



DCP Midstream, LLC
Condensed Consolidated Financial Statements for the
Three and Six Months Ended June 30, 2012 and 2011
(Unaudited)

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
Condensed Consolidated Balance Sheets.....	1
Condensed Consolidated Statements of Operations....	2
Condensed Consolidated Statements of Comprehensive Income.....	3
Condensed Consolidated Statements of Cash Flows...	4
Condensed Consolidated Statements of Changes in Equity.....	5
Notes to Condensed Consolidated Financial Statements.....	6

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(millions)

	June 30, 2012		December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 7	\$	9
Accounts receivable:			
Customers, net of allowance for doubtful accounts of \$2 million each period	646		981
Affiliates.....	140		307
Other.....	28		44
Inventories.....	104		105
Unrealized gains on derivative instruments.....	131		107
Other.....	46		24
Total current assets.....	1,102		1,577
Property, plant and equipment, net.....	7,549		6,448
Investments in unconsolidated affiliates.....	213		154
Intangible assets, net.....	348		362
Goodwill.....	723		723
Unrealized gains on derivative instruments.....	32		23
Other long-term assets.....	188		125
Total assets.....	\$ 10,155	\$	9,412
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable:			
Trade.....	\$ 1,039	\$	1,547
Affiliates.....	32		127
Other.....	40		49
Short-term borrowings.....	895		370
Distributions payable to members.....	50		95
Unrealized losses on derivative instruments.....	148		113
Accrued taxes.....	63		36
Capitals pending accrual.....	178		84
Other.....	197		226
Total current liabilities.....	2,642		2,647
Deferred income taxes.....	94		93
Long-term debt.....	4,271		3,820
Unrealized losses on derivative instruments.....	35		40
Other long-term liabilities.....	131		123
Total liabilities.....	7,173		6,723
Commitments and contingent liabilities			
Equity:			
Members' interest.....	2,228		2,164
Accumulated other comprehensive loss.....	(10)		(12)
Total members' equity.....	2,218		2,152
Noncontrolling interest.....	764		537
Total equity.....	2,982		2,689
Total liabilities and equity.....	\$ 10,155	\$	9,412

See Notes to Condensed Consolidated Financial Statements.

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Operating revenues:				
Sales of natural gas and petroleum products.....	\$ 1,682	\$ 2,487	\$ 3,783	\$ 4,713
Sales of natural gas and petroleum products to affiliates	431	698	1,062	1,343
Transportation, storage and processing.....	77	96	174	187
Trading and marketing gains, net.....	59	33	69	4
Total operating revenues.....	<u>2,249</u>	<u>3,314</u>	<u>5,088</u>	<u>6,247</u>
Operating costs and expenses:				
Purchases of natural gas and petroleum products	1,620	2,379	3,641	4,532
Purchases of natural gas and petroleum products from affiliates	135	257	399	525
Operating and maintenance.....	173	152	326	310
Depreciation and amortization.....	37	110	157	215
General and administrative.....	63	68	136	143
Total operating costs and expenses.....	<u>2,028</u>	<u>2,966</u>	<u>4,659</u>	<u>5,725</u>
Operating income.....	221	348	429	522
Earnings from unconsolidated affiliates.....	10	7	17	12
Interest expense, net.....	(47)	(52)	(103)	(105)
Income before income taxes.....	184	303	343	429
Income tax benefit (expense).....	1	—	(3)	—
Net income.....	185	303	340	429
Net income attributable to noncontrolling interests.....	(53)	(26)	(64)	(19)
Net income attributable to members' interests.....	<u>\$ 132</u>	<u>\$ 277</u>	<u>\$ 276</u>	<u>\$ 410</u>

See Notes to Condensed Consolidated Financial Statements.

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income.....	\$ 185	\$ 303	\$ 340	\$ 429
Other comprehensive income:				
Net unrealized (losses) gains on cash flow hedges	(1)	(4)	—	(5)
Reclassification of cash flow hedges into earnings	4	5	9	10
Total other comprehensive income.....	3	1	9	5
Total comprehensive income.....	188	304	349	434
Total comprehensive income attributable to noncontrolling interests	(55)	(26)	(71)	(22)
Total comprehensive income attributable to members' interests	<u>\$ 133</u>	<u>\$ 278</u>	<u>\$ 278</u>	<u>\$ 412</u>

See Notes to Condensed Consolidated Financial Statements.

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(millions)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income.....	\$ 340	\$ 429
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	157	215
Earnings from unconsolidated affiliates.....	(17)	(12)
Distributions from unconsolidated affiliates.....	19	17
Net unrealized losses (gains) on derivative instruments.....	10	(7)
Deferred income tax expense (benefit).....	1	(5)
Other, net.....	(7)	(7)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable.....	516	19
Inventories.....	(6)	17
Accounts payable.....	(670)	(24)
Other.....	(79)	(28)
Net cash provided by operating activities.....	<u>264</u>	<u>614</u>
Cash flows from investing activities:		
Capital expenditures.....	(1,021)	(446)
Acquisitions, net of cash acquired.....	(60)	(79)
Investments in unconsolidated affiliates.....	(45)	(2)
Proceeds from sale of assets.....	—	12
Net cash used in investing activities.....	<u>(1,126)</u>	<u>(515)</u>
Cash flows from financing activities:		
Payment of dividends and distribution to members.....	(299)	(283)
Proceeds from debt.....	1,258	716
Payment of debt.....	(807)	(903)
Proceeds from issuance of common units by subsidiary, net of offering costs.....	248	140
Commercial paper, net.....	525	273
Distributions paid to noncontrolling interests.....	(50)	(41)
Deferred financing costs.....	(15)	(4)
Net cash provided by (used in) financing activities.....	<u>860</u>	<u>(102)</u>
Net change in cash and cash equivalents.....	(2)	(3)
Cash and cash equivalents, beginning of period...	9	8
Cash and cash equivalents, end of period.....	<u>\$ 7</u>	<u>\$ 5</u>

See Notes to Condensed Consolidated Financial Statements.

DCPMIDSTREAM,LLC
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)
(millions)

	Members' Equity			
	Members' Interest	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
Balance, January 1, 2012.....	\$ 2,164	\$ (12)	\$ 537	\$ 2,689
Dividends and distributions.....	(254)	—	(50)	(304)
Issuance of common units by subsidiary, net of offering costs.....	42	—	206	248
Comprehensive income:				
Net income.....	276	—	64	340
Net unrealized (losses) gains on cash flow hedges	—	(1)	1	—
Reclassification of cash flow hedges into earnings	—	3	6	9
Total comprehensive income.....	276	2	71	349
Balance, June 30, 2012.....	<u>\$ 2,228</u>	<u>\$ (10)</u>	<u>\$ 764</u>	<u>\$ 2,982</u>
Balance, January 1, 2011.....	\$ 2,073	\$ (13)	\$ 421	\$ 2,481
Dividends and distributions.....	(270)	—	(41)	(311)
Equity-based compensation.....	—	—	2	2
Issuance of common units by subsidiary, net of offering costs.....	28	—	112	140
Comprehensive income:				
Net income.....	410	—	19	429
Net unrealized losses on cash flow hedges	—	(2)	(3)	(5)
Reclassifications of cash flow hedges into earnings s.....	—	4	6	10
Total comprehensive income.....	410	2	22	434
Balance, June 30, 2011.....	<u>\$ 2,241</u>	<u>\$ (11)</u>	<u>\$ 516</u>	<u>\$ 2,746</u>

See Notes to Condensed Consolidated Financial Statements.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S
ThreeandSixMonthsEndedJune30,2012and2011
(unaudited)

1. Description of Business and Basis of Presentation

DCPMidstream,LLC,withitsconsolidatedsubsidiaries,orus,we,our,ortheCompany,isajointventureowned50%bySpectraEnergyCorporationanditsaffiliates,orSpectraEnergy,and50%byPhillips66anditsaffiliates,orPhillips66.Weoperateinthemidstreamnaturalgasindustry.Ourprimaryoperationsconsistofgathering,processing,compressing,transportingandstoringnaturalgas,andfractionating,transporting,gathering,treating,processingandstoringnaturalgasliquids,orNGLs,and/orcondensateaswellasmarketing,fromwhichwegenerate revenues primarily by trading and marketing natural gas and NGLs.

DCPMidstreamPartners,LP,orDCPPartners,isamasterlimitedpartnership,ofwhichourwholly-owned subsidiary acts as general partner. As of June 30, 2012 and December 31, 2011, we owned an approximate 25% and 26% limited partner interest, respectively. Additionally, as of June 30, 2012 and December 31, 2011, we owned an approximate 1% general partner interest in DCP Partners, for both periods, as well as incentive distribution rights that entitle us to receive an incentive share of available cash as pre-defined distribution targets are achieved. As the general partner of DCP Partners, we have responsibility for its operations. We exercise control over DCP Partners and we account for it as a consolidated subsidiary. Transactions between us and DCP Partners' operations have been identified in the condensed consolidated financial statements as transactions between affiliates.

Prior to May 1, 2012, we were owned 50% by ConocoPhillips. On May 1, 2012, ConocoPhillips created two independent publicly traded companies by contributing its downstream businesses, including its 50% ownership interest in us, to a newly formed publicly traded company, Phillips66.

We are governed by a five member board of directors, consisting of two voting members from each parent company and our Chief Executive Officer and President, a non-voting member. All decisions requiring the approval of our board of directors are made by simple majority vote of the board, but must include at least one vote from both a Spectra Energy and Phillips66 (or ConocoPhillips prior to May 1, 2012) board member. In the event the board cannot reach a majority decision, the decision is appealed to the Chief Executive Officers of both Spectra Energy and Phillips66.

These condensed consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective interim periods. Certain information and notes normally included in our annual financial statements have been condensed or omitted from these interim financial statements. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements for the year ended December 31, 2011.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and notes. Although the estimates are based on management's best available knowledge of current and expected future events, actual results could differ from those estimates. These condensed consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries where we have the ability to exercise control and undivided interests in jointly owned assets. We also consolidate DCP Partners, which we control as the general partner and where the limited partners do not have substantive kick-out or participating rights. Investments in greater than 20% owned affiliates that are not variable interest entities and where we do not have the ability to exercise control, and investments in less than 20% owned affiliates where we have the ability to exercise significant influence, are accounted for using the equity method. Intercompany balances and transactions have been eliminated.

Certain amounts in the prior year's condensed consolidated financial statements have been reclassified to the current year presentation.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

2. Recent Accounting Pronouncements

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2011-04 “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,” or ASU 2011-04 — In May 2011, the FASB issued ASU 2011-04 which amends Accounting Standards Codification, or ASC, Topic 820 “Fair Value Measurements and Disclosures” to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, clarify the FASB’s intent about the application of existing fair value measurement requirements, and change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The provisions of ASU 2011-04 became effective on December 15, 2011. The provisions of ASU 2011-04 impact only disclosures, and we have disclosed information in accordance with the provisions of ASU 2011-04 within these financial statements.

