MEMO

SUBJECT: Grounds for a Yes vote on ConocoPhillips shareholder resolution requesting the company adopt greenhouse gas reduction targets for products and operations.

DATE: March 30, 2012

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Resolved:
Shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report (omitting proprietary information and prepared at reasonable cost) to shareholders by September 30, 2012, on its plan to achieve these goals.

Rationale for a Yes vote:

1. ConocoPhillips' shareholders bear significant financial and competitive risks if the company is unprepared to meet existing and impending requirements to reduce greenhouse gas (GHG) emissions from its operations and its products. Company-wide quantitative reduction goals for products and operations provide the clearest signal to investors that Conoco is prepared for a lower carbon future.

2. ConocoPhillips climate risk preparedness and goal setting lags behind major peers.

3. Without improved disclosure of GHG goals, and strategies and practices to mitigate climate risk, shareholders cannot adequately assess the risks of their investment in ConocoPhillips.

CONOCOPHILLIPS' SHAREHOLDERS BEAR SIGNIFICANT FINANCIAL AND COMPETITIVE RISKS

By virtue of its carbon-intensive products and long capital horizons, the oil sector is uniquely exposed to regulatory and competitive risks resulting from climate change. Investors need to know which companies are prepared for these risks – and which are not.

Numerous regulations exist or have been proposed relating to GHG emissions – including regulations that have direct impacts on the oil sector. ConocoPhillips, to its credit, discloses many of these regulatory risks in its 2010 10-K, citing, for example, EPA's "endangerment and cause or contribute finding" for greenhouse gases under the Clean Air

Act, which cites carbon dioxide and five other greenhouse gases as plausible threats to human health and welfare and allows EPA to craft rules that directly regulate GHG emissions. The report also mentions California's Global Warming Solutions Act, the European Union Emissions Trading Scheme, and climate regulations issued by the government of Alberta.[1] ConocoPhillips also discloses in its 2012 10-K that it believes that "some additional form of regulation may be forthcoming in the future at the federal and state levels with respect to GHG emissions."[2]

ConocoPhillips operates in over 30 countries, and international action on climate change continues, most recently with the Durban climate conference in November. The company also discloses other types of regulations that specifically affect its main product – fuels – such as the renewable fuels standard resulting from the Energy Independence and Security Act of 2007.[3] Other such regulations could include low carbon fuel standards (e.g., the EU and California), the tailpipe GHG emissions standard set by EPA for vehicles sold through 2016, and the EPA's forthcoming fuel economy and emissions standards for model years 2017-2025. In addition, the US Securities and Exchange Commission issued interpretive guidance for corporations, specifying what must be disclosed to investors regarding climate change, including material risks and opportunities posed by physical, regulatory, and other impacts of climate change.[4]

As a fully integrated international energy company, ConocoPhillips is exposed to all of these regulatory risks. The company recognizes that GHG laws and regulations "could significantly increase our costs, reduce demand for fossil energy derived products, impact the cost and availability of capital [, …] increase our exposure to litigation[, and] increase demand for less carbon intensive energy sources, including natural gas."[5] The company also acknowledges that "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"[6] and that laws focusing on GHG reduction, if enacted, "could have a material impact on our results of operations and financial condition."[7] The company is therefore aware of the financial and competitive risks posed by climate change and responses to it.

Presently, ConocoPhillips' 2012 10-K disclosures lack the specificity needed to help investors understand such financial implications of climate change on the company. The 10-K includes general statements such as the following:

> *Laws in this field [i.e., focusing on GHG reductions] continue to evolve, and while it is not possible to accurately estimate either a timetable for*

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[1] ConocoPhillips 2010 10-K, p 60
[2] ConocoPhillips 2012 10-K, p 67
[3] ConocoPhillips 2012 10-K, p 65
[4] "Commission Guidance Regarding Disclosure Related to Climate Change." *Securities and Exchange Commission.* Feb 2010
[5] ConocoPhillips 2012 10-K, p 67
[6] ConocoPhillips 2012 10-K, p 65
[7] ConocoPhillips 2012 10-K, p 66

> *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. … 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); The GHG reductions required; 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.*[8]

The company declares in its CDP response that "ConocoPhillips does not publish a detailed breakdown of the financial implications associated with climate change or any other environmental issue. In addition, the company does not publish quantitative estimates of future expenses or other potential impacts to our business related to climate change."[9] It further states that "the company does not report financial data on specific renewable and clean energy investments and opportunities".[10] This information would help investors assess the financial risks ConocoPhillips faces from climate change.

