Phillips 66
Form 10-K
February 20, 2015

2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended	December 31, 2014
	OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from	to

Commission file number: 001-35349

Phillips 66
(Exact name of registrant as specified in its charter)

Delaware	45-3779385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3010 Briarpark Drive, Houston, Texas 77042
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code:
281-293-6600

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X] Yes [ ] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	[ ] Yes [X] No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	[X] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	[X] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	[X]

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of $80.43, was $44.9 billion. The registrant, solely for the purpose of this required presentation, had deemed its Board of Directors and executive officers to be affiliates, and deducted their stockholdings in determining the aggregate market value.

The registrant had 543,497,802 shares of common stock outstanding at January 31, 2015.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 6, 2015 (Part III).

Table of Contents
Index to Financial Statements

TABLE OF CONTENTS

Table of Contents
Index to Financial Statements

Unless otherwise indicated, “the company,” “we,” “our,” “us” and “Phillips 66” are used in this report to refer to the businesses of Phillips 66 and its consolidated subsidiaries. This Annual Report on Form 10-K contains forward-looking statements including, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “ “will,” “would,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar ex identify forward-looking statements. The company does not undertake to update, revise or correct any forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the company’s disclosures under the heading “CAUTIONARY STATEMENT FOR THE PURPOSES OF THE ‘SAFE HARBOR’ PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995,” beginning on page 64.

PART I

Items 1 and 2. BUSINESS AND PROPERTIES

CORPORATE STRUCTURE

Phillips 66, headquartered in Houston, Texas, was incorporated in Delaware in 2011, in connection with, and in anticipation of, a restructuring of ConocoPhillips resulting in the separation of its downstream businesses into an independent, publicly traded company named Phillips 66. The two companies were separated by ConocoPhillips distributing to its stockholders all the shares of common stock of Phillips 66 after the market closed on April 30, 2012 (the Separation). Each ConocoPhillips stockholder received one share of Phillips 66 stock for every two shares of ConocoPhillips stock held at the close of business on the record date of April 16, 2012. On May 1, 2012, Phillips 66 stock began trading “regular-way” on the New York Stock Exchange under the “PSX” stock symbol.

Our business is organized into four operating segments:

1) Midstream—Gathers, processes, transports and markets natural gas; and transports, fractionates and markets natural gas liquids (NGL) in the United States. In addition, this segment transports crude oil and other feedstocks to our refineries and other locations, delivers refined and specialty products to market, and provides storage services for crude oil and petroleum products. The Midstream segment includes, among other businesses, our 50 percent equity investment in DCP Midstream, LLC (DCP Midstream) and our investment in Phillips 66 Partners LP.

2) Chemicals—Manufactures and markets petrochemicals and plastics on a worldwide basis. The Chemicals segment consists of our 50 percent equity investment in Chevron Phillips Chemical Company LLC (CPChem).

3) Refining—Buys, sells and refines crude oil and other feedstocks at 14 refineries, mainly in the United States and Europe.

4) Marketing and Specialties (M&S)—Purchases for resale and markets refined petroleum products (such as gasolines, distillates and aviation fuels), mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of specialty products, as well as power generation operations.

Corporate and Other includes general corporate overhead, interest expense, our investment in new technologies and various other corporate activities. Corporate assets include all cash and cash equivalents.

1

Table of Contents
Index to Financial Statements

Effective January 1, 2014, we changed the organizational structure of the internal financial information reviewed by our chief executive officer, and determined this resulted in a change in the composition of our operating segments. The primary effects of this reporting reorganization were as follows:

- We moved two of our equity investments, Excel Paralubes and Jupiter Sulphur, LLC, as well as the commission revenues related to needle and anode coke, polypropylene and solvents, from the Refining segment to the M&S segment.
- We moved several refining logistics projects from the Refining segment to the Midstream segment.

The new segment alignment is presented for the periods ending December 31, 2014, with prior periods recast for comparability.

At December 31, 2014, Phillips 66 had approximately 14,000 employees.

SEGMENT AND GEOGRAPHIC INFORMATION

For operating segment and geographic information, see Note 27—Segment Disclosures and Related Information, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

MIDSTREAM

The Midstream segment consists of three business lines:

- Transportation—transports crude oil and other feedstocks to our refineries and other locations, delivers refined and specialty products to market, and provides storage services for crude oil and petroleum products. The operations of our master limited partnership, Phillips 66 Partners LP, are included in this business line.

- DCP Midstream—gathers, processes, transports and markets natural gas and transports, fractionates and markets NGL.

- NGL—transports, fractionates and markets natural gas liquids.

Transportation

We own or lease various assets to provide environmentally safe, strategic and timely delivery and storage of crude oil, refined products, natural gas and NGL. These assets include pipeline systems; petroleum product, crude oil and liquefied petroleum gas (LPG) terminals; a petroleum coke handling facility; marine vessels; railcars and trucks.

Pipelines and Terminals

At December 31, 2014, our Transportation business managed over 18,000 miles of crude oil, natural gas, NGL and petroleum products pipeline systems in the United States, including those partially owned or operated by affiliates. We owned or operated 39 finished product terminals, 37 storage locations, 5 LPG terminals, 15 crude oil terminals and 1 petroleum coke exporting facility.

Table of Contents
Index to Financial Statements

In 2014, we acquired a 7.1 million-barrel-storage-capacity crude oil and petroleum products terminal located near Beaumont, Texas (Beaumont Terminal), and purchased an additional 5.7 percent interest in Explorer Pipeline Company, which transports refined petroleum products. The Beaumont Terminal is the largest terminal in the Phillips 66 portfolio and is strategically located on the U.S. Gulf Coast. It provides deep-water access and multiple interconnections with major crude oil and refined product pipelines serving 3.6 million barrels per day of refining capacity. The terminal has:

- 4.7 million barrels of crude oil storage capacity and 2.4 million barrels of refined product storage capacity.
- Two marine docks capable of handling Aframax tankers and one barge dock.
- Rail and truck loading and unloading facilities.

The following table depicts our ownership interest in major pipeline systems as of December 31, 2014:

Name	Origination/Terminus	Interest		Size	Length(Miles)	Capacity (MBD)
Crude and Feedstocks						
Glacier	Cut Bank, MT/Billings, MT	79	%	8”-12”	865	100
Line 80	Gaines, TX/Borger, TX	100		8”, 12”	237	28
Line O	Cushing, OK/Borger, TX	100		10”	276	37
WA Line	Odessa, TX/Borger, TX	100		12”, 14”	289	104
Cushing	Cushing, OK/Ponca City, OK	100		18”	62	130
North Texas Crude	Wichita Falls, TX	100		2”-16”	301	28
Oklahoma Mainline	Wichita Falls, TX/Ponca City, OK	100		12”	217	100
Clifton Ridge †	Clifton Ridge, LA/Westlake, LA	75		20”	10	260
Louisiana Crude Gathering	Rayne, LA/Westlake, LA	100		4”-8”	80	25
Sweeny Crude	Sweeny, TX/Freeport, TX	100		12”, 24”, 30”	56	265
Line 100	Taft, CA/Lost Hills, CA	100		8”, 10”, 12”	79	54
Line 200	Lost Hills, CA/Rodeo, CA	100		12”, 16”	228	93
Line 300	Nipomo, CA/Arroyo Grande, CA	100		8”, 10”, 12”	56	48
Line 400	Arroyo Grande, CA/Lost Hills, CA	100		8”, 10”, 12”	147	40
Petroleum Product						
Harbor	Woodbury, NJ/Linden, NJ	33		16”	80	57
Pioneer	Sinclair, WY/Salt Lake City, UT	50		8”, 12”	562	63
Seminoe	Billings, MT/Sinclair, WY	100		6”-10”	342	33
Yellowstone	Billings, MT/Moses Lake, WA	46		6”-10”	710	66
Borger to Amarillo	Borger, TX/Amarillo, TX	100		8”, 10”	93	76
ATA Line	Amarillo, TX/Albuquerque, NM	50		6”, 10”	293	17
Borger-Denver	McKee, TX/Denver, CO	70		6”-12”	405	38
Gold Line †	Borger, TX/East St. Louis, IL	75		8”-16”	681	120
SAAL	Amarillo, TX/Abernathy, TX	33		6”	102	11
SAAL	Abernathy, TX/Lubbock, TX	54		6”	19	16
Cherokee South	Ponca City, OK/Oklahoma City, OK	100		8”	90	46
Heartland*	McPherson, KS/Des Moines, IA	50		8”, 6”	49	30
Paola Products †	Paola, KS/Kansas City, KS	75		8”, 10”	106	96
Standish		100		18”	92	72

	Marland Junction, OK/Wichita, KS				
Cherokee North	Ponca City, OK/Wichita, KS	100	8”, 10”	105	55
Cherokee East	Medford, OK/Mount Vernon, MO	100	10”, 12”	287	55
Explorer	Texas Gulf Coast/Chicago, IL	19	24”, 28”	1,830	660
Sweeny to Pasadena †	Sweeny, TX/Pasadena, TX	75	12”, 18”	120	264
LAX Jet Line	Wilmington, CA/Los Angeles, CA	50	8"	19	25
Torrance Products	Wilmington, CA/Torrance, CA	100	10”, 12”	8	161
Los Angeles Products	Torrance, CA/Los Angeles, CA	100	6”, 12”	22	112
Watson Products Line	Wilmington, CA/Long Beach, CA	100	20”	9	238
Richmond	Rodeo, CA/Richmond, CA	100	6”	14	26

Table of Contents
Index to Financial Statements

Name	Origination/Terminus	Interest		Size	Length (Miles)	Capacity (MBD)
NGL						
Powder River	Sage Creek, WY/Borger, TX	100	%	6”-8”	695	14
Skelly-Belvieu	Skellytown, TX/Mont Belvieu, TX	50		8”	571	45
TX Panhandle Y1/Y2	Sher-Han, TX/Borger, TX	100		3”-10”	299	61
Chisholm	Kingfisher, OK/Conway, KS	50		4”-10”	202	42
Sand Hills**	Permian Basin/Mont Belvieu, TX	33		20”	905	200
Southern Hills**	U.S. Midcontinent/Mont Belvieu, TX	33		20”	895	175
LPG						
Blue Line	Borger, TX/East St. Louis, IL	100		8”-12”	667	29
Conway to Wichita	Conway, KS/Wichita, KS	100		12”	55	38
Medford	Ponca City, OK/Medford, OK	100		4”-6”	42	10
Natural Gas						
Rockies Express	Meeker, CO/Clarington, OH	25		36”-42”	1,698	1.8 BCFD

*Total pipeline system is 419 miles. Phillips 66 has ownership interest in multiple segments totaling 49 miles.
**Operated by DCP Midstream Partners; Phillips 66 has a direct one-third ownership in the pipeline entities; reported within NGL.
†Owned by Phillips 66 Partners LP.

Table of Contents
Index to Financial Statements

The following table depicts our ownership interest in finished product terminals as of December 31, 2014:

Facility Name	Location	Interest	Storage Capacity (MBbl)	Rack Capacity (MBD)
Albuquerque	New Mexico	100%	244	18
Amarillo	Texas	100	277	29
Beaumont	Texas	100	2,400	8
Billings	Montana	100	88	16
Bozeman	Montana	100	113	13
Colton	California	100	211	21
Denver	Colorado	100	310	43
Des Moines	Iowa	50	206	15
East St. Louis*	Illinois	75	2,245	78
Glenpool North	Oklahoma	100	366	19
Great Falls	Montana	100	157	12
Hartford*	Illinois	75	1,075	25
Helena	Montana	100	178	10
Jefferson City*	Missouri	75	110	16
Kansas City*	Kansas	75	1,294	66
La Junta	Colorado	100	101	10
Lincoln	Nebraska	100	219	21
Linden	New Jersey	100	429	121
Los Angeles	California	100	116	75
Lubbock	Texas	100	179	17
Missoula	Montana	50	348	29
Moses Lake	Washington	50	186	13
Mount Vernon	Missouri	100	363	46
North Salt Lake	Utah	50	657	41
Oklahoma City	Oklahoma	100	341	48
Pasadena*	Texas	75	3,210	65
Ponca City	Oklahoma	100	51	23
Portland	Oregon	100	664	33
Renton	Washington	100	228	20
Richmond	California	100	334	28
Rock Springs	Wyoming	100	125	19
Sacramento	California	100	141	13
Sheridan	Wyoming	100	86	15
Spokane	Washington	100	351	24
Tacoma	Washington	100	307	17
Tremley Point	New Jersey	100	1,593	39
Westlake	Louisiana	100	128	16
Wichita Falls	Texas	100	303	15
Wichita North*	Kansas	75	679	19

*Owned by Phillips 66 Partners LP.