3. Acquisitions

On April 12, 2012, DCP Partners announced that it has acquired a 10% ownership interest in the Texas Express Pipeline joint venture, from Enterprise Products Partners L.P., or Enterprise, representing an approximate investment of \$85 million in the joint venture. In conjunction with the agreement, DCP Partners paid \$11 million for its 10% share of the investment through the closing date. DCP Partners will be responsible for spending approximately \$75 million for its share of the remaining construction costs of the pipeline. Originating near Skellytown in Carson County, Texas, the 20-inch diameter Texas Express Pipeline will extend approximately 580 miles to Enterprise’s NGL fractionation and storage complex in Mont Belvieu, Texas, and will provide access to other third-party facilities in the area. The Texas Express Pipeline joint venture has long-term, fee-based, ship-or-pay transportation commitments. Enterprise will construct and operate the pipeline, which is expected to be completed by the second quarter of 2013.

On April 12, 2012, we announced we have entered into an agreement with Enterprise and Anadarko Petroleum Corporation, or Anadarko, to design and construct a new NGL pipeline, or the Front Range Pipeline, that will originate in the Denver-Julesburg Basin, or the DJB Basin, in Weld County, Colorado and extend approximately 435 miles to Skellytown, Texas. We, Enterprise and Anadarko each hold a 33.33% interest in the Front Range Pipeline. The Front Range Pipeline will connect to third-party systems and the Texas Express Pipeline, and will provide takeaway capacity and market access to the Gulf Coast markets. Enterprise will construct and operate the pipeline, which is expected to be in service in the fourth quarter of 2013.

4. Agreements and Transactions with Related Parties and Affiliates

Dividends and Distributions

During the six months ended June 30, 2012 and 2011, we paid tax distributions of \$138 million and \$112 million, respectively, based on estimated annual taxable income allocated to Spectra Energy and Phillips 66 (or ConocoPhillips) prior to May 1, 2012) according to their respective ownership percentages at the date the distributions became due. During the six months ended June 30, 2012 and 2011, we declared and paid dividends of \$161 million and \$171 million, respectively, to Spectra Energy and Phillips 66 (or ConocoPhillips) prior to May 1, 2012), allocated in accordance with their respective ownership percentages.

During the six months ended June 30, 2012 and 2011, DCP Partners paid distributions of \$47 million and \$38 million, respectively, to its public unit holders.

Phillips 66 and ConocoPhillips

Prior to May 1, 2012, we were owned 50% by ConocoPhillips. On May 1, 2012, ConocoPhillips created two independent publicly traded companies by separating its downstream businesses, including its 50% ownership interest in, to a newly formed publicly traded company, Phillips 66. In connection with this transaction, or the Phillips 66 separation, ConocoPhillips is not considered a related party for periods after May 1, 2012. In connection with the Phillips 66 separation, as of May 1, 2012, Chevron Phillips Chemical, or CPChem, is owned 50 percent by Phillips 66 and will continue to be considered a related party for periods after May 1, 2012.

Long-Term NGL Purchases Contract and Transactions — We sell a portion of our residue gas to ConocoPhillips and sell a portion of four NGLs to Phillips 66 and CPChem. Prior to May 1, 2012, we sold a portion of four NGLs to ConocoPhillips. In addition, we purchase natural gas from and provide gathering, transportation and other services to ConocoPhillips. Approximately 40% of our NGL production is committed to Phillips 66 (or ConocoPhillips) prior to May 1, 2012) and CPChem under an existing 15-year

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

contract, which expires in 2015. Should the contract period through 2020. The NGL contract also grants Phillips 66 (or Conoco Phillips prior to May 1, 2012) certain quantities of NGLs produced at processing plants that are acquired and/or processed in various regions, and the Austin Chalk area. We anticipate continuing to purchase and sell commodities with Conoco Phillips, Phillips 66 and CPChem in the ordinary course of business.

We are party to a 15-year gathering and processing agreement with Conoco Phillips, which expires in January 2026, whereby Conoco Phillips has dedicated all of its natural gas production within an area of mutual interest in Oklahoma and Texas. This contract replaces and extends certain contracts that we previously had with Conoco Phillips.

Spectra Energy

Commodity Transactions — We sell a portion of our residue gas and NGLs to Spectra Energy, purchase natural gas and other petroleum products from, and provide gathering, transportation and other services to Spectra Energy. Management anticipates continuing to purchase and sell commodities and provide services to Spectra Energy in the ordinary course of business.

DCPPartners had propane supply agreements with Spectra Energy, which provided DCPPartners propane supply at its marine terminals for up to approximately 185 million gallons of propane annually. These agreements terminated in April 2012.

DCPPartners

On March 30, 2012, we contributed our remaining 66.67% interest in Southeast Texas Holdings, GP, or Southeast Texas, and derivative instruments related to the Southeast Texas storage business, together with the Southeast Texas Midstream Business, to DCPPartners, for aggregate consideration of \$240 million, subject to certain working capital and other customary purchase price adjustments. \$192 million of the aggregate purchase price was financed with a portion of the proceeds from DCPPartners' 4.95% 10-year Senior Notes offering. The remaining \$48 million consideration was financed with the issuance by DCPPartners of 1,000,417 common units. We also provided fixed NGL commodity derivatives for the three year periods subsequent to closing valued at \$40 million. Certain of the NGL commodity derivatives were revalued at \$25 million and represent consideration for the termination of a fee-based storage arrangement that we had with DCPPartners in conjunction with its initial 33.33% interest in Southeast Texas; the remaining portion of the commodity derivatives, valued at \$15 million, mitigate a portion of DCPPartners' currently anticipated commodity price risk associated with the gathering and processing portion of the 66.67% interest in Southeast Texas acquired on March 30, 2012. The contribution of our remaining 66.67% interest in Southeast Texas represents a transaction between entities under common control. We will continue to consolidate the Southeast Texas Midstream Business through our interest in DCPPartners.

On January 3, 2012, we completed the previously announced contribution of our remaining 49.9% interest in DCPEast Texas Holdings, LLC, or East Texas, to DCPPartners, for aggregate consideration of \$165 million, less working capital and other purchase price adjustments of approximately \$2 million, for an net purchase price of \$163 million. DCPPartners financed approximately \$130 million of the aggregate purchase price with borrowings under its term loan. The remaining \$33 million consideration was financed with the issuance of 727,520 common units. As a result of this transaction, DCPPartners owns 100% of East Texas, and we will continue to consolidate East Texas through our ownership of DCPPartners.

Transactions with other unconsolidated affiliates

We sell a portion of our residue gas and NGLs to, purchase natural gas and other petroleum products from, and provide gathering and transportation services to, unconsolidated affiliates. We anticipate continuing to purchase and sell commodities and provide services to unconsolidated affiliates in the ordinary course of business.

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

The following tables summarize our transactions with related parties and affiliates:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(millions)			
Phillips 66(a):				
Sales of natural gas and petroleum products to affiliates	\$ 246	\$ —	\$ 246	\$ —
Purchases of natural gas and petroleum products from affiliates	\$ 14	\$ —	\$ 14	\$ —
Operating and general administrative expenses	\$ 1	\$ —	\$ 1	\$ —
ConocoPhillips(a):				
Sales of natural gas and petroleum products to affiliates	\$ 170	\$ 682	\$ 788	\$ 1,310
Transportation, storage and processing	\$ —	\$ 3	\$ 5	\$ 7
Purchases of natural gas and petroleum products from affiliates	\$ 41	\$ 157	\$ 179	\$ 287
Operating and general administrative expenses (b)	\$ (2)	\$ 2	\$ (1)	\$ 3
Spectra Energy:				
Sales of natural gas and petroleum products to affiliates	\$ —	\$ —	\$ —	\$ 1
Purchases of natural gas and petroleum products from affiliates	\$ 50	\$ 68	\$ 144	\$ 171
Operating and general administrative expenses	\$ 2	\$ 3	\$ 6	\$ 6
Unconsolidated affiliates:				
Sales of natural gas and petroleum products to affiliates	\$ 15	\$ 16	\$ 28	\$ 32
Transportation, storage and processing	\$ 5	\$ 3	\$ 10	\$ 8
Purchases of natural gas and petroleum products from affiliates	\$ 30	\$ 32	\$ 62	\$ 67

(a) In connection with the Phillips 66 separation, ConocoPhillips is not considered a related party for periods after April 30, 2012 and Phillips 66 is considered a related party for periods starting May 1, 2012.

(b) The three and six months ended June 30, 2012 include a reduction to operating expense in the condensed consolidated statements of operations for hurricane insurance recovery receivables, which were treated as a reduction to operating expense in the condensed consolidated statements of operations.

We had balances with related parties and affiliates as follows:

	June 30,		December 31,	
	2012		2011	
	(millions)			
Phillips 66(a):				
Accounts receivable	\$ 118	\$ —		
Accounts payable	\$ (11)	\$ —		
Other assets	\$ 4	\$ —		
ConocoPhillips(a):				
Accounts receivable	\$ —	\$ 283		
Accounts payable	\$ —	\$ (73)		
Other assets	\$ —	\$ 2		
Spectra Energy:				
Accounts payable	\$ (4)	\$ (30)		
Other assets	\$ 4	\$ 1		
Unconsolidated affiliates:				
Accounts receivable	\$ 22	\$ 24		
Accounts payable	\$ (17)	\$ (24)		

(a) In connection with the Phillips 66 separation, ConocoPhillips is not considered a related party for periods after April 30, 2012 and Phillips 66 is considered a related party for periods starting May 1, 2012.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

5. Inventories

Inventories were as follows:

	June 30, 2012	December 31, 2011
	(millions)	
Natural gas.....	\$ 18	\$ 26
NGLs.....	86	79
Total inventories.....	\$ 104	\$ 105

6. Property, Plant and Equipment

Property, plant and equipment by classification were as follows:

	Depreciable Life	June 30, 2012	December 31, 2011
		(millions)	
Gathering and transmission systems	20 - 50 years	\$ 6,273	\$ 6,069
Processing, storage and terminal facilities	35 - 60 years	2,929	2,900
Other	3 - 30 years	303	287
Construction work in progress		2,349	1,366
Property, plant and equipment		11,854	10,622
Accumulated depreciation.....		(4,305)	(4,174)
Property, plant and equipment, net		\$ 7,549	\$ 6,448

Interest capitalized on construction projects during the three and six months ended June 30, 2012 was \$21 million and \$35 million, respectively. Interest capitalized on construction projects during the three and six months ended June 30, 2011 was \$4 million and \$9 million, respectively.

