

This document contains the “Environment” Section of the ConocoPhillips SD Report. The file is current as of October 31, 2013.



Sustainable Development



Environment

Life Cycle Thinking

Energy enables global economic development and human progress.

Yet, it is not always clear how best to protect the environment, conserve resources and operate compatibly with neighbors while delivering the energy needed to realize these benefits. Energy companies, including ConocoPhillips, deal with these issues on a daily basis. How can companies make the best choices for the environment and communities?

ConocoPhillips believes in using a systematic approach to understand these often complex issues. One tool in this approach is Life Cycle Assessment (LCA) methodology – a tool to quantify environmental impacts and natural resource usage from project conception to completion. Having full understanding of project lifecycle impacts allows planners to make more informed decisions regarding the environment and natural resource use. It also allows comparisons between alternative approaches and competing technologies. To conduct an LCA, a company must,

- Define the LCA goal, scope and boundaries.
- Develop an inventory of all products, resources and emissions entering or leaving the boundaries.
- Assess the benefits and impacts of products, resources and emissions leaving the boundaries.
- Interpret the results.

For instance, LCAs consistently find that electric power production from natural gas produces half the greenhouse gas emissions of coal when comparing total emissions across the entire life cycle, including fuel production, transportation and transformation into electric power.¹ But how does liquefied natural gas (LNG) compare with coal? Applying systematic LCA methodology, the U. S. Department of Energy Technology Lab finds that LNG can provide a similar greenhouse gas reduction benefit relative to coal (up to a 45% reduction).²

LCA methodology provides important information to company planners so that potential impacts to the environment, natural resources and communities are considered as part of ongoing operating decisions.

By taking this systematic lifecycle approach, ConocoPhillips can better understand and manage our environmental footprint.

¹ U. S. DOE, NETL (2011), Deutsche Bank/Worldwatch Institute (2011), IHS CERA (2011), University of Maryland (2011)

² U. S. DOE NETL, (2010)

Biodiversity

Integrating Biodiversity

Biological diversity, or biodiversity, is a term used to capture the concept of the world's biological richness and variability. Biodiversity includes all populations and species of plants, animals and microbes that occur in nature, and the interactions within and between these populations that contribute to ecosystem function. Ecosystem functions provide essential services that support human needs such as food, shelter, clothing, medicines and fuel. Biodiversity can also have recreational, cultural, spiritual and aesthetic values.

Biodiversity is critical in maintaining ecosystem health and human well-being. Protecting plant and animal species and ecosystems where we operate is an essential component of our health, safety, and environmental commitment. In the company's biodiversity position, we make a number of specific commitments designed to conserve biodiversity as part of our commitment to systematically reduce the effects of our activities on the environment.

The table below highlights some key business results, business practices, processes and tools we use to implement our Biodiversity Position.

Biodiversity Results and Integration Table

Focus Area	Implementation Indicators
Impact Assessment and Results	All major operated assets have completed a biodiversity risk assessment.
	Assets have created fit-for-purpose mitigation plans.
	Environmental and Social Impact Assessments (ESIAs) assess biodiversity issues.
	Sustainable Development Scorecards are completed for capital projects, including an analysis of biodiversity issues, and are updated through project phases.
	The New Country Entry and other due diligence processes evaluate biodiversity issues and risks.
	Biodiversity risks are identified as part of project authorization guidelines for new ventures.
	Business unit biodiversity action plans incorporate management of biodiversity issues as appropriate.
Integration	An internal risk assessment framework has been developed.
	Biodiversity issues are incorporated into Capital Projects and HSE management systems (using a "Plan, Do, Assess, Adjust" approach).
	Business units and functions share best practices in biodiversity through working groups and Networks of Excellence.
Tracking (Issues, Actions)	Biodiversity risks are tracked at business unit, asset or project level and communicated internally.
	Potential biodiversity risks or issues are identified and evaluated periodically through business unit, asset or project level risk assessments.
	Community concerns or grievances related to company activities or biodiversity are tracked at business unit, asset or project level, including responses and resolutions; mechanisms include community or stakeholder relations contact points at the business unit level.

Biodiversity Strategy

In support of our biodiversity position ConocoPhillips implements planning processes aimed at reducing or mitigating the effects of our activities on the environment and conserving biodiversity. We address biodiversity conservation as part of investment appraisal. During the planning and development of major capital projects, we conduct environmental impact analyses, collecting key environmental data and implement mitigation and monitoring programs to reduce impacts and assure results.

We are continuously building our knowledge about the ecosystems in which we work and completed an internal study to benchmark our performance compared to other extractive-industry companies. To increase internal awareness about biodiversity, a knowledge-sharing intranet site was created for ConocoPhillips employees. We conducted industry benchmarking to explore better ways to collect and manage our biodiversity data, including improved animal tagging and streamlined databases. Employees are encouraged to ask questions about challenges they encounter and to share project ideas for technology development in the area of ecosystems and land use. The intranet site also provides such resources as reference to global conferences and contacts to benefit its members.

Our biodiversity strategy is implemented by the following:

- Development of Biodiversity Action Plans for operated assets and projects located in areas of high conservation value.
- Use of widely available and effective planning tools such as those developed by IPIECA, Energy and Biodiversity Initiative, and the International Association of Oil and Gas Producers to facilitate biodiversity conservation.
- Consideration of targeted opportunities for habitat improvement, including projects for rehabilitation. The use of biodiversity offsets are considered when appropriate.
- Collaboration with key stakeholders to increase capacity for biodiversity protection, internally and in related institutions and communities.

Biodiversity Strategy Governance

Responsibility for managing strategic biodiversity issues rests with the ConocoPhillips Executive Leadership Team. The company's Sustainable Development Group provides regular reports to the ConocoPhillips Executive Leadership Team and the Public Policy Committee of the Board of Directors on biodiversity issues.

The Public Policy Committee oversees our positions on public policy issues. The Sustainable Development Group is responsible for ensuring that the ConocoPhillips Executive Leadership Team and Board of Directors are aware of the risks and opportunities associated with biodiversity in our business, and for ensuring that these issues are integrated, as appropriate, into the company's day-to-day decisions and long-term plans. Business units and functions share best practices in biodiversity through working groups and Networks of Excellence.

Since releasing our public position on biodiversity we have continued to improve our understanding of our performance in biodiversity by undertaking peer comparisons and cataloging current challenges and activities. Our corporate biodiversity strategy focuses on implementing mitigation planning processes that conserve biodiversity for existing and future operations.

In the first stage of this strategy, we are:

- Focusing on priority species/habitats.
- Developing valuation methodologies for internal use.
- Engaging externally.
- Increasing awareness and skill development.

Risk Assessments

In 2012 and early 2013, all major operated assets completed a business risk assessment for biodiversity. As an initial input into the assessment, our assets were plotted in the Conservation International biodiversity hot spots mapping layer of the International Petroleum Industry Environmental Conservation Association's (IPIECA) Global Water Tool for Oil and Gas and PROTEUS UNEP World Conservation Monitoring Centre (UNEP-WCMC).

Using the Global Reporting Initiative (a well-known sustainable development reporting guideline), IPIECA practices and internal expertise, we developed an internal risk framework to evaluate our assets. This framework provided a consistent methodology and common tool for evaluating risks. The process looked at a number of international, national and local risk elements and created a categorization of risks for the asset. The guidance and methods in the tool allowed us to get a relative risk for each operated asset. After completing the assessment, the business unit developed appropriate follow up action plans, which are now under review.

These internal assessments complement the other engagement we do in the area of biodiversity. Through our various programs and activities, we cooperate with local and international non-government organizations (NGOs) and government agencies and communities in conserving and protecting biodiversity and ecosystems services in the regions where we work. Through relationships with experts, we improved our ability to recognize and manage sensitive environments, avoid them where possible, or reduce impacts to a minimum in areas that we cannot avoid. We use local experts to monitor and advise our activities in proximity to such sensitive areas.

Alaska's Cook Inlet

We believe it is important to balance our presence with responsible conservation measures to protect biodiversity. This requires dialogue between environmentalists, industry, government and other interested parties.

ConocoPhillips has long recognized that our ability to safely develop oil and gas resources in Alaska, particularly in Cook Inlet, is inextricably linked to the ability of all resource developers to minimize the environmental impacts and protect the subsistence way of life for native peoples. For more than 40 years, ConocoPhillips has successfully developed and produced gas in Cook Inlet waters occupied by the beluga whale.