Table of Contents
Index to Financial Statements

The following table depicts our ownership interest in crude and other terminals as of December 31, 2014:

Facility Name	Location	Interest		Storage Capacity (MBbl)	Loading Capacity**
Crude					
Beaumont	Texas	100	%	4,704	N/A
Billings	Montana	100		270	N/A
Borger	Texas	100		678	N/A
Clifton Ridge*	Louisiana	75		3,410	N/A
Cushing	Oklahoma	100		700	N/A
Junction	California	100		523	N/A
McKittrick	California	100		237	N/A
Odessa	Texas	100		523	N/A
Pecan Grove*	Louisiana	75		142	N/A
Ponca City	Oklahoma	100		1,200	N/A
Santa Margarita	California	100		335	N/A
Santa Maria	California	100		112	N/A
Tepetate	Louisiana	100		152	N/A
Torrance	California	100		309	N/A
Wichita Falls	Texas	100		240	N/A
Coke					
Lake Charles	Louisiana	50		N/A	N/A
Rail					
Bayway*	New Jersey	75		N/A	75
Beaumont	Texas	100		N/A	20
Ferndale*	Washington	75		N/A	30
Missoula	Montana	50		N/A	41
Thompson Falls	Montana	50		N/A	42
Marine					
Beaumont	Texas	100		N/A	13
Clifton Ridge*	Louisiana	75		N/A	48
Hartford*	Illinois	75		N/A	3
Pecan Grove*	Louisiana	75		N/A	6
Portland	Oregon	100		N/A	10
Richmond	California	100		N/A	3
Tacoma	Washington	100		N/A	12
Tremley Point	New Jersey	100		N/A	7

*Owned by Phillips 66 Partners LP.
**Rail in thousands of barrels daily (MBD); Marine in thousands of barrels per hour.

Rockies Express Pipeline LLC (REX)
We have a 25 percent interest in REX. The REX natural gas pipeline runs 1,698 miles from Meeker, Colorado, to Clarington, Ohio, and has a natural gas transmission capacity of 1.8 billion cubic feet per day (BCFD), with most of

its system having a pipeline diameter of 42 inches. Numerous compression facilities support the pipeline system. The REX pipeline is designed to enable natural gas producers in the Rocky Mountain region to deliver natural gas supplies to the Midwest and eastern regions of the United States. Additionally, REX is exploring opportunities to bring Appalachian production into the system.

Phillips 66 Partners LP

In 2013, we formed Phillips 66 Partners, a master limited partnership (MLP), to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and NGL pipelines and terminals, as well as other transportation and midstream assets. At December 31, 2014, we owned a 73 percent limited partner interest and a 2 percent general partner interest in Phillips 66 Partners, while the public owned a 25 percent limited partner interest.

Table of Contents
Index to Financial Statements

Headquartered in Houston, Texas, Phillips 66 Partners' assets consist of crude oil and refined petroleum product pipeline, terminal, rail rack and storage systems in the Central, Gulf Coast, Atlantic Basin and Western regions of the United States, each of which is integral to a Phillips 66-operated refinery.

During 2014, Phillips 66 Partners expanded its business through acquisitions from us:

- Effective March 1, 2014, Phillips 66 Partners acquired the Gold Line products system and the Medford spheres. The Gold Line products system includes a refined petroleum product pipeline system that runs from the Borger Refinery in Texas to Cahokia, Illinois. The system includes four terminals. The Medford spheres are two recently constructed refinery-grade propylene storage spheres located in Medford, Oklahoma, that connect to the Ponca City Refinery.
- On December 1, 2014, Phillips 66 Partners acquired two newly constructed rail unloading facilities connected to the Bayway and Ferndale refineries.

Phillips 66 Partners also made several smaller acquisitions from us in late 2014, consisting of terminal and pipeline projects under development. Phillips 66 Partners is a consolidated subsidiary of Phillips 66.

Marine Vessels

At December 31, 2014, we had 13 double-hulled, international-flagged crude oil and product tankers under term charter, with capacities ranging in size from 300,000 to 1,100,000 barrels. Additionally, we had under term charter two Jones Act compliant tankers and 59 barges. These vessels are used primarily to transport feedstocks or provide product transportation for certain of our refineries, including delivery of domestic crude oil to our Gulf Coast and East Coast refineries.

Truck and Rail

Truck and rail operations support our feedstock and distribution operations. Rail movements are provided via a fleet of more than 11,400 owned and leased railcars. Truck movements are provided through approximately 150 third-party truck companies, as well as through Sentinel Transportation LLC, in which we hold an equity interest.

DCP Midstream

Our Midstream segment includes our 50 percent equity investment in DCP Midstream, which is headquartered in Denver, Colorado. As of December 31, 2014, DCP Midstream owned or operated 64 natural gas processing facilities, with a net processing capacity of approximately 7.8 BCFD. DCP Midstream's owned or operated natural gas pipeline systems included gathering services for these facilities, as well as natural gas transmission, and totaled approximately 67,900 miles of pipeline. DCP Midstream also owned or operated 12 NGL fractionation plants, along with natural gas and NGL storage facilities, a propane wholesale marketing business and NGL pipeline assets.

In 2014, DCP Midstream gathered, processed and/or transported an average of 7.3 trillion British thermal units (TBTU) per day of natural gas, and produced approximately 454,000 barrels per day of NGL, compared with 7.1 TBTU per day and 426,000 barrels per day in 2013.

The residual natural gas, primarily methane, which results from processing raw natural gas, is sold by DCP Midstream at market-based prices to marketers and end users, including large industrial companies, natural gas distribution companies and electric utilities. DCP Midstream purchases or takes custody of substantially all of its raw natural gas from producers, principally under contractual arrangements that expose DCP Midstream to the prices of NGL, natural gas and condensate. DCP Midstream also has fee-based arrangements with producers to provide midstream services such as gathering and processing.

DCP Midstream markets a portion of its NGL to us and CPChem under existing 15-year contracts, the primary commitment of which expired in December 2014. The contracts provide for a wind-down period which expires in January 2019, if not renegotiated or renewed. These purchase commitments are on an "if-produced, will-purchase" basis.

7

Table of Contents
Index to Financial Statements

During 2014, DCP Midstream and DCP Midstream Partners, LP (DCP Partners), the MLP formed by DCP Midstream, completed or advanced natural gas processing capacity increases in the Denver-Julesburg (DJ) and the Eagle Ford Shale basins:

- In the DJ Basin, DCP Partners is constructing the Lucerne 2 gas processing plant, which has a planned capacity of 200 million cubic feet per day. The plant is expected to go into service in the second quarter of 2015.
- Also in the DJ Basin, the O'Connor natural gas processing plant expansion, which increased processing capacity from 110 to 160 million cubic feet per day, was placed into service. Both the Lucerne 2 and O'Connor plants connect to the Front Range NGL pipeline, in which DCP Partners owns a one-third interest. The Front Range NGL pipeline was placed into service in the first quarter of 2014.
- In the Eagle Ford Shale Basin, the Goliad gas processing plant was placed into service during the first quarter of 2014. The Goliad plant has a processing capacity of 200 million cubic feet per day, and its completion brought the collective natural gas processing capacity of DCP Midstream and DCP Partners in the Eagle Ford Shale Basin to 1.2 billion cubic feet per day. The Goliad plant is connected to the Sand Hills pipeline.

The Sand Hills pipeline is engaged in the business of transporting NGL and provides takeaway service from the Permian and Eagle Ford Shale basins to fractionation facilities along the Texas Gulf Coast and at the Mont Belvieu, Texas, market hub. The Southern Hills pipeline is also engaged in the business of transporting NGL and provides takeaway service from the Midcontinent to fractionation facilities at the Mont Belvieu, Texas, market hub. Phillips 66, Spectra Energy Partners, and DCP Partners each have a one-third direct interest in each of the DCP Southern Hills and DCP Sand Hills pipeline entities, the owners of these NGL pipelines.

NGL

Our NGL business includes the following:

- A 22.5 percent equity interest in Gulf Coast Fractionators, which owns an NGL fractionation plant in Mont Belvieu, Texas. We operate the facility, and our net share of capacity is 32,625 barrels per day.

- A 12.5 percent equity interest in a fractionation plant in Mont Belvieu, Texas. Our net share of capacity is 26,000 barrels per day.

- A 40 percent interest in a fractionation plant in Conway, Kansas. Our net share of capacity is 43,200 barrels per day.

- A one-third direct interest in both the DCP Sand Hills and DCP Southern Hills pipeline entities, connecting Eagle Ford, Permian and Midcontinent production to the Mont Belvieu, Texas, market.

During 2014, final Board of Directors approval was received on the Sweeny Fractionator One and Freeport LPG Export Terminal projects. These two projects represent an estimated investment of more than $3 billion as part of the company's Midstream growth program.

The Sweeny Fractionator One is located in Old Ocean, Texas, close to our Sweeny Refinery, and will supply NGL products to the petrochemical industry and heating markets. Raw NGL supply to the fractionator is expected from nearby major pipelines, including the Sand Hills pipeline. The 100,000 barrel-per-day NGL fractionator is expected to start up in the second half of 2015.

The Freeport LPG Export Terminal is located at the site of our existing marine terminal in Freeport, Texas, and will leverage our midstream, transportation and storage infrastructure to supply petrochemical, heating and transportation markets globally. The terminal will have an initial export capacity of 4.4 million barrels per month with a ship loading rate of 36,000 barrels per hour. Startup of the export terminal is expected in the second half of 2016.

Table of Contents
Index to Financial Statements

Each of these projects will include NGL storage and additional pipelines with connectivity to market hubs in Mont Belvieu, Texas. Also included with these projects is a 100,000 barrel-per-day de-ethanizer unit that will be installed close to the Sweeny Refinery to upgrade domestic propane for export.

To support these facilities, we are also installing significant infrastructure, including connectivity to three NGL supply pipelines, a new salt dome storage facility with an initial 6 million barrels of underground storage (expandable to 32 million barrels) and a 180,000 barrel-per-day, bi-directional pipeline connecting Sweeny to the Mont Belvieu market center. In support of these projects, we have successfully secured long-term fee-based commitments for the majority of the feedstocks and products for Sweeny Fractionator One.

In response to the challenging market conditions driven by the recent decline in global crude oil prices, we have delayed the timing of investment decisions on a second-phase of Midstream projects in Texas, including our plans to build a second NGL fractionator, a crude and condensate pipeline, and a condensate splitter.

CHEMICALS

The Chemicals segment consists of our 50 percent equity investment in CPChem, which is headquartered in The Woodlands, Texas. At the end of 2014, CPChem owned or had joint-venture interests in 34 manufacturing facilities and two research and development centers located around the world.

CPChem’s business is structured around two primary operating segments: Olefins and Polyolefins (O&P) and Specialties, Aromatics and Styrenics (SA&S). The O&P segment produces and markets ethylene and other olefin products; the ethylene produced is primarily consumed within CPChem for the production of polyethylene, normal alpha olefins and polyethylene pipe. The SA&S segment manufactures and markets aromatics products, such as benzene, styrene, paraxylene and cyclohexane, as well as polystyrene and styrene-butadiene copolymers. SA&S also manufactures and/or markets a variety of specialty chemical products including organosulfur chemicals, solvents, catalysts, drilling chemicals and mining chemicals.

The manufacturing of petrochemicals and plastics involves the conversion of hydrocarbon-based raw material feedstock into higher-value products, often through a thermal process referred to in the industry as “cracking.” For example, ethylene can be produced from cracking the feedstocks ethane, propane, butane, natural gasoline or certain refinery liquids, such as naphtha and gas oil. The produced ethylene has a number of uses, primarily as a raw material for the production of plastics, such as polyethylene and polyvinyl chloride. Plastic resins, such as polyethylene, are manufactured in a thermal/catalyst process, and the produced output is used as a further raw material for various applications, such as packaging and plastic pipe.

CPChem, including through its subsidiaries and equity affiliates, has manufacturing facilities located in Belgium, China, Colombia, Qatar, Saudi Arabia, Singapore, South Korea and the United States.

Table of Contents
Index to Financial Statements

The following table reflects CPChem's petrochemicals and plastics product capacities at December 31, 2014:

	Millions of Pounds per Year	
	U.S.	Worldwide
O&P		
Ethylene	8,030	10,505
Propylene	2,675	3,180
High-density polyethylene	4,205	6,500
Low-density polyethylene	620	620
Linear low-density polyethylene	490	490
Polypropylene	—	310
Normal alpha olefins	2,115	2,630
Polyalphaolefins	105	235
Polyethylene pipe	590	590
Total O&P	18,830	25,060
SA&S		
Benzene	1,600	2,530
Cyclohexane	1,060	1,455
Paraxylene	1,000	1,000
Styrene	1,050	1,875
Polystyrene	835	1,070
K-Resin® SBC	—	70
Specialty chemicals	425	545
Polymer conversion	—	64
Total SA&S	5,970	8,609
Total O&P and SA&S	24,800	33,669

Capacities include CPChem's share in equity affiliates and excludes CPChem's NGL fractionation capacity.