We revised the depreciable lives for our gathering and transmission systems, processing, storage and terminal facilities, and other asset effective April 1, 2012. The key contributing factor to the change in depreciable lives is an increase in the estimated remaining economically recoverable reserves, resulting from the development of techniques that improve commodity production in the regions our assets serve. Advances in extraction processes, along with improved technology used to locate commodity reserves, is giving producers greater access to unconventional commodities. Based on our property, plant and equipment as of April 1, 2012, the new remaining depreciable lives resulted in an approximate \$60 million reduction in depreciation expense for the three and six months ended June 30, 2012 and will result in an estimated reduction in depreciation expense of approximately \$180 million for the year ended December 31, 2012.

In connection with our reevaluation of depreciable lives, we corrected the classification for certain assets within the presentation of our major classes of property, plant and equipment as of December 31, 2011.

Depreciation expense for the three and six months ended June 30, 2012 was \$30 million and \$143 million, respectively. Depreciation expense for the three and six months ended June 30, 2011 was \$104 million and \$203 million, respectively.

Asset Retirement Obligations — As of June 30, 2012 and December 31, 2011, we had \$88 million and \$73 million, respectively, of asset retirement obligations, or AROs, in other long-term liabilities in the condensed consolidated balance sheets. During the first quarter of 2012, we recorded a change in estimate to increase our AROs by approximately \$12 million. The change in estimate was primarily attributable to a reassessment of anticipated timing of settlements and of the original ARO estimated amounts. For the three months ended June 30, 2012, accretion expense was \$1 million and for the six months ended June 30, 2012, accretion benefit was \$1 million. For the three and six months ended June 30, 2011, accretion benefit was \$3 million and \$2 million, respectively. Accretion expense is recorded within operating and maintenance expense in our condensed consolidated statements of operations.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

The following table summarizes changes in the asset retirement obligations, included in our balance sheets:

	June 30, 2012	December 31, 2011
	(millions)	
Balance, beginning of period	\$ 73	\$ 79
Accretion (benefit) expense	(1)	—
Liabilities incurred	16	—
Liabilities settled	—	(6)
Balance, end of period	<u>\$ 88</u>	<u>\$ 73</u>

7. Investments in Unconsolidated Affiliates

We had investments in the following unconsolidated affiliates accounted for using the equity method:

	Percentage Ownership	June 30, 2012	December 31, 2011
		(millions)	
Discovery Producer Services, LLC	40.00%	\$ 136	\$ 107
Main Pass Oil Gathering Company	66.67%	25	27
Mont Belvieu Fractionation Facility	20.00%	15	12
Enterprise Fractionator	12.50%	14	—
Texas Express Pipeline Joint Venture	10.00%	11	—
Sycamore Gas System General Partnership	48.45%	6	6
Front Range Pipeline Joint Venture	33.33%	4	—
Other unconsolidated affiliates	Various	2	2
Total investments in unconsolidated affiliates		<u>\$ 213</u>	<u>\$ 154</u>

There was a deficit between the carrying amount of the investment and the underlying equity of Discovery Producer Services, LLC, or Discovery, of \$31 million and \$33 million at June 30, 2012 and December 31, 2011, respectively, which is associated with, and is being accreted over the life of, the underlying long-lived asset of Discovery.

There was an excess of the carrying amount of the investment over the underlying equity of Main Pass Oil Gathering Company, or Main Pass, of \$8 million at both June 30, 2012 and December 31, 2011, respectively, which is associated with, and is being amortized over the life of, the underlying long-lived asset of Main Pass.

There was a deficit between the carrying amount of the investment and the underlying equity of Mont Belvieu Fractionation Facility, or Mont Belvieu, of \$6 million at both June 30, 2012 and December 31, 2011, which is associated with, and is being accreted over the life of, the underlying long-lived asset of Mont Belvieu.

There was an excess of the carrying amount of the investment over the underlying equity of Sycamore Gas System General Partnership, or Sycamore, of \$2 million and \$3 million at June 30, 2012 and December 31, 2011, respectively, which is associated with, and is being amortized over the life of, the underlying long-lived asset of Sycamore.

DCPMIDSTREAM,LLC
NOTESTOCONDENSEDCONSOLIDATEDFINANCIALSTATEMENT S—Continued
ThreeandSixMonthsEndedJune30,2012and2011
(unaudited)

Earnings from unconsolidated affiliates amounted to the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(millions)			
Discovery Producer Services, LLC	\$ 2	\$ 5	\$ 8	\$ 8
Main Pass Oil Gathering Company	—	—	—	1
Mont Belvieu Fractionation Facility	2	3	3	4
Enterprise Fractionator.....	6	—	6	—
Other unconsolidated affiliates.....	—	(1)	—	(1)
Totalearningsfromunconsolidatedaffiliates	\$ 10	\$ 7	\$ 17	\$ 12

The following table summarizes the combined financial information of unconsolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(millions)			
Income Statement:				
Operating revenues	\$ 96	\$ 78	\$ 216	\$ 152
Operating expenses	\$ 62	\$ 55	\$ 125	\$ 110
Net income	\$ 33	\$ 23	\$ 90	\$ 42

	June 30, 2012	December 31, 2011
		(millions)
Balance sheet:		
Current assets.....	\$ 90	\$ 68
Long-term assets.....	859	499
Current liabilities.....	(82)	(35)
Long-term liabilities.....	(54)	(51)
Net assets.....	\$ 813	\$ 481

8. Fair Value Measurement

Determination of Fair Value

Below is a general description of four valuation methodologies for derivative financial assets and liabilities, which are measured at fair value. Fair values are generally based upon quoted market prices or prices obtained through external sources, where available. If listed market prices or quotes are not available, we determine fair value based upon a market quote, adjusted by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. These adjustments result in a fair value for each asset or liability under an “exit price” methodology, in line with how we believe market place participant would value the asset or liability. Fair values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. These adjustments may include a amount to reflect counterparty credit quality, the effect of our own creditworthiness, the time value of money and/or the illiquidity of the market.

- Counterparty credit valuation adjustments are necessary when the market price of an instrument is not indicative of the fair value as a result of the credit quality of the counterparty. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. We record counterparty credit valuation adjustments on all derivatives that are in a net asset position as of the measurement date in accordance with our established counterparty credit policy, which takes into account a counterparty's credit rating, the amount of collateral margin that a counterparty may have posted with us as well as any letters of credit that they have provided.

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

- Entity valuation adjustments are necessary to reflect the effect of our own credit quality on the fair value of our net liability position with each counterparty. This adjustment may have posted with a counterparty, as well as any letters of credit that we have provided. The methodology to determine this adjustment is consistent with how we evaluate counterparty credit risk, taking into account our own credit rating, current credit spreads, as well as any change in such spreads since the last measurement date.
- Liquidity valuation adjustments are necessary when we are not able to observe a recent market price for financial instruments that trade in less active markets for the fair value to reflect the cost of exiting the position. Exchange traded contracts are valued at market value without making any additional valuation adjustments and, therefore, no liquidity reserve is applied. For contracts other than exchange traded instruments, we mark our position to the midpoint of the bid/ask spread, and record a liquidity reserve based upon our total net position. We believe that such practice results in the most reliable fair value measurement as viewed by a market participant.

We manage our derivative instruments on a portfolio basis and the valuation adjustments described above are calculated on this basis. We believe that the portfolio level approach represents the highest and best use for these assets as there are benefits inherent in naturally offsetting positions within the portfolio at any given time, and this approach is consistent with how a market participant would view and value the assets and liabilities. Although we take a portfolio approach to managing the assets/liabilities, in order to reflect the fair value of any one individual contract within the portfolio, we allocate all valuation adjustments down to the contract level, to the extent deemed necessary, based upon either the notional contract volume, or the contract value, whichever is more applicable.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe that our valuation methods are appropriate and consistent with other market participants, we recognize that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We review our fair value policies on a regular basis taking into consideration changes in the market place and, if necessary, will adjust our policies accordingly. See Note 10, Risk Management and Hedging Activities, Credit Risk and Financial Instruments.

Valuation Hierarchy

Our fair value measurements are grouped into a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of input to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs are unadjusted quoted prices for *identical* assets or liabilities in active markets.
- Level 2—inputs include quoted prices for *similar* assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—inputs are unobservable and considered significant to the fair value measurement.

A financial instrument's categorization within the hierarchy is based upon the input that requires the highest degree of judgment in the determination of the instrument's fair value. Following is a description of the valuation methodologies used as well as the general classification of such instruments pursuant to the hierarchy.

Commodity Derivative Assets and Liabilities

We enter into a variety of derivative financial instruments, which may include exchange traded instruments (such as New York Mercantile Exchange, or NYMEX, crude oil or natural gas futures) or over-the-counter, or OTC, instruments (such as natural gas contracts, costless collars, crude oil or NGL swaps). The exchange traded instruments are generally executed on the NYMEX exchange with a highly rated broker dealer serving as the clearing house for individual transactions.

Our activities expose us to varying degrees of commodity price risk. To mitigate a portion of this risk, and to manage commodity price risk related primarily to owned natural gas storage and pipeline assets, we engage in natural gas asset based trading and marketing, and we may enter into natural gas and crude oil derivative to lock in a specific margin when market conditions are favorable. A portion of this may be accomplished through the use of exchange traded derivative contracts. Such instruments are generally classified as Level 1 since the value is equal to the quoted market price of the exchange traded instrument as of our balance

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

sheet date, and no adjustments are required. Depend on market conditions and our strategy we may enter into exchange traded derivative positions with a significant time horizon to maturity. Although such instruments are exchange traded, market prices may only be readily observable for a portion of the duration of the instrument. In order to calculate the fair value of these instruments, readily observable market information is utilized to the extent it is available; however, in the event that readily observable market data is not available, we may interpolate based upon observable data. In instances where we utilize an interpolated value, and it is considered significant to the valuation of the contract as a whole, we would classify the instrument within Level 2. In certain limited instances, we may extrapolate based upon the last readily observable data, developing our own expectation of fair value. To the extent that we have utilized extrapolated data, and it is considered significant to the valuation of the contract as a whole, we would classify the instrument within Level 3.

We also engage in the business of trading energy commodity price risk. We may enter into physical contracts or financial instruments with the objective of realizing a positive margin from the purchase and sale of these commodity-based instruments. We may enter into derivative instruments for NGLs or other energy related products, primarily using the OTC derivative instrument markets, which are not as active and liquid as exchange traded instruments. Market quotes for such contracts may only be available for short dated positions (up to six months), and an active market itself may not exist beyond such time horizon. Contracts entered into with a relatively short time horizon for which prices are readily observable in the OTC market are generally classified within Level 2. Contracts with a long time horizon, for which we internally generate a forward curve to values such instruments, a variety of assumptions including, but not limited to, data obtained from third-party pricing services, historical and future expected relationship of NGL price to crude oil prices, the knowledge of expected supply sources coming on line, expected weather trends, the within certain regions of the United States, and the future expected demand for NGLs.

