConocoPhillips** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | Millions of Dollars | | | |
|  |  |  |  | **June 30** | |  | December 31 |
|  | | | |  | **2021** |  | 2020 |
| **Assets** | | | |  |  |  |  |
| Cash and cash equivalents | | | | **$** | **6,608** |  | 2,991 |
| Short-term investments | | | |  | **2,251** |  | 3,609 |
| Accounts and notes receivable (net of allowance of $2 and $4, respectively) | | | |  | **4,401** |  | 2,634 |
| Accounts and notes receivable—related parties | | | |  | **123** |  | 120 |
| Investment in Cenovus Energy | | | |  | **1,802** |  | 1,256 |
| Inventories | | | |  | **1,138** |  | 1,002 |
| Prepaid expenses and other current assets | | | |  | **849** |  | 454 |
|  |  |  | Total Current Assets |  | **17,172** |  | 12,066 |
| Investments and long-term receivables | | | |  | **8,013** |  | 8,017 |
| Loans and advances—related parties | | | |  | **59** |  | 114 |
| Net properties, plants and equipment | | | |  |  |  |  |
|  | (net of accumulated DD&A of $65,572 and $62,213, respectively) | | |  | **57,717** |  | 39,893 |
| Other assets | | | |  | **2,442** |  | 2,528 |
| Total Assets | | | | **$** | **85,403** |  | 62,618 |
|  |  |  |  |  |  |  |  |
| **Liabilities** | | | |  |  |  |  |
| Accounts payable | | | | **$** | **3,591** |  | 2,669 |
| Accounts payable—related parties | | | |  | **22** |  | 29 |
| Short-term debt | | | |  | **1,205** |  | 619 |
| Accrued income and other taxes | | | |  | **1,406** |  | 320 |
| Employee benefit obligations | | | |  | **571** |  | 608 |
| Other accruals | | | |  | **1,355** |  | 1,121 |
|  |  |  | Total Current Liabilities |  | **8,150** |  | 5,366 |
| Long-term debt | | | |  | **18,805** |  | 14,750 |
| Asset retirement obligations and accrued environmental costs | | | |  | **5,819** |  | 5,430 |
| Deferred income taxes | | | |  | **5,331** |  | 3,747 |
| Employee benefit obligations | | | |  | **1,297** |  | 1,697 |
| Other liabilities and deferred credits | | | |  | **1,725** |  | 1,779 |
| Total Liabilities | | | |  | **41,127** |  | 32,769 |
|  |  |  |  |  |  |  |  |
| **Equity** | | | |  |  |  |  |
| Common stock (2,500,000,000 shares authorized at $0.01 par value) | | | |  |  |  |  |
|  |  | Issued (2021—2,087,542,804 shares; 2020—1,798,844,267 shares) | |  |  |  |  |
|  |  |  | Par value |  | **21** |  | 18 |
|  |  |  | Capital in excess of par |  | **60,337** |  | 47,133 |
|  |  | Treasury stock (at cost: 2021—748,460,721 shares; 2020—730,802,089 shares) | |  | **(48,278)** |  | (47,297) |
| Accumulated other comprehensive loss | | | |  | **(4,920)** |  | (5,218) |
| Retained earnings | | | |  | **37,116** |  | 35,213 |
| Total Equity | | | |  | **44,276** |  | 29,849 |
| Total Liabilities and Equity | | | | **$** | **85,403** |  | 62,618 |
| *See Notes to Consolidated Financial Statements.* | | | | | | | |

|  |  |
| --- | --- |
| **Consolidated Statement of Cash Flows** | **ConocoPhillips** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | Millions of Dollars | | |
|  |  |  | Six Months Ended | | | |
|  |  |  | June 30 | | | |
|  |  |  | **2021** | |  | 2020 |
| **Cash Flows From Operating Activities** | | |  |  |  |  |
| Net income (loss) | | | **$** | **3,073** |  | (1,433) |
| Adjustments to reconcile net income (loss) to net cash provided by operating | | |  |  |  |  |
|  | activities | |  |  |  |  |
|  | Depreciation, depletion and amortization | |  | **3,753** |  | 2,569 |
|  | Impairments | |  | **(1)** |  | 519 |
|  | Dry hole costs and leasehold impairments | |  | **7** |  | 70 |
|  | Accretion on discounted liabilities | |  | **125** |  | 133 |
|  | Deferred taxes | |  | **567** |  | (320) |
|  | Undistributed equity earnings | |  | **317** |  | 404 |
|  | Gain on dispositions | |  | **(292)** |  | (554) |
|  | (Gain) loss on investment in Cenovus Energy | |  | **(726)** |  | 1,140 |
|  | Other | |  | **(688)** |  | (244) |
|  | Working capital adjustments | |  |  |  |  |
|  |  | Decrease (increase) in accounts and notes receivable |  | **(794)** |  | 1,746 |
|  |  | Increase in inventories |  | **(89)** |  | (27) |
|  |  | Increase in prepaid expenses and other current assets |  | **(388)** |  | (149) |
|  |  | Increase (decrease) in accounts payable |  | **323** |  | (754) |
|  |  | Increase (decrease) in taxes and other accruals |  | **1,144** |  | (838) |
| Net Cash Provided by Operating Activities | | |  | **6,331** |  | 2,262 |
|  |  |  |  |  |  |  |
| **Cash Flows From Investing Activities** | | |  |  |  |  |
| Cash acquired from Concho | | |  | **382** |  | - |
| Capital expenditures and investments | | |  | **(2,465)** |  | (2,525) |
| Working capital changes associated with investing activities | | |  | **2** |  | (251) |
| Proceeds from asset dispositions | | |  | **160** |  | 1,313 |
| Net sales (purchases) of investments | | |  | **1,302** |  | (1,030) |
| Collection of advances/loans—related parties | | |  | **52** |  | 66 |
| Other | | |  | **86** |  | (35) |
| Net Cash Used in Investing Activities | | |  | **(481)** |  | (2,462) |
|  |  |  |  |  |  |  |
| **Cash Flows From Financing Activities** | | |  |  |  |  |
| Repayment of debt | | |  | **(44)** |  | (214) |
| Issuance of company common stock | | |  | **(25)** |  | 2 |
| Repurchase of company common stock | | |  | **(981)** |  | (726) |
| Dividends paid | | |  | **(1,171)** |  | (913) |
| Other | | |  | **3** |  | (28) |
| Net Cash Used in Financing Activities | | |  | **(2,218)** |  | (1,879) |
|  |  |  |  |  |  |  |
| **Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash** | | | | **9** |  | (93) |
|  |  |  |  |  |  |  |
| **Net Change in Cash, Cash Equivalents and Restricted Cash** | | |  | **3,641** |  | (2,172) |
| Cash, cash equivalents and restricted cash at beginning of period | | |  | **3,315** |  | 5,362 |
| Cash, Cash Equivalents and Restricted Cash at End of Period | | | **$** | **6,956** |  | 3,190 |

*Restricted cash of $**95 million and $**253 million are included in the "Prepaid expenses and other current assets" and "Other assets" lines, respectively, of our Consolidated Balance Sheet as of June 30, 2021.*

*Restricted cash of $**94 million and $**230 million are included in the "Prepaid expenses and other current assets" and "Other assets" lines, respectively, of our Consolidated Balance Sheet as of December 31, 2020.*

*See Notes to Consolidated Financial Statements.*

|  |  |
| --- | --- |
| **Notes to Consolidated Financial Statements** | **ConocoPhillips** |

**Note 1—Basis of Presentation**

The interim-period financial information presented in the financial statements included in this report is unaudited and, in the opinion of management, includes all known accruals and adjustments necessary for a fair presentation of the consolidated financial position of ConocoPhillips and its results of operations and cash flows for such periods. All such adjustments are of a normal and recurring nature unless otherwise disclosed. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and notes included in our 2020 Annual Report on Form 10-K.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Note 2—Inventories** |  |  |  |  |
|  |  |  |  |  |  |
|  | Inventories consisted of the following: |  |  |  |  |
|  |  |  |  |  |  |
|  |  | Millions of Dollars | | | |
|  |  | **June 30** | |  | December 31 |
|  |  |  | **2021** |  | 2020 |
|  |  |  |  |  |  |
|  | Crude oil and natural gas | **$** | **572** |  | 461 |
|  | Materials and supplies |  | **566** |  | 541 |
|  |  | **$** | **1,138** |  | 1,002 |

Inventories valued on the LIFO basis totaled $348 million and $282 million at June 30, 2021 and December 31, 2020, respectively.

**Note 3—Acquisitions and Dispositions**

**Acquisition of** **Concho Resources Inc. (Concho)**

We completed our acquisition of Concho on January 15, 2021 and as defined under the terms of the transaction agreement, each share of Concho common stock was exchanged for 1.46 shares of ConocoPhillips common stock, for total consideration of $13.1 billion.

|  |  |  |
| --- | --- | --- |
| **Total Consideration** |  |  |
| Number of shares of Concho common stock issued and outstanding (in thousands)\* |  | 194,243 |
| Number of shares of Concho stock awards outstanding (in thousands)\* |  | 1,599 |
| Number of shares exchanged |  | 195,842 |
| Exchange ratio |  | 1.46 |
| Additional shares of ConocoPhillips common stock issued as consideration (in thousands) |  | 285,929 |
| Average price per share of ConocoPhillips common stock\*\* | $ | 45.9025 |
| **Total Consideration (Millions)** | **$** | **13,125** |
| *\*Outstanding as of January 15, 2021.* | | |
| *\*\*Based on the ConocoPhillips average stock price on January 15, 2021.* | | |

The transaction was accounted for as a business combination under FASB ASC 805 using the acquisition method, which requires assets acquired and liabilities assumed to be measured at their acquisition date fair values. Fair value measurements were made for acquired assets and liabilities, and adjustments to those measurements may be made in subsequent periods, up to one year from the acquisition date as we identify new information about facts and circumstances that existed as of the acquisition date to consider. Oil and gas properties were valued using a discounted cash flow approach incorporating market participant and internally generated price assumptions; production profiles; and operating and development cost assumptions. Debt assumed in the acquisition was valued based on observable market prices. The fair values determined for accounts receivables, accounts payable, and most other current assets and current liabilities were equivalent to the carrying value due to their short-term nature. The total consideration of $13.1 billion was allocated to the identifiable assets and liabilities based on their fair values as of January 15, 2021.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Assets Acquired** | Millions of Dollars | |
|  | Cash and cash equivalents | $ | 382 |
|  | Accounts receivable, net |  | 742 |
|  | Inventories |  | 45 |
|  | Prepaid expenses and other current assets |  | 37 |
|  | Investments and long-term receivables |  | 333 |
|  | Net properties, plants and equipment |  | 18,971 |
|  | Other assets |  | 62 |
|  | **Total assets acquired** | **$** | **20,572** |
|  |  |  |  |
|  | **Liabilities Assumed** |  |  |
|  | Accounts payable | $ | 638 |
|  | Accrued income and other taxes |  | 49 |
|  | Employee benefit obligations |  | 4 |
|  | Other accruals |  | 510 |
|  | Long-term debt |  | 4,696 |
|  | Asset retirement obligations and accrued environmental costs |  | 310 |
|  | Deferred income taxes |  | 1,123 |
|  | Other liabilities and deferred credits |  | 117 |
|  | **Total liabilities assumed** | **$** | **7,447** |
|  | **Net assets acquired** | **$** | **13,125** |

With the completion of the Concho transaction, we acquired proved and unproved properties of approximately $11.8 billion and $6.9 billion, respectively.

We recognized approximately $157 million of transaction-related costs that were expensed in the first quarter of 2021. These non-recurring costs related primarily to fees paid to advisors and the settlement of share-based awards for certain Concho employees based on the terms of the Merger Agreement.

In the first quarter of 2021, we commenced a restructuring program, the scope of which included combining the operations of the two companies. For the three- and six-month periods ending June 30, 2021, we recognized non-recurring restructuring costs mainly for employee severance and related incremental pension benefit costs of approximately $23 million and $157 million, respectively.

The impact from these transaction and restructuring costs to the lines of our consolidated income statement for the six-month period ending June 30, 2021, are below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Millions of Dollars | | | | | |
|  |  | Transaction Cost | |  | Restructuring Cost |  | Total Cost |
|  | Production and operating expenses | **$** |  |  | 70 |  | 70 |
|  | Selling, general and administration expenses |  | 135 |  | 52 |  | 187 |
|  | Exploration expenses |  | 18 |  | 4 |  | 22 |
|  | Taxes other than income taxes |  | 4 |  | 2 |  | 6 |
|  | Other expenses |  | - |  | 29 |  | 29 |
|  |  | **$** | **157** |  | **157** |  | **314** |

On February 8, 2021, we completed a debt exchange offer related to the debt assumed from Concho. As a result of the debt exchange, we recognized an additional income tax related restructuring charge of $75 million. [See Note 18 for additional information.](#TaxNote)

From the acquisition date through June 30, 2021, “Total Revenues and Other Income” and “Net Income (Loss) Attributable to ConocoPhillips” associated with the acquired Concho business were approximately $2,637 million and $828 million, respectively. The results associated with the Concho business include a before- and after-tax loss of $305 million and $233 million, respectively, on the acquired derivative contracts. The before-tax loss is recorded within “Total Revenues and Other Income” on our consolidated income statement. [See Note 10 for additional information.](#DerivNote)

The following summarizes the unaudited supplemental pro forma financial information as if we had completed the acquisition of Concho on January 1, 2020:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Millions of Dollars | | | | |
|  | **Supplemental Pro Forma (unaudited)** | Three Months Ended  June 30, 2020 | |  | Six Months Ended  June 30, 2020 | |
|  | Total revenues and other income | $ | 4,065 |  |  | 11,365 |
|  | Net loss |  | (229) |  |  | (619) |
|  | Net loss attributable to ConocoPhillips |  | (247) |  |  | (665) |
|  |  |  |  |  |  |  |
|  |  | $ per share | | | | |
|  | Earnings per share: | Three Months Ended  June 30, 2020 | |  | Six Months Ended  June 30, 2020 | |
|  | Basic net loss | $ | (0.18) |  |  | (0.49) |
|  | Diluted net loss |  | (0.18) |  |  | (0.49) |

The unaudited supplemental pro forma financial information is presented for illustration purposes only and is not necessarily indicative of the operating results that would have occurred had the transaction been completed on January 1, 2020, nor is it necessarily indicative of future operating results of the combined entity. The unaudited pro forma financial information for the three- and six-month periods ending June 30, 2020 is a result of combining the consolidated income statement of ConocoPhillips with the results of Concho. The pro forma results do not include transaction-related costs, nor any cost savings anticipated as a result of the transaction. The pro forma results include adjustments to reverse impairment expense of $10.5 billion and $1.9 billion recorded by Concho in the six-month period ending June 30, 2020, related to oil and gas properties and goodwill, respectively. Other adjustments made relate primarily to DD&A, which is based on the unit-of-production method, resulting from the purchase price allocated to properties, plants and equipment. We believe the estimates and assumptions are reasonable, and the relative effects of the transaction are properly reflected.

**Assets Sold**

In 2020, we completed the sale of our Australia-West asset and operations. The sales agreement entitled us to a $200 million payment upon a final investment decision (FID) of the Barossa development project. On March 30, 2021, FID was announced and as such, we recognized a $200 million gain on disposition in the first quarter of 2021. The purchaser failed to pay the FID bonus when due. We have commenced an arbitration proceeding against the purchaser to enforce our contractual right to the $200 million, plus interest accruing from the due date. Results of operations related to this transaction are reflected in our Asia Pacific segment. [See Note 9 for additional information.](#FNCONTIN)

In 2017, we completed the sale of our 50 percent nonoperated interest in the Foster Creek Christina Lake (FCCL) Partnership, as well as the majority of our western Canada gas assets to Cenovus Energy (CVE). Consideration for the transaction included a five-year, uncapped contingent payment. The contingent payment, calculated on a quarterly basis, is $6 million CAD for every $1 CAD by which the WCS quarterly average crude price exceeds $52 CAD per barrel. For the three- and six-months ended June 30, 2021, we recorded contingent payments of $68 million and $94 million, respectively. No contingent payments were recorded in 2020. Contingent payments are recorded as gain on dispositions on our consolidated income statement and reflected in our Canada segment.

**Planned Dispositions**

In July 2021, we entered into divestiture agreements to sell our interests in certain noncore assets in our Lower 48 segment. Proceeds from these agreements total approximately $0.2 billion before customary adjustments. The transactions are expected to close in the third quarter of 2021.

**Note 4—****Investments, Loans and Long-Term Receivables**

**Australia Pacific LNG Pty Ltd (APLNG)**

APLNG executed project financing agreements for an $8.5 billion project finance facility in 2012. All amounts were drawn from the facility. The project financing facility has been restructured over time and at June 30, 2021, this facility was composed of a financing agreement with the Export-Import Bank of the United States, a commercial bank facility and two United States Private Placement note facilities. APLNG made its first principal and interest repayment in March 2017 and is scheduled to make bi-annual payments until September 2030. At June 30, 2021, a balance of $6.0 billion was outstanding on the current facilities. [See Note 8 for additional information.](#NoteGuar)

During the fourth quarter of 2020, the estimated fair value of our investment in APLNG declined to an amount below carrying value, primarily due to the weakening of the U.S. dollar relative to the Australian dollar. Based on a review of the facts and circumstances surrounding this decline in fair value, we concluded the impairment was not other than temporary under the guidance of FASB ASC Topic 323, “Investments – Equity Method and Joint Ventures.” Due primarily to improved outlooks for commodity prices and the strengthening of the U.S. dollar relative to the Australian dollar during the first six months of 2021, the estimated fair value of our investment increased and is above carrying value at June 30, 2021. We will continue to monitor the relationship between the carrying value and fair value of APLNG.

At June 30, 2021, the carrying value of our equity method investment in APLNG was $6.4 billion. The balance is included in the “Investments and long-term receivables” line on our consolidated balance sheet.

**Loans and Long-Term Receivables**

As part of our normal ongoing business operations, and consistent with industry practice, we enter into numerous agreements with other parties to pursue business opportunities. Included in such activity are loans made to certain affiliated and non-affiliated companies. At June 30, 2021, significant loans to affiliated companies included $168 million in project financing to Qatar Liquefied Gas Company Limited (3).

On our consolidated balance sheet, the long-term portion of these loans is included in the “Loans and advances—related parties” line, while the short-term portion is in the “Accounts and notes receivable—related parties” line.

**Note 5—****Investment in Cenovus Energy**

Our investment in CVE shares is carried on our consolidated balance sheet at fair value of $1.8 billion based on the closing price of $9.58 per share on the NYSE on the last trading day of the quarter. At June 30, 2021 and December 31, 2020, we held 188 million and 208 million shares of CVE common stock, respectively. At June 30, 2021, our investment approximated 9.3 percent of the issued and outstanding CVE common stock.