In 2014, CPChem began the construction of a world-scale ethane cracker and polyethylene facilities in the U.S. Gulf Coast region. The project will leverage the development of the significant shale resources in the United States. CPChem's Cedar Bayou facility, in Baytown, Texas, will be the location of the 3.3 billion-pound-per-year ethylene unit. The polyethylene facility will have two polyethylene units, each with an annual capacity of 1.1 billion pounds, and will be located near CPChem's Sweeny facility in Old Ocean, Texas. The project is expected to be completed in 2017.

In June 2014, CPChem completed the commissioning and start-up of an on-purpose 1-hexene plant, capable of producing up to 550 million pounds per year at its Cedar Bayou facility in Baytown, Texas. 1-hexene, a normal alpha olefin, is a critical component used in the manufacturing of polyethylene, a plastic resin commonly converted into film, plastic pipe, milk jugs, detergent bottles and food and beverage containers. The new plant is the third such plant to utilize CPChem's proprietary selective 1-hexene technology, which produces co-monomer-grade 1-hexene from ethylene with exceptional product purity.

In June 2014, CPChem's Board of Directors approved construction to expand normal alpha olefin (NAO) production capacity at its Cedar Bayou plant in Baytown, Texas. This investment will provide an additional 220 million pounds per year of capacity. Completion of construction is anticipated in July 2015. NAO and its derivatives are used extensively as polyethylene co-monomers, synthetic motor oils, lubricants, automotive additives and in a wide range of specialty applications.

In the second quarter of 2014, CPChem completed its sulfur-based products expansion and the new on-purpose hydrogen sulfide unit project at its facility in Tessenderlo, Belgium.

Table of Contents
Index to Financial Statements

In July 2014, a localized fire occurred in the olefins unit at CPChem's Port Arthur, Texas facility, shutting down ethylene production. The Port Arthur ethylene unit restarted in November. Because the Port Arthur ethylene unit was down due to the fire, CPChem experienced a significant reduction in production and sales in several of its product lines stemming from the lack of the Port Arthur ethylene supply.

In December 2014, CPChem completed an ethylene expansion at its Sweeny complex in Old Ocean, Texas. With the addition of a tenth furnace to ethylene unit 33 at the Sweeny complex, the expansion is expected to increase annual production by 200 million pounds per year.

During 2014, CPChem made a decision to permanently shut down the K-Resin® styrene-butadiene copolymer (SBC) plant at its Pasadena Plastics Complex in Pasadena, Texas. The plant was temporarily idled in February 2013. In December 2014, CPChem completed the sale of substantially all of the assets of its Ryton® polyphenylene sulfide (PPS) product line.

Saudi Polymers Company (SPCo), a 35-percent-owned joint venture company of CPChem, owns an integrated petrochemicals complex adjacent to S-Chem (two 50/50 SA&S joint ventures) at Jubail Industrial City, Saudi Arabia. SPCo produces ethylene, propylene, polyethylene, polypropylene, polystyrene and 1-hexene.

In association with the SPCo project, CPChem committed to build a nylon 6,6 manufacturing plant and a number of polymer conversion projects at Jubail Industrial City, Saudi Arabia. The projects are being undertaken through CPChem's 50-percent-owned joint venture company, Petrochemical Conversion Company Ltd. The projects are slated to begin operations in stages through 2015. During 2014, commercial operations began on two polymer conversion units, polyethylene pipe and drip irrigation.

Our agreement with Chevron U.S.A. Inc. (Chevron), an indirect, wholly owned subsidiary of Chevron Corporation, regarding CPChem permits Chevron to buy our 50 percent interest in CPChem for fair market value if, at any time after the Separation, we experience a change in control or if both Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's) lower our credit ratings below investment grade and the credit rating from either rating agency remains below investment grade for 365 days thereafter, with fair market value determined by agreement or by nationally recognized investment banks.

Table of Contents
Index to Financial Statements

REFINING

Our Refining segment buys, sells, and refines crude oil and other feedstocks into petroleum products (such as gasolines, distillates and aviation fuels) at 14 refineries, mainly in the United States and Europe.

The table below depicts information for each of our U.S. and international refineries at December 31, 2014:

			Thousands of Barrels Daily				
			Net Crude Throughput Capacity		Net Clean Product Capacity**		
Region/Refinery	Location	Interest	At December 31 2014	Effective January 1 2015	Gasolines	Distillates	Clean Product Yield Capability
Atlantic Basin/Europe							
Bayway	Linden, NJ	100.00 %	238	238	145	115	91 %
Humber	N. Lincolnshire, United Kingdom	100.00	221	221	85	115	81
Whitegate	Cork, Ireland	100.00	71	71	15	30	65
MiRO*	Karlsruhe, Germany	18.75	58	58	25	25	86
			588	588			
Gulf Coast							
Alliance	Belle Chasse, LA	100.00	247	247	125	120	87
Lake Charles	Westlake, LA	100.00	239	244	90	115	70
Sweeny	Old Ocean, TX	100.00	247	247	125	120	87
			733	738			
Central Corridor							
Wood River	Roxana, IL	50.00	157	157	75	55	81
Borger	Borger, TX	50.00	73	73	50	25	90
Ponca City	Ponca City, OK	100.00	196	203	110	90	92
Billings	Billings, MT	100.00	59	59	35	25	89
			485	492			
Western/Pacific							
Ferndale	Ferndale, WA	100.00	101	101	55	30	80
Los Angeles	Carson/ Wilmington, CA	100.00	139	139	80	65	89
San Francisco	Arroyo Grande/San Francisco, CA	100.00	120	120	55	60	84
			360	360			
			2,166	2,178			

*Mineraloelraffinerie Oberrhein GmbH.
**Clean product capacities are maximum rates for each clean product category, independent of each other. They are not additive when calculating the clean product yield capability for each refinery.

12

Table of Contents
Index to Financial Statements

Primary crude oil characteristics and sources of crude oil for our refineries are as follows:

	Characteristics				Sources				
	Sweet	Medium Sour	Heavy Sour	High TAN*	United States	Canada	South America	Europe	Middle East & Africa
Bayway	l				l	l			l
Humber	l	l		l				l	l
Whitegate	l							l	l
MiRO	l	l							l
Alliance	l				l				
Lake Charles	l	l	l	l	l		l		l
Sweeny	l		l	l	l		l		
Wood River	l		l	l	l	l			
Borger		l	l		l	l			
Ponca City	l	l	l		l	l			
Billings		l	l			l			
Ferndale	l	l			l	l			
Los Angeles		l	l	l	l	l	l		l
San Francisco	l	l	l	l	l				l

*High TAN (Total Acid Number): acid content greater than or equal to 1.0 milligram of potassium hydroxide (KOH) per gram.

Atlantic Basin/Europe Region

Bayway Refinery

The Bayway Refinery is located on the New York Harbor in Linden, New Jersey. Bayway refining units include a fluid catalytic cracking unit, two hydrodesulfurization units, a naphtha reformer, an alkylation unit and other processing equipment. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels, as well as petrochemical feedstocks, residual fuel oil and home heating oil. Refined products are distributed to East Coast customers by pipeline, barge, railcar and truck. The complex also includes a 775-million-pound-per-year polypropylene plant.

Humber Refinery

The Humber Refinery is located on the east coast of England in North Lincolnshire, United Kingdom. It produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels. Humber's facilities encompass fluid catalytic cracking, thermal cracking and coking. The refinery has two coking units with associated calcining plants, which upgrade the heaviest part of the crude barrel and imported feedstocks into light oil products and high-value graphite and anode petroleum cokes. Humber is the only coking refinery in the United Kingdom, and a major producer of specialty graphite cokes and anode coke. Approximately 70 percent of the light oils produced in the refinery are marketed in the United Kingdom, while the other products are exported to the rest of Europe, West Africa and the United States.

Whitegate Refinery

The Whitegate Refinery is located in Cork, Ireland, and is Ireland's only refinery. The refinery primarily produces transportation fuels, such as gasoline, diesel and fuel oil, which are distributed to the inland market, as well as being exported to international markets. In the first quarter of 2015 we sold the Bantry Bay terminal, a crude oil and products storage complex located in Bantry Bay, about 80 miles southwest of the refinery in southern Cork County.

Table of Contents
Index to Financial Statements

MiRO Refinery
The Mineraloelraffinerie Oberrhein GmbH (MiRO) Refinery, located on the Rhine River in Karlsruhe in southwest Germany, is a joint venture in which we own an 18.75 percent interest. Facilities include three crude unit trains, fluid catalytic cracking, petroleum coking and calcining, hydrodesulfurization, naphtha reformer, isomerization, ethyl tert-butyl ether and alkylation units. MiRO produces a high percentage of transportation fuels, such as gasoline and diesel fuels. Other products include petrochemical feedstocks, home heating oil, bitumen, and anode- and fuel-grade petroleum coke. Refined products are delivered to customers in southwest Germany, northern Switzerland and western Austria by truck, railcar and barge.

Gulf Coast Region

Alliance Refinery
The Alliance Refinery is located on the Mississippi River in Belle Chasse, Louisiana. The single-train facility includes fluid catalytic cracking units, alkylation, delayed coking, hydrodesulfurization units, a naphtha reformer and aromatics unit. Alliance produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels. Other products include petrochemical feedstocks, home heating oil and anode-grade petroleum coke. The majority of the refined products are distributed to customers in the southeastern and eastern United States through major common carrier pipeline systems and by barge. Refined products are also sold into export markets through the refinery's marine terminal.

Lake Charles Refinery
The Lake Charles Refinery is located in Westlake, Louisiana. Its facilities include fluid catalytic cracking, hydrocracking, delayed coking and hydrodesulfurization units. The refinery produces a high percentage of transportation fuels, such as low-sulfur gasoline and off-road diesel, along with home heating oil. The majority of its refined products are distributed by truck, railcar, barge or major common carrier pipelines to customers in the southeastern and eastern United States. Refined products can also be sold into export markets through the refinery's marine terminal. Refinery facilities also include a specialty coker and calciner, which produce graphite petroleum coke for the steel industry.

Sweeny Refinery
The Sweeny Refinery is located in Old Ocean, Texas, approximately 65 miles southwest of Houston. Refinery facilities include fluid catalytic cracking, delayed coking, alkylation, a naphtha reformer and hydrodesulfurization units. The refinery receives crude oil primarily via tankers, through wholly and jointly owned terminals on the Gulf Coast, including a deepwater terminal at Freeport, Texas. It produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels. Other products include petrochemical feedstocks, home heating oil and fuel-grade petroleum coke. We operate nearby terminals and storage facilities, along with pipelines that connect these facilities to the refinery. Refined products are distributed throughout the Midwest and southeastern United States by pipeline, barge and railcar.

MSLP
Merey Sweeny, L.P. (MSLP) owns a delayed coker and related facilities at the Sweeny Refinery. MSLP processes long residue, which is produced from heavy sour crude oil, for a processing fee. Fuel-grade petroleum coke is produced as a by-product and becomes the property of MSLP. See the "Other" section of Note 8—Investments, Loans and Long-Term Receivables, in the Notes to Consolidated Financial Statements, for information on the ownership of MSLP.

14

Central Corridor Region

WRB Refining LP (WRB)
We are the operator and managing partner of WRB, a 50/50 joint venture with Cenovus Energy Inc., which consists of the Wood River and Borger refineries.

WRB’s gross processing capability of heavy Canadian or similar crudes ranges between 235,000 and 255,000 barrels per day.

• Wood River Refinery
The Wood River Refinery is located in Roxana, Illinois, about 15 miles northeast of St. Louis, Missouri, at the confluence of the Mississippi and Missouri rivers. Operations include three distilling units, two fluid catalytic cracking units, alkylation, hydrocracking, two delayed coking units, naphtha reforming, hydrotreating and sulfur recovery. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels. Other products include petrochemical feedstocks, asphalt and coke. Finished product leaves Wood River by pipeline, rail, barge and truck.

• Borger Refinery
The Borger Refinery is located in Borger, Texas, in the Texas Panhandle, approximately 50 miles north of Amarillo. The refinery facilities encompass coking, fluid catalytic cracking, alkylation, hydrodesulfurization and naphtha reforming, and a 45,000-barrel-per-day NGL fractionation facility. It produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels, as well as coke, NGL and solvents. Refined products are transported via pipelines from the refinery to West Texas, New Mexico, Colorado and the Midcontinent region.