Each instrument is assigned to a level within the hierarchy at the end of each financial quarter depending upon the extent to which the valuation inputs are observable. Generally, an instrument will move toward a level within the hierarchy that requires a lower degree of judgment as the time to maturity approaches, and as the markets in which the asset trades widen, making it more likely to become more liquid and trade assumptions. However, the price is more readily available in the market, thus reducing the need to rely upon our internally developed assumptions. However, the level of a given instrument may change, in either direction, depending upon market conditions and the availability of market observable data.

Interest Rate Derivative Assets and Liabilities

DCP Partners uses interest rate swap agreements as part of its overall capital strategy. These instruments effectively exchange a portion of DCP Partners' existing floating rate debt for fixed rate debt or lock in rates on DCP Partners' anticipated future fixed-rate debt. DCP Partners' swaps are generally priced based upon a London Interbank Offered Rate, or LIBOR, instrument with similar duration, adjusted by the credit spread between DCP Partners and the LIBOR instrument. Given that a portion of the swap value is derived from the credit spread, which may be observed by comparing similar assets in the market, these instruments are classified within Level 2. Default risk on either side of the swap transaction is also considered in the valuation. DCP Partners records the counterparty credit and entity valuation adjustment in the valuation of its interest rate swaps; however, these reserves are not considered to be significant in put to the overall valuation.

Long-Term Assets

We offer certain eligible executives the opportunity to participate in DCP Midstream LP's Non-Qualified Executive Deferred Compensation plan, and have elected to fund a portion of this participation by investing in company owned life insurance policies. These investments are reflected within our condensed consolidated balance sheets as long-term assets and are reconsidered financial instruments that are recorded at fair value, with any changes in fair value being recorded as gains or losses in the condensed consolidated statements of operations. Given that the value of these life insurance policies is determined based upon certain publicly traded mutual funds whose value is readily observable in the market place, these investments are classified within Level 2.

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

Nonfinancial Assets and Liabilities

We utilize fair value on a non-recurring basis to perform impairment tests as required on our property, plant and equipment, goodwill and intangible assets. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified within Level 3, in the event that we were required to measure and record such assets at fair value within our condensed consolidated financial statements. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore released property to the contractually stipulated condition, and would generally be classified within Level 3.

We may utilize fair value on a recurring basis to measure our contingent consideration that is a result of certain acquisitions. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and are classified within Level 3.

The following table presents the financial instruments carried at fair value, by condensed consolidated balance sheet caption and by valuation hierarchy, as described above:

	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(millions)							
Current assets (a):								
Commodity derivatives	\$ 36	\$ 49	\$ 46	\$ 131	\$ 29	\$ 55	\$ 23	\$ 107
Long-term assets:								
Commodity derivatives (b)	\$ 18	\$ 9	\$ 5	\$ 32	\$ 11	\$ 7	\$ 5	\$ 23
Company owned life insurance (c)	\$ —	\$ 23	\$ —	\$ 23	\$ —	\$ 18	\$ —	\$ 18
Current liabilities (d):								
Commodity derivatives	\$ (39)	\$ (49)	\$ (56)	\$ (144)	\$ (36)	\$ (53)	\$ (8)	\$ (97)
Interest rate derivatives	\$ —	\$ (4)	\$ —	\$ (4)	\$ —	\$ (16)	\$ —	\$ (16)
Long-term liabilities (e):								
Commodity derivatives	\$ (14)	\$ (13)	\$ (4)	\$ (31)	\$ (6)	\$ (28)	\$ (1)	\$ (35)
Interest rate derivatives	\$ —	\$ (4)	\$ —	\$ (4)	\$ —	\$ (5)	\$ —	\$ (5)

- (a) Included in current unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(b) Included in long-term unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(c) Included in other long-term assets in our condensed consolidated balance sheets.
(d) Included in current unrealized losses on derivative instruments in our condensed consolidated balance sheets.
(e) Included in long-term unrealized losses on derivative instruments in our condensed consolidated balance sheets.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

Changes in Levels 1 and 2 Fair Value Measurements

We manage our overall risk at the portfolio level, instruments, which may be classified within any level of exposure to natural gas, NGL and condensate price our storage and transportation assets. These instruments within Level 1 or Level 2 is based upon active markets. Depending upon the information readily available, which is significant to the overall valuation, the measurement date to the next. To qualify as a transfer from one level to another during the current period, the asset or liability must have existed in the period. Amounts transferred in and out of Level 1 and 2 of the fair value hierarchy. During the three and six months ended June 30, 2012 and 2011, we had the following transfers from Level 2 to Level 1 of the fair value hierarchy:

and in the execution of our strategy, we may use a combination of financial instruments. We typically use OTC derivative contracts in order to mitigate a portion of our exposure to natural gas price changes. We also may enter into natural gas derivative contracts to lock in margins around our storage and transportation assets. These instruments are generally classified as Level 2. The determination to classify a financial instrument as Level 2 is based upon the availability of quoted prices for identical or similar assets and liabilities in active markets. Depending upon the information readily available, which is significant to the overall valuation, the measurement date to the next. To qualify as a transfer from one level to another during the current period, the asset or liability must have existed in the period. Amounts transferred in and out of Level 1 and 2 of the fair value hierarchy. During the three and six months ended June 30, 2012 and 2011, we had the following transfers from Level 2 to Level 1 of the fair value hierarchy:

combination of financial instruments to mitigate a portion of our exposure to natural gas price changes. We also may enter into natural gas derivative contracts to lock in margins around our storage and transportation assets. These instruments are generally classified as Level 2. The determination to classify a financial instrument as Level 2 is based upon the availability of quoted prices for identical or similar assets and liabilities in active markets. Depending upon the information readily available, which is significant to the overall valuation, the measurement date to the next. To qualify as a transfer from one level to another during the current period, the asset or liability must have existed in the period. Amounts transferred in and out of Level 1 and 2 of the fair value hierarchy. During the three and six months ended June 30, 2012 and 2011, we had the following transfers from Level 2 to Level 1 of the fair value hierarchy:

Transfers from Level 2 to Level 1

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(millions)			
Current assets (a).....	\$ —	\$ —	\$ —	\$ —
Long-term assets (a).....	\$ 2	\$ 6	\$ 2	\$ 6
Current liabilities (a).....	\$ —	\$ —	\$ —	\$ —
Long-term liabilities (a).....	\$ (3)	\$ (2)	\$ (1)	\$ (1)

(a) Financial instruments have moved into a lower level due to the passage of time.

Changes in Level 3 Fair Value Measurements

The tables below will illustrate a roll forward of the amounts included in our condensed consolidated balance sheets for derivative financial instruments that we have classified within Level 3. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable factors used in determining the overall fair value of the instrument. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily available in the market, and/or the use of unobservable inputs, which is significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. The significant unobservable inputs used in determining fair value include adjustments by other market-based market data such as historical commodity volatility, crude oil future yield curves, and/or counterparty specific considerations. In the event that there is a movement to/from the classification of an instrument as Level 3, we have reflected such items in the table below within the “Transfers into Level 3” and “Transfers out of Level 3” captions.

amounts included in our condensed consolidated balance sheets for derivative financial instruments that we have classified within Level 3. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable factors used in determining the overall fair value of the instrument. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily available in the market, and/or the use of unobservable inputs, which is significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. The significant unobservable inputs used in determining fair value include adjustments by other market-based market data such as historical commodity volatility, crude oil future yield curves, and/or counterparty specific considerations. In the event that there is a movement to/from the classification of an instrument as Level 3, we have reflected such items in the table below within the “Transfers into Level 3” and “Transfers out of Level 3” captions.

balance sheets for derivative financial instruments that we have classified within Level 3. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable factors used in determining the overall fair value of the instrument. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily available in the market, and/or the use of unobservable inputs, which is significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. The significant unobservable inputs used in determining fair value include adjustments by other market-based market data such as historical commodity volatility, crude oil future yield curves, and/or counterparty specific considerations. In the event that there is a movement to/from the classification of an instrument as Level 3, we have reflected such items in the table below within the “Transfers into Level 3” and “Transfers out of Level 3” captions.

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

We manage our overall risk at the portfolio level, and in the execution of our strategy, we may use a combination of financial instruments, which may be classified within any level. Since Level 1 and Level 2 risk management instruments are not included in the roll forwards below, the gains or losses in the table do not reflect the effect of our total risk management activities.

Commodity Derivative Instruments

	<u>Current Assets</u>	<u>Long-Term Assets</u>	<u>Current Liabilities</u>	<u>Long-Term Liabilities</u>
	(millions)			
Three months ended June 30, 2012(a):				
Beginning balance.....	\$ 24	\$ 5	\$ (14)	\$ —
Net realized and unrealized gains (losses) include derivative earnings(b)	65	—	(54)	(4)
Transfers into Level 3(c).....	—	—	—	—
Transfers out of Level 3(c).....	(25)	—	10	—
Settlements.....	(18)	—	2	—
Ending balance.....	<u>\$ 46</u>	<u>\$ 5</u>	<u>\$ (56)</u>	<u>\$ (4)</u>
Net unrealized gains (losses) still held included in earnings(b)	<u>\$ 39</u>	<u>\$ —</u>	<u>\$ (45)</u>	<u>\$ (4)</u>
Three months ended June 30, 2011(a):				
Beginning balance.....	\$ 68	\$ 13	\$ (69)	\$ (3)
Net realized and unrealized gains (losses) include derivative earnings(b)	13	(2)	(13)	1
Transfers into Level 3(c).....	—	—	—	—
Transfers out of Level 3(c).....	(33)	—	17	2
Settlements.....	(16)	—	33	—
Ending balance.....	<u>\$ 32</u>	<u>\$ 11</u>	<u>\$ (32)</u>	<u>\$ —</u>
Net unrealized gains (losses) still held included in earnings(b)	<u>\$ 12</u>	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ —</u>
Six months ended June 30, 2012(a):				
Beginning balance.....	\$ 23	\$ 5	\$ (8)	\$ (1)
Net realized and unrealized gains (losses) include derivative earnings(b)	43	—	(56)	(3)
Transfers into Level 3(c).....	—	—	—	—
Transfers out of Level 3(c).....	(9)	—	9	—
Settlements.....	(11)	—	(1)	—
Ending balance.....	<u>\$ 46</u>	<u>\$ 5</u>	<u>\$ (56)</u>	<u>\$ (4)</u>
Net unrealized gains (losses) still held included in earnings(b)	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ (54)</u>	<u>\$ (3)</u>
Six months ended June 30, 2011(a):				
Beginning balance.....	\$ 50	\$ 10	\$ (45)	\$ (1)
Net realized and unrealized gains (losses) include derivative earnings(b)	41	1	(68)	(1)
Transfers into Level 3(c).....	—	—	—	—
Transfers out of Level 3(c).....	(41)	—	16	2
Settlements.....	(18)	—	65	—
Ending balance.....	<u>\$ 32</u>	<u>\$ 11</u>	<u>\$ (32)</u>	<u>\$ —</u>
Net unrealized gains (losses) still held included in earnings(b)	<u>\$ 25</u>	<u>\$ —</u>	<u>\$ (17)</u>	<u>\$ —</u>

- (a) There were no purchases, issuances and sales of derivatives for the three and six months ended June 30, 2012 and 2011.
(b) Represents the amount of total gains or losses for the period, included in trading and marketing gains, net, attributable to changes in unrealized gains or losses relating to assets and liabilities classified as Level 3.
(c) Amounts transferred in and amounts transferred out are reflected at fair values as of the end of the period.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

Quantitative Information and Fair Value Sensitivity es Related to Level 3 Unobservable Inputs

We utilize the market approach to measure the fair value of our commodity contracts. The significant unobservable inputs used in this approach are longer dated price quotes. Our sensitivity to these longer dated forward curve prices are presented in the table below. Significant changes in any of those inputs in isolation would result in significantly different fair value measurements, depending on our short or long position in these contracts.