During the second quarter, we sold 20 million shares of our CVE common stock, recognizing proceeds of $180 million, of which $166 was received in the second quarter. Subject to market conditions, we intend to continue to decrease our investment over time.

All gains and losses are recognized within “Other income (loss)” on our consolidated income statement. Proceeds related to the sale of our CVE shares are presented within “Cash Flows from Investing Activities” on our consolidated cash flow statement. [See Note 11 for additional information related to fair value measurement.](#FVFN)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Gains and losses recorded in other income (loss) for our investment in CVE were: | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  |  | June 30 | | |  | June 30 | | |
|  |  | **2021** |  | 2020 | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |
|  | Total net gain (loss) on equity securities | **$** | **418** |  | 551 |  | **726** |  | (1,140) |
|  | Less: Net gain on equity securities sold during the period |  | **(31)** |  | - |  | **(60)** |  | - |
|  | Unrealized gain (loss) on equity securities still held at |  |  |  |  |  |  |  |  |
|  | the reporting date | **$** | **387** |  | 551 |  | **666** |  | (1,140) |

**Note 6—****Debt**

Our debt balance at June 30, 2021, was $20.0 billion compared with $15.4 billion at December 31, 2020.

On January 15, 2021, we completed the acquisition of Concho in an all-stock transaction. In the acquisition, we assumed Concho’s publicly traded debt, with an outstanding principal balance of $3.9 billion, which was recorded at fair value of $4.7 billion on the acquisition date. Debt assumed consisted of the following:

* 3.75% Notes due 2027 with principal of $1,000 million
* 4.3% Notes due 2028 with principal of $1,000 million
* 2.4% Notes due 2031 with principal of $500 million
* 4.875% Notes due 2047 with principal of $800 million
* 4.85% Notes due 2048 with principal of $600 million

The adjustment to fair value of the senior notes of approximately $0.8 billion on the acquisition date will be amortized as an adjustment to interest expense over the remaining contractual terms of the senior notes.

In the first quarter of 2021, we completed a debt exchange offer related to the debt assumed from Concho. Of the approximately $3.9 billion in aggregate principal amount of Concho’s senior notes offered in the exchange, 98 percent, or approximately $3.8 billion, were tendered and accepted. The new debt issued by ConocoPhillips had the same interest rates and maturity dates as the Concho senior notes. The portion not exchanged, approximately $67 million, remained outstanding across five series of senior notes issued by Concho. The debt exchange was treated as a debt modification for accounting purposes resulting in a portion of the unamortized fair value adjustment of the Concho senior notes allocated to the new debt issued by ConocoPhillips on the settlement date of the exchange. The new debt issued in the exchange is fully and unconditionally guaranteed by ConocoPhillips Company. [See Note 3 for additional information on our Concho acquisition.](#AssetHFS)

We have a revolving credit facility totaling $6.0 billion with an expiration date of May 2023. Our revolving credit facility may be used for direct bank borrowings, the issuance of letters of credit totaling up to $500 million, or as support for our commercial paper program. The revolving credit facility is broadly syndicated among financial institutions and does not contain any material adverse change provisions or any covenants requiring maintenance of specified financial ratios or credit ratings. The facility agreement contains a cross-default provision relating to the failure to pay principal or interest on other debt obligations of $200 million or more by ConocoPhillips, or any of its consolidated subsidiaries. The amount of the facility is not subject to redetermination prior to its expiration date.

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

The revolving credit facility supports our ability to issue up to $6.0 billion of commercial paper. Commercial paper is generally limited to maturities of 90 days and is included in the short-term debt on our consolidated balance sheet. With $300 million of commercial paper outstanding and no direct borrowings or letters of credit, we had access to $5.7 billion in available borrowing capacity under our revolving credit facility at June 30, 2021. At December 31, 2020, we had $300 million of commercial paper outstanding and no direct borrowings or letters of credit issued.

In January 2021, Fitch affirmed its rating of our long-term debt as “A” with a “stable” outlook and affirmed its rating of our short-term debt as “F1+.” On January 25, 2021, S&P revised its industry risk assessment of the E&P industry to “Moderately High” from “Intermediate” based on a view of increasing risks from the energy transition, price volatility, and weaker profitability. On February 11, 2021, S&P downgraded its rating of our long-term debt from “A” to “A-” with a “stable” outlook and downgraded its rating of our short-term debt from “A-1” to “A-2.” In May 2021, Moody’s affirmed its rating of our senior long-term debt of “A3” with a “stable” outlook. Moody’s rates our short-term debt as “Prime-2.” We do not have any ratings triggers on any of our corporate debt that would cause an automatic default, and thereby impact our access to liquidity, upon downgrade of our credit ratings. If our credit ratings are downgraded from their current levels, it could increase the cost of corporate debt available to us and restrict our access to the commercial paper markets. If our credit rating were to deteriorate to a level prohibiting us from accessing the commercial paper market, we would still be able to access funds under our revolving credit facility.

At June 30, 2021, we had $283 million of certain variable rate demand bonds (VRDBs) outstanding with maturities ranging through 2035. The VRDBs are redeemable at the option of the bondholders on any business day.  If they are ever redeemed, we have the ability and intent to refinance on a long-term basis, therefore, the VRDBs are included in the “Long-term debt” line on our consolidated balance sheet.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Note 7—Changes in Equity** | | | | | | | | | | | | | | | |
|  |  |  |  | | | | | | | | | | | | | |
|  |  |  | Millions of Dollars | | | | | | | | | | | | | |
|  |  |  | Attributable to ConocoPhillips | | | | | | | | | |  |  | | |
|  |  |  | Common Stock | | | | | |  |  |  |  |  |  |  |  |
|  |  |  | Par Value | |  | Capital in Excess of Par |  | Treasury Stock | Accum. Other Comprehensive Income (Loss) | |  | Retained Earnings |  | Non-Controlling Interests |  | Total |
|  | **For the three months ended June 30, 2021** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Balances at March 31, 2021 | | $ | 21 |  | 60,278 |  | (47,672) |  | (5,080) |  | 35,608 |  |  |  | 43,155 |
|  | Net income | |  |  |  |  |  |  |  |  |  | 2,091 |  |  |  | 2,091 |
|  | Other comprehensive income | |  |  |  |  |  |  |  | 160 |  |  |  |  |  | 160 |
|  | Dividends paid ($0.43 per common share) | |  |  |  |  |  |  |  |  |  | (583) |  |  |  | (583) |
|  | Repurchase of company common stock | |  |  |  |  |  | (606) |  |  |  |  |  |  |  | (606) |
|  | Distributed under benefit plans | |  |  |  | 59 |  |  |  |  |  |  |  |  |  | 59 |
|  | **Balances at June 30, 2021** | | **$** | **21** |  | **60,337** |  | **(48,278)** |  | **(4,920)** |  | **37,116** |  |  |  | **44,276** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **For the six months ended June 30, 2021** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Balances at December 31, 2020 | | $ | 18 |  | 47,133 |  | (47,297) |  | (5,218) |  | 35,213 |  |  |  | 29,849 |
|  | Net income | |  |  |  |  |  |  |  |  |  | 3,073 |  |  |  | 3,073 |
|  | Other comprehensive income | |  |  |  |  |  |  |  | 298 |  |  |  |  |  | 298 |
|  | Dividends paid ($0.86 per common share) | |  |  |  |  |  |  |  |  |  | (1,171) |  |  |  | (1,171) |
|  | Acquisition of Concho | |  | 3 |  | 13,122 |  |  |  |  |  |  |  |  |  | 13,125 |
|  | Repurchase of company common stock | |  |  |  |  |  | (981) |  |  |  |  |  |  |  | (981) |
|  | Distributed under benefit plans | |  |  |  | 82 |  |  |  |  |  |  |  |  |  | 82 |
|  | Other | |  |  |  |  |  |  |  |  |  | 1 |  |  |  | 1 |
|  | **Balances at June 30, 2021** | | **$** | **21** |  | **60,337** |  | **(48,278)** |  | **(4,920)** |  | **37,116** |  |  |  | **44,276** |
|  |  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | Millions of Dollars | | | | | | | | | | | | | |
|  |  |  | Attributable to ConocoPhillips | | | | | | | | | |  |  | | |
|  |  |  | Common Stock | | | | | |  |  |  |  |  |  |  |  |
|  |  |  | Par Value | |  | Capital in  Excess of Par |  | Treasury Stock |  | Accum. Other Comprehensive Income (Loss) |  | Retained Earnings |  | Non-Controlling Interests |  | Total |
|  | **For the three months ended June 30, 2020** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Balances at March 31, 2020 | | $ | 18 |  | 47,027 |  | (47,130) |  | (6,145) |  | 37,545 |  | 72 |  | 31,387 |
|  | Net income | |  |  |  |  |  |  |  |  |  | 260 |  | 18 |  | 278 |
|  | Other comprehensive income | |  |  |  |  |  |  |  | 320 |  |  |  |  |  | 320 |
|  | Dividends paid ($0.42 per common share) | |  |  |  |  |  |  |  |  |  | (455) |  |  |  | (455) |
|  | Distributions to noncontrolling interests and other | |  |  |  |  |  |  |  |  |  |  |  | (6) |  | (6) |
|  | Dispositions | |  |  |  |  |  |  |  |  |  |  |  | (84) |  | (84) |
|  | Distributed under benefit plans | |  |  |  | 52 |  |  |  |  |  |  |  |  |  | 52 |
|  | Other | |  |  |  |  |  |  |  |  |  | 1 |  |  |  | 1 |
|  | **Balances at June 30, 2020** | | **$** | **18** |  | **47,079** |  | **(47,130)** |  | **(5,825)** |  | **37,351** |  | **-** |  | **31,493** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **For the six months ended June 30, 2020** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Balances at December 31, 2019 | | $ | 18 |  | 46,983 |  | (46,405) |  | (5,357) |  | 39,742 |  | 69 |  | 35,050 |
|  | Net income | |  |  |  |  |  |  |  |  |  | (1,479) |  | 46 |  | (1,433) |
|  | Other comprehensive loss | |  |  |  |  |  |  |  | (468) |  |  |  |  |  | (468) |
|  | Dividends paid ($0.84 per common share) | |  |  |  |  |  |  |  |  |  | (913) |  |  |  | (913) |
|  | Repurchase of company common stock | |  |  |  |  |  | (726) |  |  |  |  |  |  |  | (726) |
|  | Distributions to noncontrolling interests and other | |  |  |  |  |  |  |  |  |  |  |  | (32) |  | (32) |
|  | Dispositions | |  |  |  |  |  |  |  |  |  |  |  | (84) |  | (84) |
|  | Distributed under benefit plans | |  |  |  | 96 |  |  |  |  |  |  |  |  |  | 96 |
|  | Other | |  |  |  |  |  | 1 |  |  |  | 1 |  | 1 |  | 3 |
|  | **Balances at June 30, 2020** | | **$** | **18** |  | **47,079** |  | **(47,130)** |  | **(5,825)** |  | **37,351** |  | **-** |  | **31,493** |

**Note 8—****Guarantees**

At June 30, 2021, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability because the fair value of the obligation is immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantee and expect future performance to be either immaterial or have only a remote chance of occurrence.

**APLNG Guarantees**

At June 30, 2021, we had outstanding multiple guarantees in connection with our 37.5 percent ownership interest in APLNG. The following is a description of the guarantees with values calculated utilizing June 2021 exchange rates:

* During the third quarter of 2016, we issued a guarantee to facilitate the withdrawal of our pro-rata portion of the funds in a project finance reserve account. We estimate the remaining term of this guarantee is 10 years. Our maximum exposure under this guarantee is approximately $170 million and may become payable if an enforcement action is commenced by the project finance lenders against APLNG. At June 30, 2021, the carrying value of this guarantee was $14 million.
* In conjunction with our original purchase of an ownership interest in APLNG from Origin Energy in October 2008, we agreed to reimburse Origin Energy for our share of the existing contingent liability arising under guarantees of an existing obligation of APLNG to deliver natural gas under several sales agreements with remaining terms of 1 to 21 years. Our maximum potential liability for future payments, or cost of volume delivery, under these guarantees is estimated to be $710 million ($1.3 billion in the event of intentional or reckless breach) and would become payable if APLNG fails to meet its obligations under these agreements and the obligations cannot otherwise be mitigated. Future payments are considered unlikely, as the payments, or cost of volume delivery, would only be triggered if APLNG does not have enough natural gas to meet these sales commitments and if the co‑venturers do not make necessary equity contributions into APLNG.
* We have guaranteed the performance of APLNG with regard to certain other contracts executed in connection with the project’s continued development. The guarantees have remaining terms of 16 to 24 years or the life of the venture. Our maximum potential amount of future payments related to these guarantees is approximately $180 million and would become payable if APLNG does not perform. At June 30, 2021, the carrying value of these guarantees was $11 million.

**Other Guarantees**

We have other guarantees with maximum future potential payment amounts totaling approximately $740 million, which consist primarily of guarantees of the residual value of leased office buildings, guarantees of the residual value of corporate aircrafts, and a guarantee for our portion of a joint venture’s project finance reserve accounts. These guarantees have remaining terms of two to five years and would become payable if certain asset values are lower than guaranteed amounts at the end of the lease or contract term, business conditions decline at guaranteed entities, or as a result of nonperformance of contractual terms by guaranteed parties. At June 30, 2021, the carrying value of these guarantees was $11 million.

**Indemnifications**

Over the years, we have entered into agreements to sell ownership interests in certain legal entities, joint ventures and assets that gave rise to qualifying indemnifications. These agreements include indemnifications for taxes and environmental liabilities. Most of these indemnifications are related to tax issues and the majority of these expire in 2021. Those related to environmental issues have terms that are generally indefinite and the maximum amounts of future payments are generally unlimited. [See Note 9 for additional information about environmental liabilities.](#FNContin) The carrying amount recorded for these indemnification obligations at June 30, 2021, was $50 million. We amortize the indemnification liability over the relevant time period the indemnity is in effect, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information the liability is essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments.

**Note 9—****Contingencies and Commitments**

A number of lawsuits involving a variety of claims arising in the ordinary course of business have been filed against ConocoPhillips. We also may be required to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various active and inactive sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the low end of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. We accrue receivables for insurance or other third-party recoveries when applicable. With respect to income tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

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

**Environmental**

We are subject to international, federal, state and local environmental laws and regulations and record accruals for environmental liabilities based on management’s best estimates. These estimates are based on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies’ cleanup experience, and data released by the U.S. EPA or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable.

Although liability of those potentially responsible for environmental remediation costs is generally joint and several for federal sites and frequently so for other sites, we are usually only one of many companies cited at a particular site. Due to the joint and several liabilities, we could be responsible for all cleanup costs related to any site at which we have been designated as a potentially responsible party. We have been successful to date in sharing cleanup costs with other financially sound companies. Many of the sites at which we are potentially responsible are still under investigation by the EPA or the agency concerned. Prior to actual cleanup, those potentially responsible normally assess the site conditions, apportion responsibility and determine the appropriate remediation. In some instances, we may have no liability or may attain a settlement of liability. Where it appears that other potentially responsible parties may be financially unable to bear their proportional share, we consider this inability in estimating our potential liability, and we adjust our accruals accordingly. As a result of various acquisitions in the past, we assumed certain environmental obligations. Some of these environmental obligations are mitigated by indemnifications made by others for our benefit, and some of the indemnifications are subject to dollar limits and time limits.

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state and international sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except those acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. We have not reduced these accruals for possible insurance recoveries.

At June 30, 2021, our balance sheet included a total environmental accrual of $188 million, compared with $180 million at December 31, 2020, for remediation activities in the U.S. and Canada. We expect to incur a substantial amount of these expenditures within the next 30 years. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

**Litigation and Other Contingencies**

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

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

We have contingent liabilities resulting from throughput agreements with pipeline and processing companies not associated with financing arrangements. Under these agreements, we may be required to provide any such company with additional funds through advances and penalties for fees related to throughput capacity not utilized. In addition, at June 30, 2021, we had performance obligations secured by letters of credit of

$222 million (issued as direct bank letters of credit) related to various purchase commitments for materials, supplies, commercial activities and services incident to the ordinary conduct of business.

In 2007, ConocoPhillips was unable to reach agreement with respect to the empresa mixta structure mandated by the Venezuelan government’s Nationalization Decree. As a result, Venezuela’s national oil company, Petróleos de Venezuela, S.A. (PDVSA), or its affiliates, directly assumed control over ConocoPhillips’ interests in the Petrozuata and Hamaca heavy oil ventures and the offshore Corocoro development project. In response to this expropriation, ConocoPhillips initiated international arbitration on November 2, 2007, with the ICSID. On September 3, 2013, an ICSID arbitration tribunal held that Venezuela unlawfully expropriated ConocoPhillips’ significant oil investments in June 2007. On January 17, 2017, the Tribunal reconfirmed the decision that the expropriation was unlawful. In March 2019, the Tribunal unanimously ordered the government of Venezuela to pay ConocoPhillips approximately $8.7 billion in compensation for the government’s unlawful expropriation of the company’s investments in Venezuela in 2007. On August 29, 2019, the ICSID Tribunal issued a decision rectifying the award and reducing it by approximately $227 million. The award now stands at $8.5 billion plus interest. The government of Venezuela sought annulment of the award, which automatically stayed enforcement of the award. Annulment proceedings are underway.

In 2014, ConocoPhillips filed a separate and independent arbitration under the rules of the ICC against PDVSA under the contracts that had established the Petrozuata and Hamaca projects. The ICC Tribunal issued an award in April 2018, finding that PDVSA owed ConocoPhillips approximately $2 billion under their agreements in connection with the expropriation of the projects and other pre-expropriation fiscal measures. In August 2018, ConocoPhillips entered into a settlement with PDVSA to recover the full amount of this ICC award, plus interest through the payment period, including initial payments totaling approximately $500 million within a period of 90 days from the time of signing of the settlement agreement. The balance of the settlement is to be paid quarterly over a period of four and a half years. To date, ConocoPhillips has received approximately $754 million. Per the settlement, PDVSA recognized the ICC award as a judgment in various jurisdictions, and ConocoPhillips agreed to suspend its legal enforcement actions. ConocoPhillips sent notices of default to PDVSA on October 14 and November 12, 2019, and to date PDVSA has failed to cure its breach. As a result, ConocoPhillips has resumed legal enforcement actions. ConocoPhillips has ensured that the settlement and any actions taken in enforcement thereof meet all appropriate U.S. regulatory requirements, including those related to any applicable sanctions imposed by the U.S. against Venezuela.

In 2016, ConocoPhillips filed a separate and independent arbitration under the rules of the ICC against PDVSA under the contracts that had established the Corocoro Project. On August 2, 2019, the ICC Tribunal awarded ConocoPhillips approximately $33 million plus interest under the Corocoro contracts. ConocoPhillips is seeking recognition and enforcement of the award in various jurisdictions. ConocoPhillips has ensured that all the actions related to the award meet all appropriate U.S. regulatory requirements, including those related to any applicable sanctions imposed by the U.S. against Venezuela.