The Cook Inlet beluga whale is currently listed as endangered under the Endangered Species Act and depleted under the Marine Mammal Protection Act. It is therefore afforded a high level of protection by the National Marine Fisheries Service (NMFS) as the agency works with industry, native subsistence hunters and others to conserve and ultimately recover the species to sustainable population levels. Understanding the reasons behind the beluga whale population decline is important to the industry and other stakeholders.

ConocoPhillips is a longstanding supporter of beluga whale conservation, management and research in Alaska. We support the conduct of sound science to assist with decisions on the management of marine mammals, not only for the continuation and growth of the population, but also to allow for future harvests by local Native hunters who rely on these animals as part of their subsistence diet.

External Engagement and Tools

We follow widely accepted guidelines from IPIECA and the International Association of Oil and Gas Producers (OGP) in our approach to biodiversity conservation. As a member of the IPIECA biodiversity and ecosystems services working group, we develop tools and materials to help companies across our industry enhance their biodiversity conservation activities. As a founding member of the OGP's Sound and Marine Life program, we support continued research to increase scientific knowledge on the possible impact that sound produced by offshore exploration and production has on marine mammals, fish, turtles, seabirds, invertebrates and other marine life.

We are also members of the OGP and are on the management committee for this organization. OGP companies, share information and develop guidance on safety, the environment, governance, fiscal transparency and corporate social responsibility. Additionally, we serve on the OGP Environment Committee.

Business Processes

Our global businesses follow specific, well-defined processes that help manage sustainability issues as we begin a new venture, from the initial phases of identifying a potential opportunity through project development and operations. We are committed to the development of biodiversity management practices that conserve and protect biodiversity and ecosystems services and enhance the efficiency of our assets.

New Country Entry

ConocoPhillips' project authorization guidelines and Health, Safety and Environment (HSE) due-diligence standards require that any new business venture identifies health, safety, environmental (including biodiversity), reputational and social risks, in addition to technical, commercial and political constraints. Once an opportunity is identified and a request for approval is drafted, a new country entry risk assessment is prepared.

We also perform due diligence on acquisitions or divestments of businesses or properties, new business ventures, incorporated and unincorporated joint-venture agreements, and initiations and terminations of property leases or subleases. Both of these key processes, which include biodiversity, are described in more detail in Our Approach under New Country Entry.

Sustainable Development Scorecard

To identify environmental, social and human rights issues during project development, project teams use a sustainable development (SD) scorecard and two related tools. We incorporate biodiversity issues in the SD scorecard process where warranted by new country entry, or other preliminary risk assessments, as described in more detail in Our Approach under Sustainable Development Scorecard.

Starting in 2013, the biodiversity risk assessment framework that was developed for screening risks at assets will be integrated into the scorecard. This tool provided a broad perspective on our risks around biodiversity and ecosystem services for our assets globally, helped further identify important issues and potential effects that should be considered, and allows for continued learning as the project progresses.

Health, Safety, Environmental and Social Integration

We systematically conduct assessments to identify how our business practices might affect communities and ecosystems in areas where exploration and project development is planned. Biodiversity assessments are included in this process, which is described in more detail in Our Approach under Health, Safety, Environmental and Social Integration.

Biodiversity Initiatives

ConocoPhillips and its employees participate in a variety of projects to help refine scientific knowledge about birds, to protect and improve wildlife habitats, and to provide educational programs about birds

Spirit of Conservation

One of ConocoPhillips' environmental interests is conserving the natural habitat of migratory birds, an objective that has been among the company's philanthropic priorities since the 1970s. In 2005, ConocoPhillips founded the SPIRIT of Conservation Migratory Bird Program, an outgrowth of the company's long-working relationship with the National Fish and Wildlife Foundation (NFWF). The program strives to protect, restore and improve the natural systems and habitats upon which migratory birds depend for survival, and to benefit declining bird species.

Through its first 8 years, 55 grants have been awarded to 30 conservation groups in 12 states and 5 countries. Nearly 100,000 acres of priority bird habitats have been protected and restored. ConocoPhillips' cumulative contribution of \$3.2 million has been leveraged by NFWF at better than 5:1, for a total on-the-ground impact of over \$16 million.

Gulf Coast Bird Observatory

In 1993, ConocoPhillips helped form a unique alliance of two conservation groups, three federal and state agencies and two petroleum companies to expand and improve habitat at High Island, Texas. Located approximately 60 miles south of Houston, High Island is one of the most important resting places for neotropical bird species as they migrate to the United States each year from Central and South America. Through the efforts of ConocoPhillips employees and corporate funding, the Gulf Coast Bird Observatory (GCBO) was created. It has expanded into a network of protected habitats across the Gulf Coast from Florida to Mexico.

The GCBO works to protect birds, habitat and birding areas along the Gulf of Mexico from the Florida Keys to the Yucatan Peninsula. Since 1993, ConocoPhillips has served as an annual sponsor for GCBO, donating nearly \$500,000.

ConocoPhillips is involved in creating the partnerships necessary to acquire and maintain other GCBO sites throughout the Gulf Coast.

One of the four Houston Audubon Society's sanctuaries on High Island is the S.E. Gast Red Bay Sanctuary, named in honor of a ConocoPhillips employee who has been instrumental in the habitat improvement and public education at High Island.

Crane Foundation

ConocoPhillips is a supporter of the International Crane Foundation (ICF). Founded in 1973, the ICF focuses attention on the conservation of the world's 15 species of cranes. Since the 1980s, ICF has emphasized a flyway approach to crane and water fowl conservation, facilitating communication and coordinated activities involving wetland sites along the crane flyways in China, and also north into Mongolia and Russia.

The coastal plain between the Bohai Sea and mountains to the west are a migration corridor with huge numbers of water fowl funneled across lowland areas heavily populated and developed. Over the past decade, ICF has sponsored research, education programs, and strengthening of wetland conservation and protected areas. Recently, ConocoPhillips China began working with the ICF on two key areas that are under significant threat:

- Northeast Inner Mongolia and adjacent parts of Jilin Province where variable rainfall, water diversions and climate change has created recurring stress conditions on crane habitats.
- The coastal plain along Bohai where development puts strains on wetland ecosystems, to the detriment of water birds and local communities dependent on wetland resources.

The program will work with people dependent on the resources of wetlands and their watersheds to devise economic strategies that safeguard their resource base, while being simultaneously compatible with water fowl and ecosystem protection. For more information about this project see page 41 of the ConocoPhillips China Sustainable Development Report.

Playa Lakes Joint Venture

Established in 1989, the Playa Lakes Joint Venture (PLJV) was the seventh habitat joint venture to implement the goals of the North American Waterfowl Management Plan. This public-private partnership is committed to the conservation of playa basins, saline lakes, marshes, riparian areas and associated watersheds through cooperative efforts with landowners. ConocoPhillips has been the lead corporate participant in the PLJV since its inception, providing in-kind support, employee expertise and has contributed over \$2.2 million to projects. Playa Lakes Joint Venture and its partners have restored, enhanced or protected over 1.4 million acres of land within the western great plains.

Grants and partnerships with state and federal agencies, conservation organizations, corporations, communities and individuals have enhanced, restored or protected more than 100,000 acres of habitat.

The Playa Lakes Joint Venture takes in more than 50,000 wetlands known as "playas" across the western High Plains of the United States. There are more than 80,000 playas and they range in size from less than 1 acre to more than 100 acres.

Alaska Wildlife

ConocoPhillips is a long-time supporter of The Nature Conservancy. In 2000, ConocoPhillips contributed \$1 million to the Alaska chapter's Great Places in the Great Land conservation campaign. The contribution remains the largest corporate gift to conservation in Alaska's history. Great Places in a Great Land is a five-year effort to identify lands throughout Alaska that deserve protection and find strategies to implement protective measures. The funds will be used to buy critical habitat from willing sellers in order to protect it for future generations and to work with Alaska communities to build economies that do no harm to the land. Some funds also will pay for the planning efforts to identify critical lands.

The Nature Conservancy, founded in 1951, is the world's leading private, international conservation group. Its goal is to preserve habitats and species by saving the lands and waters they need to survive. It has helped protect more than 15 million acres of habitat in the United States and nearly 101 million acres outside the United States. The Conservancy manages about 1,400 preserves, the largest system of private nature sanctuaries in the world. ConocoPhillips also supports The Nature Conservancy's projects in Oklahoma, Texas and Louisiana.

Wildlife Habitat Council

Several projects taking place on ConocoPhillips' properties indicate the enthusiasm and interest of employees in protecting and improving habitat for birds, as well as other wildlife. These projects are being carried out under the rigorous land management guidelines of the Wildlife Habitat Council (WHC), a nonprofit organization that helps landowners manage their properties in an ecologically sensitive manner for the benefit of wildlife.