Ponca City Refinery
The Ponca City Refinery is located in Ponca City, Oklahoma. Its facilities include fluid catalytic cracking, alkylation, delayed coking and hydrodesulfurization units. It produces a high percentage of transportation fuels, such as gasoline, diesel, and jet fuels, as well as LPG and anode-grade petroleum coke. Finished petroleum products are primarily shipped by company-owned and common-carrier pipelines to markets throughout the Midcontinent region.

Billings Refinery
The Billings Refinery is located in Billings, Montana. Its facilities include fluid catalytic cracking and hydrodesulfurization units, in addition to a delayed coker, which converts heavy, high-sulfur residue into higher-value light oils. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and aviation fuels, as well as fuel-grade petroleum coke. Finished petroleum products from the refinery are delivered by pipeline, railcar and truck. The pipelines transport most of the refined products to markets in Montana, Wyoming, Idaho, Utah, Colorado and Washington State.

Western/Pacific Region

Ferndale Refinery
The Ferndale Refinery is located on Puget Sound in Ferndale, Washington, approximately 20 miles south of the U.S.-Canada border. Facilities include a fluid catalytic cracker, an alkylation unit and a diesel hydrotreater unit. The refinery produces transportation fuels such as gasoline and diesel fuels. Other products include residual fuel oil, which supplies the northwest marine transportation market. Most refined products are distributed by pipeline and barge to major markets in the northwest United States.

Los Angeles Refinery

The Los Angeles Refinery consists of two linked facilities located about five miles apart in Carson and Wilmington, California, approximately 15 miles southeast of Los Angeles International Airport. Carson serves as the front end of the refinery by processing crude oil, and Wilmington serves as the back end by upgrading the intermediate products to finished products. The refinery produces a high percentage of transportation fuels, such as gasoline, diesel and jet fuels. Other products include fuel-grade petroleum coke. The facilities include fluid catalytic cracking, alkylation, hydrocracking, coking, and naphtha reforming units. The refinery produces California Air Resources Board (CARB)-grade gasoline. Refined products are distributed to customers in California, Nevada and Arizona by pipeline and truck.

Table of Contents
Index to Financial Statements

San Francisco Refinery
The San Francisco Refinery consists of two facilities linked by a 200-mile pipeline. The Santa Maria facility is located in Arroyo Grande, California, about 200 miles south of San Francisco, California, while the Rodeo facility is in the San Francisco Bay Area. Semi-refined liquid products from the Santa Maria facility are sent by pipeline to the Rodeo facility for upgrading into finished petroleum products. The refinery produces a high percentage of transportation fuels, such as gasoline and diesel fuels. Other products include petroleum coke. Process facilities include coking, hydrocracking, hydrotreating and naphtha reforming units. It also produces CARB-grade gasoline. The majority of the refined products are distributed by pipeline, railcar and barge to customers in California.

Melaka Refinery
In December 2014, we sold our interest in the Melaka Refinery, in Melaka, Malaysia.

MARKETING AND SPECIALTIES

Our M&S segment purchases for resale and markets refined petroleum products (such as gasolines, distillates and aviation fuels), mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of specialty products, as well as power generation operations.

Marketing

Marketing—United States
In the United States, as of December 31, 2014, we marketed gasoline, diesel and aviation fuel through approximately 8,600 marketer-owned or -supplied outlets in 48 states. These sites utilize the Phillips 66, Conoco or 76 brands.

At December 31, 2014, our wholesale operations utilized a network of marketers operating approximately 7,000 outlets. We have placed a strong emphasis on the wholesale channel of trade because of its lower capital requirements. In addition, we held brand-licensing agreements with approximately 700 sites. Our refined products are marketed on both a branded and unbranded basis. A high percentage of our branded marketing sales are made in the Midcontinent, Rockies and West Coast regions, where our wholesale marketing operations provide efficient off-take from our refineries.

The Gulf Coast and East Coast regions do not require a highly integrated marketing and distribution infrastructure to secure product placement for refinery pull through. In these markets, most sales are conducted via unbranded sales. We are expanding our export capability at our U.S. coastal refineries to meet growing international demand and increase flexibility to provide product to the highest-value markets.

During 2013, we entered into multi-year consignment fuels agreements with several marketers. We own the fuel inventory and control the selling of fuel at the retail sites and the marketer is paid a fixed monthly fee. Also in 2013, we temporarily acquired a small number of retail sites, some of which were sold in 2013 and 2014, with the remainder expected to be sold in the future. The consignment fuels agreements and the temporary retail site acquisitions were designed to support branded pull through of our refinery production.

During 2014, we acquired a 50 percent interest in OnCue Holdings, LLC, which operated 44 convenience stores in Oklahoma as of December 31, 2014. We are evaluating growth opportunities within this joint venture.

In addition to automotive gasoline and diesel, we produce and market jet fuel and aviation gasoline, which is used by smaller piston-engine aircraft. At December 31, 2014, aviation gasoline and jet fuel were sold through dealers and independent marketers at approximately 900 Phillips 66-branded locations in the United States.

Marketing—International

We have marketing operations in five European countries. Our European marketing strategy is to sell primarily through owned, leased or joint venture retail sites using a low-cost, high-volume approach. We use the JET brand name to market retail and wholesale products in Austria, Germany and the United Kingdom. In addition, a joint venture in which we have an equity interest markets products in Switzerland under the Coop brand name.

Table of Contents
Index to Financial Statements

We also market aviation fuels, LPG, heating oils, transportation fuels, marine bunker fuels, bitumen and fuel coke specialty products to commercial customers and into the bulk or spot markets in the above countries and Ireland.

As of December 31, 2014, we had approximately 1,235 marketing outlets in our European operations, of which approximately 940 were company owned and 295 were dealer owned. In addition, through our joint venture operations in Switzerland, we have interests in 285 additional sites.

Specialties

We manufacture and sell a variety of specialty products, including petroleum coke products, waxes, solvents, and polypropylene. Certain manufacturing operations are included in the Refining segment, while the marketing function for these products is included in the Specialties business.

Premium Coke & Polypropylene
We market high-quality graphite and anode-grade petroleum cokes in the United States and Europe for use in the global steel and aluminum industries. We also market polypropylene in North America under the COPYLENE brand name.

Excel Paralubes
We own a 50 percent interest in Excel Paralubes, a joint venture which owns a hydrocracked lubricant base oil manufacturing plant located adjacent to the Lake Charles Refinery. The facility produces approximately 22,000 barrels per day of high-quality, clear hydrocracked base oils.

Lubricants
We manufacture and sell automotive, commercial and industrial lubricants which are marketed worldwide under the Phillips 66, Conoco, 76 and Kendall brands, as well as other private label brands. We also market Group II Pure Performance base oils globally as well as import and market Group III Ultra-S base oils through an agreement with Korea’s S-Oil corporation. In July 2014, we acquired Spectrum Corporation, a private label and specialty lubricants business headquartered in Memphis, Tennessee.

Other

Power Generation
In 2014, we acquired our co-venturer’s interest in Sweeny Cogeneration, L.P., which owns a cogeneration power plant located adjacent to the Sweeny Refinery. The plant generates electricity and provides process steam to the refinery, as well as merchant power into the Texas market. The plant has a net electrical output of 440 megawatts and is capable of generating up to 3.6 million pounds per hour of process steam.

DISCONTINUED OPERATIONS

In December 2013, we entered into an agreement to exchange the stock of Phillips Specialty Products Inc. (PSPI), a flow improver business, which was included in our M&S segment, for shares of Phillips 66 common stock owned by the other party. On February 25, 2014, we completed the PSPI share exchange. See Note 7—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements, for additional information on this transaction.

TECHNOLOGY DEVELOPMENT

Our Technology organization focuses in three areas: 1) advanced engineering optimization for our existing businesses, 2) sustainability technologies for a changing regulatory environment, and 3) future growth opportunities. Technology creates value through evaluation of advantaged crudes, models for increasing clean product yield, and research to increase safety and reliability. Research allows Phillips 66 to be well positioned to address issues like corrosion, water consumption, and changing climate regulations, as well as to reduce risk and generate novel solutions for our growing Midstream operations.

COMPETITION

The Midstream segment, through our equity investment in DCP Midstream and our other operations, competes with numerous integrated petroleum companies, as well as natural gas transmission and distribution companies, to deliver components of natural gas to end users in the commodity natural gas markets. DCP Midstream is one of the leading natural gas gatherers and processors in the United States based on wellhead volumes, and one of the largest U.S. producers and marketers of NGL, based on published industry sources. Principal methods of competing include economically securing the right to purchase raw natural gas for gathering systems, managing the pressure of those systems, operating efficient NGL processing plants and securing markets for the products produced.

In the Chemicals segment, CPChem is generally ranked within the top 10 producers of many of its major product lines, based on average 2014 production capacity, as published by industry sources. Petroleum products, petrochemicals and plastics are typically delivered into the worldwide commodity markets. Our Refining and M&S segments compete primarily in the United States and Europe. Based on the statistics published in the December 1, 2014, issue of the Oil & Gas Journal, we are one of the largest refiners of petroleum products in the United States. Worldwide, our refining capacity ranked in the top 10 among non-government-controlled companies. Elements of competition for both our Chemicals and Refining segments include product improvement, new product development, low-cost structures, and efficient manufacturing and distribution systems. In the marketing portion of the business, competitive factors include product properties and processibility, reliability of supply, customer service, price and credit terms, advertising and sales promotion, and development of customer loyalty to branded products.

GENERAL

At December 31, 2014, we held a total of 523 active patents in 50 countries worldwide, including 252 active U.S. patents. During 2014, we received 41 patents in the United States and 13 foreign patents. Included in these amounts are patents associated with our flow improver business, which is presented as discontinued operations at year-end 2013. Our products and processes generated licensing revenues of $8 million in 2014. The overall profitability of any business segment is not dependent on any single patent, trademark, license or franchise.

Company-sponsored research and development activities charged against earnings were $62 million, $69 million and $70 million in 2014, 2013 and 2012, respectively.

In support of our goal to attain zero incidents, we have implemented a comprehensive Health, Safety and Environmental (HSE) management system to support our business units in achieving consistent management of HSE risks across our enterprise. The management system is designed to ensure that personal safety, process safety, and environmental impact risks are identified and mitigation steps are taken to reduce the risk. The management system requires periodic audits to

Table of Contents
Index to Financial Statements

ensure compliance with government regulations, as well as our internal requirements. Our commitment to continuous improvement is reflected in annual goal setting and performance measurement.

See the environmental information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Contingencies” under the captions “Environmental” and “Climate Change.” It includes information on expensed and capitalized environmental costs for 2014 and those expected for 2015 and 2016.

Website Access to SEC Reports

Our Internet website address is http://www.phillips66.com. Information contained on our Internet website is not part of this report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC). Alternatively, you may access these reports at the SEC’s website at http://www.sec.gov.

Item 1A. RISK FACTORS

You should carefully consider the following risk factors in addition to the other information included in this Annual Report on Form 10-K. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.

Our operating results and future rate of growth are exposed to the effects of changing commodity prices and refining, petrochemical and plastics margins.

Our revenues, operating results and future rate of growth are highly dependent on a number of factors, including fixed and variable expenses (including the cost of crude oil, NGLs, and other refinery and petrochemicals feedstocks) and the margin relative to those expenses at which we are able to sell refined and Chemicals segment products. During the last half of 2014 and other periods in recent years, the prices of feedstocks and our products have fluctuated substantially. These prices depend on numerous factors beyond our control, including the global supply and demand for feedstocks and our products, which are subject to, among other things:

- Changes in the global economy and the level of foreign and domestic production of crude oil, natural gas and NGLs and refined, petrochemical and plastics products.
- Availability of feedstocks and refined products and the infrastructure to transport feedstocks and refined products.
- Local factors, including market conditions, the level of operations of other facilities in our markets, and the volume of products imported and exported.
- Threatened or actual terrorist incidents, acts of war and other global political conditions.
- Government regulations.
- Weather conditions, hurricanes or other natural disasters.

The price of crude oil influences prices for refined products. We do not produce crude oil and must purchase all of the crude oil we process. Many crude oils available on the world market will not meet the quality restrictions for use in our refineries. Others are not economical to use due to excessive transportation costs or for other reasons. The prices for crude oil and refined products can fluctuate differently based on global, regional and local market conditions. In addition, the timing of the relative movement of the prices (both among different classes of refined products and among various global markets for similar refined products), as well as the overall change in refined product prices, can reduce refining margins and could have a significant impact on our refining, wholesale marketing and retail operations, revenues, operating income and cash flows. Also, crude oil supply contracts generally have market-responsive pricing provisions. We normally purchase our refinery feedstocks weeks before manufacturing and selling the refined products. Price level changes during the period between purchasing feedstocks and selling the refined products from these feedstocks could have a significant effect on our financial results. We also purchase refined products produced by others for sale to our customers. Price level changes during the periods between purchasing and selling these refined products also could have a material adverse effect on our business, financial condition and results of operations.