The Office of Natural Resources Revenue (ONRR) has conducted audits of ConocoPhillips’ payment of royalties on federal lands and has issued multiple orders to pay additional royalties to the federal government. ConocoPhillips and the ONRR entered into a settlement agreement on March 23, 2021, to resolve the dispute. All orders and associated appeals have been withdrawn with prejudice.

Beginning in 2017, cities, counties, governments and other entities in several states in the U.S. have filed lawsuits against oil and gas companies, including ConocoPhillips, seeking compensatory damages and equitable relief to abate alleged climate change impacts. Additional lawsuits with similar allegations are expected to be filed. The amounts claimed by plaintiffs are unspecified and the legal and factual issues involved in these cases are unprecedented. ConocoPhillips believes these lawsuits are factually and legally meritless and are an inappropriate vehicle to address the challenges associated with climate change and will vigorously defend against such lawsuits.

Several Louisiana parishes and the State of Louisiana have filed 43 lawsuits under Louisiana’s State and Local Coastal Resources Management Act (SLCRMA) against oil and gas companies, including ConocoPhillips, seeking compensatory damages for contamination and erosion of the Louisiana coastline allegedly caused by historical oil and gas operations. ConocoPhillips entities are defendants in 22 of the lawsuits and will vigorously defend against them. Because Plaintiffs’ SLCRMA theories are unprecedented, there is uncertainty about these claims (both as to scope and damages) and we continue to evaluate our exposure in these lawsuits.

In October 2020, the Bureau of Safety and Environmental Enforcement (BSEE) ordered the prior owners of Outer Continental Shelf (OCS) Lease P-0166, including ConocoPhillips, to decommission the lease facilities, including two offshore platforms located near Carpinteria, California. This order was sent after the current owner of OCS Lease P-0166 relinquished the lease and abandoned the lease platforms and facilities. BSEE’s order to ConocoPhillips is premised on its connection to Phillips Petroleum Company, a legacy company of ConocoPhillips, which held a historical 25 percent interest in this lease and operated these facilities, but sold its interest approximately 30 years ago. ConocoPhillips has not had any connection to the operation or production on this lease since that time. ConocoPhillips is challenging this order.

On May 10, 2021, ConocoPhillips filed arbitration under the rules of the Singapore International Arbitration Centre (SIAC) against Santos KOTN Pty Ltd. and Santos Limited for their failure to timely pay the $200 million bonus due upon a final investment decision (FID) of the Barossa development project under the sale and purchase agreement. Santos KOTN Pty Ltd. and Santos Limited have filed a response and counterclaim, and the arbitration is underway.

**Note 10—****Derivative and Financial Instruments**

We use futures, forwards, swaps and options in various markets to meet our customer needs, capture market opportunities and manage foreign exchange currency risk.

**Commodity Derivative Instruments**

Our commodity business primarily consists of natural gas, crude oil, bitumen, LNG and NGLs.

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | The following table presents the gross fair values of our commodity derivatives, excluding collateral, and the line items where they appear on our consolidated balance sheet: | | | | |
|  |  |  |  |  |  |
|  |  | Millions of Dollars | | | |
|  |  | **June 30** | |  | December 31 |
|  |  | **2021** | |  | 2020 |
|  | **Assets** |  |  |  |  |
|  | Prepaid expenses and other current assets | **$** | **685** |  | 229 |
|  | Other assets |  | **89** |  | 26 |
|  | **Liabilities** |  |  |  |  |
|  | Other accruals |  | **688** |  | 202 |
|  | Other liabilities and deferred credits |  | **64** |  | 18 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | The gains (losses) from commodity derivatives incurred, and the line items where they appear on our consolidated income statement were: | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | Millions of Dollars | | | | | | | |
|  |  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  | June 30 | | | | June 30 | | |
|  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Sales and other operating revenues |  | **$** | **(100)** |  | (50) |  | **(379)** |  | (3) |
|  | Other income (loss) |  |  | **(1)** |  | 3 |  | **16** |  | 5 |
|  | Purchased commodities |  |  | **132** |  | 24 |  | **145** |  | (2) |

On January 15, 2021, we assumed financial derivative instruments consisting of oil and natural gas swaps in connection with the acquisition of Concho. At the acquisition date, the financial derivative instruments acquired were recognized at fair value as a net liability of $456 million with settlement dates under the contracts through December 31, 2022. During the first quarter of 2021, we recognized a loss of $173 million on Concho derivative contracts with settlement dates on or before March 31, 2021, and an additional $132 million loss related to all remaining Concho derivative contracts with settlement dates subsequent to March 31, 2021, for a total loss of $305 million. This loss associated with the acquired financial instruments is recorded within the “Sales and other operating revenues” line on our consolidated income statement.

By the end of March 2021, all oil and natural gas derivative financial instruments acquired from Concho were contractually settled. In connection with the settlement, we issued a cash payment of $692 million in the first quarter of 2021 and $69 million in the second quarter of 2021. Cash settlements related to the Concho derivative contracts are presented within “Cash Flows From Operating Activities” on our consolidated cash flow statement.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | The table below summarizes our material net exposures resulting from outstanding commodity derivative contracts: | | | | |
|  |  |  |  |  |  |
|  |  | Open Position | | | |
|  | Long/(Short) | | | |
|  |  | **June 30** | |  | December 31 |
|  |  | **2021** | |  | 2020 |
|  | **Commodity** |  |  |  |  |
|  | Natural gas and power (billions of cubic feet equivalent) |  |  |  |  |
|  | Fixed price |  | **18** |  | (20) |
|  | Basis |  | **(6)** |  | (10) |

**Financial Instruments**

We invest in financial instruments with maturities based on our cash forecasts for the various accounts and currency pools we manage. The types of financial instruments in which we currently invest include:

* Time deposits: Interest bearing deposits placed with financial institutions for a predetermined amount of time.
* Demand deposits: Interest bearing deposits placed with financial institutions. Deposited funds can be withdrawn without notice.
* Commercial paper: Unsecured promissory notes issued by a corporation, commercial bank or government agency purchased at a discount to mature at par.
* U.S. government or government agency obligations: Securities issued by the U.S. government or U.S. government agencies.
* Foreign government obligations: Securities issued by foreign governments.
* Corporate bonds: Unsecured debt securities issued by corporations.
* Asset-backed securities: Collateralized debt securities.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | The following investments are carried on our consolidated balance sheet at cost, plus accrued interest and the table reflects remaining maturities at June 30, 2021 and December 31, 2020: | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | | | | | |
|  |  | Carrying Amount | | | | | | | | | | | |
|  |  | Cash and Cash Equivalents | | | |  | Short-Term Investments | | |  | Investments and Long-Term Receivables | | |
|  |  | **June 30** | |  | December 31 |  | **June 30** |  | December 31 |  | **June 30** |  | December 31 |
|  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Cash** | **$** | **899** |  | 597 |  |  |  |  |  |  |  |  |
|  | **Demand Deposits** |  | **1,541** |  | 1,133 |  |  |  |  |  |  |  |  |
|  | **Time Deposits** |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 1 to 90 days |  | **4,104** |  | 1,225 |  | **1,537** |  | 2,859 |  |  |  |  |
|  | 91 to 180 days |  |  |  |  |  | **270** |  | 448 |  |  |  |  |
|  | Within one year |  |  |  |  |  | **209** |  | 13 |  |  |  |  |
|  | One year through five years |  |  |  |  |  |  |  |  |  | **2** |  | 1 |
|  | **U.S. Government Obligations** |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 1 to 90 days |  | **16** |  | 23 |  | **-** |  | - |  |  |  |  |
|  |  | **$** | **6,560** |  | 2,978 |  | **2,016** |  | 3,320 |  | **2** |  | 1 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | The following investments in debt securities classified as available for sale are carried at fair value on our consolidated balance sheet at June 30, 2021 and December 31, 2020: | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | | | | | |
|  |  | Carrying Amount | | | | | | | | | | | |
|  |  |  | Cash and Cash Equivalents | | |  | Short-Term Investments | | |  | Investments and Long-Term Receivables | | |
|  |  |  | **June 30** |  | December 31 |  | **June 30** |  | December 31 |  | **June 30** |  | December 31 |
|  |  |  | **2021** |  | 2020 |  | **2021** |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Major Security Type** |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Corporate Bonds | **$** | **-** |  | - |  | **105** |  | 130 |  | **182** |  | 143 |
|  | Commercial Paper |  | **48** |  | 13 |  | **116** |  | 155 |  |  |  |  |
|  | U.S. Government Obligations |  | **-** |  | - |  | **2** |  | 4 |  | **8** |  | 13 |
|  | U.S. Government Agency |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Obligations |  |  |  |  |  |  |  |  |  | **10** |  | 17 |
|  | Foreign Government Obligations |  |  |  |  |  | **10** |  | - |  | **-** |  | 2 |
|  | Asset-backed Securities |  |  |  |  |  | **2** |  | - |  | **52** |  | 41 |
|  |  | **$** | **48** |  | 13 |  | **235** |  | 289 |  | **252** |  | 216 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash and Cash Equivalents and Short-Term Investments have remaining maturities within one year. | | | | | | | | | | | | |
|  | Investments and Long-Term Receivables have remaining maturities greater than one year through eight years. | | | | | | | | | | | | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | The following table summarizes the amortized cost basis and fair value of investments in debt securities classified as available for sale: | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Amortized Cost Basis | | | |  | Fair Value | | |
|  |  |  | **June 30** |  | December 31 |  | **June 30** |  | December 31 |
|  |  | **2021** | |  | 2020 | **2021** | |  | 2020 |
|  | **Major Security Type** |  |  |  |  |  |  |  |  |
|  | Corporate bonds | **$** | **286** |  | 271 |  | **287** |  | 273 |
|  | Commercial paper |  | **164** |  | 168 |  | **164** |  | 168 |
|  | U.S. government obligations |  | **10** |  | 17 |  | **10** |  | 17 |
|  | U.S. government agency obligations |  | **10** |  | 17 |  | **10** |  | 17 |
|  | Foreign government obligations |  | **10** |  | 2 |  | **10** |  | 2 |
|  | Asset-backed securities |  | **54** |  | 41 |  | **54** |  | 41 |
|  |  | **$** | **534** |  | 516 |  | **535** |  | 518 |

At June 30, 2021 and December 31, 2020, total unrealized losses for debt securities classified as available for sale with net losses were negligible. Additionally, at June 30, 2021 and December 31, 2020, investments in these debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded were negligible.

For the three- and six-month periods ended June 30, 2021, proceeds from sales and redemptions of investments in debt securities classified as available for sale were $173 million and $320 million, respectively. For the three- and six-month periods ended June 30, 2020, proceeds from sales and redemptions of investments in debt securities classified as available for sale were $126 million and $189 million, respectively. Gross realized gains and losses included in earnings from those sales and redemptions were negligible. The cost of securities sold and redeemed is determined using the specific identification method.

**Credit Risk**

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

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

Our trade receivables result primarily from our oil and gas operations and reflect a broad national and international customer base, which limits our exposure to concentrations of credit risk. The majority of these receivables have payment terms of 30 days or less, and we continually monitor this exposure and the creditworthiness of the counterparties. We may require collateral to limit the exposure to loss including, letters of credit, prepayments and surety bonds, as well as master netting arrangements to mitigate credit risk with counterparties that both buy from and sell to us, as these agreements permit the amounts owed by us or owed to others to be offset against amounts due to us.

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

The aggregate fair value of all derivative instruments with such credit risk-related contingent features that were in a liability position at June 30, 2021 and December 31, 2020, was $86 million and $25 million, respectively. For these instruments, no collateral was posted at June 30, 2021 or December 31, 2020. If our credit rating had been downgraded below investment grade at June 30, 2021, we would have been required to post $70 million of additional collateral, either with cash or letters of credit.

**Note 11****—Fair Value Measurement**

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

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

The classification of an asset or liability is based on the lowest level of input significant to its fair value. Those that are initially classified as Level 3 are subsequently reported as Level 2 when the fair value derived from unobservable inputs is inconsequential to the overall fair value, or if corroborated market data becomes available. Assets and liabilities initially reported as Level 2 are subsequently reported as Level 3 if corroborated market data is no longer available. There were no material transfers into or out of Level 3 during the three- and six-month periods ended June 30, 2021, nor during the year ended December 31, 2020.

**Recurring Fair Value Measurement**

Financial assets and liabilities reported at fair value on a recurring basis primarily include our investment in CVE common shares, our investments in debt securities classified as available for sale, and commodity derivatives.

* Level 1 derivative assets and liabilities primarily represent exchange-traded futures and options that are valued using unadjusted prices available from the underlying exchange. Level 1 also includes our investment in common shares of CVE, which is valued using quotes for shares on the NYSE, and our investments in U.S. government obligations classified as available for sale debt securities, which are valued using exchange prices.
* Level 2 derivative assets and liabilities primarily represent OTC swaps, options and forward purchase and sale contracts that are valued using adjusted exchange prices, prices provided by brokers or pricing service companies that are all corroborated by market data. Level 2 also includes our investments in debt securities classified as available for sale including investments in corporate bonds, commercial paper, asset-backed securities, U.S. government agency obligations and foreign government obligations that are valued using pricing provided by brokers or pricing service companies that are corroborated with market data.
* Level 3 derivative assets and liabilities consist of OTC swaps, options and forward purchase and sale contracts where a significant portion of fair value is calculated from underlying market data that is not readily available. The derived value uses industry standard methodologies that may consider the historical relationships among various commodities, modeled market prices, time value, volatility factors and other relevant economic measures. The use of these inputs results in management’s best estimate of fair value. Level 3 activity was not material for all periods presented.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Millions of Dollars | | | | | | | | | | | | | | | |
|  |  |  | **June 30, 2021** | | | | | | | |  | December 31, 2020 | | | | | | |
|  |  |  | **Level 1** | |  | **Level 2** |  | **Level 3** |  | **Total** |  | Level 1 |  | Level 2 |  | Level 3 |  | Total |
|  | **Assets** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Investment in CVE shares | | **$** | **1,802** |  | **-** |  | **-** |  | **1,802** |  | 1,256 |  | - |  | - |  | 1,256 |
|  | Investments in debt securities | |  | **10** |  | **525** |  | **-** |  | **535** |  | 17 |  | 501 |  | - |  | 518 |
|  | Commodity derivatives | |  | **402** |  | **349** |  | **23** |  | **774** |  | 142 |  | 101 |  | 12 |  | 255 |
|  | Total assets | | **$** | **2,214** |  | **874** |  | **23** |  | **3,111** |  | 1,415 |  | 602 |  | 12 |  | 2,029 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Liabilities** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Commodity derivatives | | **$** | **399** |  | **287** |  | **66** |  | **752** |  | 120 |  | 91 |  | 9 |  | 220 |
|  | Total liabilities | | **$** | **399** |  | **287** |  | **66** |  | **752** |  | 120 |  | 91 |  | 9 |  | 220 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | The following table summarizes those commodity derivative balances subject to the right of setoff as | | | | | | | | | | | | | | |
|  | presented on our consolidated balance sheet. We have elected to offset the recognized fair value amounts for | | | | | | | | | | | | | | |
|  | multiple derivative instruments executed with the same counterparty in our financial statements when a legal right of setoff exists. | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | | | | | | | |
|  |  |  |  |  |  |  | Amounts Subject to Right of Setoff | | | | | | | | |
|  |  | Gross | |  | Amounts Not |  |  |  | Gross |  | Net |  |  |  |  |
|  |  | Amounts | |  | Subject to |  | Gross | Amounts |  | Amounts |  | Cash |  | Net |
|  |  | Recognized | |  | Right of Setoff |  | Amounts | Offset |  | Presented |  | Collateral |  | Amounts |
|  | **June 30, 2021** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Assets | **$** | **774** |  | **28** |  | **746** |  | **464** |  | **282** |  | **-** |  | **282** |
|  | Liabilities |  | **752** |  | **26** |  | **726** |  | **464** |  | **262** |  | **17** |  | **245** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | December 31, 2020 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Assets | $ | 255 |  | 2 |  | 253 |  | 157 |  | 96 |  | 10 |  | 86 |
|  | Liabilities |  | 220 |  | 1 |  | 219 |  | 157 |  | 62 |  | 4 |  | 58 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | At June 30, 2021 and December 31, 2020, we did not present any amounts gross on our consolidated | | | | | | | | | | | | | | |
|  | balance sheet where we had the right of setoff. | | | | | | | | | | | | | | |

**Reported Fair Values of Financial Instruments**

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

* Cash and cash equivalents and short-term investments: The carrying amount reported on the balance sheet approximates fair value. For those investments classified as available for sale debt securities, the carrying amount reported on the balance sheet is fair value.
* Accounts and notes receivable (including long-term and related parties): The carrying amount reported on the balance sheet approximates fair value. The valuation technique and methods used to estimate the fair value of the current portion of fixed-rate related party loans is consistent with Loans and advances—related parties.
* Investment in CVE: [See Note 5 for a discussion of the carrying value and fair value of our investment in CVE common shares.](#FNCenovus)
* Investments in debt securities classified as available for sale: The fair value of investments in debt securities categorized as Level 1 in the fair value hierarchy is measured using exchange prices. The fair value of investments in debt securities categorized as Level 2 in the fair value hierarchy is measured using pricing provided by brokers or pricing service companies that are corroborated with market data. [See Note 10 for additional information.](#DerivNote)
* Loans and advances—related parties: The carrying amount of floating-rate loans approximates fair value. The fair value of fixed-rate loan activity is measured using market observable data and is categorized as Level 2 in the fair value hierarchy. [See Note 4 for additional information.](#FNILR)
* Accounts payable (including related parties) and floating-rate debt: The carrying amount of accounts payable and floating-rate debt reported on the balance sheet approximates fair value.
* Fixed-rate debt: The estimated fair value of fixed-rate debt is measured using prices available from a pricing service that is corroborated by market data; therefore, these liabilities are categorized as Level 2 in the fair value hierarchy.
* Commercial paper: The carrying amount of our commercial paper instruments approximates fair value and is reported on the balance sheet as short-term debt.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | The following table summarizes the net fair value of financial instruments (i.e., adjusted where the right of setoff exists for commodity derivatives): | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Carrying Amount | | | |  | Fair Value | | |
|  |  | **June 30** | |  | December 31 |  | **June 30** |  | December 31 |
|  | **2021** | | 2020 | **2021** |  | 2020 |
|  | **Financial assets** |  |  |  |  |  |  |  |  |
|  | Investment in CVE shares | **$** | **1,802** |  | 1,256 |  | **1,802** |  | 1,256 |
|  | Commodity derivatives |  | **310** |  | 88 |  | **310** |  | 88 |
|  | Investments in debt securities |  | **535** |  | 518 |  | **535** |  | 518 |
|  | Loans and advances—related parties |  | **168** |  | 220 |  | **168** |  | 220 |
|  | **Financial liabilities** |  |  |  |  |  |  |  |  |
|  | Total debt, excluding finance leases |  | **19,135** |  | 14,478 |  | **23,376** |  | 19,106 |
|  | Commodity derivatives |  | **271** |  | 59 |  | **271** |  | 59 |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Note 12—Accumulated Other Comprehensive Loss** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Accumulated other comprehensive loss in the equity section of our consolidated balance sheet included: | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | Millions of Dollars | | | | | | | |
|  |  |  | Defined Benefit Plans | |  | Net Unrealized Gain (Loss) on Securities |  | Foreign Currency Translation |  | Accumulated Other Comprehensive Loss |
|  |  |  |  |  |  |  |  |  |  |  |
|  | December 31, 2020 | | $ | (425) |  | 2 |  | (4,795) |  | (5,218) |
|  | Other comprehensive income (loss) | |  | **134** |  | **(1)** |  | **165** |  | **298** |
|  | **June 30, 2021** | | **$** | **(291)** |  | **1** |  | **(4,630)** |  | **(4,920)** |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| The following table summarizes reclassifications out of accumulated other comprehensive loss and into net income (loss): | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  | June 30 | | | |  | June 30 | | |
|  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |
| Defined benefit plans | | **$** | **42** |  | 8 |  | **54** |  | 16 |