ConocoPhillips has already suffered financial losses related to climate change, and will continue to do so. As stated in the company's 10-K, "we expect to continue to incur substantial capital expenditures and operating costs as a result of our compliance with existing and future environmental laws and regulations…with respect to, among other things: emissions into the atmosphere (such as nitrogen oxides, sulfur dioxides and mercury emissions, and greenhouse gas emissions as they are, or may become, regulated)."[11] The business is not designed to accommodate significant changes in the Earth's climate, such as severe weather occurrences in areas in which Conoco is involved, and should these events take place, "our business, financial condition, results of operations and cash flow in future periods could be materially adversely affected."[12] By December 31st, 2011, the company had accrued a total of $922 million in environmental costs.[13]

A 2009 McKinsey report states that although most GHG abatement levers require high upfront capital investments, companies will save money in operating expenditures in the long-term, due to reduced energy requirements.[14] It is important that companies have

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[8] ConocoPhillips 2012 10-K, pp 66, 67
[9] ConocoPhillips 2011 CDP Response, question 5.1
[10] ConocoPhillips 2011 CDP Response, question 6.1
[11] ConocoPhillips 2012 10-K, p 31
[12] ConocoPhillips 2012 10-K, p 32
[13] ConocoPhillips 2012 10-K, p 103
[14] McKinsey & Company, *Pathways to a Low-Carbon Economy, Version 2 of the Global Greenhouse Gas Abatement Cost Curve* (2009), pp 72-73, available at https://solutions.mckinsey.com/ClimateDesk/default.aspx

climate risks and opportunities estimated and quantified and GHG reduction goals clearly defined, since otherwise their strategies to achieve a meaningful decrease in emissions may fall short of what is necessary or feasible.

The company does not disclose specifics on the financial risks of climate change, which would help investors assess the potential impacts of the risks described above and the potential effectiveness of the company's strategies. **Without quantitative product and operational goals, it will be difficult for investors to assess the expected results of ConocoPhillips' climate-related strategies**. ConocoPhillips' shareholders need to know that management is taking these issues seriously and is acting accordingly.

CONOCOPHILLIPS CLIMATE RISK PREPAREDNESS LAGS BEHIND MAJOR PEERS

While ConocoPhillips has begun to address the risks related to climate change in its 10-K and in special reports like the Carbon Disclosure Project (CDP), the company states in its 2011 CDP response "climate change has not been a primary driver of ConocoPhillips' long-term business strategy."[15] In the meantime, the most intense drought in Texas history—a possible effect of climate change—is forcing Conoco Phillips to apply for a permit to tap a groundwater well 3 miles away and pipe the water to the Texas plant.[16] Drought and inadequate water conservation efforts cost the company time and money and put the plant at a competitive disadvantage. Meanwhile, other companies in the industry have set greenhouse gas emission goals and taken initiatives to reduce their climate change impact.

By not setting GHG reduction goals, ConocoPhillips has fallen behind the competition and has made it very difficult for investors to evaluate its strategies to address the profound risks and opportunities associated with climate change. In 2009, Chevron Corporation agreed to track and report on the carbon content of its products after working with faith based and socially responsible investors.[17] As shown in the chart below, ConocoPhillips is lagging behind competitors who have already set company-wide emissions targets, at least for operations.

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[15] ConocoPhillips 2011 Response to the Carbon Disclosure Project, question 2.2

[16] Galbraith, Kate. "If Conservation Fails, Industry May Try Groundwater." *The New York Times*. Feb 25 2012, available at http://www.nytimes.com/2012/02/26/us/in-texas-conocophillips-and-other-plants-strive-to-conserve-water-but-look-into-groundwater-just-in-case.html?ref=conocophillipsinc

[17] http://tricri.org/news/30-breakthrough-on-tracking-carbon-emissions

Chevron	Shell	Total	ConocoPhillips
Quant Goal: Preliminary goal for 2011 was 60 million metric tons, with plans to further reduce emissions through efficiency improvements, and reduced flaring.[18]	**Quant Goal:** Reduce GHG emissions from operations by 5% relative to a 1990 baseline for all facilities globally under operational control.[19]	**Quant Goal:** (a) reduce flaring of gas by 50% between 2005 and 2014;[20] (b) reduce GHG emissions of operational activities 15% by 2015.[21]	**Quant Goal:** None identified under the goals section of Conoco's CDP response (or elsewhere). Any goals are within business units, not company-wide. [22]