ConocoPhillips' sites participate in each level of WHC programming from habitat enhancement and environmental education to nest monitoring and community outreach. Each year, ConocoPhillips is proudly represented in WHC's Corporate Homes for Wildlife Calendar, showcasing a particular site with a photo and brief description showing the great work being done on corporate land to enhance critical wildlife habitat. ConocoPhillips has the following WHC projects currently under way at company locations in Bartlesville, Oklahoma:

- The Hillside Wildlife Habitat Enhancement Area has been certified for habitat since 1991.
- The Eliza Creek Habitat Enhancement Project has been certified for habitat since 1999.

Houston Audubon Society

ConocoPhillips is a corporate supporter of the National Audubon Society. Founded in 1905, the organization is named for John James Audubon, a well-known bird expert, explorer and wildlife artist. The Society's mission is to preserve and restore natural ecosystems, focusing on birds, other wildlife and their habitats for the benefit of humanity and the earth's biological diversity. The organization's national network of community-based nature centers and chapters, scientific and educational programs and

advocacy on behalf of all sustaining important bird populations, engage millions of people of all ages and backgrounds in positive emulation experiences.

ConocoPhillips also is a corporate supporter of the Texas Audubon Society. Both as a corporation and through Gulf area employees, ConocoPhillips is an active participant in the work of Houston Audubon Society (HAS). HAS became one of the first environmental organizations in Houston in 1969. With nearly 4,700 members from 13 counties along the Upper Texas Coast, HAS is one of the largest Audubon chapters in the nation. In 1983, HAS purchased acreage at High Island in Galveston County, and more recently purchased Horseshoe Marsh on Bolivar Peninsula. These properties and significant additional acreage, including Smith Oaks, provide critical stopover habitat for thousands of neotropical songbirds that migrate along the Gulf of Mexico flyway from Latin America to breeding grounds in North America.

HAS's sanctuary system includes nearly 3,000 acres and is still growing. HAS programs include the High Island Initiative and the Gulf Coast Initiative, which have brought together advocacy groups, governmental agencies and corporations to establish the Gulf Coast Bird Observatory. More than 16,000 children and adults benefit from HAS education programs.

Wetland Foundation

ConocoPhillips sponsors the America's WETLAND Foundation (AWF) established in Louisiana, and working throughout the Gulf region, was founded in 2002 in response to a comprehensive coastal study calling on the need to alert the nation to the devastating loss of Louisiana's coastal wetlands and how their loss impacts the rest of the nation.

For more information about AWF, visit their website at americaswetland.com.

Protecting Habitats

Every operating environment is sensitive to some degree. Some areas, such as the Arctic or rainforest regions, have been identified as under more duress or more fragile than others.

When exploring in Peru, we minimized our footprint by limiting road construction, and transporting supplies and equipment by boat and helicopter. We worked with local organizations to support biodiversity conservation in the Pucacuro Reserve. In the Pucacuro Reserve proposal, the community requested support to protect local forest through the Consejo Comunal. We provided funding to support a collaborative effort with SERNANP (Servicio Nacional de Areas Naturales Protegidas por el Estado) and the local communities to help with protection of the Pucacuro Reserve. A monitoring and control station at the mouth of the Pucacuro River has been built, and forest guards have been trained to help the government maintain oversight in the area.

To support Peru's biodiversity management, ConocoPhillips requested that the original configuration of License Contract 123, as announced by PerúPetro, be changed so as to exclude parts of the Pucacuro Reserve. PerúPetro granted ConocoPhillips' request and reconfigured the License Contract Area.



We partner on projects that can achieve biodiversity protection through community involvement in a sustainable project. Through our involvement with the SPIRIT of Conservation Migratory Bird Program 1,400 acres were purchased at Abra Patricia in the Peruvian Department of Amazonas as a conservation site and local people have been hired and trained as guides and guards.

In 2012, ConocoPhillips was part of an industry commitment of nearly 1 million acres to help the U.S. Fish and Wildlife Service protect habitat for the Dunes Sagebrush Lizard in southeastern New Mexico. This private/public collaboration helped avoid listing the lizard as an endangered species.

Engaging Stakeholders

We recognize the special relationship local communities and indigenous people have with the land and natural environment. Furthermore, we respect their unique knowledge in managing their local environment and conserving biodiversity. While assessing the potential impact of our operations, we actively seek to learn from the traditional knowledge held by indigenous communities as we work with them to develop mitigation strategies to any potential environmental or socioeconomic impacts.

In many cases, where environmental monitoring or restorations comprise our action plans, we involve members of the local communities. For example, Potter Marsh, located within the Anchorage Wildlife Coastal Refuge, is one of ConocoPhillips' signature SPIRIT of Conservation programs in Alaska. Recent project activities include habitat enhancement for migratory birds and fish, increased public access to wildlife resources, and educational outreach. ConocoPhillips has invested more than \$2 million in Potter Marsh and has worked collaboratively with regulatory agencies and environmental non-profit organizations to advance the project.

We collaborate with the University of St. Andrews on the annual St. Andrews Prize for the Environment, which recognizes significant contributions to environmental conservation. Since its launch in 1998, the St. Andrews Prize has attracted entries from more than 50 countries each year on diverse topics, including sustainable development in the Amazon rainforest, urban regeneration, recycling, health and water issues, and renewable energy.

Additionally, ConocoPhillips has an annual grant process that awards grants to grad students doing avian research in Alaska. The Angus Gavin Migratory Bird Research Fund is named after our first ecologist in residence.

Water

Integrated Water Management

Almost half the world's population will be living under severe water stress by 2030. Projected population growth will increase demand for water – for personal use, sanitation, manufacturing, energy production and food production.

Possible impacts from climate change, including rising sea levels, declining water storage in the form of snow, glaciers and ice caps, and increasing droughts and floods, may impact water supplies. In addition, many of the proposed methods for producing low carbon and renewable energies are water intensive and their increased use could further increase competition for fresh water.

Although water is an important issue globally, the impacts on freshwater supply and water quality can be very local in nature. Building local awareness, skills, and sustainable and economical practices at a local level is crucial to our commitment to successful water management. Our commitment to developing management practices that conserve and protect freshwater resources while optimizing the efficiency of water usage at our facilities guides our company's strategies. In addition to managing freshwater, the company is exploring ways to use non-fresh sources of water ranging from using brackish water to recycling produced water and recycling municipal wastewater. This type of water can pose difficult challenges and potential costs to the business, but are considered as part of the balance between the needs of the stakeholders in an area.

The table below highlights some key business results, as well as business practices, processes and tools we use to implement our Water Sustainability Position.

Water Results and Integration Table	
Focus Area	Implementation Indicators
Impact Assessment and Results	<ul style="list-style-type: none"> All major operated assets have completed a water risk assessment Assets have created fit-for-purpose mitigation plans Environmental and Social Impact Assessments (ESIAs) assess Water issues where appropriate Sustainable Development Scorecards are completed for capital projects including an analysis of Water issues, and are updated through project phases The New Country Entry process evaluates water issues and risks Water risks are identified as part of project authorization guidelines for new ventures Business unit water action plans incorporate management of water issues as appropriate
Integration	<ul style="list-style-type: none"> Development of an internal risk assessment framework Water issues are incorporated into Capital Projects, Operations Excellence and HSE Management Systems (using a “Plan, Do, Assess, Adjust” approach) Business units and functions share best practices in water through working groups and Networks of Excellence
Tracking (Issues, Actions)	<ul style="list-style-type: none"> Water risks are tracked at business unit, asset or project level and communicated internally Potential water risks or issues are identified and evaluated periodically through business unit, asset or project level risk assessments Community concerns or grievances related to company activities or water are tracked at business unit, asset or project level, including responses and resolutions; mechanisms include community or stakeholder relations contact points at the business unit level. Development of Water Action Plans for operated assets and projects located in areas of high conservation value