*The above amounts are included in the computation of net periodic benefit cost and are presented net of tax expense of $**11 million and $**2 million for the three-month periods ended June 30, 2021 and June 30, 2020, respectively, and $**15 million and $**4 million for the six-month periods ended June 30, 2021 and June 30, 2020, respectively.* [*See Note 14 for additional information.*](#FNEBP)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Note 13—Cash Flow Information** | |  |  |  |  |
|  |  |  | Millions of Dollars | | | |
|  |  |  | Six Months Ended | | | |
|  |  |  | June 30 | | | |
|  |  |  |  | **2021** |  | 2020 |
|  | **Cash Payments** | |  |  |  |  |
|  | Interest | | **$** | **464** |  | 397 |
|  | Income taxes | |  | **107** |  | 761 |
|  |  |  |  |  |  |  |
|  | **Net Sales (Purchases) of Investments** | |  |  |  |  |
|  | Short-term investments purchased | | **$** | **(5,439)** |  | (7,021) |
|  | Short-term investments sold | |  | **6,842** |  | 6,147 |
|  | Long-term investments purchased | |  | **(149)** |  | (208) |
|  | Long-term investments sold | |  | **48** |  | 52 |
|  |  | | **$** | **1,302** |  | (1,030) |

[See Note 3 for additional information on cash and non-cash changes to our consolidated balance sheet associated with our Concho acquisition.](#AssetHFS)

**Note 14—****Employee Benefit Plans**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Pension and Postretirement Plans** |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | | | | | |
|  |  | Pension Benefits | | | | | | | |  | Other Benefits | | |
|  |  | **2021** | | | |  | 2020 | | |  | **2021** |  | 2020 |
|  |  |  | **U.S.** |  | **Int'l.** |  | U.S. |  | Int'l. |  |  |  |  |
|  | **Components of Net Periodic Benefit Cost** |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Three Months Ended June 30 |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Service cost | **$** | **18** |  | **16** |  | 21 |  | 13 |  | **1** |  | - |
|  | Interest cost |  | **15** |  | **20** |  | 17 |  | 20 |  | **1** |  | 1 |
|  | Expected return on plan assets |  | **(20)** |  | **(30)** |  | (21) |  | (34) |  | **-** |  | - |
|  | Amortization of prior service credit |  | **-** |  | **-** |  | - |  | - |  | **(10)** |  | (8) |
|  | Recognized net actuarial loss |  | **12** |  | **8** |  | 13 |  | 5 |  | **1** |  | - |
|  | Settlements |  | **42** |  | **-** |  | - |  | - |  | **-** |  | - |
|  | Net periodic benefit cost | **$** | **67** |  | **14** |  | 30 |  | 4 |  | **(7)** |  | (7) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Six Months Ended June 30 |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Service cost | **$** | **39** |  | **31** |  | 42 |  | 27 |  | **1** |  | 1 |
|  | Interest cost |  | **28** |  | **40** |  | 34 |  | 42 |  | **2** |  | 3 |
|  | Expected return on plan assets |  | **(44)** |  | **(60)** |  | (42) |  | (71) |  | **-** |  | - |
|  | Amortization of prior service credit |  | **-** |  | **-** |  | - |  | - |  | **(19)** |  | (16) |
|  | Recognized net actuarial loss |  | **27** |  | **16** |  | 25 |  | 11 |  | **1** |  | - |
|  | Settlements |  | **44** |  | **-** |  | 1 |  | (1) |  | **-** |  | - |
|  | Curtailments |  | **12** |  | **-** |  | - |  | - |  | **-** |  | - |
|  | Special Termination Benefits |  | **9** |  | **-** |  | - |  | - |  | **-** |  | - |
|  | Net periodic benefit cost | **$** | **115** |  | **27** |  | 60 |  | 8 |  | **(15)** |  | (12) |

The components of net periodic benefit cost, other than the service cost component, are included in the “Other expenses” line item on our consolidated income statement.

During the three-month period ended June 30, 2021, lump-sum benefit payments exceeded the sum of

service and interest costs for the year for the U.S. qualified pension plan and a U.S. non-qualified supplemental retirement plan. As a result, we recognized a proportionate share of prior actuarial losses from other comprehensive income as pension settlement expense of $42 million. In conjunction with the recognition of pension settlement expense, the fair market values of the pension plan assets were updated and the pension benefit obligations of the U.S. qualified pension plan and the U.S. non-qualified supplemental retirement plan were remeasured at June 30, 2021. At the measurement date, the net pension liability decreased by $30 million, primarily a result of better actual return on assets compared with the expected return, partially offset by a decrease in the discount rate, resulting in a corresponding increase to other comprehensive income.

As part of our restructuring program, we concluded that actions taken during the first quarter of 2021, would result in a significant reduction of future service of active employees in the U.S. qualified pension plan, a U.S. nonqualified supplemental retirement plan and the U.S. other postretirement benefit plans. As a result, we recognized an increase in the benefit obligation as a curtailment loss of $12 million on the U.S. pension benefit plans in the first quarter of 2021. In conjunction with the recognition of curtailment losses, the fair market values of pension plan assets were updated, and the pension benefit obligations of the U.S. qualified pension, a U.S. nonqualified supplemental retirement plan and the U.S. other postretirement benefit plans were remeasured. At March 31, 2021, the net pension liability decreased by $76 million, primarily as a result of discount rate increases for each plan offset by lower than premised return on assets on the U.S. qualified pension plan, resulting in a corresponding increase to other comprehensive income.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| The relevant discount rates are summarized in the following table: | | | | | | |
|  |  |  |  |  |  |  |
|  |  | **June 30** |  | March 31 |  | December 31 |
| **Discount rate** |  | **2021** |  | 2021 |  | 2020 |
| U.S. qualified pension plan | % | **2.65** |  | 3.00 |  | 2.40 |
| U.S. nonqualified pension plan |  | **2.15** |  | 2.40 |  | 1.85 |
| U.S. postretirement benefit plans |  | **\*** |  | 2.80 |  | 2.20 |
| \* Not remeasured at June 30, 2021. |  |  |  |  |  |  |

During the first six months of 2021, we contributed $269 million to our domestic benefit plans and $63 million to our international benefit plans. In 2021, we expect to contribute a total of approximately $365 million to our domestic qualified and nonqualified pension and postretirement benefit plans and $97 million to our international qualified and nonqualified pension and postretirement benefit plans.

**Severance Accrual**

The following table summarizes our severance accrual activity for the six-month period ended June 30, 2021:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  | Millions of Dollars | |
|  |  |  |  |
| Balance at December 31, 2020 | | $ | 24 |
| Accruals | |  | **102** |
| Benefit payments | |  | **(91)** |
| **Balance at June 30, 2021** | | **$** | **35** |

Accruals include severance costs associated with our restructuring program. Of the remaining balance at June 30, 2021, $20 million is classified as short-term. [See Note 3 for information relating to our Concho acquisition.](#AssetHFS)

**Note 15—Related Party Transactions**

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

Significant transactions with our equity affiliates were:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Millions of Dollars | | | | | | | |
|  |  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  | June 30 | | | | June 30 | | |
|  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Operating revenues and other income | | **$** | **24** |  | 21 |  | **40** |  | 38 |
|  | Purchases | |  | **3** |  | - |  | **3** |  | - |
|  | Operating expenses and selling, general and administrative | |  |  |  |  |  |  |  |  |
|  |  | expenses |  | **63** |  | 12 |  | **89** |  | 27 |
|  | Net interest (income) expense\* | |  | - |  | (2) |  | **(1)** |  | (4) |

*\*We paid interest to, or received interest from, various affiliates.* [*See Note 4 for additional information on loans to affiliated companies.*](#FNILR)

**Note 16—Sales and Other Operating Revenues**

**Revenue from Contracts with Customers**

The following table provides further disaggregation of our consolidated sales and other operating revenues:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  | June 30 | | | | June 30 | | |
|  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |
|  | Revenue from contracts with customers | **$** | **7,753** |  | 1,919 |  | **14,914** |  | 6,830 |
|  | Revenue from contracts outside the scope of ASC Topic 606 |  |  |  |  |  |  |  |  |
|  | Physical contracts meeting the definition of a derivative |  | **1,754** |  | 856 |  | **4,728** |  | 2,152 |
|  | Financial derivative contracts |  | **49** |  | (26) |  | **(260)** |  | (75) |
|  | Consolidated sales and other operating revenues | **$** | **9,556** |  | 2,749 |  | **19,382** |  | 8,907 |

Revenues from contracts outside the scope of ASC Topic 606 relate primarily to physical gas contracts at market prices which qualify as derivatives accounted for under ASC Topic 815, “Derivatives and Hedging,” and for which we have not elected NPNS. There is no significant difference in contractual terms or the policy for recognition of revenue from these contracts and those within the scope of ASC Topic 606. The following disaggregation of revenues is provided in conjunction with [Note 17—Segment Disclosures and Related Information](#SegmentNote):

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Millions of Dollars | | | | | | | |
|  |  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  | June 30 | | | | June 30 | | |
|  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  | **Revenue from Outside the Scope of ASC Topic 606** | |  |  |  |  |  |  |  |  |
|  |  | **by Segment** |  |  |  |  |  |  |  |  |
|  | Lower 48 | | **$** | **1,345** |  | 698 |  | **3,811** |  | 1,674 |
|  | Canada | |  | **207** |  | 121 |  | **510** |  | 300 |
|  | Europe, Middle East and North Africa | |  | **202** |  | 37 |  | **407** |  | 178 |
|  | Physical contracts meeting the definition of a derivative | | **$** | **1,754** |  | 856 |  | **4,728** |  | 2,152 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Millions of Dollars | | | | | | | |
|  |  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  | June 30 | | | | June 30 | | |
|  |  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  | **Revenue from Outside the Scope of ASC Topic 606** | |  |  |  |  |  |  |  |  |
|  |  | **by Product** |  |  |  |  |  |  |  |  |
|  | Crude oil | | **$** | **178** |  | 26 |  | **302** |  | 118 |
|  | Natural gas | |  | **1,504** |  | 763 |  | **4,231** |  | 1,853 |
|  | Other | |  | **72** |  | 67 |  | **195** |  | 181 |
|  | Physical contracts meeting the definition of a derivative | | **$** | **1,754** |  | 856 |  | **4,728** |  | 2,152 |

**Practical Expedients**

Typically, our commodity sales contracts are less than 12 months in duration; however, in certain specific cases may extend longer, which may be out to the end of field life. We have long-term commodity sales contracts which use prevailing market prices at the time of delivery, and under these contracts, the market-based variable consideration for each performance obligation (i.e., delivery of commodity) is allocated to each wholly unsatisfied performance obligation within the contract. Accordingly, we have applied the practical expedient allowed in ASC Topic 606 and do not disclose the aggregate amount of the transaction price allocated to performance obligations or when we expect to recognize revenues that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

**Receivables and Contract Liabilities**

*Receivables from Contracts with Customers*

At June 30, 2021, the “Accounts and notes receivable” line on our consolidated balance sheet, includes trade receivables of $3,504 million compared with $1,827 million at December 31, 2020, and includes both contracts with customers within the scope of ASC Topic 606 and those that are outside the scope of ASC Topic 606. We typically receive payment within 30 days or less (depending on the terms of the invoice) once delivery is made. Revenues that are outside the scope of ASC Topic 606 relate primarily to physical gas sales contracts at market prices for which we do not elect NPNS and are therefore accounted for as a derivative under ASC Topic 815. There is little distinction in the nature of the customer or credit quality of trade receivables associated with gas sold under contracts for which NPNS has not been elected compared to trade receivables where NPNS has been elected.

*Contract Liabilities from Contracts with Customers*

We have entered into contractual arrangements where we license proprietary technology to customers related to the optimization process for operating LNG plants. The agreements typically provide for negotiated payments to be made at stated milestones. The payments are not directly related to our performance under the contract and are recorded as deferred revenue to be recognized as revenue when the customer can utilize and benefit from their right to use the license.  Payments are received in installments over the construction period.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Millions of Dollars | |
|  | **Contract Liabilities** |  |  |
|  | At December 31, 2020 | **$** | 97 |
|  | Contractual payments received |  | 7 |
|  | Revenue recognized |  | (62) |
|  | **At June 30, 2021** | **$** | **42** |
|  |  |  |  |
|  | **Amounts Recognized in the Consolidated Balance Sheet at June 30, 2021** |  |  |
|  | Current liabilities | **$** | **42** |

For the six-month period of 2021, we recognized revenue of $62 million in the “Sales and other operating revenues” line on our consolidated income statement. No revenue was recognized during the three-month period ended June 30, 2021. We expect to recognize the contract liabilities as of June 30, 2021, as revenue during 2022.

**Note 17—****Segment Disclosures and Related Information**

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

Corporate and Other represents income and costs not directly associated with an operating segment, such as most interest income and expense; premiums on early retirement of debt; corporate overhead and certain technology activities, including licensing revenues; and unrealized holding gains or losses on equity securities. Corporate assets include all cash and cash equivalents and short-term investments.

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

Effective in the third quarter of 2020, we restructured our segments to align with changes to our internal organization. The Middle East business was realigned from the Asia Pacific and Middle East segment to the Europe and North Africa segment. The segments have been renamed the Asia Pacific segment and the Europe, Middle East and North Africa segment. We have revised segment information disclosures and segment performance metrics presented within our results of operations for the prior comparative periods.

On January 15, 2021, we completed our acquisition of Concho, an independent oil and gas exploration and production company with operations across New Mexico and West Texas. Results of operations for Concho are included in our Lower 48 segment for the current period. Certain transaction and restructuring costs associated with the Concho acquisition are included in our Corporate and Other segment. [See Note 3 for additional information.](#AssetHFS)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Analysis of Results by Operating Segment** |  |  |  |  |  |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  | June 30 | | | | June 30 | | |
|  |  |  | **2021** |  | 2020 |  | **2021** |  | 2020 |
|  | **Sales and Other Operating Revenues** |  |  |  |  |  |  |  |  |
|  | Alaska | **$** | **1,418** |  | 419 |  | **2,551** |  | 1,532 |
|  | Intersegment eliminations |  | **-** |  | 19 |  | **-** |  | 19 |
|  | Alaska |  | **1,418** |  | 438 |  | **2,551** |  | 1,551 |
|  | Lower 48 |  | **5,889** |  | 1,433 |  | **12,402** |  | 4,536 |
|  | Intersegment eliminations |  | **(2)** |  | (28) |  | **(4)** |  | (38) |
|  | Lower 48 |  | **5,887** |  | 1,405 |  | **12,398** |  | 4,498 |
|  | Canada |  | **802** |  | 165 |  | **1,669** |  | 678 |
|  | Intersegment eliminations |  | **(352)** |  | - |  | **(657)** |  | (180) |
|  | Canada |  | **450** |  | 165 |  | **1,012** |  | 498 |
|  | Europe, Middle East and North Africa |  | **1,165** |  | 288 |  | **2,143** |  | 888 |
|  | Asia Pacific |  | **630** |  | 450 |  | **1,207** |  | 1,453 |
|  | Other International |  | **2** |  | 1 |  | **3** |  | 4 |
|  | Corporate and Other |  | **4** |  | 2 |  | **68** |  | 15 |
|  | Consolidated sales and other operating revenues | **$** | **9,556** |  | 2,749 |  | **19,382** |  | 8,907 |
|  |  |  |  |  |  |  |  |  |  |
|  | **Sales and Other Operating Revenues by Geographic Location(1)** | | | | | | | | |
|  | United States | **$** | **7,308** |  | 1,844 |  | **15,015** |  | 6,061 |
|  | Australia |  | **-** |  | 168 |  | **-** |  | 605 |
|  | Canada |  | **450** |  | 165 |  | **1,012** |  | 498 |
|  | China |  | **171** |  | 67 |  | **326** |  | 213 |
|  | Indonesia |  | **207** |  | 132 |  | **403** |  | 336 |
|  | Libya |  | **290** |  | **-** |  | **520** |  | 44 |
|  | Malaysia |  | **252** |  | 83 |  | **478** |  | 299 |
|  | Norway |  | **618** |  | 242 |  | **1,030** |  | 688 |
|  | United Kingdom |  | **257** |  | 46 |  | **593** |  | 156 |
|  | Other foreign countries |  | **3** |  | 2 |  | **5** |  | 7 |
|  | Worldwide consolidated | **$** | **9,556** |  | 2,749 |  | **19,382** |  | 8,907 |
|  |  |  |  |  |  |  |  |  |  |
|  | **Sales and Other Operating Revenues by Product** |  |  |  |  |  |  |  |  |
|  | Crude oil | **$** | **5,797** |  | 1,216 |  | **10,292** |  | 4,660 |
|  | Natural gas |  | **2,812** |  | 1,190 |  | **7,323** |  | 2,845 |
|  | Natural gas liquids |  | **325** |  | 84 |  | **562** |  | 235 |
|  | Other(2) |  | **622** |  | 259 |  | **1,205** |  | 1,167 |
|  | Consolidated sales and other operating revenues by product | **$** | **9,556** |  | 2,749 |  | **19,382** |  | 8,907 |
|  | *(1) Sales and other operating revenues are attributable to countries based on the location of the selling operation.*  *(2) Includes LNG and bitumen.* | | | | | | | | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Millions of Dollars | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  |  |  | June 30 | | |  | June 30 | | |
|  |  |  | **2021** |  | 2020 |  | **2021** |  | 2020 |
|  | **Net Income (Loss) Attributable to ConocoPhillips** |  |  |  |  |  |  |  |  |
|  | Alaska | **$** | **371** |  | (141) |  | **530** |  | (60) |
|  | Lower 48 |  | **1,175** |  | (365) |  | **1,643** |  | (802) |
|  | Canada |  | **102** |  | (86) |  | **112** |  | (195) |
|  | Europe, Middle East and North Africa |  | **207** |  | 25 |  | **360** |  | 226 |
|  | Asia Pacific |  | **175** |  | 648 |  | **492** |  | 920 |
|  | Other International |  | **(5)** |  | (6) |  | **(9)** |  | 22 |
|  | Corporate and Other |  | **66** |  | 185 |  | **(55)** |  | (1,590) |
|  | Consolidated net income (loss) attributable to ConocoPhillips | **$** | **2,091** |  | 260 |  | **3,073** |  | (1,479) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Millions of Dollars | | | |
|  |  | **June 30** | |  | December 31 |
|  | **2021** | | 2020 |
|  | **Total Assets** |  |  |  |  |
|  | Alaska | **$** | **14,636** |  | 14,623 |
|  | Lower 48 |  | **32,309** |  | 11,932 |
|  | Canada |  | **6,991** |  | 6,863 |
|  | Europe, Middle East and North Africa |  | **8,616** |  | 8,756 |
|  | Asia Pacific |  | **10,721** |  | 11,231 |
|  | Other International |  | **239** |  | 226 |
|  | Corporate and Other |  | **11,891** |  | 8,987 |
|  | Consolidated total assets | **$** | **85,403** |  | 62,618 |

## Note 18—Income Taxes

Our effective tax rate was 32 percent in the three-month period ended June 30, 2021 and was negative for the comparable period of 2020. Both periods were primarily impacted by shifts in our before-tax income between higher and lower tax jurisdictions as well as the change in our U.S. valuation allowance driven by the fair value measurement of our CVE common shares.