<u>Product Group</u>	<u>Fair Value (millions)</u>	<u>Forward Curve Range</u>	
Assets:			
NGLs.....	\$ 49	\$0.08–\$1.82	Pergallon
Natural Gas	2	\$3.30–\$4.15	PerMMBtu(a)
Total assets	<u>\$ 51</u>		
Liabilities:			
NGLs.....	\$ (59)	\$0.08–\$1.82	Pergallon
Natural gas	(1)	\$3.36–\$4.15	PerMMBtu
Total liabilities	<u>\$ (60)</u>		

(a) MMBtu represents one million British thermal units.

Estimated Fair Value of Financial Instruments

Valuation of a contract's fair value is validated by an internal group independent of the marketing group. While common industry practices are used to develop valuation techniques, changes in pricing methodologies or the underlying assumptions could result in significantly different fair values and income recognition. When available, quoted market prices or prices obtained through external sources are used to determine a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on pricing models developed primarily from historical and expected relationship with quoted market prices.

Values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. Changes in market prices and management estimates directly affect the estimated fair value of these contracts. Accordingly, it is reasonably possible that such estimates may change in the near term.

The fair value of our interest rate swaps and commodity non-trading derivatives is based on prices supported by quoted market prices and other external sources and prices based on models and other valuation methods. The "prices supported by quoted market prices and other external sources" category includes our interest rate swaps, our NGL and crude oil swaps, and our NYMEX positions in natural gas. In addition, this category includes our forward positions in natural gas for which our forward price curves are obtained from a third-party pricing service and then validated through an internal process which includes the use of independent broker quotes. This category also includes our forward positions in NGLs at points for which over-the-counter, or OTC, broker quotes for similar assets or liabilities are available for the full term of the instrument. This category also includes "strip" transactions whose pricing inputs are directly or indirectly observable from external sources and then modeled to daily or monthly prices as appropriate. The "prices based on models and other valuation methods" category includes the value of transactions for which inputs to the fair value of the instrument are unobservable in the marketplace and are considered significant to the overall fair value of the instrument. The fair value of these instruments may be based upon an internally developed price curve, which was constructed as a result of the long dated nature of the transaction or the illiquidity of the market point.

We have determined fair value amounts using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented here are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The fair value of accounts receivable, accounts payable and short-term borrowings are not materially different from their carrying amounts because of the short-term nature of these instruments or the stated rates approximating market rates. Unrealized gains and losses on derivative instruments are carried at fair value. As of June 30, 2012, the carrying and fair value of our long-term debt was \$4,271 million and \$4,736 million, respectively. As of December 31, 2011, the carrying and fair value of our long-term debt

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

was \$3,820 million and \$4,264 million, respectively. We determine the fair value of our variable rate debt based upon the discounted present value of expected future cash flows, taking into account the difference between the contractual borrowings spread and the spread for similar credit facilities available in the market place. We determine the fair value of our fixed-rate debt based on quotes obtained from bond dealers. We classify the fair value of our outstanding debt balances within Level 2 of the fair value hierarchy.

9. Financing

	June 30, 2012	December 31, 2011
	(millions)	
Short-term borrowings	\$ 895	\$ 370
DCP Midstream's debt securities:		
Issued November 2008, interest at 9.700% payable semiannually, due December 2013	250	250
Issued October 2005, interest at 5.375% payable semiannually, due October 2015	200	200
Issued February 2009, interest at 9.750% payable semiannually, due March 2019	450	450
Issued March 2010, interest at 5.350% payable semiannually, due March 2020	600	600
Issued September 2011, interest at 4.750% payable semiannually, due September 2021	500	500
Issued August 2000, interest at 8.125% payable semiannually, due August 2030(a)	300	300
Issued October 2006, interest at 6.450% payable semiannually, due November 2036	300	300
Issued September 2007, interest at 6.750% payable semiannually, due September 2037	450	450
DCP Midstream term loan, variable interest at 1.625%, due September 2014	250	—
DCP Partners' debt securities:		
Issued September 2010, interest at 3.25% payable semiannually, due October 2015	250	250
Issued March 2012, interest at 4.95% payable semiannually, due April 2022	350	—
DCP Partners' revolving credit facility, weighted average variable interest rate of 1.50% and 1.69%, respectively, due November 2016(b) ...	350	497
Fair value adjustments related to interest rate swaps and fair value hedges (a)	33	34
Unamortized discount	(12)	(11)
Total debt	<u>5,166</u>	<u>4,190</u>
Short-term borrowings	(895)	(370)
Total long-term debt	<u>\$ 4,271</u>	<u>\$ 3,820</u>

- (a) In December 2008, the swaps associated with this debt were terminated. The remaining long-term fair value of approximately \$33 million related to the swaps is being amortized as a reduction to interest expense through the maturity date of the debt.
- (b) \$150 million has been swapped to a fixed interest rate obligation with the effective fixed interest rates ranging from 2.94% to 2.99%, for an effective interest rate of 2.66% on the \$350 million of outstanding debt under DCP Partners' revolving credit facility as of June 30, 2012.

DCP Midstream's Debt Securities — In September 2011, we issued \$500 million principal amount of 4.75% Senior Notes due September 30, 2021, or the 4.75% Notes, for proceeds of approximately \$496 million, net of unamortized discounts and related offering costs. We will pay interest semiannually on March 30 and September 30 of each year, and our first payment occurred on March 30, 2012. The net proceeds from this offering were used to repay short-term borrowings and for general corporate purposes.

The DCP Midstream debt securities mature and become payable on the respective due dates, and are not subject to any sinking fund provisions. The DCP Midstream debt securities are senior unsecured obligations, and are redeemable at a premium at our option.

DCP Midstream's Credit Facilities with Financial Institutions — On March 2, 2012, we entered into a \$2 billion revolving credit facility, or the \$2 Billion Facility, which matures in March 2017 and terminated our existing \$1,250 million revolving credit facility which would have matured in March 2015 and our existing \$450 million revolving credit facility which would have matured in April 2012, or together the \$1.7 Billion Facilities. The \$2 Billion Facility allows for up to two one-year extensions of the March 2017 maturity date, subject to lender consent. There were no borrowings outstanding under the \$2 Billion Facility as of June 30, 2012.

The \$2 Billion Facility may be used to support our commercial paper program, our capital expansion program, working capital requirements and other general corporate purposes as well as for letters of credit. As of June 30, 2012 and December 31, 2011, we had \$895 million and \$370 million of commercial paper outstanding, backed by the \$2 Billion Facility and the \$1.7 Billion Facilities,

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

respectively. As of June 30, 2012 and December 31, 2011, we had \$8 million and \$7 million, respectively, in letters of credit outstanding. As of June 30, 2012, the available capacity under the \$2 Billion Facility was \$1,097 million.

On March 2, 2012, we entered into a \$1 billion delayed draw term loan agreement, or the Term Loan, which matures in September 2014. Proceeds from the Term Loan may be used for our capital expansion program and working capital requirements. As of June 30, 2012, we had \$250 million outstanding under the Term Loan.

The \$2 Billion Facility bears interest at either: (1) LIBOR, plus an applicable margin of 117.5 basis points based on our current credit rating; or (2) (a) the base rate which shall be the higher of Wells Fargo Bank N.A.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1% plus (b) an applicable margin of 17.5 basis points based on our current credit rating. The \$2 Billion Facility incurs an annual facility fee of 0.20% based on our current credit rating. This fee is paid on drawn and undrawn portions of the \$2 Billion Facility.

The Term Loan bears interest at either: (1) LIBOR, plus an applicable margin of 137.5 basis points based on our current credit rating; or (2) (a) the base rate which shall be the higher of Royal Bank of Canada's prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1% plus (b) an applicable margin of 37.5 basis points based on our current credit rating. The Term Loan incurs an annual commitment fee of 0.20% based on our current credit rating. This fee is paid on undrawn portions of the Term Loan.

The \$2 Billion Facility and the Term Loan require us to maintain a consolidated leverage ratio (the ratio of consolidated debt to consolidated EBITDA as defined by the Facility) of not more than 5.0 to 1.0, and on a temporary basis for not more than three consecutive quarters (including the quarter in which such acquisition is consummated), following the consummation of certain acquisitions (as defined by the \$2 Billion Facility and the Term Loan) of not more than 5.0 to 1.0. Any drawn amounts under the Term Loan are required to be repaid from proceeds from the sale or contribution of the Sand Hills Pipeline or the Southern Hills Pipeline.

DCPP Partners' Debt Securities — On March 13, 2012, DCP Partners issued \$350 million of 4.95% 10-year Senior Notes, or the DCP Partners 4.95% Notes, due April 1, 2022. DCP Partners received proceeds of \$346 million, net of underwriters' fees, related expenses and unamortized discounts. Proceeds from the DCP Partners 4.95% Notes were used to fund a portion of DCP Partners' acquisition of four 66.67% remaining interest in Southeast Texas and to repay funds borrowed under DCP Partners' Credit Agreement. Interest on the notes will be paid semiannually on April 1 and October 1 of each year, commencing on October 1, 2012. The underwriters' fees and related expenses are deferred in other long-term assets in the condensed consolidated balance sheets and will be amortized over the term of the notes.

DCP Partners' debt securities mature and become payable on the respective due dates, unless redeemed prior to maturity, and are not subject to any sinking fund provisions. DCP Partners' debt securities are senior unsecured obligations, and are redeemable at a premium at DCP Partners' option.

DCP Partners' Credit Facilities with Financial Institutions — On January 3, 2012, DCP Partners entered into a 2-year term loan agreement, or the DCP Partners Term Loan, and borrowed \$135 million, which was used to fund a portion of DCP Partners' acquisition of four remaining 49.9% interest in East Texas. In March 2012, DCP Partners repaid the term loan with proceeds from the DCP Partners 4.95% Notes.