Implementing Our Water Strategy

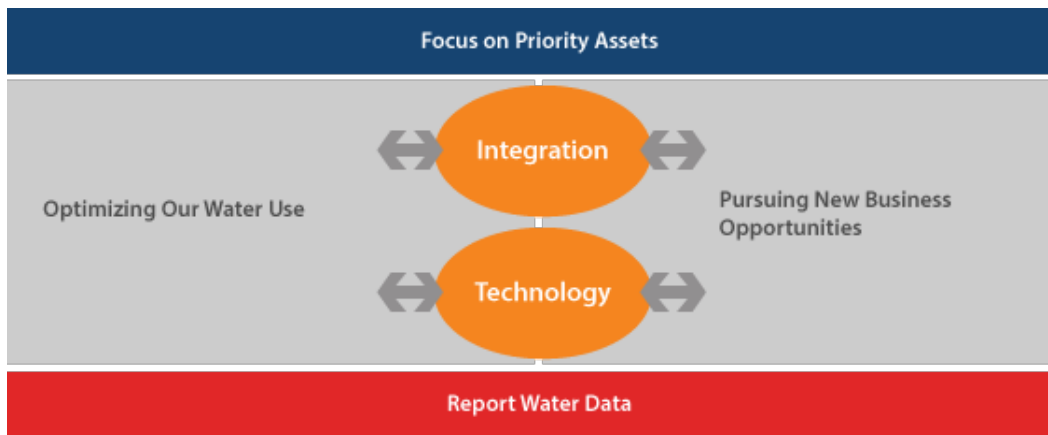
ConocoPhillips strives to manage water in an environmentally sound and socially responsible manner, while cost-effectively addressing the short-term and long-term water related risks to our businesses. Our recent focus has been on developing a risk-based water strategy, driven by individual business units, and focusing on assets where fresh water is scarce or effluent quality is challenged. Our Water Sustainability Position states our commitment to developing management practices that conserve and protect freshwater resources and enhance the efficiency of water usage at our facilities.

The objective of our water strategy is to improve how the company manages water. The corporate water strategy includes the following commitments:

- Meet our public commitment to conserve, protect, measure and monitor freshwater usage.
- Focus water assessment on assets that have the greatest impact.

- Identify and develop opportunities linked to successful water management systems at a local level, and then apply this knowledge to our assets.
- Develop and implement technologies to reduce the environmental impact of the company’s water footprint.
- Utilize the company’s Research and Development resources including the Global Water Sustainability Center to drive technology advances.

We assess measure and monitor our freshwater usage at our operated assets. Based on these assessments, we then manage our water consumption and discharge in an environmentally responsible manner. ConocoPhillips continues to improve data collection related to our freshwater use around the globe. The key elements of our approach are illustrated in the following diagram.



Water Strategy Governance

Responsibility for managing water strategic issues rests with the ConocoPhillips Executive Leadership Team. The company’s Sustainable Development Group provides regular reports to the ConocoPhillips Executive Leadership Team and the Public Policy Committee of the Board of Directors on water issues.

The Public Policy Committee oversees our positions on public policy issues. The Sustainable Development Group is responsible for ensuring that the ConocoPhillips Executive Leadership Team and Board of Directors are aware of the risks and opportunities associated with water in our business, and for ensuring that these issues are integrated, as appropriate, into company strategic decisions. Business units and functions share best practices in water through working groups and Networks of Excellence.

Risk Assessments

When evaluating water risks, ConocoPhillips starts at a high level with an enterprise-wide search for issues around the world. Using the IPIECA Global Water Tool and other internal expertise to screen for risks, we then take a deeper look at potential water risks or opportunities using tools such as the GEMI Local Water Tool.

Each operated asset is required to complete a water risk assessment and, if needed, develop a water action plan. These plans are designed to address the local risks identified. These plans may include monitoring, plans for engagement, or specific technology plans and are aimed at helping each asset appropriately manage the issue within the local context. Some examples of our business unit water management planning and actions may be found in the Canadian oil sands and in our Eagle Ford shale development work.

ConocoPhillips was the first company to pilot the GEMI Local Water Tool at the Surmont I Oil Sands development in Canada. It was used to evaluate risks even though the operation is not located in a water short or scarce region. Indonesia also used the tool to evaluate risks at our operated assets. Both of these pilot projects and the actions taken to explore alternative sources have been shared with regulators and other stakeholders.

Integration Of Water Into Business Processes

Our global businesses follow specific, well-defined processes that help manage sustainability issues as we begin a new venture, from the initial phases of identifying a potential opportunity through project development and operations. We are committed to the development of water management practices that conserve and protect freshwater resources and enhance the efficiency of water utilization at our facilities. Our oil sands development, Onshore Operating Principles, and natural gas operations offer examples of this commitment.

New Country Entry

ConocoPhillips' project authorization guidelines and Health, Safety and Environment (HSE) due-diligence standards require that any new business venture identifies health, safety, environmental (including water), reputational and social risks, in addition to technical, commercial and political constraints. Before starting a venture in a new country, we take several steps to assess the potential sustainability and business risks. Once an opportunity is identified and a request for approval is drafted, a new country entry risk assessment is prepared.

We also perform due diligence on acquisitions or divestments of businesses or properties, new business ventures, incorporated and unincorporated joint-venture agreements, and initiations and terminations of property leases or subleases. This process also includes water, as described in Our Approach under New Country Entry.

Sustainable Development Scorecard

In order to identify environmental, social and human rights issues during project development, project teams use a sustainable development (SD) scorecard and two related tools. We incorporate water issues

in the SD scorecard process where warranted by new country entry or other preliminary risk assessments, as described in Sustainable Development Scorecard.

Training and Awareness

Our approach encompasses a broad range of activities and tools. ConocoPhillips led the development of the IPIECA Global Water Tool and the GEMI Local Water Tool and we continue to promote their use externally. We have adapted and applied the tools developed by these organizations through integration into our processes and training for key functions and leaders. We've also focused our Water Issues Working Group and water networks on further integration of sustainable development tools and commitments into business planning and work processes.

Health, Safety, Environmental and Social Assessments

We systematically conduct assessments to identify how our business practices might affect communities and ecosystems in areas where project development is planned. Water assessments are included in this process as described in more detail in Our Approach under Health, Safety, Environmental and Social Assessments.

Water issues are included in our high level processes and where warranted by specific risk assessments. At the asset level, we continue to strengthen the consistency in implementation.

Community Engagement

Community engagement is integral to how we go about implementing or "operationalizing" our commitment to managing developments and addressing sustainable development issues, including water. Business unit engagement strategies, peer to peer best practice sharing, participation in industry forums, developing or implementing advances in technology and operating processes all enhance our ability to continue to responsibly develop hydrocarbons.

Water Efficiency

ConocoPhillips collects information on water use and discharge. Each year that information is reported. To see our latest results, see Performance Data. In addition, we engage with our peers and others to explore trends and changing requests in sustainable development reporting and data collection.

Natural gas production outperforms many energy sources in using water efficiently. We focus on groundwater protection, proper handling of flowback or produced water, minimizing the use of freshwater, where feasible and practical, and funding research to improve the entire spectrum of shale gas operations. For more information, visit Powerincooperation.com.

Produced Water

Fresh water management is one aspect of how we manage water. Water produced from the formation (produced water) and fracturing fluid returned with oil and gas (flowback water) can vary in quantity and is usually highly saline and may contain hydrocarbons, minerals or metals from the reservoir. Some of it is recycled for oil production as in our Surmont 1 oil sands operations. Managing its treatment, disposal and potential reuse is a challenge for the industry, and alternatives are continually being evaluated as part of the company's work at our Global Water Sustainability Center (GWSC) and Bartlesville Technology Center.

The Bayu-Undan Field is an offshore gas and liquids hydrocarbon processing facility located in the Timor Sea between Australia and Timor-Leste. A by-product of extracting hydrocarbons from the reservoir is the generation of significant volumes of 'produced water' from within the geological formation. To reduce potential impacts associated with the release of produced water to the marine environment, the Bayu-Undan Field includes two dedicated produced water reinjection wells. The reinjection wells enable produced water to be safely contained within the reservoir, avoiding potential discharge impacts. Over the life of the field the Operations team has achieved greater than 99% average uptime of the produced water reinjection wells.

Marine Water Management

We carefully manage our marine water discharges. Our tanker operations, which typically move Alaskan crude to U.S. west coast refineries, are certified under the Washington Department of Ecology's Exceptional Compliance Program (ECOPRO). ECOPRO, a voluntary program for tankers and tank barges, recognizes operator commitment to environmental stewardship through compliance with standards exceeding regulatory requirements. Our fleet operations also comply with new vessel water discharge regulations.

As part of the company's emergency preparedness program, the company conducts drills in both land and marine environments. Additional information about those drills and our emergency response plans can be reviewed under Emergency Preparedness or Offshore Incident Prevention and Response Capabilities.