The price of feedstocks also influences prices for petrochemical and plastics products. Although our Chemicals segment gathers, transports, and fractionates feedstocks to meet a portion of their demand and has certain long-term feedstock supply contracts with others, it is still subject to volatile feedstock prices. In addition, the petrochemicals industry is both cyclical and volatile. Cyclicality occurs when periods of tight supply, resulting in increased prices and profit margins, are followed by periods of capacity expansion, resulting in oversupply and declining prices and profit margins. Volatility occurs as a result of changes in supply and demand for products, changes in energy prices, and changes in various other economic conditions around the world.

Uncertainty and illiquidity in credit and capital markets can impair our ability to obtain credit and financing on acceptable terms and can adversely affect the financial strength of our business partners.

Our ability to obtain credit and capital depends in large measure on the state of the credit and capital markets, which is beyond our control. Our ability to access credit and capital markets may be restricted at a time when we would like, or need, access to those markets, which could constrain our flexibility to react to changing economic and business conditions. In addition, the cost and availability of debt and equity financing may be adversely impacted by unstable or illiquid market conditions. Protracted uncertainty and illiquidity in these markets also could have an adverse impact on our lenders, commodity hedging counterparties, or our customers, preventing them from meeting their obligations to us.

From time to time, our cash needs may exceed our internally generated cash flow, and our business could be materially and adversely affected if we are unable to obtain necessary funds from financing activities. From time to time, we may need to supplement our cash generated from operations with proceeds from financing activities. Uncertainty and illiquidity in financial markets may materially impact the ability of the participating financial institutions to fund their commitments to us under our liquidity facilities. Accordingly, we may not be able to obtain the full amount of the funds available under our liquidity facilities to satisfy our cash requirements, and our failure to do so could have a material adverse effect on our operations and financial position.

Deterioration in our credit profile could increase our costs of borrowing money and limit our access to the capital markets and commercial credit, and could trigger co-venturer rights under joint venture arrangements.

Our credit ratings could be lowered or withdrawn entirely by a rating agency if, in its judgment, the circumstances warrant. If a rating agency were to downgrade our rating below investment grade, our borrowing costs would increase, and our funding sources could decrease. In addition, a failure by us to maintain an investment grade rating could affect our business relationships with suppliers and operating partners. For example, our agreement with Chevron regarding CPChem permits Chevron to buy our 50 percent interest in CPChem for fair market value if we experience a change in control or if both S&P and Moody's lower our credit ratings below investment grade and the credit rating from either rating agency remains below investment grade for 365 days thereafter, with fair market value determined by agreement or by nationally recognized investment banks. As a result of these factors, a downgrade of our credit ratings could have a materially adverse impact on our future operations and financial position.

We expect to continue to incur substantial capital expenditures and operating costs as a result of our compliance with existing and future environmental laws and regulations. Likewise, future environmental laws and regulations may impact or limit our current business plans and reduce demand for our products.

Our business is subject to numerous laws and regulations relating to the protection of the environment. These laws and regulations continue to increase in both number and complexity and affect our operations with respect to, among other things:

- The discharge of pollutants into the environment.
- Emissions into the atmosphere (such as nitrogen oxides, sulfur dioxide and mercury emissions, and greenhouse gas emissions as they are, or may become, regulated).
- The quantity of renewable fuels that must be blended into motor fuels.
- The handling, use, storage, transportation, disposal and clean up of hazardous materials and hazardous and nonhazardous wastes.
- The dismantlement, abandonment and restoration of our properties and facilities at the end of their useful lives.

We have incurred and will continue to incur substantial capital, operating and maintenance, and remediation expenditures as a result of these laws and regulations. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of our products and services, our business, financial condition, results of operations and cash flows in future periods could be materially adversely affected.

The U.S. Environmental Protection Agency (EPA) has implemented a Renewable Fuel Standard (RFS) pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The RFS program sets annual quotas for the quantity of renewable fuels (such as ethanol) that must be blended into motor fuels consumed in the United States. To provide certain flexibility in compliance options available to the industry, a Renewable Identification Number (RIN) is assigned to each gallon of renewable fuel produced in, or imported into, the United

States. As a producer of petroleum-based motor fuels, we are obligated to blend renewable fuels into the products we produce at a rate that is at least commensurate to the EPA's quota and, to the extent we do not, we must purchase RINs in the open market to satisfy our obligation under the RFS program. To the extent the EPA mandates a quantity of renewable fuel that exceeds the amount that is commercially feasible to blend into motor fuel (a situation commonly referred to as "the blend wall"), our operations could be materially adversely impacted, up to and including a reduction in produced motor fuel.

Climate change may adversely affect our facilities and our ongoing operations.

The potential physical effects of climate change on our operations are highly uncertain and depend upon the unique geographic and environmental factors present. Examples of such effects include rising sea levels at our coastal facilities, changing storm patterns and intensities, and changing temperature levels. As many of our facilities are located near coastal areas, rising sea levels may disrupt our ability to operate those facilities or transport crude oil and refined petroleum products. Extended periods of such disruption could have an adverse effect on our results of operation. We could also incur substantial costs to protect or repair these facilities.

Domestic and worldwide political and economic developments could damage our operations and materially reduce our profitability and cash flows.

Actions of the U.S., state, local and international governments through tax and other legislation, executive order and commercial restrictions could reduce our operating profitability both in the United States and abroad. The U.S. government can prevent or restrict us from doing business in foreign countries. These restrictions and those of foreign governments could limit our ability to operate in, or gain access to, opportunities in various countries, as well as limit our ability to obtain the optimum slate of crude oil and other refinery feedstocks. Our foreign operations and those of our joint ventures are further subject to risks of loss of revenue, equipment and property as a result of expropriation, acts of terrorism, war, civil unrest and other political risks; unilateral or forced renegotiation, modification or nullification of existing contracts with governmental entities; and difficulties enforcing rights against a governmental agency because of the doctrine of sovereign immunity and foreign sovereignty over international operations. Our foreign operations and those of our joint ventures are also subject to fluctuations in currency exchange rates. Actions by both the United States and host governments may affect our operations significantly in the future.

Renewable fuels, alternative energy mandates and energy conservation efforts could reduce demand for refined products. Tax incentives and other subsidies can make renewable fuels and alternative energy more competitive with refined products than they otherwise might be, which may reduce refined product margins and hinder the ability of refined products to compete with renewable fuels.

Large capital projects can take many years to complete, and market conditions could deteriorate significantly between the project approval date and the project startup date, negatively impacting project returns.

To approve a large-scale capital project, the project must meet an acceptable level of return on the capital invested in the project. We base these forecasted project economics on our best estimate of future market conditions. Most large-scale projects take several years to complete. During this multi-year period, market conditions can change from those we forecast, and these changes could be significant. Accordingly, we may not be able to realize our expected returns from a large investment in a capital project, and this could negatively impact our results of operations, cash flows and our return on capital employed.

Our investments in joint ventures decrease our ability to manage risk.

We conduct some of our operations, including parts of our Midstream, Refining and M&S segments, and our entire Chemicals segment, through joint ventures in which we share control with our joint venture participants. Our joint venture participants may have economic, business or legal interests or goals that are inconsistent with those of the joint venture or us, or our joint venture participants may be unable to meet their economic or other obligations, and we may be required to fulfill those obligations alone. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and, in turn, our business and operations.

Activities in our Chemicals and Midstream segments involve numerous risks that may result in accidents or otherwise affect the ability of our equity affiliates to make distributions to us.

There are a variety of hazards and operating risks inherent in the manufacturing of petrochemicals and the gathering, processing, transmission, storage, and distribution of natural gas and NGL, such as spills, leaks, explosions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in significant injury, loss of human life, damage to property, environmental pollution and impairment of operations, any of which could result in substantial losses. For assets located near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering areas, the level of damage resulting from these risks could be greater. Should any of these risks materialize, it could have a material adverse effect on the business and financial condition of CPChem, DCP Midstream or REX and negatively impact their ability to make future distributions to us.

Our operations present hazards and risks, which may not be fully covered by insurance, if insured. If a significant accident or event occurs for which we are not adequately insured, our operations and financial results could be adversely affected.

The scope and nature of our operations present a variety of operational hazards and risks, including explosions, fires, toxic emissions, maritime hazards and natural catastrophes, that must be managed through continual oversight and control. For example, the operation of refineries, power plants, fractionators, pipelines, terminals and vessels is inherently subject to the risks of spills, discharges or other inadvertent releases of petroleum or hazardous substances. If any of these events had previously occurred or occurs in the future in connection with any of our refineries, pipelines or refined products terminals, or in connection with any facilities that receive our wastes or by-products for treatment or disposal, other than events for which we are indemnified, we could be liable for all costs and penalties associated with their remediation under federal, state, local and international environmental laws or common law, and could be liable for property damage to third parties caused by contamination from releases and spills. These and other risks are present throughout our operations. As protection against these hazards and risks, we maintain insurance against many, but not all, potential losses or liabilities arising from such operating risks. As such, our insurance coverage may not be sufficient to fully cover us against potential losses arising from such risks. Uninsured losses and liabilities arising from operating risks could reduce the funds available to us for capital and investment spending and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to interruptions of supply and increased costs as a result of our reliance on third-party transportation of crude oil, NGL and refined products.

We often utilize the services of third parties to transport crude oil, NGL and refined products to and from our facilities. In addition to our own operational risks discussed above, we could experience interruptions of supply or increases in costs to deliver refined products to market if the ability of the pipelines or vessels to transport crude oil or refined products is disrupted because of weather events, accidents, governmental regulations or third-party actions. A prolonged disruption of the ability of a pipeline or vessel to transport crude oil, NGL or refined product to or from one or more of our refineries or other facilities could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Increased regulation of hydraulic fracturing could result in reductions or delays in U.S. production of crude oil and natural gas, which could adversely impact our results of operations.

An increasing percentage of crude oil supplied to our refineries and the crude oil and gas production of our Midstream segment's customers is being developed from unconventional sources, such as deep oil and gas shales. These reservoirs require hydraulic fracturing completion processes to release the hydrocarbons from the rock so they can flow through casing to the surface. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into the formation to stimulate hydrocarbon production. The U.S. Environmental Protection Agency, as well as several state agencies, have commenced studies and/or convened hearings regarding the potential environmental impacts of hydraulic fracturing activities. At the same time, certain environmental groups have suggested that additional laws may be needed to more closely and uniformly regulate the hydraulic fracturing process, and legislation has been proposed to provide for such regulation. In addition, some communities have adopted measures to ban hydraulic fracking in their communities. We cannot predict whether any such legislation will ever be enacted and, if so, what its provisions would be. Any additional levels of regulation and permits required with the adoption of new laws and regulations at the federal or state level could result in our having to rely on higher priced crude oil for our refineries and lead to delays, increased operating costs and process prohibitions that could reduce the volumes of natural gas that move through DCP Midstream’s gathering systems and could reduce supplies and increase costs of NGL feedstocks to CPChem ethylene facilities. This could materially adversely affect our results of operations and the ability of DCP Midstream and CPChem to make cash distributions to us.

Because of the natural decline in production from existing wells in DCP Midstream's areas of operation, its success depends on its ability to obtain new sources of natural gas and NGL. Any decrease in the volumes of natural gas DCP Midstream gathers could adversely affect its business and operating results.

DCP Midstream's gathering and transportation pipeline systems are connected to or dependent on the level of production from natural gas wells, from which production will naturally decline over time. As a result, its cash flows associated with these wells will also decline over time. In order to maintain or increase throughput levels on its gathering and transportation pipeline systems and NGL pipelines and the asset utilization rates at its natural gas processing plants, DCP Midstream must continually obtain new supplies. The primary factors affecting DCP Midstream's ability to obtain new supplies of natural gas and NGL, and to attract new customers to its assets, include the level of successful drilling activity near these assets, pricing of and the demand for natural gas and crude oil, producers' desire and ability to obtain necessary permits in an efficient manner, natural gas field characteristics and production performance, surface access and infrastructure issues, and its ability to compete for volumes from successful new wells. If DCP Midstream is not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing wells or because of competition, throughput on its pipelines and the utilization rates of its treating and processing facilities would decline. This could have a material adverse effect on its business, results of operations, financial position and cash flows, and its ability to make cash distributions to us.