Our effective tax rates for the six-months ended June 30, 2021 and 2020 were 36 percent and 7 percent, respectively and both periods were impacted by the same items noted above. Additionally, our effective tax rate for the six-month period ended June 30, 2021 was adversely impacted by $75 million due to incremental interest deductions from the exchange of debt acquired from Concho offsetting U.S. foreign source revenue that would otherwise have been offset by foreign tax credits. The six-month period ending June 30, 2020, was also impacted by the tax effect of the gain on disposition recognized for Australia-West assets. [For additional information relating to the debt exchange, see Note 6.](#DebtFN)

During the three and six-month periods of 2021, our valuation allowance decreased by $87 million and $151 million, respectively, compared to a decrease of $117 million and an increase of $229 for the same periods of 2020. The change to our U.S. valuation allowance for all periods relates primarily to the fair value measurement of our CVE common shares and our expectation of the tax impact related to incremental capital gains and losses.

The Company has ongoing income tax audits in a number of jurisdictions. The government agents in charge of these audits regularly request additional time to complete audits, which we generally grant, and conversely occasionally close audits unpredictably. Within the next twelve months we may have audit periods close that could significantly impact our total unrecognized tax benefits. The amount of such change and the associated impact on our financial statements is not estimable at this time.

Our deferred tax liability increased by approximately $1.1 billion as part of the liabilities assumed through our Concho acquisition. Additionally, our reserve for unrecognized tax benefits increased by $150 million related to tax credit carryovers acquired from Concho that we do not expect to recognize. [For additional information relating to the Concho acquisition, see Note 3.](#AssetHFS)

**Item 2. MANAGEMENT’S DIS****CUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management’s Discussion and Analysis is the company’s analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the financial statements and notes. It contains forward-looking statements including, without limitation, statements relating to the company’s plans, strategies, objectives, expectations and intentions that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “budget,” “continue,” “could,” “effort,” “estimate,” “expect,” “forecast,” “goal,” “guidance,” “intend,” “may,” “objective,” “outlook,” “plan,” “potential,” “predict,” “projection,” “seek,” “should,” “target,” “will,” “would,” and similar expressions identify forward-looking statements. The company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the company’s disclosures under the heading: “CAUTIONARY STATEMENT FOR THE PURPOSES OF THE ‘SAFE HARBOR’ PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995,” beginning on page 57.

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

# **BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW**

ConocoPhillips is the world’s largest independent E&P company with operations and activities in 15 countries. Our diverse, low cost of supply portfolio includes resource-rich unconventional plays in North America; conventional assets in North America, Europe, and Asia; LNG developments; oil sands in Canada; and an inventory of global conventional and unconventional exploration prospects. Headquartered in Houston, Texas, at June 30, 2021, we employed approximately 10,100 people worldwide and had total assets of $85 billion.

**Completed Acquisition of Concho Resources Inc.**

On January 15, 2021, we completed our acquisition of Concho Resources Inc. (Concho), an independent oil and gas exploration and production company with operations across New Mexico and West Texas. The addition of complementary acreage in the Delaware and Midland Basins creates a sizeable Permian presence to augment our leading unconventional positions in the Eagle Ford, Bakken and Montney.

Since the closing of the transaction, we have made significant progress in integrating the two companies and have exceeded our own expectations in realizing synergies and savings that should have long lasting positive effects on our business. We previously announced an expected $750 million of annual cost and capital savings by 2022. However, due to additional benefits anticipated from further cost, capital, and margin improvements, we now expect approximately $1 billion in annual synergies and savings by 2022. [See Note 3 for additional information related to our Concho acquisition.](#AssetHFS)

**Overview**

While commodity prices continued to improve in the second quarter of 2021, we believe that prices will remain cyclical and volatile. Our view is that a successful business strategy in the E&P industry must be resilient in lower price environments, while also retaining upside during periods of higher prices. As such, we are unhedged, remain disciplined in our investment decisions and are monitoring market fundamentals, including OPEC plus updates regarding supply guidance, inventory levels, and capital restraint across the industry. Demand is still recovering but has yet to reach pre-pandemic levels. The speed and extent of this recovery will be influenced by whether and at what pace the COVID-19 restrictions that have reduced economic activity and depressed the demand for our products globally are eased.

As the macro energy environment continues to evolve, we have embraced what we believe sector leadership requires and we call it our triple mandate. We believe ConocoPhillips can play a valued role in whatever pathway the energy transition takes by investing in the lowest cost of supply barrels to help meet global energy demand, delivering competitive returns of and on capital, and achieving our net-zero ambition on our gross operated (scope 1 and 2) emissions.

Our triple mandate is supported by financial principles and allocation priorities that should allow us to deliver superior returns through the price cycles. Our financial principles consist of maintaining balance sheet strength, providing peer-leading distributions, making disciplined investments, and delivering ESG excellence, all of which are in service of delivering financial returns. Our acquisition of Concho further reinforced our value proposition. In the second quarter, total company production was 1,588 MBOED, including 435 MBOED from the Permian Basin, resulting in cash provided by operating activities of $4.3 billion. In the six-month period ended June 30, 2021, we have generated $6.3 billion in cash provided by operating activities, returning $1.2 billion to shareholders through dividends and $1 billion through share repurchases. We ended the quarter with cash, cash equivalents and short-term investments totaling $8.9 billion.

In February 2021, we resumed our share repurchase program at an annualized level of $1.5 billion which was increased in the second quarter to an annualized level of $2.5 billion for 2021.

Additionally, in May 2021 we announced a paced monetization program related to the 208 million shares of Cenovus Energy (CVE) common shares owned at that time. We plan to fully dispose of our CVE shares by year-end 2022, however, the sales pace for the remaining shares will be guided by market conditions, and we retain discretion to adjust accordingly. The proceeds from this disposition will be deployed towards incremental share repurchases. During the second quarter of 2021 we sold 20 million shares or approximately 10 percent of the shares held at December 31, 2020 for $180 million. Based on current market conditions, in 2021 we anticipate $1 billion in proceeds to be directed towards our existing share repurchase authorization, bringing our total 2021 share repurchases to an estimated $3.5 billion. [See Note 5 for additional information on our investment in CVE.](#FNCenovus)

These share repurchases along with our annual dividend of $2.3 billion amount to a total of approximately $6 billion in planned distributions for 2021.

In May 2021, we demonstrated our commitment to preserving our ‘A’-rated balance sheet by announcing our intent to reduce the company’s gross debt by $5 billion over five years through natural and accelerated maturities.

In June 2021, we affirmed our commitment to ESG leadership and excellence, and to the specific targets that we set in October 2020 when we became the first U.S.-based oil and gas company to adopt a Paris-aligned climate-risk strategy. Our commitment includes:

* Net-zero ambition for operational (scope 1 and 2) emissions by 2050 with active advocacy for a price on carbon to address end-use (scope 3) emissions;
* Targeting a reduction in operational greenhouse gas emissions intensity by 35 to 45 percent from 2016 levels by 2030;
* Zero routine flaring by 2030, with an ambition to get there by 2025;
* 10 percent reduction target for methane emissions intensity by 2025, in addition to the 65 percent reductions we have made since 2015;
* Adding continuous methane monitoring devices to our operations with a focus on the larger Lower 48 facilities;
* Formation of a dedicated low carbon technology organization responsible for identifying and prioritizing global emissions reduction initiatives and opportunities associated with the energy transition including carbon capture, utilization and storage (CCUS) and hydrogen; and
* ESG performance in executive and employee compensation programs.

Operationally, we remain focused on safely executing the business. Production was 1,588 MBOED in the second quarter of 2021, an increase of 607 MBOED or 62 percent, compared with the second quarter of 2020, primarily due to the acquisition of approximately 330 MBOED in the Permian Basin from our Concho acquisition and the absence of last year’s economic curtailments driven by weakness in oil prices predominantly in operated North American assets.

We re-invested $1.3 billion back into the business in the form of capital expenditures during the second quarter, with over half of our investments focused on flexible, short-cycle unconventional plays in the Lower 48 segment where our production is liquids-weighted and is accessible to both domestic and export markets. For the full year, driven by efficiencies we have already captured from the Concho transaction, we have reduced our 2021 capital guidance to $5.3 billion and cost guidance to $6.1 billion for 2021.

**Business Environment**

Commodity prices are the most significant factor impacting our profitability and related reinvestment of operating cash flows into our business. Among other dynamics that could influence world energy markets and commodity prices are global economic health, supply or demand disruptions or fears thereof caused by civil unrest, global pandemics, military conflicts, actions taken by OPEC plus and other major oil producing countries, environmental laws, tax regulations, governmental policies, and weather-related disruptions. Our strategy is to create value through price cycles by delivering on the financial, operational and ESG priorities that underpin our value proposition.

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

|  |
| --- |
|  |

Brent crude oil prices averaged $68.83 per barrel in the second quarter of 2021, an increase of 136 percent compared with $29.20 per barrel in the second quarter of 2020. WTI at Cushing crude oil prices averaged $66.07 per barrel in the second quarter of 2021, an increase of 137 percent compared with $27.85 per barrel in the second quarter of 2020. Oil prices increased alongside the ongoing global economic recovery following 2020’s COVID closures as well as OPEC plus supply restraint.

Henry Hub natural gas prices averaged $2.83 per MMBTU in the second quarter of 2021, an increase of 65 percent compared with $1.71 per MMBTU in the second quarter of 2020. Henry Hub prices have increased due to healthy domestic demand accompanied by record levels of feedgas demand for LNG exports to Europe and Asia.

Our realized bitumen price averaged $37.60 per barrel in the second quarter of 2021, an increase of approximately $61 per barrel compared with negative $23.11 per barrel in the second quarter of 2020. The increase in the second quarter of 2021 was driven by higher blend price for Surmont sales, largely attributed to a strengthening of WTI price and reduced unutilized transportation costs which negatively impacted our realized bitumen price in 2020. We continue to optimize bitumen price realizations through the utilization of downstream transportation solutions and implementation of alternate blend capability which results in lower diluent costs.

Our total average realized price was $50.03 per BOE in the second quarter of 2021, increased in comparison with $23.09 per BOE in the second quarter of 2020.

**Key Operating and Financial Summary**

Significant items during the second quarter of 2021 and recent announcements included the following:

* Delivered strong operational performance across the company’s asset base, including successful planned maintenance turnarounds, resulting in second quarter production of 1,547 MBOED, excluding Libya.
* Net cash provided by operating activities was $4.3 billion, exceeding capital expenditures and investments of $1.3 billion.
* Distributed $1.2 billion to shareholders, comprised of $0.6 billion in dividends and $0.6 billion in share repurchases.
* Ended the quarter with cash and cash equivalents totaling $6.6 billion and short-term investments of $2.3 billion, equaling $8.9 billion in ending cash, cash equivalents and short-term investments.
* Entered into divestiture agreements during July for certain Lower 48 noncore assets totaling approximately $0.2 billion, subject to customary closing adjustments, as part of the company’s plan to generate $2 to $3 billion in disposition proceeds over the next 18 months.

**Outlook**

*Capital, Cost and Production*

In June 2021, due to realizing synergistic savings from our Concho acquisition earlier than anticipated, we announced reductions of full year 2021 operating plan capital and cost guidance by a combined $300 million. Capital guidance was reduced to $5.3 billion and cost guidance to $6.1 billion for the full year 2021.

Third-quarter 2021 production is expected to be 1.48 to 1.52 MMBOED, reflecting seasonal turnarounds planned in Alaska and the Asia Pacific region. This production guidance excludes Libya and assumes that previously announced divestitures close during the third quarter of 2021. All other guidance items are unchanged.

*Depreciation, Depletion and Amortization*

DD&A expense was $1.9 billion in the second quarter of 2021.  Proved reserves estimates were updated in the current quarter utilizing historical twelve-month first-of-month average prices, which decreased second quarter DD&A expense by approximately $160 million before-tax.  Depending on price fluctuations, we would expect reserve estimates to either increase or decrease.

**RESULTS OF OPERATIONS**

*Effective with the third quarter of 2020, we have restructured our segments to align with changes to our internal organization. The Middle East business was realigned from the Asia Pacific and Middle East segment to the Europe and North Africa segment. The segments have been renamed the Asia Pacific segment and the Europe, Middle East and North Africa segment. We have revised segment information disclosures and segment performance metrics presented within our results of operations for the prior comparative periods.*

*Unless otherwise indicated, discussion of results for the three- and six-month periods ended June 30, 2021, is based on a comparison with the corresponding periods of 2020.*

**Consolidated Results**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | Millions of Dollars | | | | | | | |
|  | Three Months Ended | | | |  | Six Months Ended | | |
| June 30 | | | | June 30 | | |
|  |  | **2021** |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |
| Alaska | **$** | **371** |  | (141) |  | **530** |  | (60) |
| Lower 48 |  | **1,175** |  | (365) |  | **1,643** |  | (802) |
| Canada |  | **102** |  | (86) |  | **112** |  | (195) |
| Europe, Middle East and North Africa |  | **207** |  | 25 |  | **360** |  | 226 |
| Asia Pacific |  | **175** |  | 648 |  | **492** |  | 920 |
| Other International |  | **(5)** |  | (6) |  | **(9)** |  | 22 |
| Corporate and Other |  | **66** |  | 185 |  | **(55)** |  | (1,590) |
| Net income (loss) attributable to ConocoPhillips | **$** | **2,091** |  | 260 |  | **3,073** |  | (1,479) |

Net income (loss) attributable to ConocoPhillips in the second quarter of 2021 increased $1,831 million. Earnings were positively impacted by:

* Higher realized commodity prices.
* Higher sales volumes, primarily due to our Concho acquisition and absence of production curtailments in our operated North American assets. [For additional information related to our Concho acquisition, see Note 3.](#AssetHFS)

Second quarter 2021 net income increases were partly offset by:

* Higher DD&A expenses primarily due to our Concho acquisition and the absence of production curtailments in our operated North American assets, partially offset by lower rates driven from price-related reserve revisions due to higher commodity prices in 2021.
* Higher production and operating expenses and taxes other than income taxes, primarily due to our Concho acquisition and the absence of production curtailments in our operated North American assets.
* Absence of a $597 million after-tax gain on dispositions related to our Australia-West divestiture in May 2020.

Net income (loss) attributable to ConocoPhillips in the six-month period ended June 30, 2021, increased $4,552 million. In addition to the items detailed above, earnings were positively impacted by:

* A gain of $726 million after-tax on our CVE common shares, compared with an after-tax loss of $1,140 million in the first half of 2020. [For discussion of our CVE common shares, see Note 5.](#FNCenovus)
* Lower impairments by $519 million, primarily due to the absence of impairments to noncore gas assets in our Lower 48 segment.

In addition to the items detailed above, the increases in earnings in the six-month period ended June 30, 2021, were partly offset by:

* Restructuring and transaction expenses of approximately $261 million after-tax related to our Concho acquisition and mark-to-market impacts on certain key employee compensation programs.
* Realized losses on hedges of $233 million after-tax related to derivative positions assumed through our Concho acquisition. These derivative positions were settled entirely within the first quarter of 2021. [See Note 10 for additional information.](#DerivNote)

See the “Segment Results” section for additional information.

**Income Statement Analysis**

*Unless otherwise indicated, all results in Income Statement Analysis are before-tax.*

Sales and other operating revenues for the three- and six-month periods of 2021 increased $6,807 million and $10,475 million, respectively, mainly due to higher realized commodity prices and higher sales volumes in the Lower 48, primarily related to our Concho acquisition and the absence of production curtailments in our operated North American assets.

Equity in earnings of affiliates for the three-month period of 2021 increased $62 million primarily due to higher earnings driven by higher LNG and crude prices, partially offset by a higher effective tax rate related to equity method investments in our Europe, Middle East, and North Africa segment. For the six-month period of 2021, Equity in earnings of affiliates decreased $50 million primarily due to lower earnings driven by lower LNG lagging contract prices in 2021 when compared with the same periods in 2020.

Gain on dispositions for the three- and six-month periods of 2021 decreased $537 million and $262 million, respectively, primarily due to the absence of a $587 million gain associated with our Australia-West divestiture. The six-month decrease was partially offset by recognition of a $200 million FID bonus associated with our Australia-West divestiture in the first quarter of 2021.

Other income (loss) for the three-month period of 2021 decreased $137 million and for the six-month period increased $1,780 million. During these periods in 2021, we recognized gains of $418 million and $726 million, respectively, on our CVE common shares, compared with a gain of $551 million and loss of $1,140 million, respectively, for the same periods in 2020.

Purchased commodities for the three- and six-month periods of 2021 increased $1,868 million and $3,690 million, respectively, primarily due to higher gas and crude prices. In the six-month period of 2021, higher prices were partly offset by lower crude oil volumes purchased.

Production and operating expenses for the three- and six-month periods of 2021 increased $332 million and $542 million, respectively, primarily due to costs associated with additional volumes in our operated North American assets related to our Concho acquisition and the absence of production curtailments.

Selling, general and administrative expenses increased $275 million in the six-month period of 2021, primarily due to higher costs associated with compensation and benefits, including mark-to-market impacts of certain key employee compensation programs, and transaction and restructuring expenses associated with our Concho acquisition.

Exploration expenses for the six-month period of 2021 decreased $144 million, primarily due to the absence of an unproved property impairment and dry hole expenses related to the Kamunsu East Field in Malaysia and the absence of charges associated with the early termination of our 2020 winter exploration program in Alaska.