Addressing Global Water Challenges

Some years water is plentiful, other years it is not. While the individual assets work on the local focus, the company continues to look at how we can help address some of the larger issues such as the lack of access to clean water and sanitation. These are difficult global challenges and require holistic water stewardship. We are not able to solve them alone, but ConocoPhillips's contributes to Water for People which seeks to alleviate a lack of clean water. Our industry support of WaterMatch, a tool to match industry needs to potential sources of municipal discharge, and our support of Net Impact which increases awareness of the water challenge with our employees and college students, all play a part in

how we share the challenge of managing water. More information on ConocoPhillips contributions to water and other sustainable development issues is shared In Communities.

Water Technology

ConocoPhillips conducts ongoing research designed to improve production of today's conventional fuels, while leveraging the company's expertise in new ways through its Technology organization. The company is substantially increasing research and development efforts on technologies that complement our existing businesses, reduce the environmental footprint of our activities, and progress alternative and renewable energy sources.

Oil Sands Technology

In 2007 ConocoPhillips committed to spend more than \$300 million on heavy oil technology from 2008 through 2012. This money was used to fund research related to heavy oil, including technologies focused on improving the environmental performance of the oil sands. If successful, such advances in technology have the potential to reduce the company's GHG emissions from oil sands production by as much as 15-35%.

The Global Water Sustainability Center ConocoPhillips' Global Water Sustainability Center (GWSC) opened in early 2009 in the Qatar Science & Technology Park at Education City, Doha, Qatar, with the mission of examining methods to treat and reuse byproduct water from oil production operations, and conducting other projects relating to industrial and municipal water sustainability. The close proximity of the Qatar Foundation's Education City provides opportunities for collaboration with top scientists who have access to facilities and to employ graduates from world-class universities.

The GWSC focuses on various desalination processes, in addition to removal of heavy metals and hydrocarbons. It also evaluates cost-effective ways to recycle municipal water for irrigation purposes. Increased emphasis is directed toward advanced technologies, with particular emphasis placed on membrane processes.

In addition to research at the center a key goal of the GWSC is to increase awareness of the importance of water conservation within Qatar. The visitor center includes interactive, hands-on exhibits to educate local school children and other visitors about water conservation. The facility also hosts workshops on key issues for water-scarce regions, such as water conservation and municipal water recycling

Reduce, Reuse, Recycle

Good environmental stewardship includes setting standards for waste management, decommissioning and minimization. We seek to identify new and better ways to diminish our environmental footprint and social impacts by becoming more efficient in the workplace and in the communities in which we operate.

Material Efficiency

Our approach to waste management is based on a simple set of priorities – first, eliminate waste where possible; then reuse, recover and recycle it; and finally as a last resort, dispose of it safely. We have a global Waste Management Standard that requires all operations to evaluate the waste they generate and the suitability of the waste facilities they use.

ConocoPhillips' businesses can use only commercial waste contractors that meet company standards for operational integrity, have environmental protection measures in place, implement monitoring and institutional controls, and comply with relevant regulations.

The Waste Management Standard also requires businesses to develop comprehensive management plans for company-owned or -operated waste units. The standard applies to all operations worldwide. In ventures where we are not the operator or hold a minority interest, we strive to influence our co-venturers to implement similar programs.

In the United States and Canada, for example, ConocoPhillips developed a commercial waste management program to track waste disposal activity and compiled a list of company-approved commercial waste management facilities. We inspect potential new waste sites and periodically audit the sites that we choose to utilize. Preference is given to contractors who provide cost-effective responsible alternatives to landfill disposal. But if this is not an option, we select sites that comply with strict environmental standards.

Around the world, we manage the disposal of surplus or obsolete electronic equipment in a process known as e-cycling. As part of this process, we negotiate contracts with vendors for the remarketing and recycling of electronic equipment, such as computers, televisions, microwave ovens, copiers, fax machines and telephones that no longer have value to ConocoPhillips, but may have value for others. In many locations, we have partnered with our recycling contractor to provide similar services for the public, using company locations as collection points. In addition, our employees help their local communities collect household waste and recyclable material that cannot be disposed of in regular household garbage.

Decommissioning

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

ConocoPhillips continues working at a steady pace to remove decommissioned structures in the Ekofisk area of the North Sea. Under the approved plan, the company removed seven platforms between 2009 and 2012. By the end of that period, the combined reuse and recycling rate of disposed structure materials exceeded 97%. Two more platforms are scheduled for removal in 2013.

Ekofisk I steel jacket-based platforms are being removed and disposed onshore in an environmentally responsible manner. The landed structures are dismantled, sorted and processed in a facility fully equipped and licensed to handle hazardous materials.

The key environmental factors involved in disassembling the structures include effective relocation of drill cuttings (the soil and rock particles removed during the drilling process) and waste management and optimization. The decommissioning team employs the best available techniques to relocate drill cuttings. Hazardous waste near the structures is thoroughly mapped in order to plan careful removal and disposal, while optimizing reuse and recycling. Our comprehensive environmental monitoring program continues to document minimal impact on the environment.

Waste Management Data

Our goal is to manage materials and waste efficiently. More information is available in the “Reporting” section of the SD Report.

Climate Change

At ConocoPhillips everything we do centers on our mission to power civilization. We recognize that human activity, including the burning of fossil fuels, is contributing to increased concentrations of greenhouse gas (GHG) in the atmosphere that can lead to adverse changes in global climate. We are continuing to manage GHG emissions in our operations and to integrate climate change related activities and goals into our business planning. Our commitment to sustainable development provides the foundation for our actions, which focus on conducting business to promote economic growth, a healthy environment and vibrant communities, now and into the future.

Global Climate Change Position

ConocoPhillips recognizes that human activity, including the burning of fossil fuels, is contributing to increased concentrations of greenhouse gases (GHG) in the atmosphere that can lead to adverse changes in global climate.

Our Focus

While uncertainties remain, we continue to manage greenhouse gas emissions in our operations and to integrate climate change related activities and goals into our business planning. Our corporate action plan focuses on the following areas:

- Understanding our GHG footprint
- Reducing our GHG emissions
- Evaluating climate change related risks
- Leveraging technology innovation to explore new business opportunities
- Engaging externally in support of practical, sustainable climate change solutions
- Reviewing progress and updating business unit climate change management plans

Our approach to climate change is designed to advance the company's vision to be the exploration and production company of choice for all stakeholders by pioneering a new standard of excellence.

Climate Change Public Policy

We believe that effective climate change policy must be aligned with the following principles:

- Recognize that climate change is a global issue which requires global solutions – economy-wide governmental GHG management frameworks should be linked to binding international agreements comprising the major GHG contributors
- Result in the stabilization of global GHG atmospheric concentrations at safe levels
- Coordinate with energy policy to ensure a diverse and secure supply of affordable energy
- Utilize market-based mechanisms rather than technology mandates
- Create a level competitive playing field among energy sources and between countries
- Avoid overlapping or duplicating existing energy and climate change programs
- Provide long-term certainty for investment decisions
- Promote government and private sector investment in energy research and development
- Match the pace at which new technology can be developed and deployed
- Encourage efficient use of energy
- Foster resiliency to the impacts of a changing climate
- Avoid undue harm to the economy.

Building balanced energy policies is challenging, and we recognize that no one has all the answers. As economies around the world continue to develop, fossil fuels will play an important role in meeting the growing global demand for energy. Meeting the challenge of taking action on climate change while providing adequate, affordable supplies of reliable energy will require financial investments, skilled people, technical innovation and responsible stewardship from policy makers, energy producers and consumers.

ConocoPhillips is committed to doing our part.

Public Policy Engagement

Overview

We believe that over the months and years ahead, governments – federal, state/provincial and local – will continue to act upon the issue of global climate change. In order to succeed in a low carbon economy, ConocoPhillips must play a constructive role in public policy dialogue to devise practical, equitable and cost-effective approaches to reduce greenhouse gas (GHG) emissions and address the impacts of climate change.

Effective Climate Change Policy

The company climate change position outlines our principles of effective climate change policy.

These principles continue to guide our engagement on climate change policy in the United States, Canada, Europe, Australia and other countries in which we operate. We work with trade associations, industry peers and other key stakeholders in efforts to align the policymaking process with our positions and principles.

Management Systems

Governance

Responsibility for managing climate change issues rests with a ConocoPhillips Executive Leadership Team member who reports directly to the CEO. In addition, the company has a Sustainable Development Group that provides regular reports to the ConocoPhillips Executive Leadership Team and the Public Policy Committee of the Board of Directors on climate change issues.

The Public Policy Committee oversees our positions on public policy issues, including climate change. The company's Sustainable Development Group is responsible for ensuring that the ConocoPhillips Executive Leadership Team and Board of Directors are aware of the risks and opportunities associated with climate change for our business, and for ensuring that these issues are integrated as appropriate into company strategic decisions.