Competitors that produce their own supply of feedstocks, have more extensive retail outlets, or have greater financial resources may have a competitive advantage.

The refining and marketing industry is highly competitive with respect to both feedstock supply and refined product markets. We compete with many companies for available supplies of crude oil and other feedstocks and for outlets for our refined products. We do not produce any of our crude oil feedstocks. Some of our competitors, however, obtain a portion of their feedstocks from their own production and some have more extensive retail outlets than we have. Competitors that have their own production or extensive retail outlets (and greater brand-name recognition) are at times able to offset losses from refining operations with profits from producing or retailing operations, and may be better positioned to withstand periods of depressed refining margins or feedstock shortages.

Some of our competitors also have materially greater financial and other resources than we have. Such competitors have a greater ability to bear the economic risks inherent in all phases of our business. In addition, we compete with other industries that provide alternative means to satisfy the energy and fuel requirements of our industrial, commercial and individual customers.

We may incur losses as a result of our forward-contract activities and derivative transactions.

We currently use commodity derivative instruments, and we expect to continue their use in the future. If the instruments we utilize to hedge our exposure to various types of risk are not effective, we may incur losses. Derivative transactions involve the risk that counterparties may be unable to satisfy their obligations to us. If any of our counterparties were to default on its obligations to us under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on our ability to fund our planned activities and could result in a larger percentage of our future production being subject to commodity price changes. The risk of counterparty default is heightened in a poor economic environment.

One of our subsidiaries acts as the general partner of a publicly traded master limited partnership, Phillips 66 Partners LP, which may involve a greater exposure to legal liability than our historic business operations.

One of our subsidiaries acts as the general partner of Phillips 66 Partners LP, a publicly traded master limited partnership. Our control of the general partner of Phillips 66 Partners may increase the possibility that we could be subject to claims of breach of fiduciary duties, including claims of conflicts of interest, related to Phillips 66 Partners. Any liability resulting from such claims could have a material adverse effect on our future business, financial condition, results of operations and cash flows.

A significant interruption in one or more of our facilities could adversely affect our business.

Our operations could be subject to significant interruption if one or more of our facilities were to experience a major accident, mechanical failure, or power outage, encounter work stoppages relating to organized labor issues, be damaged by severe weather or other natural or man-made disaster, such as an act of terrorism, or otherwise be forced to shut down. If any facility were to experience an interruption in operations, earnings from the facility could be materially adversely affected (to the extent not recoverable through insurance, if insured) because of lost production and repair costs. A significant interruption in one or more of our facilities could also lead to increased volatility in prices for feedstocks and refined products, and could increase instability in the financial and insurance markets, making it more difficult for us to access capital and to obtain insurance coverage that we consider adequate.

Our performance depends on the uninterrupted operation of our facilities, which are becoming increasingly dependent on our information technology systems.

Our performance depends on the efficient and uninterrupted operation of the manufacturing equipment in our production facilities. The inability to operate one or more of our facilities due to a natural disaster; power outage; labor dispute; or failure of one or more of our information technology, telecommunications, or other systems could significantly impair our ability to manufacture our products. Our manufacturing equipment is becoming increasingly dependent on our information technology systems. A disruption in our information technology systems due to a catastrophic event or security breach could interrupt or damage our operations.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect sensitive data, including personally identifiable information of our customers using credit cards at our branded retail outlets. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Although we have experienced occasional, actual or attempted breaches of our cybersecurity, none of these breaches has had a material effect on our business, operations or reputation (or compromised any customer data). Any such breaches could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of customer information, disrupt the services we provide to customers, and damage our reputation, any of which could adversely affect our business.

The level of returns on pension and postretirement plan assets and the actuarial assumptions used for valuation purposes could affect our earnings and cash flows in future periods.

Assumptions used in determining projected benefit obligations and the expected return on plan assets for our pension plan and other postretirement benefit plans are evaluated by us in consultation with outside actuaries. If we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return, or health care cost trend rate, our future pension and postretirement benefit expenses and funding requirements could increase. In addition, several factors could cause actual results to differ significantly from the actuarial assumptions that we use. Funding obligations are determined based on the value of assets and liabilities on a specific date as required under relevant regulations. Future pension funding requirements, and the timing of funding payments, could be affected by legislation enacted by governmental authorities.

In connection with the Separation, ConocoPhillips has agreed to indemnify us for certain liabilities and we have agreed to indemnify ConocoPhillips for certain liabilities. If we are required to act on these indemnities to ConocoPhillips, we may need to divert cash to meet those obligations and our financial results could be negatively impacted. The ConocoPhillips indemnity may not be sufficient to insure us against the full amount of liabilities for which it has been allocated responsibility, and ConocoPhillips may not be able to satisfy its indemnification obligations in the future.

Pursuant to the Indemnification and Release Agreement and certain other agreements with ConocoPhillips entered into in connection with the Separation, ConocoPhillips agreed to indemnify us for certain liabilities, and we agreed to indemnify ConocoPhillips for certain liabilities. Indemnities that we may be required to provide ConocoPhillips are not subject to any cap, may be significant and could negatively impact our business, particularly indemnities relating to our actions that could impact the tax-free nature of the distribution of Phillips 66 stock. Third parties could also seek to hold us responsible for any of the liabilities that ConocoPhillips has agreed to retain. Further, the indemnity from ConocoPhillips may not be sufficient to protect us against the full amount of such liabilities, and ConocoPhillips may not be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from ConocoPhillips any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could negatively affect our business, results of operations and financial condition.

We are subject to continuing contingent liabilities of ConocoPhillips following the Separation.

Notwithstanding the Separation, there are several significant areas where the liabilities of ConocoPhillips may become our obligations. For example, under the Internal Revenue Code and the related rules and regulations, each corporation that was a member of the ConocoPhillips consolidated U.S. federal income tax reporting group during any taxable period or portion of any taxable period ending on or before the effective time of the Separation is jointly and severally liable for the U.S. federal income tax liability of the entire ConocoPhillips consolidated tax reporting group for that taxable period. In connection with the Separation, we entered into the Tax Sharing Agreement with ConocoPhillips that allocates the responsibility for prior period taxes of the ConocoPhillips consolidated tax reporting group between us and ConocoPhillips. ConocoPhillips may be unable to pay any prior period taxes for which it is responsible, and we could be required to pay the entire amount of such taxes. Other provisions of federal law establish similar liability for other matters, including laws governing tax-qualified pension plans as well as other contingent liabilities.

If the distribution in connection with the Separation, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, our stockholders and ConocoPhillips could be subject to significant tax liability and, in certain circumstances, we could be required to indemnify ConocoPhillips for material taxes pursuant to indemnification obligations under the Tax Sharing Agreement.

ConocoPhillips received a private letter ruling from the Internal Revenue Service (IRS) substantially to the effect that, among other things, the distribution, together with certain related transactions, qualified as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code. The private letter ruling and the tax opinion that ConocoPhillips received relied on certain representations, assumptions and undertakings, including those relating to the past and future conduct of our business, and neither the private letter ruling nor the opinion would be valid if such representations, assumptions and undertakings were incorrect. Moreover, the private letter ruling does not address all the issues that are relevant to determining whether the distribution qualified for tax-free treatment. Notwithstanding the private letter ruling and the tax opinion, the IRS could determine the distribution should be treated as a taxable transaction for U.S. federal income tax purposes if it determines any of the representations, assumptions or undertakings that were included in the request for the private letter ruling are false or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the IRS ruling.

If the IRS were to determine that the distribution failed to qualify for tax-free treatment, in general, ConocoPhillips would be subject to tax as if it had sold the Phillips 66 common stock in a taxable sale for its fair market value, and ConocoPhillips stockholders who received shares of Phillips 66 common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

Under the Tax Sharing Agreement, we would generally be required to indemnify ConocoPhillips against any tax resulting from the distribution to the extent that such tax resulted from (i) an acquisition of all or a portion of our stock or assets, whether by merger or otherwise, (ii) other actions or failures to act by us, or (iii) any of our representations or undertakings being incorrect or violated. Our indemnification obligations to ConocoPhillips and its subsidiaries, officers and directors are not limited by any maximum amount. If we are required to indemnify ConocoPhillips or such other persons under the circumstances set forth in the Tax Sharing Agreement, we may be subject to substantial liabilities.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 3. LEGAL PROCEEDINGS

The following is a description of reportable legal proceedings, including those involving governmental authorities under federal, state and local laws regulating the discharge of materials into the environment. While it is not possible to accurately predict the final outcome of these pending proceedings, if any one or more of such proceedings were decided adversely to Phillips 66, we expect there would be no material effect on our consolidated financial position. Nevertheless, such proceedings are reported pursuant to SEC regulations.

Our U.S. refineries are implementing two separate consent decrees, regarding alleged violations of the Federal Clean Air Act, with the U.S. Environmental Protection Agency (EPA), six states and one local air pollution agency. Some of the requirements and limitations contained in the decrees provide for stipulated penalties for violations. Stipulated penalties under the decrees are not automatic, but must be requested by one of the agency signatories. As part of periodic reports under the decrees or other reports required by permits or regulations, we occasionally report matters that could be subject to a request for stipulated penalties. If a specific request for stipulated penalties meeting the reporting threshold set forth in SEC rules is made pursuant to these decrees based on a given reported exceedance, we will separately report that matter and the amount of the proposed penalty.

New Matters

On January 5, 2015, the Bay Area Air Quality Management District (Bay Area AQMD) in California made a $262,000 demand to settle five Notices of Violation (NOVs) issued in 2012 with respect to an incident involving the release of material from a sour water tank at the Rodeo facility on June 15, 2012. We are working with the Bay Area AQMD to resolve this matter.

Matters Previously Reported

In October 2007, we received a Complaint from the EPA alleging violations of the Clean Water Act related to a 2006 oil spill at the Bayway Refinery and proposing a penalty of $156,000. We are working with the EPA and the U.S. Coast Guard to resolve this matter.

In May 2010, we received a Consolidated Compliance Order and Notice of Potential Penalty from the Louisiana Department of Environmental Quality (LDEQ) alleging various violations of applicable air emission regulations at the Lake Charles Refinery, as well as certain provisions of the consent decree in Civil Action No. H-01-4430. In July 2014, we resolved the consent decree issues and are working with the LDEQ to resolve the remaining allegations.

In October 2011, we were notified by the Attorney General of the State of California that it was conducting an investigation into possible violations of the regulations relating to the operation of underground storage tanks at gas stations in California. On January 3, 2013, we were served with a lawsuit filed by the California Attorney General that alleges such violations. We are contesting these allegations.

In May 2012, the Illinois Attorney General’s office filed and notified us of a complaint with respect to operations at the WRB Wood River Refinery alleging violations of the Illinois groundwater standards and a third-party’s hazardous waste permit. The complaint seeks as relief remediation of area groundwater; compliance with the hazardous waste permit; enhanced pipeline and tank integrity measures; additional spill reporting; and yet-to-be specified amounts for fines and penalties. We are working with the Illinois Environmental Protection Agency and Attorney General’s office to resolve these allegations.

Table of Contents
Index to Financial Statements

In October 2012, the Bay Area AQMD issued a $313,000 demand to settle 13 NOVs issued in 2010 and 2011 with respect to alleged violations of regulatory and/or permit requirements at the Rodeo Refinery. We are working with the Bay Area AQMD to resolve this matter.

In July 2014, Phillips 66 received a NOV from the EPA alleging various flaring-related violations between 2009 and 2013 at the Wood River Refinery. We are working with the EPA to resolve these allegations.

In July 2014, the Bay Area AQMD issued a $175,000 demand to settle 18 NOVs issued in 2010 with respect to alleged violations of regulatory and/or permit requirements at the Rodeo Refinery. We are working with the Bay Area AQMD to resolve this matter.

In July 2014, the Bay Area AQMD issued a $259,000 demand to settle 20 NOVs issued in 2011 with respect to alleged violations of regulatory and/or permit requirements at the Rodeo Refinery. We are working with the Bay Area AQMD to resolve this matter.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents
Index to Financial Statements

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Position Held	Age*
Greg C. Garland	Chairman and Chief Executive Officer	57
Tim G. Taylor	President	61
Robert A. Herman	Executive Vice President, Midstream	55
Paula A. Johnson	Executive Vice President, Legal, General Counsel and Corporate Secretary	51
Greg G. Maxwell	Executive Vice President, Finance and Chief Financial Officer	58
Lawrence M. Ziemba	Executive Vice President, Refining	59
Chukwuemeka A. Oyolu	Vice President and Controller	45

*On February 13, 2015.