DD&A for the three- and six-month periods of 2021 increased $709 million and $1,184 million, respectively, mainly due to higher production volumes in the Lower 48 associated with our Concho acquisition and higher volumes in each of our North American assets due to the absence of production curtailments, Montney ramp up and Kelt acquisition in Canada. These increases were partly offset by lower rates from price-related reserve revisions in Lower 48 and Canada.

Impairments decreased $520 million in the six-month period of 2021, primarily due to the absence of a $511 million impairment of certain non-core gas assets in our Lower 48 segment.

Taxes other than income taxes for the three- and six-month periods of 2021 increased $240 million and $360 million, respectively, primarily due to higher sales volumes in Lower 48 from our Concho acquisition, the absence of production curtailments in all of our North American assets and higher commodity prices.

Foreign currency transaction (gain) loss in the six-month period of 2021 was a loss of $29 million compared with a gain of $83 million in the six-month period of 2020. This increase of $112 million was primarily due to the absence of gains recognized from foreign currency derivatives and other foreign currency remeasurements.

See [Note 18—Income Taxes](#TaxNote) for information regarding our income tax provision (benefit) and effective tax rate.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Summary Operating Statistics** | | | | | | | | | |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  | June 30 | | | | June 30 | | |
|  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
| **Average Net Production** | |  |  |  |  |  |  |  |  |
| Crude oil (MBD) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations |  | **836** |  | 460 |  | **820** |  | 551 |
|  | Equity affiliates |  | **13** |  | 14 |  | **13** |  | 13 |
|  | Total crude oil |  | **849** |  | 474 |  | **833** |  | 564 |
|  |  |  |  |  |  |  |  |  |  |
| Natural gas liquids (MBD) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations |  | **120** |  | 85 |  | **113** |  | 101 |
|  | Equity affiliates |  | **8** |  | 8 |  | **8** |  | 7 |
|  | Total natural gas liquids |  | **128** |  | 93 |  | **121** |  | 108 |
|  |  |  |  |  |  |  |  |  |  |
| Bitumen (MBD) | |  | **68** |  | 34 |  | **69** |  | 50 |
|  |  |  |  |  |  |  |  |  |  |
| Natural gas (MMCFD) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations |  | **2,209** |  | 1,221 |  | **2,142** |  | 1,429 |
|  | Equity affiliates |  | **1,051** |  | 1,056 |  | **1,066** |  | 1,046 |
|  | Total natural gas |  | **3,260** |  | 2,277 |  | **3,208** |  | 2,475 |
|  |  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) | |  | **1,588** |  | 981 |  | **1,558** |  | 1,135 |
|  |  |  | | | | | |  |  |
|  |  | Dollars Per Unit | | | | | | | |
| **Average Sales Prices** | |  |  |  |  |  |  |  |  |
| Crude oil (per bbl) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations\* | **$** | **65.54** |  | 25.10 |  | **61.60** |  | 38.81 |
|  | Equity affiliates |  | **64.10** |  | 25.32 |  | **62.03** |  | 38.52 |
|  | Total crude oil |  | **65.51** |  | 25.10 |  | **61.60** |  | 38.80 |
|  |  |  |  |  |  |  |  |  |  |
| Natural gas liquids (per bbl) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations |  | **25.62** |  | 8.29 |  | **25.06** |  | 10.85 |
|  | Equity affiliates |  | **44.12** |  | 23.93 |  | **46.53** |  | 32.38 |
|  | Total natural gas liquids |  | **26.87** |  | 9.88 |  | **26.68** |  | 12.63 |
|  |  |  |  |  |  |  |  |  |  |
| Bitumen (per bbl) | |  | **37.60** |  | (23.11) |  | **34.09** |  | (3.09) |
|  |  |  |  |  |  |  |  |  |  |
| Natural gas (per MCF) | |  |  |  |  |  |  |  |  |
|  | Consolidated operations\* |  | **4.25** |  | 2.64 |  | **4.56** |  | 3.19 |
|  | Equity affiliates |  | **3.97** |  | 3.90 |  | **3.76** |  | 4.65 |
|  | Total natural gas |  | **4.16** |  | 3.22 |  | **4.29** |  | 3.81 |
|  |  |  | | | | |  |  |  |
|  |  | Millions of Dollars | | | | | | | |
| **Exploration Expenses** | |  |  |  |  |  |  |  |  |
| General administrative, geological and geophysical, | |  |  |  |  |  |  |  |  |
|  | lease rental, and other | **$** | **56** |  | 94 |  | **134** |  | 215 |
| Leasehold impairment | |  | **1** |  | - |  | **1** |  | 31 |
| Dry holes | |  | **-** |  | 3 |  | **6** |  | 39 |
|  |  | **$** | **57** |  | 97 |  | **141** |  | 285 |

*\*Average sales prices, including the impact of hedges settling per initial contract terms in the first quarter of 2021 assumed in our Concho acquisition, were $60.59 per barrel for crude oil and $4.50 per mcf for natural gas for the six-month period ended June 30, 2021. As of March 31, 2021, we had settled all oil and gas hedging positions acquired from Concho.* [*See Note 10 for additional information.*](#DerivNote)

We explore for, produce, transport and market crude oil, bitumen, natural gas, LNG and NGLs on a worldwide basis. At June 30, 2021, our operations were producing in the U.S., Norway, Canada, Australia, Indonesia, China, Malaysia, Qatar and Libya.

Total production of 1,588 MBOED increased 607 MBOED or 62 percent in the second quarter of 2021 and 423 MBOED or 37 percent in the six-month period of 2021, primarily due to:

* Higher volumes in the Lower 48 due to our Concho acquisition.
* Higher volumes in our operated North American assets and Malaysia due to the absence of production curtailments.
* New wells online in the Lower 48, Canada, Norway, Malaysia, and Australia.
* Higher production in Libya due the absence of a forced shutdown of the Es Sider export terminal and other eastern export terminals after a period of civil unrest.

The increase in the second quarter and in the six-month period of 2021 was partly offset by:

* Normal field decline.
* Disposition activity primarily related to our Australia-West divestiture completed in the second quarter of 2020.

In addition to the items detailed above, in the six-month period of 2021, production also decreased due to:

* Higher unplanned downtime in the Lower 48 due to Winter Storm Uri, which impacted production by approximately 50 MBOED in the first quarter of 2021.

Production excluding Libya for the second quarter of 2021 was 1,547 MBOED, an increase of 566 MBOED from the same period a year ago. After adjusting for closed acquisitions and dispositions as well as estimated impacts from the 2020 curtailment program, second-quarter 2021 production increased 46 MBOED or 3 percent. This increase was primarily due to new production from the Lower 48 and other development programs across the portfolio, partially offset by normal field decline. Production from Libya averaged 41 MBOED.

Production excluding Libya for the six-month period of 2021 was 1,518 MBOED, an increase of 388 MBOED from the same period a year ago. After adjusting for closed acquisitions and dispositions, estimated impacts from the 2020 curtailment program and Winter Storm Uri impacts from 2021, production increased 18 MBOED. This increase was primarily due to new production from the Lower 48 and other development programs across the portfolio, partially offset by normal field decline. Production from Libya averaged 40 MBOED.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Segment Results** | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| **Alaska** | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | Three Months Ended | | | |  | Six Months Ended | | |
| June 30 | | | | June 30 | | |
|  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |
| **Net income (loss) attributable to ConocoPhillips** ($MM) | **$** | **371** |  | (141) |  | **530** |  | (60) |
|  |  |  |  |  |  |  |  |  |
| **Average Net Production** |  |  |  |  |  |  |  |  |
| Crude oil (MBD) |  | **184** |  | 153 |  | **187** |  | 175 |
| Natural gas liquids (MBD) |  | **15** |  | 13 |  | **16** |  | 16 |
| Natural gas (MMCFD) |  | **11** |  | 8 |  | **10** |  | 8 |
|  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) |  | **201** |  | 167 |  | **205** |  | 192 |
|  |  | | | | | |  |  |
| **Average Sales Prices** |  |  |  |  |  |  |  |  |
| Crude oil ($ per bbl) | **$** | **67.87** |  | 26.81 |  | **63.93** |  | 42.52 |
| Natural gas ($ per MCF) |  | **4.53** |  | 2.56 |  | **3.17** |  | 2.82 |

The Alaska segment primarily explores for, produces, transports and markets crude oil, NGLs and natural gas. As of June 30, 2021, Alaska contributed 20 percent of our consolidated liquids production and less than 1 percent of our consolidated natural gas production.

*Net Income (Loss) Attributable to ConocoPhillips*

Earnings from Alaska increased $512 million in the second quarter of 2021 and increased $590 million in the six-month period of 2021, respectively. Earnings were positively impacted by:

* Higher realized crude oil prices.
* Higher volumes due to the absence of production curtailments.
* Lower exploration expenses due to the absence of charges associated with the early cancellation of our 2020 winter exploration program.

Partly offsetting the increase in earnings was:

* Higher DD&A expenses primarily driven by higher production volumes and higher rates.

*Production*

Average production increased 34 MBOED in the second quarter of 2021 and 13 MBOED in the six-month period of 2021, respectively. The increase was primarily due to:

* Absence of curtailments at our operated assets.

Partly offsetting the increase in production was:

* Normal field decline.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lower 48** | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | Three Months Ended | | | |  | Six Months Ended | | |
| June 30 | | | | June 30 | | |
|  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |
| **Net Income (Loss) Attributable to ConocoPhillips** ($MM) | **$** | **1,175** |  | (365) |  | **1,643** |  | (802) |
|  |  |  |  |  |  |  |  |  |
| **Average Net Production** |  |  |  |  |  |  |  |  |
| Crude oil (MBD) |  | **454** |  | 166 |  | **435** |  | 218 |
| Natural gas liquids (MBD) |  | **97** |  | 64 |  | **89** |  | 77 |
| Natural gas (MMCFD) |  | **1,459** |  | 486 |  | **1,389** |  | 582 |
|  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) |  | **794** |  | 311 |  | **755** |  | 392 |
|  |  | | | | | |  |  |
| **Average Sales Prices** |  |  |  |  |  |  |  |  |
| Crude oil ($ per bbl)\* | **$** | **64.13** |  | 19.87 |  | **60.17** |  | 32.92 |
| Natural gas liquids ($ per bbl) |  | **24.62** |  | 6.95 |  | **24.34** |  | 9.81 |
| Natural gas ($ per MCF)\* |  | **3.27** |  | 1.18 |  | **3.88** |  | 1.36 |

*\*Average sales prices, including the impact of hedges settling per initial contract terms in the first quarter of 2021 assumed in our Concho acquisition, were $58.25 per barrel for crude oil and $3.78 per mcf for natural gas for the six-month period ended June 30, 2021. As of March 31, 2021, we had settled all oil and gas hedging positions acquired from Concho.* [*See Note 10 for additional information*](#DerivNote)*.*

The Lower 48 segment consists of operations located in the U.S. Lower 48 states, as well as producing properties in the Gulf of Mexico. As of June 30, 2021, the Lower 48 contributed 53 percent of our consolidated liquids production and 65 percent of our consolidated natural gas production.

*Net Income (Loss) Attributable to ConocoPhillips*

Earnings from the Lower 48 increased $1,540 million in the second quarter of 2021 and increased $2,445 million in the six-month period of 2021, respectively. Earnings were positively impacted by:

* Higher sales volumes of crude oil and natural gas due to our Concho acquisition and the absence of production curtailments.
* Higher realized crude oil, natural gas, and NGL prices.

Partly offsetting the increase in earnings was:

* Higher DD&A expenses primarily due to higher production from our Concho acquisition and absence of production related curtailment partially offset by lower rates from price-related reserve revisions.
* Higher production and operating expenses and taxes other than income taxes, primarily due to higher production from our Concho acquisition and the absence of production curtailments.

In addition to the items detailed above, in the six-month period of 2021, earnings also increased due to:

* The absence of $399 million in after-tax impairments related to certain noncore gas assets in the Wind River Basin operations area.

In addition to the items detailed above, in the six-month period of 2021, earnings also decreased due to:

* Realized losses on hedges related to derivative positions acquired in our Concho acquisition. [See Note 10 for additional information.](#DerivNote)
* Higher selling, general and administrative expenses, primarily due to transaction and restructuring charges related to our Concho acquisition. [For additional information see Note 3.](#AssetHFS)

*Production*

Average production increased 483 MBOED and 363 MBOED in the three- and six-month periods of 2021, respectively, primarily due to:

* Higher volumes due to our Concho acquisition.
* New wells online from our development programs in Eagle Ford, Permian and Bakken.
* Absence of curtailments.

These production increases were partly offset by:

* Normal field decline.

In addition to the items detailed above, in the six-month period of 2021, production also decreased due to:

* Higher unplanned downtime, primarily due to Winter Storm Uri.

*Planned Dispositions*

In July 2021, we entered into divestiture agreements to sell our interests in certain noncore assets in our Lower 48 segment. Proceeds from these agreements total approximately $0.2 billion before customary adjustments. The transactions are expected to close in the third quarter of 2021.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Canada** | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | Three Months Ended | | | |  | Six Months Ended | | |
| June 30 | | | | June 30 | | |
|  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |
| **Net Income (Loss) Attributable to ConocoPhillips** ($MM) | **$** | **102** |  | (86) |  | **112** |  | (195) |
|  |  |  |  |  |  |  |  |  |
| **Average Net Production** |  |  |  |  |  |  |  |  |
| Crude oil (MBD) |  | **9** |  | 5 |  | **10** |  | 4 |
| Natural gas liquids (MBD) |  | **4** |  | 2 |  | **4** |  | 1 |
| Bitumen (MBD) |  | **68** |  | 34 |  | **69** |  | 50 |
| Natural gas (MMCFD) |  | **84** |  | 40 |  | **87** |  | 30 |
|  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) |  | **95** |  | 48 |  | **98** |  | 60 |
|  |  | | | | | |  |  |
| **Average Sales Prices** |  |  |  |  |  |  |  |  |
| Crude oil ($ per bbl) | **$** | **56.87** |  | 8.69 |  | **51.66** |  | 15.39 |
| Natural gas liquids ($ per bbl) |  | **27.14** |  | 1.64 |  | **26.19** |  | 1.89 |
| Bitumen ($ per bbl) |  | **37.60** |  | (23.11) |  | **34.09** |  | (3.09) |
| Natural gas ($ per MCF) |  | **2.26** |  | 0.79 |  | **2.32** |  | 1.05 |
| *Average sales prices include unutilized transportation costs.* | | | | | | | | |

Our Canadian operations mainly consist of the Surmont oil sands development in Alberta and the liquids-rich Montney unconventional play in British Columbia. As of June 30, 2021, Canada contributed 8 percent of our consolidated liquids production and 4 percent of our consolidated natural gas production.

*Net Income (Loss) Attributable to ConocoPhillips*

Earnings from Canada increased $188 million and $307 million, respectively, in the three- and six-month periods of 2021. Earnings were positively impacted by:

* Higher realized bitumen and crude oil prices.
* After-tax gains on disposition related to contingent payments of $52 million and $72 million in the three- and six-month periods of 2021, respectively, associated with the sale of certain assets to CVE in 2017. [See Note 3 for additional information about the transaction.](#AssetHFS)

Partly offsetting the increase in earnings was:

* Higher production and operating expenses primarily due to the absence of production curtailment and increased Montney production.
* Higher DD&A expenses primarily driven by higher production volumes partially offset by lower rates from price-related reserve revisions.
* Absence of a $48 million refund from the Alberta Tax & Revenue Administration.

*Production*

Average production increased 47 MBOED in the second quarter of 2021 and increased 38 MBOED in the six-month period of 2021, respectively. The production increase was primarily due to:

* Absence of curtailments at our Surmont operated asset.
* Wells online from Pad 2 and 3 in the Montney.
* Production from our Kelt acquisition in the third quarter of 2020.
* Improved well performance at our Surmont operated asset.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Europe, Middle East and North Africa** | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Three Months Ended | | | |  | Six Months Ended | | |  |
| June 30 | | | | June 30 | | |  |
|  | **2021** | |  | 2020 | \* | **2021** |  | 2020 | \* |
|  |  |  |  |  |  |  |  |  |  |
| **Net Income Attributable to ConocoPhillips** ($MM) | **$** | **207** |  | 25 |  | **360** |  | 226 |  |
|  |  |  |  |  |  |  |  |  |  |
| *Consolidated Operations* |  |  |  |  |  |  |  |  |  |
| **Average Net Production** |  |  |  |  |  |  |  |  |  |
| Crude oil (MBD) |  | **120** |  | 75 |  | **118** |  | 84 |  |
| Natural gas liquids (MBD) |  | **4** |  | 5 |  | **4** |  | 5 |  |
| Natural gas (MMCFD) |  | **297** |  | 264 |  | **303** |  | 287 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) |  | **173** |  | 124 |  | **172** |  | 137 |  |
|  |  | | | | | |  |  |  |
| **Average Sales Prices** |  |  |  |  |  |  |  |  |  |
| Crude oil ($ per bbl) | **$** | **66.34** |  | 32.32 |  | **62.48** |  | 44.70 |  |
| Natural gas liquids ($ per bbl) |  | **39.49** |  | 16.76 |  | **38.21** |  | 18.75 |  |
| Natural gas ($ per MCF) |  | **7.17** |  | 2.21 |  | **6.58** |  | 3.03 |  |

*\*Prior periods have been updated to reflect the Middle East Business Unit moving from Asia Pacific to the Europe, Middle East and North Africa segment. [See Note 17 for additional information on our segments.](#SegmentNote)*

The Europe, Middle East and North Africa segment consists of operations principally located in the Norwegian sector of the North Sea and the Norwegian Sea, Qatar, Libya and commercial operations in the U.K. As of June 30, 2021, our Europe, Middle East and North Africa operations contributed 12 percent of our consolidated liquids production and 14 percent of our consolidated natural gas production.

*Net Income (Loss) Attributable to ConocoPhillips*

Earnings from Europe, Middle East and North Africa increased by $182 million and $134 million in the three- and six-month periods of 2021, respectively. Earnings were positively impacted by:

* Higher realized natural gas, crude oil and NGL prices.
* Higher LNG sales prices, reflected in equity in earnings of affiliates.

Partly offsetting the increase in earnings was:

* Higher taxes.
* Higher DD&A expenses and production and operating expenses.
* Absence of foreign currency gains.

*Consolidated Production*

Average consolidated production increased 49 MBOED and 35 MBOED in the three- and six-month periods of 2021, respectively. The production increase was primarily due:

* Higher production in Libya due to the absence of a forced shutdown of the Es Sider export terminal and other eastern export terminals after a period of civil unrest.
* Improved well performance in Norway.
* New production from Norway drilling activities including the completion of our Tor II redevelopment project first achieved in December 2020.