DCP Partners has a \$1 billion revolving credit facility, or the DCP Partners' Credit Agreement, that matures November 10, 2016. As of both June 30, 2012 and December 31, 2011, DCP Partners had \$1 million of letters of credit issued under the DCP Partners' Credit Agreement. As of June 30, 2012, the unused capacity under the revolving credit facility was \$64.9 million.

The DCP Partners' Credit Agreement bears interest at either: (1) LIBOR, plus an applicable margin of 117.5% based on DCP Partners' current credit rating; or (2) (a) the base rate which shall be the higher of Wells Fargo Bank N.A.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1% plus (b) an applicable margin of 0.25% based on DCP Partners' current credit rating. The revolving credit facility incurs an annual facility fee of 0.25% based on DCP Partners' current credit rating. This fee is paid on drawn and undrawn portions of the revolving credit facility.

The DCP Partners' Credit Agreement requires DCP Partners to maintain a leverage ratio (the ratio of our consolidated debt to our consolidated EBITDA, in each case as defined by the Credit Agreement) of not more than 5.0 to 1.0, and on a

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

temporary basis for not more than three consecutive quarters (including the quarter in which such acquisition is consummated) following the consummation of certain acquisitions of not more than 5.5 to 1.0.

Other Agreements — As of June 30, 2012, DCP Partners had a contingent letter of credit facility for up to \$10 million, on which DCP Partners pays a fee of 0.50% per annum. As of June 30, 2012, DCP Partners had no letters of credit issued under this facility. Any letters of credit issued on this facility will incur a net fee of 1.75% per annum and will not reduce the available capacity under the DCP Partners' Credit Agreement.

Other Financing — During the three and six months ended June 30, 2012, DCP Partners issued 338,800 of its common units, under an on-going equity distribution agreement with a financial institution and received proceeds from units issued of \$14 million, net of commissions and offering costs, which were used to finance growth opportunities and for general corporate purposes.

In March 2012, DCP Partners issued 5,148,500 of its common units at \$47.42 per unit. DCP Partners received proceeds of \$234 million, net of commissions and offering costs, which were used to repay borrowings under the DCP Partners' Credit Agreement.

10. Risk Management and Hedging Activities, Credit Risk and Financial Instruments

Our day-to-day operations expose us to a variety of risks including but not limited to changes in the prices of commodities that we buy or sell, changes in interest rates, and the creditworthiness of each of our counterparties. We manage certain of these exposures by using physical and financial derivative instruments. All of our commodity derivative activities are conducted under the governance of an internal Risk Management Committee that establishes policies limiting exposure to market risk and requiring daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate daily value at risk. The following briefly describe each of the risks that we manage.

Commodity Price Risk

Our portfolio of commodity derivative activity is primarily accounted for using the mark-to-market method of accounting; however, depending upon our risk profile and objectives, in certain limited cases, we may execute transactions that qualify for the hedged method of accounting. The risks, strategies and instruments used to mitigate such risks, as well as the method of accounting are discussed and summarized below.

Natural Gas Asset Based Trading and Marketing

Our natural gas asset based trading and marketing activities engage in the business of trading energy related products and services, including managing purchase and sales portfolios, storage contracts and facilities, and transportation commitments for products. These energy trading operations are exposed to market variables and commodity price risk with respect to these products and services, and we may enter into physical contracts and financial instruments with the objective of realizing a positive margin from the purchase and sale of commodity-based instruments. We manage commodity price risk related to our natural gas storage and pipeline assets by engaging in natural gas asset based trading and marketing. The commercial activities related to our natural gas asset based trading and marketing primarily consist of mespreads and basis spreads.

We may execute at times spread transactions when the difference between the current price of natural gas (cash or futures) and the futures market price for natural gas exceeds our cost of storing physical gas in our owned and/or leased storage facilities. The time spread transaction allows us to lock in a margin when this market condition exists. At times spread transactions are executed by establishing a long gas position at one point in time and establishing an equal short gas position at a different point in time. We typically useswapstoexecutethesetransactions, which are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations. While gas held in our storage locations is recorded at the lower of average cost or market, the derivative instruments that are used to manage our storage facilities are recorded at fair value and any changes in fair value are recurrently recorded in our condensed consolidated statements of operations. Even though we may have economically hedged our exposure and locked in a future margin, the use of forward-of-cost-or-market accounting for our physical inventory and the use of mark-to-market accounting for our derivative instruments may subject our earnings to market volatility.

We may execute basis spread transactions when the market price differential between locations on a pipeline asset exceeds our cost of transporting physical gas through our owned and/or leased pipeline asset. When this market condition exists, we may execute derivative instruments around this differential at the market price. This basis spread transaction allows us to lock in a margin on our

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

physical purchases and sales of gas. We typically use instruments and are recorded at fair value with changes of operations. As discussed above, the accounting for instruments used to manage such purchases and sales transactions represents an economic hedge in which we

swap to execute these transactions, which are recorded in fair value in the current period or physical gas purchases and sales and the accounts differ, and may be subject to earnings to market volatility, even though the

designated as hedging instruments in our condensed consolidated statements of operations. The accounting for the derivative instrument, even though the

In order for our storage facility to remain operational, a minimum level of base gas must be maintained on our balance sheet as a component of property, plant and equipment. Upon completion of the expansion project, we will be required to purchase a significant amount of base gas to bring the storage cavern into operation. To mitigate the risk associated with this expansion project, we will enter into derivative financial instruments, which have a notional value of \$3 million as of June 30, 2012, and will flow through the term of these derivative instruments will be deferred until the underlying hedges will be received upon settlement of these hedges will be recorded in the additional storage cavern, any deferred gain or loss at the time of the sale of the base gas is sold. As of June 30, 2012, there was a deferred loss of \$3 million recognized in AOCI in relation to our 2009 storage cavern expansion, and will remain in AOCI until such time that the cavern is emptied and the base gas is sold.

onal, a minimum level of base gas must be maintained on our balance sheet as a component of property, plant and equipment. Upon completion of the expansion project, we will be required to purchase a significant amount of base gas to bring the storage cavern into operation. To mitigate the risk associated with this expansion project, we will enter into derivative financial instruments, which have a notional value of \$3 million as of June 30, 2012, and will flow through the term of these derivative instruments will be deferred until the underlying hedges will be received upon settlement of these hedges will be recorded in the additional storage cavern, any deferred gain or loss at the time of the sale of the base gas is sold. As of June 30, 2012, there was a deferred loss of \$3 million recognized in AOCI in relation to our 2009 storage cavern expansion, and will remain in AOCI until such time that the cavern is emptied and the base gas is sold.

designated as hedging instruments in our condensed consolidated statements of operations. The accounting for the derivative instrument, even though the

NGL Proprietary Trading

Our NGL proprietary trading activity includes trading of energy related products and services. We undertake these activities through the use of fixed forward sales and purchases, basis and spread trades, storage opportunities, put/call market trading. These energy trading operations are exposed to market variables and commodity prices of products and services, and these operations may generate a positive margin from the purchase and sale of commodity-based instruments. These physical and financial instruments are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations.

energy related products and services. We undertake these activities through the use of fixed forward sales and purchases, basis and spread trades, storage opportunities, put/call market trading. These energy trading operations are exposed to market variables and commodity prices of products and services, and these operations may generate a positive margin from the purchase and sale of commodity-based instruments. These physical and financial instruments are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations.

these activities through the use of fixed forward sales and purchases, basis and spread trades, storage opportunities, put/call market trading. These energy trading operations are exposed to market variables and commodity prices of products and services, and these operations may generate a positive margin from the purchase and sale of commodity-based instruments. These physical and financial instruments are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations.

We employ established risk limits, policies and procedures to manage risks associated with the natural gas asset based trading and marketing and NGL proprietary trading.

cedures to manage risks associated with the natural gas asset based trading and marketing and NGL proprietary trading.

gas asset based trading and marketing and NGL proprietary trading.

Commodity Cash Flow Protection Activities at DCP Partners

As a result of DCP Partners' operations of gathering, processing and transporting natural gas, DCP Partners stake title to a portion of residue gas, NGLs and condensate, which are considered to be DCP Partners' equity volumes. The possession of and the related operations of transporting and marketing of these commodities creates commodity price risk due to market changes in commodity prices, primarily with respect to the prices of NGLs, natural gas and crude oil. DCP Partners has mitigated a portion of its expected commodity cash flow risk associated with these equity volumes through 2016 with natural gas, NGL and crude oil derivatives. Additionally, given the limited depth of the NGL derivatives market, DCP Partners utilizes crude oil swaps and costless collars to mitigate NGL price exposure. For shorter dated time periods where the NGL market have greater liquidity, DCP Partners has utilized NGL swaps to mitigate a portion of its NGL price risk through December 2012 by entering into incremental NGL financial positions and by exchanging crude oil swaps for NGL swaps. These transactions are primarily accomplished through the use of swap that exchange DCP Partners' floating price risk for a fixed price, but the type of instrument that is used to mitigate risk may vary depending upon DCP Partners' risk objective. These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected in the current period within our condensed consolidated statements of operations.

g, processing and transporting natural gas, DCP Partners stake title to a portion of residue gas, NGLs and condensate, which are considered to be DCP Partners' equity volumes. The possession of and the related operations of transporting and marketing of these commodities creates commodity price risk due to market changes in commodity prices, primarily with respect to the prices of NGLs, natural gas and crude oil. DCP Partners has mitigated a portion of its expected commodity cash flow risk associated with these equity volumes through 2016 with natural gas, NGL and crude oil derivatives. Additionally, given the limited depth of the NGL derivatives market, DCP Partners utilizes crude oil swaps and costless collars to mitigate NGL price exposure. For shorter dated time periods where the NGL market have greater liquidity, DCP Partners has utilized NGL swaps to mitigate a portion of its NGL price risk through December 2012 by entering into incremental NGL financial positions and by exchanging crude oil swaps for NGL swaps. These transactions are primarily accomplished through the use of swap that exchange DCP Partners' floating price risk for a fixed price, but the type of instrument that is used to mitigate risk may vary depending upon DCP Partners' risk objective. These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected in the current period within our condensed consolidated statements of operations.

ner stake title to a portion of residue gas, NGLs and condensate, which are considered to be DCP Partners' equity volumes. The possession of and the related operations of transporting and marketing of these commodities creates commodity price risk due to market changes in commodity prices, primarily with respect to the prices of NGLs, natural gas and crude oil. DCP Partners has mitigated a portion of its expected commodity cash flow risk associated with these equity volumes through 2016 with natural gas, NGL and crude oil derivatives. Additionally, given the limited depth of the NGL derivatives market, DCP Partners utilizes crude oil swaps and costless collars to mitigate NGL price exposure. For shorter dated time periods where the NGL market have greater liquidity, DCP Partners has utilized NGL swaps to mitigate a portion of its NGL price risk through December 2012 by entering into incremental NGL financial positions and by exchanging crude oil swaps for NGL swaps. These transactions are primarily accomplished through the use of swap that exchange DCP Partners' floating price risk for a fixed price, but the type of instrument that is used to mitigate risk may vary depending upon DCP Partners' risk objective. These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected in the current period within our condensed consolidated statements of operations.