There are no family relationships among any of the officers named above. The Board of Directors annually elects the officers to serve until a successor is elected and qualified or as otherwise provided in our By-Laws. Set forth below is information about the executive officers identified above.

Greg C. Garland is the Chairman and Chief Executive Officer of Phillips 66 after serving as Chairman, President and Chief Executive Officer from April 2012 to June 2014. Mr. Garland was appointed Senior Vice President, Exploration and Production—Americas for ConocoPhillips in October 2010, having previously served as President and Chief Executive Officer of CPChem since 2008.

Tim G. Taylor is the President of Phillips 66 after serving as Executive Vice President, Commercial, Marketing, Transportation and Business Development from April 2012 to June 2014. Mr. Taylor retired as Chief Operating Officer of CPChem in 2011. Prior to this, Mr. Taylor served at CPChem as Executive Vice President, Olefins and Polyolefins from 2008 to 2011.

Robert A. Herman is Executive Vice President, Midstream for Phillips 66, a position he has held since June 2014. Previously, Mr. Herman served Phillips 66 as Senior Vice President, HSE, Projects and Procurement from February 2014 to June 2014, and Senior Vice President, Health, Safety, and Environment, from April 2012 to February 2014. Mr. Herman worked for ConocoPhillips as Vice President, Health, Safety, and Environment, from 2010 to 2012; and President, Refining, Marketing and Transportation - Europe, from 2008 to 2010.

Paula A. Johnson is Executive Vice President, Legal, General Counsel and Corporate Secretary of Phillips 66, a position she has held since May 2013. Previously, Ms. Johnson served as Senior Vice President, Legal, General Counsel and Corporate Secretary of Phillips 66 since April 2012. Ms. Johnson served as Deputy General Counsel, Corporate, and Chief Compliance Officer of ConocoPhillips since 2010. Prior to this, she served as Deputy General Counsel, Corporate from 2009 to 2010.

Greg G. Maxwell is Executive Vice President, Finance and Chief Financial Officer of Phillips 66, a position he has held since April 2012. Mr. Maxwell retired as CPChem's Senior Vice President, Chief Financial Officer and Controller in 2012, a position held since 2003.

Lawrence M. Ziemba is Executive Vice President, Refining of Phillips 66, a position he has held since February 2014. Prior to this, Mr. Ziemba served Phillips 66 as Executive Vice President, Refining, Projects and Procurement since April 2012. Mr. Ziemba served as President, Global Refining, at ConocoPhillips since 2010, and as President, U.S.

Refining, from 2003 to 2010.

Chukwuemeka A. Oyolu is Vice President and Controller of Phillips 66, a position he has held since December 2014. Mr. Oyolu was Phillips 66's General Manager, Finance for Refining, Marketing and Transportation from May 2012 until February 2014 when he became General Manager, Planning and Optimization. Prior to this Mr. Oyolu worked for ConocoPhillips as Manager, Downstream Finance, from 2009 until April 2012.

Table of Contents
Index to Financial Statements

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Stock Prices and Cash Dividends Per Share

Phillips 66's common stock is traded on the New York Stock Exchange (NYSE) under the symbol "PSX." The following table reflects intraday high and low sales prices of, and dividends declared on, our common stock for each quarter presented:

	Stock Price		
	High	Low	Dividends
2014			
First Quarter	$80.39	68.78	.3900
Second Quarter	87.05	76.18	.5000
Third Quarter	87.98	78.53	.5000
Fourth Quarter	82.00	64.02	.5000
2013			
First Quarter	$70.52	50.12	.3125
Second Quarter	70.20	56.13	.3125
Third Quarter	61.97	54.80	.3125
Fourth Quarter	77.29	56.50	.3900

Closing Stock Price at December 31, 2014	$71.70
Closing Stock Price at January 30, 2015	$70.32
Number of Stockholders of Record at January 30, 2015	44,700

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	Millions of Dollars Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2014	2,439,453	$75.86	2,439,453	$2,463
November 1-30, 2014	1,988,000	74.97	1,988,000	2,314
December 1-31, 2014	2,795,241	70.81	2,795,241	2,116
Total	7,222,694	$73.66	7,222,694	

*Includes repurchase of shares of common stock from company employees in connection with the company's broad-based employee incentive plans, when applicable.

**During 2012 and 2013, our Board of Directors authorized the repurchase of up to $5 billion of our outstanding common stock. We began purchases under this authorization, which has no expiration date, in the third quarter of 2012. In July 2014, our Board of Directors approved the repurchase of an additional $2 billion of our outstanding common stock. The share repurchases are expected to be funded primarily through available cash. The shares under these authorizations will be repurchased from time to time in the open market at the company's discretion, subject to market conditions and other factors, and in accordance with applicable regulatory requirements. We are not obligated to acquire any particular amount of common stock and may commence, suspend or discontinue purchases at any time or from time to time without prior notice. Shares of stock repurchased are held as treasury shares.

Table of Contents
Index to Financial Statements

Item 6. SELECTED FINANCIAL DATA

For periods prior to the Separation, the following selected financial data consisted of the combined operations of the downstream businesses of ConocoPhillips. All financial information presented for periods after the Separation represents the consolidated results of operations, financial position and cash flows of Phillips 66. Accordingly:

- The selected income statement data for the years ended December 31, 2014 and 2013, consist entirely of the consolidated results of Phillips 66. The selected income statement data for the year ended December 31, 2012, consists of the consolidated results of Phillips 66 for the eight months ended December 31, 2012, and of the combined results of the downstream businesses for the four months ended April 30, 2012. The selected income statement data for the years ended December 31, 2011, and 2010, consist entirely of the combined results of the downstream businesses.

- The selected balance sheet data at December 31, 2014, 2013 and 2012, consist of the consolidated balances of Phillips 66, while the selected balance sheet data at December 31, 2011 and 2010, consist of the combined balances of the downstream businesses.

	Millions of Dollars Except Per Share Amounts				
	2014	2013	2012	2011	2010
Sales and other operating revenues	$161,212	171,596	179,290	195,931	146,433
Income from continuing operations	4,091	3,682	4,083	4,737	710
Income from continuing operations attributable to Phillips 66	4,056	3,665	4,076	4,732	705
Per common share					
Basic	7.15	5.97	6.47	7.54	1.13
Diluted	7.10	5.92	6.40	7.45	1.12
Net income	4,797	3,743	4,131	4,780	740
Net income attributable to Phillips 66	4,762	3,726	4,124	4,775	735
Per common share*					
Basic	8.40	6.07	6.55	7.61	1.17
Diluted	8.33	6.02	6.48	7.52	1.16
Total assets	48,741	49,798	48,073	43,211	44,955
Long-term debt	7,842	6,131	6,961	361	388
Cash dividends declared per common share	1.8900	1.3275	0.4500	—	—

*See Note 13—Earnings Per Share, in the Notes to Consolidated Financial Statements.
Prior period amounts have been recast to reflect discontinued operations.

To ensure full understanding, you should read the selected financial data presented above in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and accompanying notes included elsewhere in this Annual Report on Form 10-K.

31

Table of Contents
Index to Financial Statements

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis is the company's analysis of its financial performance, financial condition, and significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. It contains forward-looking statements including, without limitation, statements relating to the company's plans, strategies, objectives, expectations and intentions that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "prec "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and expressions identify forward-looking statements. The company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the company's disclosures under the heading: "CAUTIONARY STATEMENT FOR THE PURPOSES OF THE 'SAFE HARBOR' PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995," beginning on page 64.

The terms "earnings" and "loss" as used in Management's Discussion and Analysis refer to net income (loss) attributable to Phillips 66.

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

Phillips 66 is an energy manufacturing and logistics company with midstream, chemicals, refining, and marketing and specialties businesses. At December 31, 2014, we had total assets of $48.7 billion.

The Separation

On April 4, 2012, the ConocoPhillips Board of Directors approved the separation of its downstream businesses into an independent, publicly traded company named Phillips 66. In accordance with the Separation and Distribution Agreement, the two companies were separated by ConocoPhillips distributing to its stockholders all 625,272,302 shares of common stock of Phillips 66 after the market closed on April 30, 2012 (the Separation). Each ConocoPhillips stockholder received one share of Phillips 66 stock for every two shares of ConocoPhillips stock. Following the Separation, ConocoPhillips retained no ownership interest in Phillips 66, and each company has separate public ownership, boards of directors and management.

Executive Overview

In 2014, we reported earnings of $4.8 billion, generated $3.5 billion in cash from operating activities, and received $1.2 billion from asset dispositions, primarily reflecting the sale of our interest in the Malaysian Refining Company Sdn. Bdh. (MRC) and a special distribution from WRB Refining. We used available cash primarily to fund capital expenditures and investments of $3.8 billion, pay dividends of $1.1 billion, repurchase $2.3 billion of our common stock and finance $450 million of the Phillips Specialty Products Inc. (PSPI) share exchange. We issued $2.5 billion of debt, and ended 2014 with $5.2 billion of cash and cash equivalents and approximately $4.9 billion of total capacity under our available liquidity facilities.

We continue to focus on the following strategic priorities:

- Maintain strong operating excellence. Safety and reliability are our first priority, and we are committed to protecting the health and safety of everyone who has a role in our operations and the communities in which we operate. Continuous improvement in safety, environmental stewardship, reliability and cost efficiency is a fundamental requirement for our company and employees. We employ rigorous training and audit programs to drive ongoing improvement in both personal and process safety as we strive for zero incidents. Since we cannot control commodity prices, controlling operating expenses and overhead costs, within the context of our commitment to safety and environmental stewardship, is a high priority. We actively monitor these costs using various methodologies that are reported to senior management. We are committed to protecting the environment and strive to reduce our environmental footprint throughout our operations. Optimizing utilization rates at our refineries through reliable and safe operations enables us to capture the value available in the market in terms of prices and margins. During 2014, our worldwide refining crude oil capacity utilization rate was 94 percent, compared with 93 percent in 2013.

- Deliver profitable growth. We have budgeted $4.6 billion in capital expenditures and investments in 2015. Including our share of expected capital spending by joint ventures DCP Midstream, LLC (DCP Midstream), Chevron Phillips Chemical Company (CPChem) and WRB, our total 2015 capital program is expected to be $6.7 billion. This program is designed primarily to grow our Midstream and Chemicals segments, which have planned expansions for manufacturing and logistics capacity. The need for additional new gathering and processing, pipeline, storage and distribution infrastructure–driven by domestic unconventional crude oil, natural gas liquids (NGL) and natural gas production–is creating capital investment opportunities in our Midstream business. Over the next few years, CPChem plans significant reinvestment of its earnings to build additional processing capacity benefiting from lower-cost NGL feedstocks. We continue to focus on funding the most attractive growth opportunities across our portfolio.

In 2013, we formed Phillips 66 Partners, a master limited partnership, to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and NGL pipelines and terminals, as well as other transportation and midstream assets. Its assets consist of crude oil and refined petroleum product pipeline, terminal and storage systems in the Central and Gulf Coast regions of the United States, as well as two crude oil rail-unloading facilities located at or adjacent to our Bayway and Ferndale refineries.

- Enhance returns. We plan to improve refining returns through greater use of advantaged feedstocks, disciplined capital allocation and portfolio optimization. We expect to drive higher returns in Marketing and Specialties (M&S) by selling finished products to higher-margin export markets. A disciplined capital allocation process ensures that we focus investments in projects that generate competitive returns throughout the business cycle. During 2014, 94 percent of the company's U.S. crude slate was advantaged, compared with 74 percent in 2013.

- Grow shareholder distributions. We believe shareholder value is enhanced through, among other things, consistent and ongoing growth of regular dividends, supplemented by share repurchases. We increased our dividend rate by 28 percent during 2014, and it has more than doubled since the Separation. Regular dividends demonstrate the confidence our management has in our capital structure and its capability to generate free cash flow throughout the business cycle. Cumulatively through December 31, 2014, we have repurchased $4.9 billion, or approximately 73.2 million shares, of our common stock. At the discretion of our Board of Directors, we plan to increase dividends annually and fund our share repurchase program while continuing to invest in the growth of our business.

- Build on a high-performing organization. We strive to attract, train, develop and retain individuals with the knowledge and skills to implement our business strategy and who support our values and ethics. Throughout the company, we focus on getting results in the right way and believe success is both what we do and how we do it. We encourage collaboration throughout our company, while valuing differences, respecting diversity of thought, and creating a great place to work. We foster an environment of learning and development through structured programs focused on building functional and technical skills where employees are engaged in our business and committed to their own, as well as the company’s, success.