Partly offsetting the increase in production was:

* Normal field decline.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Asia Pacific** | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |  |
|  | June 30 | | | | June 30 | | |
|  |  | **2021** | |  | 2020 | \* | **2021** |  | 2020 | \* |
|  |  |  |  |  |  |  |  |  |  |  |
|  | |  |  |  |  |  |  |  |  |  |
| **Net Income Attributable to ConocoPhillips** ($MM) | | **$** | **175** |  | 648 |  | **492** |  | 920 |  |
|  |  |  |  |  |  |  |  |  |  |  |
| *Consolidated Operations* | |  |  |  |  |  |  |  |  |  |
| **Average Net Production** | |  |  |  |  |  |  |  |  |  |
| Crude oil (MBD) | |  | **69** |  | 61 |  | **70** |  | 70 |  |
| Natural gas liquids (MBD) | |  | **-** |  | 1 |  | **-** |  | 2 |  |
| Natural gas (MMCFD) | |  | **358** |  | 423 |  | **353** |  | 522 |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Total Production** (MBOED) | |  | **129** |  | 133 |  | **129** |  | 159 |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Average Sales Prices** | |  |  |  |  |  |  |  |  |  |
| Crude oil ($ per bbl) | | **$** | **67.72** |  | 27.98 |  | **64.01** |  | 43.02 |  |
| Natural gas liquids ($ per bbl) | |  | **-** |  | 27.90 |  | **-** |  | 33.21 |  |
| Natural gas ($ per MCF) | |  | **6.32** |  | 4.74 |  | **6.10** |  | 5.45 |  |

*\*Prior periods have been updated to reflect the Middle East Business Unit moving from Asia Pacific to the Europe, Middle East and North Africa segment. [See Note 17 for additional information on our segments.](#SegmentNote)*

The Asia Pacific segment has operations in China, Indonesia, Malaysia and Australia. As of June 30, 2021, Asia Pacific contributed 7 percent of our consolidated liquids production and 17 percent of our consolidated natural gas production.

*Net Income (Loss) Attributable to ConocoPhillips*

Earnings decreased $473 million in the second quarter of 2021 and decreased $428 million in the six-month period of 2021, respectively. Earnings were negatively impacted by:

* Absence of a $597 million after-tax gain related to our Australia-West divestiture.
* Lower earnings due to our Australia-West divestiture completed in the second quarter of 2020.
* Higher taxes associated with higher production and prices in Malaysia and Indonesia.

Partly offsetting the decrease in earnings was:

* Higher crude oil and natural gas prices.
* Lower production and operating expenses related to our Australia-West divestiture.

In addition to the items detailed above, in the six-month period of 2021, earnings also decreased due to:

* Lower equity in earnings of affiliates, primarily due to lower LNG lagging contract prices, partly offset by increased LNG sales volumes.

In addition to the items detailed above, in the six-month period of 2021, earnings also increased due to:

* A $200 million gain on disposition related to a FID bonus from our Australia-West divestiture. For additional information related to this FID bonus, see [Note 3](#AssetHFS) and [Note 9](#FNContin).
* Lower exploration expenses, due to the absence of an unproved property impairment and dry hole expenses related to the Kamunsu East Field in Malaysia.

*Consolidated Production*

Average consolidated production decreased 4 MBOED and 30 MBOED in the three- and six-month periods of 2021, respectively. The production decrease was primarily due to:

* The divestiture of our Australia-West assets that contributed 24 MBOED in the second quarter and 35 MBOED in the six-month period of 2020.
* Normal field decline.

Partly offsetting the decrease in production was:

* Absence of curtailments in Malaysia.
* Bohai Bay development activity in China.
* Increased production in Malaysia associated with Malakai Phase 2 first production and ramp-up.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Other International** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Three Months Ended | | | |  | Six Months Ended | | |
|  | June 30 | | | | June 30 | | |
|  |  | **2021** | |  | 2020 |  | **2021** |  | 2020 |
|  |  |  |  |  |  |  |  |  |  |
| **Net Income (Loss) Attributable to ConocoPhillips** ($MM) | | **$** | **(5)** |  | (6) |  | **(9)** |  | 22 |

The Other International segment consists of exploration and appraisal activities in Colombia and Argentina as well as contingencies associated with prior operations in other countries.

Earnings from our Other International operations increased $1 million and decreased $31 million in the three- and six-month periods of 2021, respectively. The decrease in earnings was primarily due to the absence of a $29 million after-tax benefit to earnings from the dismissal of arbitration related to prior operations in Senegal recognized in the first quarter of 2020.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Corporate and Other** | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Millions of Dollars | | | | | | | |  |
|  | Three Months Ended | | | |  | Six Months Ended | | |  |
| June 30 | | | | June 30 | | |  |
|  | **2021** | |  | 2020 |  | **2021** |  | 2020 |  |
| **Net Income (Loss) Attributable to ConocoPhillips** |  |  |  |  |  |  |  |  |  |
| Net interest expense | **$** | **(181)** |  | (174) |  | **(451)** |  | (329) |  |
| Corporate general and administrative expenses |  | **(65)** |  | (90) |  | **(194)** |  | (40) |  |
| Technology |  | **(4)** |  | (9) |  | **37** |  | (8) |  |
| Other income (expense) |  | **316** |  | 458 |  | **553** |  | (1,213) |  |
|  | **$** | **66** |  | 185 |  | **(55)** |  | (1,590) |  |

Net interest expense consists of interest and financing expense, net of interest income and capitalized interest. Net interest expense increased by $7 million and $122 million in the three-and six-month periods of 2021, respectively, primarily due to higher debt balances assumed due to our Concho acquisition. [For additional information regarding the debt acquired in our Concho transaction, see Note 6.](#DebtFN)

Corporate G&A expenses include compensation programs and staff costs. These expenses decreased by $25 million in the three-month period of 2021 primarily due to mark to market adjustments associated with certain compensation programs. For the six-month period of 2021, Corporate G&A expenses increased by $154 million primarily due to restructuring expenses associated with our Concho acquisition. [For additional information about restructuring expenses, see Note 14.](#FNEBP)

Technology includes our investment in new technologies or businesses, as well as licensing revenues. Activities are focused on both conventional and tight oil reservoirs, shale gas, heavy oil, oil sands, enhanced oil recovery, as well as LNG. Earnings from Technology increased $45 million in the six-month period of 2021 primarily due to higher licensing revenues.

Other income (expense) or “Other” includes certain corporate tax-related items, foreign currency transaction gains and losses, environmental costs associated with sites no longer in operation, other costs not directly associated with an operating segment, premiums incurred on the early retirement of debt, holding gains or losses on equity securities, and pension settlement expense. “Other” decreased by $142 million in the second quarter of 2021, primarily due to an after-tax gain of $418 million on our CVE common shares in the second quarter of 2021 compared with an after-tax gain of $551 million in the same period of 2020 as well as the absence of the release of a $92 million deferred tax asset related to our Australia-West divestiture in the second quarter of 2020. In the six-month period of 2021, “Other” increased by $1,766 million, primarily due to an after-tax gain of $726 million on our CVE common shares in the six-month period of 2021, and the absence of a $1,140 million after-tax loss on those shares in the six-month period of 2020.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CAPITAL RESOURCES AND LIQUIDITY** | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Financial Indicators** | |  |  |  |  |  |
|  |  |  | Millions of Dollars | | | |
|  | **June 30** | |  |  | December 31 |
|  |  |  | **2021** |  |  | 2020 |
|  |  |  |  |  |  |  |
| Cash and cash equivalents | | **$** | **6,608** |  |  | 2,991 |
| Short-term investments | |  | **2,251** |  |  | 3,609 |
| Total debt | |  | **20,010** |  |  | 15,369 |
| Total equity | |  | **44,276** |  |  | 29,849 |
| Percent of total debt to capital\* | |  | **31** | **%** |  | 34 |
| Percent of floating-rate debt to total debt | |  | **5** | **%** |  | 7 |
| *\*Capital includes total debt and total equity.* | | | | | | |

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources, including cash generated from operating activities, our commercial paper and credit facility programs, and our ability to sell securities using our shelf registration statement. During the first six months of 2021, the primary uses of our available cash were $2,465 million to support our ongoing capital expenditures and investments program; $1,171 million to pay dividends, approximately $1.0 billion of hedging, transaction and restructuring costs, and $981 million to repurchase common stock. During the first six months of 2021, our cash and cash equivalents increased by $3,617 million to $6,608 million.

At June 30, 2021, we had cash and cash equivalents of $6.6 billion, short-term investments of $2.3 billion, and available borrowing capacity under our credit facility of $5.7 billion, totaling over $14 billion of liquidity. We believe current cash balances and cash generated by operations, together with access to external sources of funds as described below in the “Significant Changes in Capital” section, will be sufficient to meet our funding requirements in the near- and long-term, including our capital spending program, dividend payments and required debt payments.

**Significant Changes in Capital**

*Operating Activities*

Cash provided by operating activities was $6,331 million for the first six months of 2021, compared with $2,262 million for the corresponding period of 2020. The increase in cash provided by operating activities is primarily due to higher realized commodity prices and higher sales volumes mostly due to our acquisition of Concho.  The increase in cash provided by operating activities was partly offset by the settlement of all oil and gas hedging positions acquired from Concho, normal field decline, transaction and restructuring costs, and the divestiture of our Australia-West assets.

Our short- and long-term operating cash flows are highly dependent upon prices for crude oil, bitumen, natural gas, LNG and NGLs. Prices and margins in our industry have historically been volatile and are driven by market conditions over which we have no control. Absent other mitigating factors, as these prices and margins fluctuate, we would expect a corresponding change in our operating cash flows.

The level of absolute production volumes, as well as product and location mix, impacts our cash flows. Future production is subject to numerous uncertainties, including, among others, the volatile crude oil and natural gas price environment, which may impact investment decisions; the effects of price changes on production sharing and variable-royalty contracts; acquisition and disposition of fields; field production decline rates; new technologies; operating efficiencies; timing of startups and major turnarounds; political instability; impacts of a global pandemic; weather-related disruptions; and the addition of proved reserves through exploratory success and their timely and cost-effective development.  While we actively manage these factors, production levels can cause variability in cash flows, although generally this variability has not been as significant as that caused by commodity prices.

To maintain or grow our production volumes, we must continue to add to our proved reserve base. See the “Capital Expenditures and Investments” section, for information about our capital expenditures and investments.

On January 15, 2021, we assumed financial derivative instruments consisting of oil and natural gas swaps in connection with our acquisition of Concho. At March 31, 2021, all oil and natural gas derivative financial instruments acquired from Concho were contractually settled. In the first six months of 2021, we paid $761 million relating to these settlements. [See Note 10 for additional information.](#DerivNote)

*Investing Activities*

For the first six months of 2021, we invested $2.5 billion in capital expenditures. Our 2021 operating plan capital expenditures is currently expected to be $5.3 billion compared with $4.7 billion in 2020. See the “Capital Expenditures and Investments” section, for information about our capital expenditures and investments.

We completed our acquisition of Concho on January 15, 2021. The assets acquired in the transaction included $382 million of cash. [See Note 3 for additional information.](#AssetHFS)

In May 2021, we announced a paced monetization of our investment in CVE common shares with the plan to direct proceeds toward our existing share repurchase authorization program. We expect to fully dispose of our CVE shares by year-end 2022, however, the sales pace will be guided by market conditions, and we retain discretion to adjust accordingly. In the second quarter of 2021, we sold 20 million of these shares, representing approximately 10% of the shares held at December 31, 2020, for $180 million of proceeds. [See Note 5 for additional information.](#FNCenovus)

We invest in short-term investments as part of our cash investment strategy, the primary objective of which is to protect principal, maintain liquidity and provide yield and total returns; these investments include time deposits, commercial paper, as well as debt securities classified as available for sale. Funds for short-term needs to support our operating plan and provide resiliency to react to short-term price volatility are invested in highly liquid instruments with maturities within the year. Funds we consider available to maintain resiliency in longer term price downturns and to capture opportunities outside a given operating plan may be invested in instruments with maturities greater than one year.

Investing activities in the first six months of 2021 included net sales of $1,302 million of investments. We sold $1,403 million of short-term instruments and invested $101 million in long-term instruments. [See Note 10 for additional information.](#DerivNote)

*Financing Activities*

We have a revolving credit facility totaling $6.0 billion, expiring in May 2023. Our revolving credit facility may be used for direct bank borrowings, the issuance of letters of credit totaling up to $500 million, or as support for our commercial paper program. The revolving credit facility is broadly syndicated among financial institutions and does not contain any material adverse change provisions or any covenants requiring maintenance of specified financial ratios or credit ratings. The facility agreement contains a cross-default provision relating to the failure to pay principal or interest on other debt obligations of $200 million or more by ConocoPhillips, or any of its consolidated subsidiaries. The amount of the facility is not subject to redetermination prior to its expiration date.

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

The revolving credit facility supports ConocoPhillips Company’s ability to issue up to $6.0 billion of commercial paper. Commercial paper maturities are generally limited to 90 days. With $300 million of commercial paper outstanding and no direct borrowings or letters of credit, we had $5.7 billion in available borrowing capacity under the revolving credit facility at June 30, 2021. We may consider issuing additional commercial paper in the future to supplement our cash position.

On January 15, 2021, we completed the acquisition of Concho in an all-stock transaction. In the acquisition, we assumed Concho’s publicly traded debt, which was recorded at fair value of $4.7 billion on the acquisition date. In June 2021, we reaffirmed our commitment to preserving our ‘A’-rated balance sheet with the intent to reduce gross debt by $5 billion over the next five years, driving a more resilient and efficient capital structure. [See Note 3 for additional information on our Concho acquisition and](#AssetHFS) [see Note 6 for additional information on the debt.](#DebtFN)

In January 2021, Fitch affirmed its rating of our long-term debt as “A” with a “stable” outlook and affirmed its rating of our short-term debt as “F1+.” On January 25, 2021, S&P revised its industry risk assessment of the E&P industry to “Moderately High” from “Intermediate” based on a view of increasing risks from the energy transition, price volatility, and weaker profitability. On February 11, 2021, S&P downgraded its rating of our long-term debt from “A” to “A-” with a “stable” outlook and downgraded its rating of our short-term debt from “A-1” to “A-2.” In May 2021, Moody’s affirmed its rating of our senior long-term debt of “A3” with a “stable” outlook. Moody’s rates our short-term debt as “Prime-2.” We do not have any ratings triggers on any of our corporate debt that would cause an automatic default, and thereby impact our access to liquidity, upon downgrade of our credit ratings. If our credit ratings are downgraded from their current levels, it could increase the cost of corporate debt available to us and restrict our access to the commercial paper markets. If our credit rating were to deteriorate to a level prohibiting us from accessing the commercial paper market, we would still be able to access funds under our revolving credit facility.

Certain of our project-related contracts, commercial contracts and derivative instruments contain provisions requiring us to post collateral. Many of these contracts and instruments permit us to post either cash or letters of credit as collateral. At June 30, 2021 and December 31, 2020, we had direct bank letters of credit of $222 million and $249 million, respectively, which secured performance obligations related to various purchase commitments incident to the ordinary conduct of business. In the event of credit ratings downgrades, we may be required to post additional letters of credit.

*Shelf Registration*

We have a universal shelf registration statement on file with the SEC under which we have the ability to issue and sell an indeterminate amount of various types of debt and equity securities.

**Guarantor Summarized Financial Information**

We have various cross guarantees among our Obligor group; ConocoPhillips, ConocoPhillips Company and Burlington Resources LLC, with respect to publicly held debt securities. ConocoPhillips Company is 100 percent owned by ConocoPhillips. Burlington Resources LLC is 100 percent owned by ConocoPhillips Company. ConocoPhillips and/or ConocoPhillips Company have fully and unconditionally guaranteed the payment obligations of Burlington Resources LLC, with respect to its publicly held debt securities. Similarly, ConocoPhillips has fully and unconditionally guaranteed the payment obligations of ConocoPhillips Company with respect to its publicly held debt securities. In addition, ConocoPhillips Company has fully and unconditionally guaranteed the payment obligations of ConocoPhillips with respect to its publicly held debt securities. All guarantees are joint and several.

The following tables present summarized financial information for the Obligor Group, as defined below:

* The Obligor Group will reflect guarantors and issuers of guaranteed securities consisting of ConocoPhillips, ConocoPhillips Company and Burlington Resources LLC.
* Consolidating adjustments for elimination of investments in and transactions between the collective guarantors and issuers of guaranteed securities are reflected in the balances of the summarized financial information.
* Non-Obligated Subsidiaries are excluded from the presentation.

Upon completion of the Concho acquisition on January 15, 2021, we assumed Concho’s publicly traded debt of approximately $3.9 billion in aggregate principal amount, which was recorded at fair value of $4.7 billion on the acquisition date. We completed a debt exchange offer that settled on February 8, 2021, of which 98 percent, or approximately $3.8 billion in aggregate principal amount of Concho’s notes, were tendered and accepted for new debt issued by ConocoPhillips. The new debt issued in the exchange is fully and unconditionally guaranteed by ConocoPhillips Company. Both the guarantor and issuer of the exchange debt is reflected within the Obligor Group presented here. See [Note 3](#AssetHFS) and [Note 6](#DebtFN) for additional information relating to the Concho transaction.

Transactions and balances reflecting activity between the Obligors and Non-Obligated Subsidiaries are presented below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Summarized Income Statement Data** |  |  |
|  |  | Millions of Dollars | |
|  |  |  | Six Months Ended |
|  |  |  | June 30, 2021 |
|  |  |  |  |
|  | Revenues and Other Income | **$** | **13,054** |
|  | Income (loss) before income taxes |  | **3,138** |
|  | Net income (loss) |  | **3,073** |
|  | Net Income (Loss) Attributable to ConocoPhillips |  | **3,073** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Summarized Balance Sheet Data** |  |  |  |  |
|  |  | Millions of Dollars | | | |
|  |  |  | **June 30** |  | December 31 |
|  |  |  | **2021** |  | 2020 |
|  | Current assets | **$** | **10,597** |  | 8,535 |
|  | *Amounts due from Non-Obligated Subsidiaries, current* |  | **585** |  | 440 |
|  | Noncurrent assets |  | **58,272** |  | 37,180 |
|  | *Amounts due from Non-Obligated Subsidiaries, noncurrent* |  | **8,326** |  | 7,730 |
|  | Current liabilities |  | **5,322** |  | 3,797 |
|  | *Amounts due to Non-Obligated Subsidiaries, current* |  | **2,004** |  | 1,365 |
|  | Noncurrent liabilities |  | **25,829** |  | 18,627 |
|  | *Amounts due to Non-Obligated Subsidiaries, noncurrent* |  | **7,526** |  | 3,972 |

**Capital Requirements**

For information about our capital expenditures and investments, see the “Capital Expenditures and Investments” section.