The resolution does not prescribe a particular reduction target, but ConocoPhillips may need to diversify its product mix to include low carbon energy alternatives, or at least avoid high carbon fuels such as tar sands. Without GHG reduction goals, it is difficult for investors to determine whether the company plans a high carbon emissions future or a lower one. The lower carbon path can be achieved through renewable energy investments such as those made by Chevron and BP,[23] or it could be done in part by the technological innovations ConocoPhillips discusses on its website, such as biofuel development, carbon sequestration, and E-Gas technologies (coal to gas, with the possibility of carbon sequestration).[24] But if Conoco is to make substantial GHG reductions, it seems that the scale of these technology innovations needs to be far broader with significant resources behind them to achieve large-scale emissions cuts for the company; but without company-wide GHG reduction goals is not possible to adequately assess the over-all impacts of these initiatives on GHG emissions.

ConocoPhillips clearly lags behind its peers in terms of setting clear targets for reducing GHG emissions from total operations. Shareholders believe management would make clearer progress on emissions reductions with goals that are company-wide. A commitment to reduction goals, and a strategy to achieve those goals, with strong monitoring elements, would signal a preparedness to move forward in a carbon-restricted future.

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[18] Chevron 2011 CDP response, question 3.1
[19] Shell 2010 20-F, p 50
[20] Total 2011 CDP response, question 3.1
[21] Total Environment and Society Report 2010, p 45
[22] ConocoPhillips 2010 CDP response, question 9.1
[23] http://www.chevron.com/deliveringenergy/ and http://www.bp.com/sectiongenericarticle800.do?categoryId=9036324&contentId=7067654
[24] http://www.conocophillips.com/EN/tech/initiatives/Pages/index.aspx

WITHOUT IMPROVED DISCLOSURE, GHG GOALS, STRATEGIES AND PRACTICES TO MITIGATE CLIMATE RISK, SHAREHOLDERS CANNOT ADEQUATELY ASSESS THE RISKS OF THEIR INVESTMENT IN CONOCOPHILLIPS

The oil majors, including ConocoPhillips, clearly face substantial financial risks related to climate change. Their basic business model of extracting hydrocarbons and selling them primarily for burning without capturing GHGs is now under serious threat.

Regulations such as those in the EU, U.S., and California are increasingly focusing on product emissions including lifecycle emissions from 'wells to wheels', making this an important emerging risk that needs managing in addition to the targets needed for emissions from operations. In 2011, ConocoPhillips total Scope 1 and 2 emissions were more than 68 million metric tons. Conoco's 2012 CDP response notes that it does not report GHG emissions from its products (Scope 3) but that interested parties can estimate the emissions by multiplying the volume of a product sold by the appropriate GHG co-efficient from the Energy Information Administration.[25] It also notes that use of its products can enable third parties to avoid GHG emissions, noting the GHG benefits of combusting natural gas instead of coal in the electricity and industrial sectors.[26] However, the company's emissions have increased or remained virtually level every year for which the Carbon Disclosure Project has data. In the seven years from 2004 to 2011, emissions increased by 14 million metric tons. While the company asserts in the opposition statement to the shareholder resolution that it "continues to demonstrate its commitment to addressing climate change by taking action to reduce its greenhouse gas (GHG) emissions,"[27] clearly not enough is being done to make those reductions and mitigate the company's climate risk.

For several years, ConocoPhillips has acknowledged the importance of addressing climate change and has said it was developing "a corporate-wide action plan that requires business units to develop and maintain climate change management plans [including] the establishment of business-appropriate goals and metrics."[28] However, again this year, no targets for reductions have been established (or at least made public). Setting public targets that shareholders can assess is an important step in the development of a comprehensive long-term strategy to significantly reduce GHG emissions from operations and products. Having a GHG reduction target would let investors know the company is seriously preparing for a carbon-constrained world. Companies in the oil industry and other sectors whose products are at risk from climate-related regulatory and consumer-preference changes have set GHG reduction targets for their products (e.g., Ford in the auto sector).[29] ConocoPhillips needs to do the same, to demonstrate to shareholders that our company can survive and thrive in the context of current and proposed regulations of GHGs.

Without GHG goals, shareholders cannot fully assess the risks associated with their ownership of shares in ConocoPhillips.

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[25] ConocoPhillips 2011 CDP response, question 15.1
[26] ConocoPhillips 2011 CDP response, questions 3.2
[27] ConocoPhillips 2012 Proxy Statement, p 88
[28] ConocoPhillips 2012 Proxy Statement, p 88
[29] http://www.iccr.org/news/press_releases/2008/pr_ford04.09.08.htm