Interest Rate Risk

We enter into debt arrangements that have either fixed or floating rates, therefore we are exposed to market risks related to changes in interest rates. We periodically use interest rate swaps to convert variable interest rates to fixed rates on our existing debt and to lock in rates on our anticipated future fixed-rate debt, respectively. Our primary goals include: (1) maintaining an appropriate

fixed or floating rates, therefore we are exposed to market risks related to changes in interest rates. We periodically use interest rate swaps to convert variable interest rates to fixed rates on our existing debt and to lock in rates on our anticipated future fixed-rate debt, respectively. Our primary goals include: (1) maintaining an appropriate

market risks related to changes in interest rates. We periodically use interest rate swaps to convert variable interest rates to fixed rates on our existing debt and to lock in rates on our anticipated future fixed-rate debt, respectively. Our primary goals include: (1) maintaining an appropriate

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

ratio of fixed-rate debt to floating-rate debt; (2) reducing volatility of earnings resulting from interest rate fluctuations; and (3) locking in attractive interest rates based on historical rates.

DC Partners mitigates a portion of its interest rate risk with interest rate swaps, which reduce DC Partners' exposure to market fluctuations by converting variable interest rates on DC Partners' existing debt to fixed interest rates. The interest rate swap agreements convert the interest rate associated with the indebtedness outstanding under DC Partners' revolving credit facility to a fixed-rate obligation, thereby reducing the exposure to market rate fluctuations.

At June 30, 2012, DC Partners had interest rate swap agreements extending through June 2014 totaling \$150 million, which DC Partners has designated as cash flow hedges.

At December 31, 2011, DC Partners had interest rate swap agreements totaling \$450 million, of which DC Partners had designated \$425 million as cash flow hedges and accounted for the remaining \$25 million under the mark-to-market method of accounting. In March 2012, DC Partners paid down a portion of the DC Partners' Credit Agreement. As a result of the paydown of the DC Partners' Credit Agreement, DC Partners discontinued cash flow hedge accounting on \$225 million of its interest rate swap agreements.

Effectiveness of DC Partners' interest rate swap agreements designated as cash flow hedges is determined by matching the principal balance and terms with that of the specified obligation. The effective portion of changes in fair value are recognized in AOCI in the condensed consolidated balance sheets and are reclassified into earnings as the hedged transactions impacted earnings. However, due to the volatility of the interest rate markets, the corresponding value in AOCI is subject to change prior to its reclassification into earnings. Ineffective portions of changes in fair value are recognized in earnings.

At June 30, 2012, \$150 million of the agreements are price prospectively approximately every 30 days. Under the terms of the interest rate swap agreements, DC Partners pays fixed rates ranging from 2.94% to 2.99%, and receives interest payments based on the one-month LIBOR.

On March 8, 2012, DC Partners settled \$195 million of its forward-starting interest rate swap agreements for \$7 million. The remaining net deferred losses of \$5 million in AOCI will be amortized into interest expense associated with DC Partners' long-term debt through 2022.

We previously had interest rate cash flow hedges and fair value hedges in place that were terminated in 2000 and 2008, respectively. As a result, the remaining net loss deferred in AOCI relative to these cash flow hedges and fair value hedges will be reclassified to interest expense through the remaining term of the debt through 2030, as the underlying transactions impacted earnings.

Credit Risk

Our principal customers range from large, natural gas marketing services to industrial end-users for natural gas products and services, as well as large multi-national petrochemical and refining companies, to small regional producers and distributors for our NGL products and services. Substantially all of our natural gas and NGL sales are made at market-based prices. Approximately 40% of our NGL production is committed to Phillips 66 (or ConocoPhillips prior to May 1, 2012) and CPChem, both related parties, under an existing 15-year contract, the primary production commitment of which expires in 2015. This concentration of credit risk may affect our overall credit risk, in that these customers may be similarly affected by changes in economic, regulatory or other factors. Where exposed to credit risk, we analyze the counterparties' financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of these limits on an ongoing basis. We may use various master agreements that include language giving us the right to request collateral to mitigate credit exposure. The collateral language provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with our credit policy. The collateral language also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions. In addition, our master agreements and our standard gas and NGL sales contracts contain adequate assurance provisions, which allow us to suspend deliveries and cancel agreements, or continued deliveries to the buyer after the buyer provides security for payment in a satisfactory form.

DCPMIDSTREAM,LLC
NOTESTOCONDENSEDCONSOLIDATEDFINANCIALSTATEMENT S—Continued
ThreeandSixMonthsEndedJune30,2012and2011
(unaudited)

ContingentCreditFeatures

Eachoftheaboverisksismanagedthroughtheexecutionofindividualcontractswithavarietyofcounterparties.Certainofour derivativecontracts may contain credit-risk related contingent provisions that may require us to take certain actions in certain circumstances.

We have International Swap Dealers Association, or ISDA, contracts which are standardized master legal arrangements that establish key terms and conditions which govern certain derivative transactions. These ISDA contracts contain standard credit-risk related contingent provisions. Some of the provisions are subject to are outlined below.

- In the event that we or DCP Partners were to be downgraded below investment grade by at least one of the major credit rating agencies, certain of our ISDA counterparties have the right to reduce our collateral threshold to zero, potentially requiring us to fully collateralize any commodity contracts in a net liability position.
- In some cases, our ISDA contracts contain cross-default provisions that could constitute a credit-risk related contingent feature. For example, if we were to fail to make a required interest or principal payment on a debt instrument, above a predefined threshold level, and after giving effect to any applicable notice or grace period as defined in the ISDA contracts, our ISDA counterparties may have the right to require a timely termination and net settlement of any outstanding derivative positions.

Depending upon the movement of commodity prices and interest rates, each of our individual contracts with counterparties to our commodity derivative instruments or interest rate swap instruments are in either an asset or net liability position. Our commodity derivative contracts that are not governed by ISDA contracts do not have any credit-risk related contingent features. As of June 30, 2012, we had \$30 million of individual commodity derivative contracts that contain credit-risk related contingent features that were in an asset or net liability position, and have not posted any cash collateral relative to such positions. If a credit-risk related event were to occur and we were required to net settle our position with an individual counterparty, our ISDA contracts specify that we would be required to post additional collateral to our net liability position, as well as any cash collateral already posted. As of June 30, 2012, if a credit-risk related event were to occur, we may be required to post additional collateral. Although our commodity derivative contracts that contain credit-risk related contingent features were in an asset or net liability position as of June 30, 2012, if a credit-risk related event were to occur, the net liability position would be partially offset by contracts in an asset position reducing our net liability to \$21 million.

As of June 30, 2012, DCP Partners had \$150 million of individual interest rate swap instruments that were in an asset or net liability position of \$8 million and were subject to credit-risk related contingent features. If DCP Partners were to have an event of default relative to any covenants of the DCP Partners' Credit Agreement, that occurs and is continuing, the counterparties to DCP Partners' swap instruments have the right to request that DCP Partners net settle the instrument in the form of cash.

Collateral

As of June 30, 2012, we held cash of \$5 million, included in other current liabilities in the condensed consolidated balance sheet related to cash postings by third parties, and letters of credit of \$48 million from counterparties to secure their future performance under financial or physical contracts. We had cash deposits with counterparties of \$24 million included in other current assets as of June 30, 2012, to secure our obligation to provide futures services or to perform financial contracts. As of June 30, 2012, DCP Partners had no cash collateral posted with counterparties to its commodity derivative instruments. As of June 30, 2012, we had issued \$50 million in favor of certain counterparties to DCP Partners' commodity derivative instruments to mitigate a portion of DCP Partners' collateral requirements with those counterparties. DCP Partners pays a safe fee of 0.50% per annum on these guarantees. These parental guarantees and contingent letter of credit facilities reduce the amount of cash may vary, depending on the value of the underlying contracts, and could cover our counterparty's public disclosure of credit ratings, which may impact the amount of collateral requirements. DCP Partners may be required to post as collateral Collateral amounts held or posted may be fixed or normal purchases and sales, trading and hedging contracts. In many cases, we and our counterparty's public disclosure of credit ratings, which may impact the amount of collateral requirements.

Physical forward contracts and financial derivative transactions are generally cash settled at the expiration of the contract term. These transactions are generally subject to specific credit provisions within the contracts that would allow the seller, at its discretion, to suspend deliveries, cancel agreements or continue deliveries to the buyer after the buyer provides security for payments satisfactory to the seller.

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

Summarized Derivative Information

The following summarizes the balance within AOCI, net of noncontrolling interest, relative to our commodity and interest rate cash flow hedges:

	June 30, 2012	December 31, 2011
	(millions)	
Commodity cash flow hedges:		
Net deferred losses in AOCI	\$ (6)	\$ (5)
Interest rate cash flow hedges:		
Net deferred losses in AOCI	(4)	(7)
Total AOCI.....	\$ (10)	\$ (12)

The fair value of our derivative instruments that are redesignated as hedging instruments, those that are marked-to-market each period, and the location of each within our condensed consolidated balance sheets, by major category, is summarized as follows:

Balance Sheet Line Item	June 30, 2012	December 31, 2011	Balance Sheet Line Item	June 30, 2012	December 31, 2011
	(millions)			(millions)	
Derivative Assets Designated as Hedging Instruments :			Derivative Liabilities Designated as Hedging Instruments:		
Interest rate derivatives:			Interest rate derivatives:		
Unrealized gains on derivative instruments—current	\$ —	\$ —	Unrealized losses on derivative instruments—current	\$ (4)	\$ (16)
Unrealized gains on derivative instruments—long-term	—	—	Unrealized losses on derivative instruments—long-term	(4)	(5)
	\$ —	\$ —		\$ (8)	\$ (21)
Commodity derivatives:			Commodity derivatives:		
Unrealized gains on derivative instruments—current	\$ —	\$ —	Unrealized gains on derivative instruments—current	\$ (1)	\$ —
Unrealized gains on derivative instruments—long-term	—	—	Unrealized losses on derivative instruments—long-term	\$ (2)	\$ (3)
	\$ —	\$ —		\$ (3)	\$ (3)
Derivative Assets Not Designated as Hedging Instruments:			Derivative Liabilities Not Designated as Hedging Instruments:		
Commodity derivatives:			Commodity derivatives:		
Unrealized gains on derivative instruments — current.....	\$ 131	\$ 107	Unrealized losses on derivative instruments — current.....	\$ (143)	\$ (97)
Unrealized gains on derivative instruments—long-term	32	23	Unrealized losses on derivative instruments—long-term	(29)	(32)
	\$ 163	\$ 130		\$ (172)	\$ (129)

DCPMIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

The following table summarizes the impact on our condensed consolidated balance sheets and condensed consolidated statements of operations of four derivative instruments, net of noncontrolling interest, that are accounted for using the cash flow hedged method of accounting:

	Loss Recognized in AOCI on Derivatives – Effective Portion		Loss Reclassified from AOCI to Earnings – Effective Portion		(a)	Gain (Loss) Recognized in Income on Derivatives – Ineffective Portion and Amount Excluded from Effectiveness Testing		Deferred Losses in AOCI Expected to be Reclassified into Earnings Over the Next 12 Months (millions)
			Three Months Ended June 30,					
	2012	2011	2012	2011		2012	2011	
	(millions)							
Interest rate derivatives	\$ —	\$ (1)	\$ (1)	\$ (2)	(a)	\$ —	\$ —	(a)(b)
			Six Months Ended June 30,					
	(millions)							
Commodity derivatives	\$ (1)	\$ —	\$ —	\$ —		\$ —	\$ —	\$ —
Interest rate derivatives	\$ —	\$ (2)	\$ (3)	\$ (4)		\$ —	\$ —	\$ (1)

- (a) Included in interest expense in our condensed consolidated statements of operations.
(b) For the three and six months ended June 30, 2012 and 2011, no derivative gains or losses were reclassified from AOCI to current period earnings as a result of the discontinuance of cash flow hedges related to certain forecasted transactions that are not probable of occurring or as a result of exclusion from effectiveness testing.