For a full description of how we manage Sustainable Development at ConocoPhillips please see [Accountability for Sustainability Issues](#).

Staffing

ConocoPhillips has dedicated staff with specific responsibility for managing climate change issues within corporate headquarters, in key business units (e.g. ConocoPhillips Canada, UK, Norway, Australia) and within staff groups (e.g. Health, Safety and Environment). These individuals tap into a wide range of organizational expertise from legal, communications, government affairs, engineering, geo-science, commercial and investment appraisal to develop recommendations for decision makers.

Communication between these organizational groups has been facilitated by the establishment of Networks of Excellence which allow the sharing of best practices to tackle common issues across the company. Steering Committee and Discussion Forums within the Networks of Excellence provide a platform for collaboration and education on climate change related issues.

Greenhouse Gas Measuring, Reporting and Forecasting

A detailed description of the ConocoPhillips process for measuring and reporting GHG emissions from our operations can be found in Performance Data.

Impact and Risk Assessments and Strategic Planning

Our processes for Climate Change Impact and Risk Assessments and Strategic Planning is described in Integration of Sustainability into Business Process.

Integrating the Cost of Greenhouse Gas Emissions into Project Economics

For operations in countries with existing or imminent GHG regulation, the cost of regulatory compliance is evaluated based on specific regulation and local greenhouse gas pricing information. This information is incorporated into the base-case economic analysis for ongoing and new capital expenditures. For operations in countries without existing or imminent GHG regulation, all capital projects with a cost of \$75 million or greater or which result in a change to annual emissions in excess of 25,000 metric tons of CO2 equivalent are required to perform a sensitivity analysis that includes carbon cost as part of the project’s economic analysis. The company uses an estimated market cost of greenhouse gas emissions in the range of \$8 to \$46 per tonne (2012 real) depending on the timing and country or region to evaluate future project opportunities.

Business Unit Climate Change Planning

Our performance in Business Unit Climate Change Action Planning is shown in the table below.

Action	%
E & P Business Units with Climate Change Action Plans	100
Operated assets with CCAP's either complete or to be finalized in 2013	100
Non-operated assets with CCAP's either complete or to be finalized in 2013	75

For an example of a ConocoPhillips business unit’s Climate Change Action Plan, visit the ConocoPhillips Canada Sustainable Development portal.

External Perspective

We are members or sponsors of a number of external groups, which are involved in our efforts to manage the impact of climate change.

American Petroleum Institute (API) – Climate Change Steering Committee

The API's Climate Change Steering Committee addresses climate change issues affecting the U.S. oil and natural gas industry. The group oversees API's Climate Challenge program, including participation in government voluntary GHG reduction programs, as well as development of the API Compendium methodology for estimating oil and gas industry greenhouse gas emissions.

Reference API Climate Change Steering Committee

International Petroleum Industry Environmental Conservation Association (IPIECA) – Climate Change Working Group

IPIECA established its Climate Change Working Group in 1988. Since then the group has monitored the climate science and policy discussions, engaging with international governmental bodies and other stakeholders. It now also focuses on providing best practice guidance on GHG emissions monitoring, reporting and management.

IPIECA participates in the Intergovernmental Panel on Climate Change (IPCC) and the United Nations Framework Convention on Climate Change (UNFCCC) and provides IPIECA members with reliable and timely information about these and other international process dealing with climate change.

The Climate Change Working Group is currently working on:

- GHG emissions management
- Revising the Petroleum industry guidelines for reporting GHG emissions
- Technical input into the IPCC fifth assessment report
- Pilot version of the Addressing uncertainty in oil and natural gas industry greenhouse gas inventories.

Reference: IPIECA Climate Change Working Group

MIT - Joint Program on the Science and Policy of Global Change

ConocoPhillips is a sponsor of the Program. The program's mission is to:

- Improve knowledge of interactions among human and natural Earth systems, with a particular focus on climate and energy, and of the forces that drive global change.
- Prepare quantitative analyses of global change risk and its social and environmental consequences.

- Provide independent assessments of potential responses to global risks, through emissions mitigation and anticipatory adaptation, contributing to improved understanding of these issues among other analysis groups, policy-making communities and the public, and
- Augment the pool of people needed for work in this area by the education of graduate and undergraduate students in relevant disciplines of economic and Earth science analysis and methods of policy assessment.

An interdisciplinary team of natural scientists, social scientists and policy analysts supports this mission, with their efforts coordinated through the maintenance and application of a set of analytical frameworks that integrate the various components of global system change and potential policy response.

Cambridge Energy Research Associates (IHS/CERA)

Climate Change and Clean Energy Forum IHS/CERA host bi-annual forums where member companies can discuss global climate change and clean energy research and its implications for policy. IHS/CERA provide a wide range of research products to ensure that members are up to date with current developments around the world.

In addition ConocoPhillips works with the following groups discussed in the Reporting & Transparency section:

- International Oil and Gas Producers Association (OGP)
- U.S. Business Council for Sustainable Development (USBCSD)
- Social Responsible Investors and Non-Governmental

Reducing GHG Emissions

Taking Steps to Reduce GHG Emissions

In 2012, ConocoPhillips businesses worldwide completed numerous projects to improve energy efficiency, recover product, and reduce GHG emissions. Examples include:

- Use of closed loop gas handling systems for well completion and service
- Plunger lift optimization and controller upgrades
- Compressor and gas plant optimization
- Combustion engine fuel delivery optimization
- Pneumatic controller replacement
- Small-scale solar for remote power, and
- Flare reductions

These projects are estimated to have reduced or avoided one million tonnes of CO₂e emissions in 2012. It is important to note that emission reductions resulting from some projects, for example reduced methane venting during well completions, occur only at the time that the activity takes place, whereas others will continue to deliver energy efficiency and GHG reduction benefits for a number of years into the future.

The list above does not represent a complete inventory of ConocoPhillips GHG reduction activities and the resulting emission reductions have not all been third-party verified.

Oil Sands GHG Intensity

ConocoPhillips recognizes that there are questions about GHG emissions from oil sands production.

Industry has successfully reduced the GHG intensity per barrel of oil sands crude produced by 39 percent since 1990. To capture both economic and environmental benefits, the Company continues to work to reduce per-barrel GHG intensity. We are investigating technologies focused on running our facilities more efficiently, using less energy, and reducing greenhouse gas and other air emissions. We are also designing plans for improved heat integration and testing an enhanced oil production technology, both aimed at maximizing fuel efficiency while reducing air emissions associated with steam generation. The research and development groups at our global and Canadian Headquarters spent over \$41 million on oil sands technology development in 2010. We increased this funding to \$70 million in 2011. For the 2009 – 2013 commitment period we are on track to spend \$300 million.

We are evaluating technologies that address environmental performance including:

Flow distribution control – using less steam to extract bitumen, this technology can reduce our operations' greenhouse gas emissions, NO_x emissions and water use by up to 10 percent. It can also potentially reduce the overall land footprint of our well pads by one third.

Gas turbine once-through steam turbine generator – switching from coal-fired electricity generation to natural gas could reduce our NO_x emissions by up to 25% and greenhouse gas emissions by up to 15%. It can also reduce many of the land disturbances associated with power corridors and local substations.

Enhance steam-assisted gravity drainage can reduce our greenhouse gas emissions and water consumption by up to one third.

Flare Reduction

From 2003 to 2008 ConocoPhillips made significant progress reducing the volume of gas flared at our facilities. Flaring is the safety practice of burning off excess gases that might otherwise pose a hazard and that cannot be recovered for export to consumers, used as fuel within the field, or cost-effectively re-injected into the producing formation.

Since 2008 we have seen an upward trend in the volume of natural gas that is both vented and flared mainly as a result of operating in areas of the world with insufficient infrastructure to transport natural gas to a market. Goals addressing flaring and venting have been adopted by business units in their Climate Change Action Plans and flaring and venting is set to be a focus area in the corporate Climate Change Action Plan as it is revised during 2013.

Voluntary GHG reduction Targets

ConocoPhillips continues to demonstrate its commitment to addressing climate change by taking action to reduce its greenhouse gas (GHG) emissions, through implementing GHG emissions reduction plans at the operational level, complying with existing regulatory GHG targets, investing in lower-carbon energy and through active participation in efforts to develop sound government policy for GHG regulation.

In support of our commitment, the Company implements a corporate-wide Climate Change Action Plan that requires business units and major assets to develop and maintain climate change management plans. Each plan includes GHG emission measurements and forecast, identification of key risks and opportunities, and business appropriate goals and metrics. The corporate-wide Climate Change Action Plan is being updated in 2013.