Our debt balance at June 30, 2021, was $20.0 billion, compared with $15.4 billion at December 31, 2020. The net increase is primarily due to $4.7 billion of debt assumed in the Concho acquisition. The current portion of debt, including payments for finance leases, is $1,205 million. Payments will be made using current cash balances and cash generated by operations. [For additional information regarding debt, see Note 6.](#DebtFN)

We believe in delivering value to our shareholders through a growing and sustainable dividend supplemented by additional returns of capital, including share repurchases. In 2020, we paid $1.8 billion, equating to $1.69 per share of common stock, in dividends. We anticipate returning $2.3 billion to shareholders in the form of dividends in 2021. In the first six months of 2021, we paid dividends totaling $1.2 billion, the equivalent of $0.86 per share. On July 13, 2021, we announced a quarterly dividend of $0.43 per share, payable September 1, 2021.

In late 2016, we initiated our current share repurchase program, which has a total program authorization to repurchase $25 billion of our common stock. As of June 30, 2021, our plan is to repurchase approximately $3.5 billion in 2021 and we anticipate funding approximately $1.0 billion of that amount through proceeds from the sales of our CVE common stock. The pace of CVE share sales will be guided by market conditions, and we retain the discretion to adjust accordingly. In the six months ended June 30, 2021, we repurchased 17.7 million shares at a cost of $981 million, $159 million of which was funded using CVE share proceeds. Since the inception of the program, we have repurchased 206 million shares at a cost of $11.5 billion.

Our dividend and share repurchase programs are subject to numerous considerations, including market conditions, management discretion and other factors. See “Item 1A—Risk Factors – Our ability to declare and pay dividends and repurchase shares is subject to certain considerations” in Part I—Item 1A in our 2020 Annual Report on Form 10-K.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Capital Expenditures and Investments** |  |  |  |  |
|  |  |  |  |  |
|  | Millions of Dollars | | | |
|  | Six Months Ended | | | |
| June 30 | | | |
|  |  | **2021** |  | 2020 |
|  |  |  |  |  |
| Alaska | **$** | **463** |  | 732 |
| Lower 48 |  | **1,480** |  | 1,130 |
| Canada |  | **68** |  | 142 |
| Europe, Middle East and North Africa |  | **257** |  | 251 |
| Asia Pacific |  | **148** |  | 188 |
| Other International |  | **18** |  | 63 |
| Corporate and Other |  | **31** |  | 19 |
| Capital expenditures and investments | **$** | **2,465** |  | 2,525 |

During the first six months of 2021, capital expenditures and investments supported key exploration and development programs, primarily:

* Development and appraisal activities in the Lower 48, primarily Permian, Eagle Ford, and Bakken.
* Appraisal and development activities in Alaska related to the Western North Slope and development activities in the Greater Kuparuk Area.
* Appraisal activities in liquids-rich plays and optimization of oils sands development in Canada.
* Continued development activities across assets in Norway.
* Continued development activities in China, Malaysia and Indonesia.

In February 2021, we announced 2021 operating plan capital expenditures of $5.5 billion. In June 2021, we reduced capital guidance to $5.3 billion, recognizing synergistic savings from our Concho acquisition.

**Contingencies**

A number of lawsuits involving a variety of claims arising in the ordinary course of business have been filed against ConocoPhillips. We also may be required to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various active and inactive sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable, and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the low end of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. We accrue receivables for insurance or other third-party recoveries when applicable. With respect to income tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. [For information on other contingencies, see Note 9.](#FNContin)

*Legal and Tax Matters*

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

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

*Environmental*

We are subject to the same numerous international, federal, state and local environmental laws and regulations as other companies in our industry. For a discussion of the most significant of these environmental laws and regulations, including those with associated remediation obligations, see the “Environmental” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations on pages 64–66 of our 2020 Annual Report on Form 10-K.

We occasionally receive requests for information or notices of potential liability from the EPA and state environmental agencies alleging that we are a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or an equivalent state statute. On occasion, we also have been made a party to cost recovery litigation by those agencies or by private parties. These requests, notices and lawsuits assert potential liability for remediation costs at various sites that typically are not owned by us, but allegedly contain waste attributable to our past operations. As of June 30, 2021, there were 15 sites around the U.S. in which we were identified as a potentially responsible party under CERCLA and comparable state laws.

At June 30, 2021, our balance sheet included a total environmental accrual of $188 million, compared with $180 million at December 31, 2020, for remediation activities in the U.S. and Canada. We expect to incur a substantial amount of these expenditures within the next 30 years.

Notwithstanding any of the foregoing, and as with other companies engaged in similar businesses, environmental costs and liabilities are inherent concerns in our operations and products, and there can be no assurance that material costs and liabilities will not be incurred. However, we currently do not expect any material adverse effect upon our results of operations or financial position as a result of compliance with current environmental laws and regulations.

*Climate Change*

Continuing political and social attention to the issue of global climate change has resulted in a broad range of proposed or promulgated state, national and international laws focusing on GHG reduction. These proposed or promulgated laws apply or could apply in countries where we have interests or may have interests in the future. Laws in this field continue to evolve, and while it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation, such laws, if enacted, could have a material impact on our results of operations and financial condition. For examples of legislation or precursors for possible regulation and factors on which the ultimate impact on our financial performance will depend, see the “Climate Change” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations on pages 67–69 of our 2020 Annual Report on Form 10-K.

*Climate Change Litigation*

Beginning in 2017, governmental and other entities in several states in the U.S. have filed lawsuits against oil and gas companies, including ConocoPhillips, seeking compensatory damages and equitable relief to abate alleged climate change impacts. Additional lawsuits with similar allegations are expected to be filed. The amounts claimed by plaintiffs are unspecified and the legal and factual issues involved in these cases are unprecedented. ConocoPhillips believes these lawsuits are factually and legally meritless and are an inappropriate vehicle to address the challenges associated with climate change and will vigorously defend against such lawsuits.

Several Louisiana parishes and the State of Louisiana have filed 43 lawsuits under Louisiana’s State and Local Coastal Resources Management Act (SLCRMA) against oil and gas companies, including ConocoPhillips, seeking compensatory damages for contamination and erosion of the Louisiana coastline allegedly caused by historical oil and gas operations. ConocoPhillips entities are defendants in 22 of the lawsuits and will vigorously defend against them. Because Plaintiffs’ SLCRMA theories are unprecedented, there is uncertainty about these claims (both as to scope and damages) and we continue to evaluate our exposure in these lawsuits.

*Company Response to Climate-Related Risks*

The company has responded by putting in place a Sustainable Development Risk Management Standard covering the assessment and registering of significant and high sustainable development risks based on their consequence and likelihood of occurrence. We have developed a company-wide Climate Change Action Plan with the goal of tracking mitigation activities for each climate-related risk included in the corporate Sustainable Development Risk Register.

The risks addressed in our Climate Change Action Plan fall into four broad categories:

* GHG-related legislation and regulation.
* GHG emissions management.
* Physical climate-related impacts.
* Climate-related disclosure and reporting.

Emissions are categorized into three different scopes. Gross operated scope 1 and scope 2 GHG emissions help us understand our climate transition risk.

* Scope 1 emissions are direct GHG emissions from sources that we own or control.
* Scope 2 emissions are GHG emissions from the generation of purchased electricity or steam that we consume.

Scope 3 emissions are indirect emissions from sources that we neither own nor control.

We announced in October 2020 the adoption of a Paris-aligned climate risk framework with the objective of implementing a coherent set of choices designed to facilitate the success of our existing exploration and production business through the energy transition. Given the uncertainties remaining about how the energy transition will evolve, the strategy aims to be robust across a range of potential future outcomes.

The strategy is comprised of four pillars:

* Targets: Our target framework consists of a hierarchy of targets, from a long-term ambition that sets the direction and aim of the strategy, to a medium-term performance target for GHG emissions intensity, to shorter-term targets for flaring and methane intensity reductions. These performance targets are supported by lower-level internal business unit goals to enable the company to achieve the company-wide targets. We have set a target to reduce our gross operated (scope 1 and 2) emissions intensity by 35 to 45 percent from 2016 levels by 2030, with an ambition to achieve net-zero operated emissions by 2050. We have joined the World Bank Flaring Initiative to work towards zero routine flaring of gas by 2030.
* Technology choices: We expanded our Marginal Abatement Cost Curve process to provide a broader range of opportunities for emission reduction technology.
* Portfolio choices: Our corporate authorization process requires all qualifying projects to include a GHG price in their project approval economics. Different GHG prices are used depending on the region or jurisdiction. Projects in jurisdictions with existing GHG pricing regimes incorporate the existing GHG price and forecast into their economics. Projects where no existing GHG pricing regime exists utilize a scenario forecast from our internally consistent World Energy Model. In this way, both existing and emerging regulatory requirements are considered in our decision-making. The company does not use an estimated market cost of GHG emissions when assessing reserves in jurisdictions without existing GHG regulations.
* External engagement: Our external engagement aims to differentiate ConocoPhillips within the oil and gas sector with our approach to managing climate-related risk. We are a Founding Member of the Climate Leadership Council (CLC), an international policy institute founded in collaboration with business and environmental interests to develop a carbon dividend plan. Participation in the CLC provides another opportunity for ongoing dialogue about carbon pricing and framing the issues in alignment with our public policy principles. We also belong to and fund Americans For Carbon Dividends, the education and advocacy branch of the CLC.

**CAUTIONARY STATEMENT FOR THE PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans, objectives of management for future operations, the anticipated benefits of the transaction between us and Concho Resources Inc. (Concho), the anticipated impact of the transaction on the combined company’s business and future financial and operating results, the expected amount and the timing of synergies from the transaction are forward-looking statements. Examples of forward-looking statements contained in this report include our expected production growth and outlook on the business environment generally, our expected capital budget and capital expenditures, and discussions concerning future dividends. You can often identify our forward-looking statements by the words “anticipate,” “believe,” “budget,” “continue,” “could,” “effort,” “estimate,” “expect,” “forecast,” “intend,” “goal,” “guidance,” “may,” “objective,” “outlook,” “plan,” “potential,” “predict,” “projection,” “seek,” “should,” “target,” “will,” “would” and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about ourselves and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors and uncertainties, including, but not limited to, the following:

* The impact of public health crises, including pandemics (such as COVID-19) and epidemics and any related company or government policies or actions.
* Global and regional changes in the demand, supply, prices, differentials or other market conditions affecting oil and gas, including changes resulting from a public health crisis or from the imposition or lifting of crude oil production quotas or other actions that might be imposed by OPEC and other producing countries and the resulting company or third-party actions in response to such changes.
* Fluctuations in crude oil, bitumen, natural gas, LNG and NGLs prices, including a prolonged decline in these prices relative to historical or future expected levels.
* The impact of significant declines in prices for crude oil, bitumen, natural gas, LNG and NGLs, which may result in recognition of impairment charges on our long-lived assets, leaseholds and nonconsolidated equity investments.
* Potential failures or delays in achieving expected reserve or production levels from existing and future oil and gas developments, including due to operating hazards, drilling risks and the inherent uncertainties in predicting reserves and reservoir performance.
* Reductions in reserves replacement rates, whether as a result of the significant declines in commodity prices or otherwise.
* Unsuccessful exploratory drilling activities or the inability to obtain access to exploratory acreage.
* Unexpected changes in costs or technical requirements for constructing, modifying or operating E&P facilities.
* Legislative and regulatory initiatives addressing environmental concerns, including initiatives addressing the impact of global climate change or further regulating hydraulic fracturing, methane emissions, flaring or water disposal.
* Lack of, or disruptions in, adequate and reliable transportation for our crude oil, bitumen, natural gas, LNG and NGLs.
* Inability to timely obtain or maintain permits, including those necessary for construction, drilling and/or development, or inability to make capital expenditures required to maintain compliance with any necessary permits or applicable laws or regulations.
* Failure to complete definitive agreements and feasibility studies for, and to complete construction of, announced and future E&P and LNG development in a timely manner (if at all) or on budget.
* Potential disruption or interruption of our operations due to accidents, extraordinary weather events, civil unrest, political events, war, terrorism, cyber attacks, and information technology failures, constraints or disruptions.
* Changes in international monetary conditions and foreign currency exchange rate fluctuations.
* Changes in international trade relationships, including the imposition of trade restrictions or tariffs relating to crude oil, bitumen, natural gas, LNG, NGLs and any materials or products (such as aluminum and steel) used in the operation of our business.
* Substantial investment in and development use of, competing or alternative energy sources, including as a result of existing or future environmental rules and regulations.
* Liability for remedial actions, including removal and reclamation obligations, under existing and future environmental regulations and litigation.
* Significant operational or investment changes imposed by existing or future environmental statutes and regulations, including international agreements and national or regional legislation and regulatory measures to limit or reduce GHG emissions.
* Liability resulting from litigation, including the potential for litigation related to the transaction with Concho, or our failure to comply with applicable laws and regulations.
* General domestic and international economic and political developments, including armed hostilities; expropriation of assets; changes in governmental policies relating to crude oil, bitumen, natural gas, LNG and NGLs pricing; regulation or taxation; and other political, economic or diplomatic developments.
* Volatility in the commodity futures markets.
* Changes in tax and other laws, regulations (including alternative energy mandates), or royalty rules applicable to our business.
* Competition and consolidation in the oil and gas E&P industry.
* Any limitations on our access to capital or increase in our cost of capital, including as a result of illiquidity or uncertainty in domestic or international financial markets or investment sentiment.
* Our inability to execute, or delays in the completion, of any asset dispositions or acquisitions we elect to pursue.
* Potential failure to obtain, or delays in obtaining, any necessary regulatory approvals for pending or future asset dispositions or acquisitions, or that such approvals may require modification to the terms of the transactions or the operation of our remaining business.
* Potential disruption of our operations as a result of pending or future asset dispositions or acquisitions, including the diversion of management time and attention.
* Our inability to deploy the net proceeds from any asset dispositions that are pending or that we elect to undertake in the future in the manner and timeframe we currently anticipate, if at all.
* Our inability to liquidate the common stock issued to us by Cenovus Energy as part of our sale of certain assets in western Canada at prices we deem acceptable, or at all.
* The operation and financing of our joint ventures.
* The ability of our customers and other contractual counterparties to satisfy their obligations to us, including our ability to collect payments when due from the government of Venezuela or PDVSA.
* Our inability to realize anticipated cost savings and capital expenditure reductions.
* The inadequacy of storage capacity for our products, and ensuing curtailments, whether voluntary or involuntary, required to mitigate this physical constraint.
* Our ability to successfully integrate Concho’s business and fully achieve the expected benefits and cost reductions associated with the transaction with Concho in a timely manner or at all.
* The risk that we will be unable to retain and hire key personnel.
* Unanticipated difficulties or expenditures relating to integration with Concho.
* Uncertainty as to the long-term value of our common stock.
* The diversion of management time on integration-related matters.
* The factors generally described in Part I—Item 1A in our 2020 Annual Report on Form 10-K and any additional risks described in our other filings with the SEC.

**Item 3. QUANTITATIVE AN****D QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information about market risks for the six months ended June 30, 2021, does not differ materially from that discussed under Item 7A in our 2020 Annual Report on Form 10-K.

**Item 4. CONTROLS AN****D PROCEDURES**

We maintain disclosure controls and procedures designed to ensure information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. At June 30, 2021, with the participation of our management, our Chairman and Chief Executive Officer (principal executive officer) and our Executive Vice President and Chief Financial Officer (principal financial officer) carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, of ConocoPhillips’ disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded our disclosure controls and procedures were operating effectively at June 30, 2021.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHE****R INFORMATION**

**Item 1. LEGAL PR****OCEEDINGS**

There are no new material legal proceedings or material developments with respect to matters previously disclosed in Item 3 of our 2020 Annual Report on Form 10-K.

**Item 1A. RISK FAC****TORS**

There have been no material changes from the risk factors disclosed in Item 1A of our 2020 Annual Report on Form 10-K.

**Item 2. UNREGISTERED SALES** **OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Equity Securities**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | Millions of Dollars | |  |
| Period | | Total Number of Shares Purchased | | \* | Average Price Paid per Share | |  | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |  | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| April 1-30, 2021 | |  | 2,425,224 |  | $ | 51.54 |  | 2,425,224 |  | $ | 13,983 |  |
| May 1-31, 2021 | |  | 2,933,604 |  |  | 55.35 |  | 2,933,604 |  |  | 13,821 |  |
| June 1-30, 2021 | |  | 5,313,280 |  |  | 59.86 |  | 5,313,280 |  |  | 13,503 |  |
|  | |  | 10,672,108 |  |  |  |  | 10,672,108 |  |  |  |  |
| *\*There were no repurchases of common stock from company employees in connection with the company's broad-based employee incentive plans.* | | | | | | | | | | | |  |

In late 2016, we initiated our current share repurchase program, which has a total program authorization of $25 billion of our common stock. In February 2021, we resumed our share repurchase program to an annualized level of $1.5 billion which was increased in June to an annualized level of $2.5 billion. In May 2021, we announced a plan to dispose of our 208 million CVE shares by year-end 2022. The sales pace will be guided by market conditions, with ConocoPhillips retaining discretion to adjust accordingly. The proceeds from this disposition will be deployed towards incremental share repurchases.

At June 30, 2021, we had repurchased $11.5 billion of shares, with $13.5 billion remaining under our current authorization. Repurchases are made at management’s discretion, at prevailing prices, subject to market conditions and other factors. Except as limited by applicable legal requirements, repurchases may be increased, decreased or discontinued at any time without prior notice. Shares of stock repurchased under the plan are held as treasury shares. See the “Our ability to declare and pay dividends and repurchase shares is subject to certain considerations” section in Risk Factors on page 31 of our 2020 Annual Report on

Form 10-K.

**Item 6. EXH****IBITS**

|  |  |
| --- | --- |
|  |  |
| 10.1\* | Compensation Resolutions regarding Matthew J. Fox, dated April 8, 2021. |
|  |  |
| 10.2\* | Form of Aircraft Time Sharing Agreement by and between certain executives and ConocoPhillips, dated June 21, 2021. |
|  |  |
| 31.1\* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
|  |  |
| 31.2\* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
|  |  |
| 32\* | Certifications pursuant to 18 U.S.C. Section 1350. |
|  |  |
| 101.INS\* | Inline XBRL Instance Document. |
|  |  |
| 101.SCH\* | Inline XBRL Schema Document. |
|  |  |
| 101.CAL\* | Inline XBRL Calculation Linkbase Document. |
|  |  |
| 101.LAB\* | Inline XBRL Labels Linkbase Document. |
|  |  |
| 101.PRE\* | Inline XBRL Presentation Linkbase Document. |
|  |  |
| 101.DEF\* | Inline XBRL Definition Linkbase Document. |
|  |  |
| 104\* | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |
|  | |

*\* Filed herewith.*

**SIGNAT****URE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

|  |  |
| --- | --- |
|  | **CONOCOPHILLIPS** |
|  |  |
|  |  |
|  |  |
|  | */s/ Kontessa S. Haynes-Welsh* |
|  | Kontessa S. Haynes-Welsh  Chief Accounting Officer |
|  |  |
| August 5, 2021 |  |