Change in value of derivative instruments, for which the hedged method of accounting has not been elected from one period to the next, are recorded in the condensed consolidated statements of operations. The following summarizes these amounts and the location within the condensed consolidated statements of operations that such amounts are reflected:

Commodity Derivatives: Statement of Operations Line Item	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(millions)			
Realized gains (losses)	\$ 45	\$ (4)	\$ 78	\$ (5)
Unrealized gains (losses)	14	37	(9)	9
Trading and marketing gains, net	\$ 59	\$ 33	\$ 69	\$ 4

We do not have any derivative financial instruments that qualify as a hedge of an investment.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

The following tables represent, by commodity type, our net long or short derivative positions, as well as the number of outstanding contracts that are expected to partially or entirely settle in each respective year. To the extent that we have long dated derivative positions that span multiple calendar years, the contract will appear in more than one line item in the table below. Additionally, relative to the hedging of certain of our storage and/or transportation assets, we may execute basis transactions for natural gas, which may result in a net long/short position of zero. This table also presents our net long or short natural gas basis swap positions separately from our net long or short natural gas positions.

June 30, 2012									
Year of Expiration	Crude Oil		Natural Gas		Natural Gas Liquids			Natural Gas Basis Swaps	
	Net Short Position (Bbls) (a)	Number of Contracts	Net Short Position (MMBtu)	Number of Contracts	Net Short Position (Bbls)	Number of Contracts	Net Short Position (MMBtu)	Number of Contracts	
	2012.....	(535,493)	498	(22,846,500)	310	(9,114,852)	410 (b)	(16,602,500)	160
2013.....	(917,504)	249	(2,345,000)	36	(10,388,159)	129 (c)	3,892,500	49	
2014.....	(644,500)	76	(365,000)	3	(9,000,000)	2 (d)	(900,000)	1	
2015.....	(365,000)	2	—	—	—	—	—	—	
2016.....	(183,000)	1	—	—	—	—	—	—	

- (a) Bbls represents barrels.
(b) Includes 27 physical index based derivative contracts totaling (8,506,600) Bbls.
(c) Includes 13 physical index based derivative contracts totaling (9,772,800) Bbls.
(d) Includes 2 physical index based derivative contracts totaling (9,000,000) Bbls.

June 30, 2011									
Year of Expiration	Crude Oil		Natural Gas		Natural Gas Liquids			Natural Gas Basis Swaps	
	Net Short Position (Bbls)	Number of Contracts	Net (Short) Long Position (MMBtu)	Number of Contracts	Net Short Position (Bbls)	Number of Contracts	Net (Short) Long Position (MMBtu)	Number of Contracts	
	2011.....	(335,281)	730	(15,312,550)	456	(6,812,299)	442 (a)	(8,747,500)	171
2012.....	(1,035,587)	244	(9,966,000)	68	(8,331,402)	67 (b)	18,357,500	69	
2013.....	(945,998)	111	1,335,000	7	(8,945,250)	3 (c)	4,480,000	7	
2014.....	(644,500)	10	(365,000)	3	(9,000,000)	2 (c)	—	—	
2015.....	(365,000)	2	—	—	—	—	—	—	
2016.....	(183,000)	1	—	—	—	—	—	—	

- (a) Includes 19 physical index based derivative contracts totaling (6,906,250) Bbls.
(b) Includes 4 physical index based derivative contracts totaling (9,195,000) Bbls.
(c) Includes 2 physical index based derivative contracts totaling (9,000,000) Bbls.

As of June 30, 2012, DCP Partners had interest rate swaps outstanding with individual notional values of \$70 million and \$80 million, which, in aggregate, exchange up to \$150 million of DCP Partners' floating rate obligation for a fixed rate obligation through June 2014.

11. Commitments and Contingent Liabilities

Litigation—The midstream industry has seen a number of class action lawsuits involving royalty disputes, mismeasurements and mispayment allegations. We are currently named as defendants in some of these cases and customers have asserted individual audit claims related to mismeasurements and mispayment. Management believes we have meritorious defenses to these cases and, therefore, will continue to defend them vigorously. These claims, however, can be costly and time consuming to defend. We are also a party to various legal, administrative and regulatory proceedings that have arisen in the ordinary course of our business, including, from time to time, disputes with customers over various measurements and settlement issues.

Management currently believes that these matters, taken as a whole, and after consideration of amounts accrued, insurance coverage and other indemnification arrangements, will not have a material adverse effect upon our condensed consolidated results of operations, financial position or cash flows.

DCPMIDSTREAM,LLC
NOTESTOCONDENSED CONSOLIDATED FINANCIAL STATEMENT S—Continued
Three and Six Months Ended June 30, 2012 and 2011
(unaudited)

General Insurance—Our insurance coverage is carried with an affiliate of Phillips 66 (or ConocoPhillips prior to May 1, 2012), an affiliate of Spectra Energy and third-party insurers. Our insurance coverage includes: (1) general liability insurance covering third-party exposures; (2) statutory workers' compensation insurance; (3) automobile liability insurance for allowed, non-owned and hired vehicles; (4) excess liability insurance above the established primary limits for general liability and automobile liability insurance; (5) property insurance, which covers the replacement value of real and personal property and includes business interruption; and (6) directors and officers insurance covering our directors and officers for acts related to our business activities. All coverage is subject to certain limits and deductibles, the terms and conditions of which are common for companies with similar types of operations.

Environmental—The operation of pipelines, plants and other facilities for gathering, processing, compressing, transporting, or storing natural gas, and fractionating, transporting, gathering, treating, processing and storing NGLs and other products is subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As a owner or operator of these facilities, we must comply with United States laws and regulations at the federal, state and local level that relate to air and water quality, hazardous and solid waste storage, management, transportation and disposal, and other environmental matters including recently adopted U.S. Environmental Protection Agency regulations related to reporting of greenhouse gas emissions which have taken effect over the past two years. The cost of planning, designing, constructing and operating pipelines, plants, and other facilities must incorporate compliance with environmental laws and regulations and safety standards. In addition, there is increasing focus, both from state and federal regulatory officials and through litigation, on hydraulic fracturing and the environmental impacts of this technique, which indirectly present some risk to our available supply of natural gas. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and potentially criminal enforcement measures, including citizen suits, which can include the assessment of monetary penalties, the imposition of remedial requirements, the issuance of injunctions or restrictions on operations. Management believes that, based on currently known information, compliance with these laws and regulations will not have a material adverse effect on our condensed consolidated results of operations, financial position or cash flows.

We make expenditures in connection with environmental matters as part of our normal operations. As of June 30, 2012 and December 31, 2011, environmental liabilities included in the condensed consolidated balance sheets as other current liabilities amounted to \$7 million and \$6 million, respectively, and environmental liabilities included in the condensed consolidated balance sheets as other long-term liabilities amounted to \$7 million and \$9 million, respectively.

12. Supplemental Cash Flow Information

	Six Months Ended June 30,	
	2012	2011
	(millions)	
Cash paid for interest, net of capitalized interest	\$ 85	\$ 97
Cash paid for income taxes, net of refunds	\$ 10	\$ 37
Non-cash investing and financing activities:		
Distributions payable to members	\$ 50	\$ 64
Property, plant and equipment acquired with accounts payable	\$ 231	\$ 77
Other non-cash additions of property, plant and equipment	\$ 30	\$ 2

During the three and six months ended June 30, 2012 and 2011, we received distributions from DCP Partners of \$32 million and \$25 million, respectively, which are eliminated in consolidation.

13. Subsequent Events

We have evaluated subsequent events occurring through August 10, 2012, the date the condensed consolidated financial statements were issued.

On July 26, 2012, the board of directors of DCP Partners' general partner declared a quarterly distribution of \$0.67 per unit, payable on August 14, 2012 to unit holders of record on August 7, 2012.

On July 3, 2012, DCP Partners acquired the Crossroads processing plant and associated gathering system, or the Crossroads System, from Penn Virginia Resource Partners, L.P. for \$63 million. DCP Partners financed the acquisition with borrowings under its

DCPMIDSTREAM,LLC
NOTESTOCONDENSEDCONSOLIDATEDFINANCIALSTATEMENT S—Continued
ThreeandSixMonthsEndedJune30,2012and2011
(unaudited)

revolving credit facility. Given the recent timing of this acquisition, DCP Partners has not completed the accounting for the Crossroads business combination and has not made certain disclosures. The initial accounting and related disclosures for business combinations will be made in subsequent financial statements.

On July 2, 2012, DCP Partners closed a private placement of equity with a group of institutional investors in which DCP Partners sold 4,989,802 of its common units at a price of \$35.55 per unit and received proceeds of \$174 million, net of offering costs.

On July 2, 2012, we contributed our minority ownership interests in two non-operated Mont Belvieu fractionators, or the Mont Belvieu Fractionators, to DCP Partners for an aggregate consideration of \$200 million. DCP Partners entered into a two-year term loan agreement, which expires on July 2, 2014, to finance \$140 million of the aggregate purchase price. The remaining \$60 million consideration was financed with the issuance by DCP Partners of 1,536,098 common units. The \$140 million cash proceeds were used to pay down our short-term borrowings. The Mont Belvieu Fractionators consist of a 12.5 percent interest in the Enterprise Fractionator, which is operated by Enterprise, and a 20 percent interest in the Mont Belvieu Fractionation Facility, which is operated by ONEOK Partners. We will continue to account for the Mont Belvieu Fractionators through our ownership of DCP Partners.