The Company will continue to report progress on its plans, emissions data, emission reduction results, investments, and policy engagement as part of its regular updates to the Sustainable Development Report.

ConocoPhillips chooses to drive GHG emission reductions using the Company's Climate Change Action Plan rather than an overall voluntary corporate target.

ConocoPhillips complies with existing GHG regulatory requirements. On a net production basis, approximately 90% of ConocoPhillips facilities are covered by GHG-related reporting and/or permitting requirements, and 40% of the Company's facilities operate in countries with specific GHG emission reduction targets, including emission control legislation or regulation in Australia, Canada, Europe and the United States. For example, the Specified Gas Emitters Regulation (SGER) in Alberta, Canada requires large facilities to reduce facility emissions intensity by 12% after eight years of commercial operation. ConocoPhillips is on track to meet the emission reduction targets before the compliance deadline.

Business Unit Climate Change Action Plans consider effective goals as they are updated. The corporate-wide Climate Change Action Plan is being updated in 2013.

Technology

ConocoPhillips conducts ongoing research designed to improve production of today's conventional fuels, while leveraging the company's expertise in new ways through its Technology organization. The company is substantially increasing research and development efforts on technologies that complement our existing businesses, reduce the environmental footprint of our activities, and progress alternative and renewable energy sources.

Managing our Emissions

ConocoPhillips' Technology and Projects group focuses on delivering value-adding technology to our upstream business in areas such as finding and producing conventional oil and gas reserves, developing more challenging reservoirs such as oil sands and improving the efficiency and integrity of existing assets.

The continued, successful production of hydrocarbons from environmentally, geographically and technically challenged reservoirs is a pivotal component of ConocoPhillips' future growth strategy. To this end, the company is developing technology to deliver world-class performance in Arctic, deepwater, heavy oil, and unconventional resource areas. In addition, we are exploring ways to apply our liquefied natural gas (LNG) expertise to unlock stranded gas in remote regions of the world.

Emission Reduction/Sequestration Technologies

ConocoPhillips believes that carbon capture and storage may represent a key set of technologies and practices that could play an important role in meeting long-term greenhouse gas reduction goals. The company is working to advance capture technologies and beneficial reuse options:

The company is leveraging its more than 30 years of operational experience in miscible gas injection at its North Slope assets in Alaska and 25 years of CO₂ enhanced oil recovery (EOR) experience in West Texas to evaluate new EOR opportunities to facilitate production growth.

In 2012, ConocoPhillips, together with Japan Oil, Gas and Metals National Corporation and the US Department of Energy successfully demonstrated methane hydrate production can be achieved using CO₂ injection.

The company is also investing in CO₂ EOR research in Norway as part of the Ekofisk EOR program.

ConocoPhillips has contracted to sell CO₂ captured from the ConocoPhillips' Lost Cabin Gas Plant in Wyoming for use in EOR. The company began shipments in March, 2013.

Greenhouse Gas Metrics

Details of our Greenhouse Gas Emissions, Natural Gas Flaring performance and Energy Efficiency can be found in the "Reporting" section.

External Reporting and Verification

Each of our business units is responsible for quantifying its emissions and reporting the information to the Corporate HSE group. The HSE group compiles a database which allows reporting on a company-wide basis. Reporting to authorities and/or regulators is the responsibility of the individual business

units.

The method at each individual source ranges from continuous emissions monitoring to emissions estimations. Estimating approaches meet applicable regulatory reporting requirements or industry guidance, as appropriate. The quality of estimating methodologies, measurements and calculations are audited on a routine schedule by our Corporate HSE Auditing team.

External Reporting/Verification of GHG Emissions

The majority of ConocoPhillips large stationary sources of GHG emissions around the world report annual GHG emissions to state/provincial or national governments.

United States

ConocoPhillips began reporting GHG emissions to the U.S. Environmental Protection Agency with effect from 1st January 2010. The EPA will assess data quality through the use of selective audits.

Australia

The Australia Business Unit participates in the federally-mandated National Greenhouse Gas and Energy Reporting System (NGERS), which began in 2009. The federal legislation has a process for conducting or mandating external auditing but this is only triggered for cause, such as if a corporation is suspected of not meeting reporting obligations. ConocoPhillips activities have not triggered this auditing procedure. Publicly available data is published in a single list for all reporters of Australian GHGs at Australian GHG data.

Canada

Environment Canada publicly posts GHG emissions information for Canadian facilities greater than 50,000 metric tons of CO₂e. The agency does not require third-party verification of emissions reported to the federal government. However, the information reported by the facility should be verifiable. Respondents are required to keep copies of the requested information, together with any calculation, measurements and other data on which the information is based, at the related facility or at that facility's parent company located in Canada. This information must be retained for at least three years from the date the reporting requirements came into force.

The government of Alberta requires third-party verification of GHG emissions from regulated facilities. The verification report from the ConocoPhillips-operated Elmsworth Gas Plant is available from Alberta Environment upon request.

Norway

The verified emission report is provided in Norwegian for ConocoPhillips Norway assets and may be found at Norwegian GHG Data - Ekofisk. Some information in English is available at Norwegian GHG data in English.

Europe

Data for all installations in the EU ETS is in the public domain, and a web reference to one source of the publicly available information (The European Commission's Environment site) is at European GHG data.

The page opens at our Seal Sands facility in the UK code 102. Our other facilities in the UK can be found by entering the following codes: 10; 24; 25; 28; 29; 30 & 361.

Estimating Future Process Emissions

As is the case with financial metrics, ConocoPhillips does not publish its long-term forecast of GHG emissions, but we do include emissions in our forward planning activities within the company. GHG emissions from our operations are likely to increase as we grow our long-term oil and gas production.

Carbon Disclosure Project (CDP)

The CDP is an independent not-for-profit organization that acts as an intermediary between shareholders and corporations on all climate change related issues, providing primary climate change data from the world's largest corporations to the global market place. The annual CDP survey collects a wide range of information concerning corporate efforts to manage climate change issues. ConocoPhillips has participated in the survey since 2004. For more information visit the CDP website. Our most recent CDP submission can be found in the 2012 Carbon Disclosure Project document.

Risks and Opportunities

The effect of many current and potential GHG regulations will be to establish a price or value for a unit of avoided GHG emission. Such laws and regulations bring both risks and opportunities, for example the introduction of a cost of greenhouse gas emissions could also increase demand for less carbon-intensive energy sources and technologies, for example, natural gas and renewable energy. This section of the Sustainable Development report will discuss some of the risks and opportunities that we see developing in a lower carbon business environment.

Opportunities in a Lower Carbon Business Environment

Potential business opportunities related to anticipated climate change regulatory requirements fall into three broad categories:

- Opportunities associated with increased demand for and value of lower carbon energy sources and technologies associated with our existing business, for example natural gas exploration and production.
- New business opportunities in lower carbon energy and technologies with the potential to provide future growth prospects for ConocoPhillips, e.g. Energy Technology Ventures
- Opportunities to extend the life or increase the value of existing ConocoPhillips assets and business, for example through the potential application of CO₂ capture and storage.

There are potential opportunities in all these categories to increase revenues, decrease expenses, expedite business development, enhance ConocoPhillips' license to operate, and to grow our business.

Energy Technology Ventures

In 2011, ConocoPhillips, along with partners GE and NRG Energy Inc., announced the creation of Energy Technology Ventures (ETV) to accelerate emerging energy technology. The companies have committed \$300 million in capital to the new joint venture to fund approximately 30 venture- and growth-stage companies over a four year period.

ETV will invest in, and offer commercial collaboration opportunities to, venture- and growth-stage energy technology companies in the renewable power generation, smart grid, energy efficiency, oil, natural gas, coal and nuclear energy, emission controls, water and bio-fuels sectors, primarily in North America, Europe and Israel. With their wide range of deep technical and financial expertise, relationships, services and products, the three companies behind Energy Technology Ventures intend to help start-ups develop next-generation energy technology.

The first investments are in companies developing potentially game-changing technologies in solar photovoltaic (Alta Devices, 1366 Technologies), cleaner coal (Ciris Energy), non-food biofuels (CoolPlanetBioFuels), energy storage technologies (Ioxus) and energy management software (Hara).

The joint venture's website is energytechnologyventures.com.

Greenhouse Gas Regulatory Risk

There have been 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.

Examples of legislation or precursors for possible regulation that do or could affect our operations include:

- Federal mandatory GHG reporting (U.S., Canada, EU, Australia).
- The U.S. Supreme Court decision in *Massachusetts v. EPA*, 549 U.S. 497, 127 S.Ct. 1438 (2007), confirming that the EPA has the authority to regulate carbon dioxide as an “air pollutant” under the Federal Clean Air Act.
- The EPA’s announcement on March 29, 2010 (published as “Interpretation of Regulations that Determine Pollutants Covered by Clean Air Act Permitting Programs,” 75 Fed. Reg. 17004 (April 2, 2010)), and the EPA’s and U.S. Department of Transportation’s joint promulgation of a Final Rule on April 1, 2010, that triggers regulation of GHGs under the Clean Air Act, may trigger more climate-based claims for damages, and may result in longer agency review time for development projects.
- European Emissions Trading Scheme (ETS), the program through which many of the European Union (EU) member states are implementing the Kyoto Protocol. Our cost of compliance with the EU ETS in 2012 was approximately US \$10 million (pre-tax equity share).
- A regulation issued by the Alberta government in 2007 under the Climate Change and Emissions Act. The regulation requires any existing facility with emissions equal to or greater than 100,000 metric tons of carbon dioxide or equivalent per year to reduce the net emissions intensity beginning July 1, 2007 by 12%. New facilities must reduce two percent per year until they reach the maximum target of 12%. We also incur a carbon tax for emissions from fossil fuel combustion in our British Columbia operations. The total cost of compliance with these Canadian regulations in 2012 was approximately US \$7 million (pre-tax equity share).
- Norwegian Carbon Tax - Our cost of compliance with Norwegian carbon tax legislation in 2012 was approximately US \$20 million (equity share pre-tax). In October 2012 the Norwegian government announced a doubling of the carbon tax for oil and gas production in 2013.

- Australian Clean Energy Legislation which took effect from July 2012. Our annual cost of compliance with the Australian Clean Energy Legislation during the initial fixed price phase is approximately US \$10 million (equity share pre-tax).
- Compliance with changes in laws and regulations that create a GHG emission trading scheme or GHG reduction policies could significantly increase our costs, reduce demand for fossil energy derived products, impact the cost and availability of capital and increase our exposure to litigation. Such laws and regulations could also increase demand for less carbon intensive energy sources, including natural gas. The ultimate impact on our financial performance, either positive or negative, will depend on a number of factors, including but not limited to:
 - Whether and to what extent legislation is enacted
 - The nature of the legislation (such as a cap and trade system or a tax on emissions)
 - Whether both process and product emissions are covered
 - The GHG reductions required
 - The price placed on GHG emissions (either by the market or through a tax)
 - The price and availability of offsets
 - The amount and allocation of allowances
 - Technological and scientific developments leading to new products or services
 - Any potential significant physical effects of climate change (such as increased severe weather events, changes in sea levels and changes in temperature)
 - Whether, and the extent to which, increased compliance costs are ultimately reflected in the prices of our products and services.

The ultimate financial impact arising from environmental laws and regulations is neither clearly known nor easily determinable as new standards, such as air emission standards, water quality standards and stricter fuel regulations continue to evolve. However, environmental laws and regulations, including those that may arise to address concerns about global climate change, are expected to continue to have an increasing impact on our operations in the United States and in other countries in which we operate. Notable areas of potential impacts include air emission compliance and remediation obligations in the United States.

Energy Efficiency

Since the combustion of fossil fuels is a contributor to GHG emissions, we continually strive to make our operations more energy efficient. This provides an environmental benefit through reduced emissions, as well as an economic benefit through lower production costs. The company has conducted a number of projects to improve overall energy efficiency in its producing fields. Among them, the Ekofisk II redevelopment project in the North Sea utilized high-efficiency turbines to reduce power usage and recover waste heat produced during power generation.

The C-GAS project, undertaken by ConocoPhillips China, replaced diesel fuel with excess associated gas to fuel the turbine generator during the early operational years. This project achieved greater efficiency, reduced flare volumes and reduced diesel fuel consumption.

In Indonesia, our Suban natural gas processing plant optimized power generation by implementing a load-sharing and fuel-usage monitoring system.

In recent years, the Canada business unit completed more than 160 projects, saving approximately 7.9 million cubic meters of natural gas. This also precluded approximately 31,000 metric tons of CO₂ emissions, equivalent to taking 5,900 cars off the road. Projects included installing solar-powered chemical injection units, upgrading burners, optimizing our operations to allow some facilities and equipment to be shut down, capturing vented gas, and identifying and eliminating fugitive emissions at our facilities. After that, the energy efficiency team completed another eight large and 80 small projects to evaluate and test technologies to reduce our emissions footprint.

The U.S. Lower 48 business unit has carried out energy efficiency improvements through greater utilization of photovoltaic solar panels on field equipment and optimizing compression in the San Juan Basin. We are now using solar-powered chemical injection units in place of gas-powered pumps on many wells, thus reducing emissions and fuel use.

Operating in a Physically Changing World

ConocoPhillips is an independent exploration and production company operating in about 30 countries around the world with physical assets in many of these countries. As such, the company can be exposed to impacts related to a changing physical environment caused by various factors in a number of locations. A few years ago, ConocoPhillips co-led the development and publication of the World Business Council for Sustainable Development (WBCSD) report Adaptation - An Issue Brief for Business. The report concluded that changes in the Earth's climate system could have repercussions on how business operates.

The magnitude and frequency of impacts are uncertain, but consequences with negative effects on business could include:

- Higher temperatures, which could affect the location, design, efficiency, operation and marketing of business infrastructure, products and services.
- Water scarcity, which could stymie business operations, particularly those of water-reliant industries.
- Rising sea levels, which could affect the location of business operations, submerge or complicate access to raw materials or natural and human resources.

- Increased frequency of extreme weather events, which could damage business infrastructure, disrupt logistics, and affect business continuity and costs.
- Changes in the distribution of vector-borne disease (e.g., malaria) and greater population migration, with their attendant socioeconomic impacts on workforces and markets.

ConocoPhillips business operations are designed and operated to accommodate expected climatic conditions. To the extent there are significant changes in the Earth's climate, such as more severe or frequent weather conditions in the markets we serve or the areas where our assets reside, we could incur increased expenses, our operations could be materially impacted, and demand for our products could fall.

Given the uncertainty regarding future physical impacts associated with changing local, regional or global climate, it is not possible to determine at this time whether future physical impacts of climate change represent significant opportunities for ConocoPhillips.

Building Resiliency to Climate Change

Business resiliency planning is a process that helps the company prepare to mitigate potential impacts of a changing climate in a cost-effective manner. The key elements of this process include:

- Identifying the risks and business opportunities associated with the physical impacts of changing climate,
- Identifying physical impacts of greatest concern, and
- Identifying potential technologies and solutions to mitigate risks and take advantage of opportunities.

Adaptation will not reduce the frequency or magnitude of events related to a changing climate but will increase the resiliency of our business to events such as drought, hurricanes and flooding. ConocoPhillips has conducted pilot workshops with business units in regions which cover a broad representation of resiliency risks to establish, on an informed basis, future programs and actions based on projected physical changes to the operating environment. The business units chosen were in Texas and the Gulf Coast, Arctic Canada, and North Slope Alaska.

The results were discussed within each business to determine the appropriate follow up actions and to integrate those changes into each business unit's Climate Change Action Plan. Further studies are planned to cover our oil sands assets in Canada and to look at the possible risks to some of our Australian assets.

Carbon Trading

Our Commercial organization trades greenhouse gas emission allowances to optimize emissions management in countries implementing emission-trading programs.

Our Approach

Where our operations are subject to GHG regulation our goal is to meet our compliance obligation in the most cost-effective manner possible. We begin by understanding the cost and impact of our internal GHG reduction opportunities, for example, projects to improve energy efficiency in our operations.

When reducing our own emissions will be costly and where the regulatory system allows trading, we consider purchasing allowances and high-quality offset credits to meet our compliance obligations.

Carbon Trading Around the World

Europe

Since 2005, ConocoPhillips facilities across Europe have participated in the European Union's emissions-trading program (ETS). The company's Commercial organization trades allowances on the secondary market exchanges.

Canada

ConocoPhillips Canada participates in the regional emissions reduction scheme in the province of Alberta and has experience with all the compliance mechanisms of that program:

- Making internal improvements to operations to reduce emissions;
- Purchasing or using Emission Performance Credits (EPC);
- Purchasing Alberta-based offset credits; and Contributing to the Climate Change and Emissions Management Fund (CCEMF).

Air

Information on air emissions are in the "Reporting" section of this report.