Business Environment
The Midstream segment includes our 50 percent equity investment in DCP Midstream. Earnings of DCP Midstream are closely linked to NGL prices, natural gas prices and crude oil prices. Industry NGL annual average prices decreased from 2012 to 2013 and again from 2013 to 2014, due to relatively higher inventories driven by growing NGL production from liquids-rich shale plays with limited corresponding domestic demand increase from the petrochemical industry and constrained export capacity. Natural gas prices increased from 2012 to 2013, and continued to increase from 2013 to 2014. The increase in both periods reflected concerns over increasingly lower industry inventory levels, due to steep inventory draws in 2013 and 2014, as well as domestic pipeline constraints.

The Chemicals segment consists of our 50 percent equity investment in CPChem. The chemicals and plastics industry is mainly a commodity-based industry where the margins for key products are based on market factors. The chemicals and plastics industry continued to experience higher ethylene margins in regions of the world where production is based upon NGL versus crude-derived feedstocks. In particular, companies with North American ethane-based crackers benefited from the lower-priced feedstocks and improved ethylene margins, as well as improved margins for polyethylene and other ethylene derivatives.

Results for our Refining segment depend largely on refining margins, cost control, refinery throughput, and product yields. The crack spread is a measure of the difference between market prices for refined petroleum products and crude oil, and it is used within our industry as an indicator for refining margins. The U.S. 3:2:1 crack spread (three barrels of crude oil producing two barrels of gasoline and one barrel of diesel) decreased from 2012 to 2013. However, for the first three quarters of 2014, the U.S. crack spread improved over 2013, primarily resulting from increased access to advantaged crude runs and a decrease in imports. Midcontinent refiners were especially strong, which was attributed to the region’s crude feedstock advantage. The decrease in U.S. crack spreads during the fourth quarter of 2014 was significant enough to drive the annual domestic industry average for 2014 lower than 2013. This decrease was largely due to gasoline prices falling faster than crude prices, resulting in a tighter margin.

U.S. crude production continues to increase and nationwide growth is benefiting from slower decline rates in legacy production areas, as well as improved drilling efficiency. Limited infrastructure for takeaway options resulted in favorable feedstock prices for U.S. refiners with access to advantaged crudes. Midcontinent refiners were especially advantaged. Sustained pressure on inventories and lack of local gathering infrastructure in the Midcontinent caused West Texas Intermediate (WTI) crude to continue trading at a discount relative to crudes such as Light Louisiana Sweet (LLS) and Brent during 2014. Refineries capable of processing WTI crude and crude oils that price relative to WTI, primarily the Midcontinent and Gulf Coast refineries, benefited from these lower regional feedstock prices. The spread between WTI and Brent narrowed considerably over the year, stemming from increased pipeline outlets from Cushing to the Gulf Coast, as well as the gradual over supply of light crude in the Atlantic basin.

The Northwest Europe benchmark crack spread decreased from 2012 to 2013. In 2014, the crack spread increased in the first three quarters of the year and then declined in the fourth quarter, resulting in an average decrease in 2014 compared to 2013. The decline in benchmark crack spread was due to lower European domestic and export product demand on weak refinery economics while large volumes of imported diesel from the United States, India, Asia Pacific and Russia kept prices under pressure. Weak domestic European demand and reduced export markets for gasoline compounded the declining product crack spreads.
Results for our M&S segment depend largely on marketing fuel margins, lubricant margins and other specialty product margins. These margins are primarily based on market factors, largely determined by the relationship between demand and supply. Marketing fuel margins are primarily determined by the trend of the spot prices for refined products. Generally, a downward trend of spot prices has a favorable impact on marketing fuel margins, while an upward trend of spot prices has an unfavorable impact on marketing fuel margins. Crude oil prices declined

significantly during 2014, which resulted in the expected benefit to marketing margins.

Table of Contents
Index to Financial Statements

RESULTS OF OPERATIONS

Basis of Presentation

See Note 1—Separation and Basis of Presentation, in the Notes to Consolidated Financial Statements, for information on the basis of presentation of our financial information that affects the comparability of financial information for periods before and after the Separation.

Effective January 1, 2014, we changed the organizational structure of the internal financial information reviewed by our chief executive officer, and determined this resulted in a change in the composition of our operating segments. The primary effects of this reporting reorganization were:

- We moved two of our equity investments, Excel Paralubes and Jupiter Sulphur, LLC, as well as the commission revenues related to needle and anode coke, polypropylene and solvents, from the Refining segment to the M&S segment.
- We moved several refining logistics projects from the Refining segment to the Midstream Segment.

The new segment alignment is presented for the periods ending December 31, 2014, with prior periods recast for comparability.

Consolidated Results

A summary of the company’s earnings follows:

	Millions of Dollars		
	Year Ended December 31		
	2014	2013	2012
Midstream	$507	469	52
Chemicals	1,137	986	823
Refining	1,771	1,747	3,091
Marketing and Specialties	1,034	894	544
Corporate and Other	(393)	(431)	(434)
Discontinued Operations	706	61	48
Net income attributable to Phillips 66	$4,762	3,726	4,124

2014 vs. 2013

Our earnings increased $1,036 million, or 28 percent, in 2014, primarily resulting from:

- Recognition of a noncash $696 million after-tax gain related to the PSPI share exchange.
- A gain on disposition and related deferred tax adjustment associated with the sale of MRC, together totaling $369 million after-tax.
- Improved ethylene and polyethylene margins in our Chemicals segment.
- Improved worldwide marketing margins.
-

- Recognition in 2014 of $126 million, after-tax, of the previously deferred gain related to the sale in 2013 of the Immingham Combined Heat and Power Plant (ICHP).
- Improved secondary products margins in our Refining segment.

Table of Contents
Index to Financial Statements

These increases were partially offset by:

- A $131 million after-tax impairment related to the Whitegate Refinery in Cork, Ireland.
- Lower realized gasoline and distillate margins as a result of decreased market crack spreads and lower feedstock advantage.
- Lower equity earnings from DCP Midstream, reflecting the sharp drop in NGL and crude oil prices in the second half of 2014.

2013 vs. 2012

Our earnings decreased $398 million, or 10 percent, in 2013, primarily resulting from a 26 percent decrease in realized refining margins as a result of decreased market crack spreads and impacts related to lower feedstock advantage.

This decrease was partially offset by:

- Lower impairment expense in 2013. We recorded impairments related to our equity investments in MRC, a refining company in Melaka, Malaysia, and Rockies Express Pipeline LLC (REX), a natural gas transmission system, in 2012.
- Improved worldwide marketing margins.
- Lower CPChem interest expense and costs resulting from its early debt retirements in 2012.

See the “Segment Results” section for additional information on our segment results.

Income Statement Analysis

2014 vs. 2013

Sales and other operating revenues decreased 6 percent in 2014, while purchased crude oil and products decreased 8 percent. The decreases were primarily due to lower average prices for crude oil and petroleum products.

Equity in earnings of affiliates decreased 20 percent in 2014, primarily resulting from decreased earnings from WRB and DCP Midstream, partially offset by increased equity earnings from CPChem.

- Equity in earnings of WRB decreased 69 percent, mainly due to lower refining margins in the Central Corridor as a result of lower market crack spreads and a lower feedstock advantage, as well as lower interest income received from equity affiliates.
- Equity in earnings of DCP Midstream decreased 36 percent, primarily due to a decrease in most commodity prices, as well as increased costs associated with planned asset growth.
- Equity in earnings of CPChem increased 20 percent, primarily driven by improved ethylene and polyethylene realized margins related to increased sales prices.

Net gain on dispositions in 2014 were $295 million, compared with $55 million in 2013, primarily resulting from net gains associated with the sale of our interest in MRC in the amount of $145 million, as well as the partial recognition of the previously deferred gain related to the sale of ICHP in the amount of $126 million. In 2013, net gain on dispositions primarily resulted from a $48 million gain on the sale of our E-Gas™ Technology business. For additional information, see Note 7—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements.

Selling, general and administrative expenses increased 13 percent in 2014, primarily due to additional fees under marketing consignment fuels agreements, as well as costs associated with acquisitions.

Table of Contents
Index to Financial Statements

Impairments in 2014 were $150 million, compared with $29 million in 2013. In 2014, we recorded a $131 million impairment of the Whitegate Refinery. For additional information, see Note 11—Impairments, in the Notes to Consolidated Financial Statements.
See Note 22—Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our provision for income taxes and effective tax rates.

Income from discontinued operations increased $645 million in 2014, compared to 2013, due to the completion of the PSPI share exchange in 2014. See Note 7—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements, for additional information on this transaction.

2013 vs. 2012

Sales and other operating revenues and purchased crude oil and products both decreased 4 percent in 2013. The decreases were primarily due to lower average prices for crude oil and petroleum products.

Equity in earnings of affiliates decreased 2 percent in 2013, primarily resulting from decreased earnings from WRB, partially offset by increased equity earnings from CPChem.

- Equity in earnings of WRB decreased 21 percent, mainly due to lower refining margins in the Central Corridor as a result of lower market crack spreads.
- Equity in earnings of CPChem increased 14 percent, primarily driven by the absence of costs and interest associated with CPChem's early retirement of debt in 2012, improved realized margins, higher equity earnings from CPChem's equity affiliates and the absence of 2012 fixed asset impairments. These increases were partially offset by lower olefins and polyolefins sales volumes related to ethylene outages. In addition, increased turnaround and maintenance activity resulted in lower volumes and higher costs.

Net gain on dispositions decreased 72 percent in 2013, primarily resulting from a net gain associated with the sale of the Trainer Refinery and associated terminal and pipeline assets in 2012, compared with a gain resulting from the sale of our E-Gas™ Technology business in 2013. For additional information, see Note 7—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements.

Selling, general and administrative expenses decreased 13 percent in 2013, primarily due to costs associated with the Separation and costs relating to a prior retail disposition program in 2012.

Impairments in 2013 were $29 million, compared with $1,158 million in 2012. Impairments in 2012 included our investments in MRC and REX; a marine terminal and associated assets; and equipment formerly associated with the canceled Wilhelmshaven Refinery (WRG) upgrade project. For additional information, see Note 11—Impairments, in the Notes to Consolidated Financial Statements.

See Note 22—Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our provision for income taxes and effective tax rates.

Table of Contents
Index to Financial Statements

Segment Results

Midstream

	Year Ended December 31		
	2014	2013	2012
	Millions of Dollars		
Net Income (Loss) Attributable to Phillips 66			
Transportation	$233	199	(210)
DCP Midstream	135	210	179
NGL	139	60	83
Total Midstream	$507	469	52
	Dollars Per Unit		
Weighted Average NGL Price*			
DCP Midstream (per barrel)	$37.43	37.84	34.24
DCP Midstream (per gallon)	0.89	0.90	0.82

*Based on index prices from the Mont Belvieu and Conway market hubs that are weighted by NGL component and location mix.

	Thousands of Barrels Daily		
Transportation Volumes			
Pipelines*	3,206	3,144	2,880
Terminals	1,683	1,274	1,169
Operating Statistics			
NGL extracted**	454	426	402
NGL fractionated***	109	115	105

*Pipelines represent the sum of volumes transported through each separately tariffed pipeline segment, including our share of equity volumes from Yellowstone Pipe Line Company and Lake Charles Pipe Line Company.
**Includes 100 percent of DCP Midstream’s volumes.
***Excludes DCP Midstream.

The Midstream segment purchases raw natural gas from producers and gathers natural gas through an extensive network of pipeline gathering systems. The natural gas is then processed to extract NGL from the raw gas stream. The remaining “residue” gas is marketed to electric utilities, industrial users and gas marketing companies. Most of the NGLs are fractionated—separated into individual components such as ethane, propane and butane—and marketed as chemical feedstock, fuel or blendstock. In addition, the Midstream segment includes U.S. transportation, pipeline, terminaling, and refining logistics services associated with the movement of crude oil, refined and specialty products, natural gas and NGL, as well as NGL fractionation, trading, and marketing businesses in the United States. The Midstream segment includes our 50 percent equity investment in DCP Midstream and the consolidated results of Phillips 66 Partners LP.

2014 vs. 2013

Earnings from the Midstream segment increased $38 million in 2014, compared with 2013. The improvement was primarily driven by higher earnings from our Transportation and NGL businesses, partially offset by lower earnings from DCP Midstream.

Transportation earnings increased $34 million in 2014, compared with 2013. This increase primarily resulted from increased throughput fees, as well as higher earnings associated with railcar activity in 2014. These increases were partially offset by higher earnings attributable to noncontrolling interests, reflecting the contribution of previously wholly owned assets to Phillips 66 Partners.

The $75 million decrease in earnings of DCP Midstream in 2014 primarily resulted from a decrease in NGL and crude prices in the latter part of 2014. NGL and crude prices have continued to decline in the early part of 2015. In addition, earnings decreased as costs associated with asset growth and maintenance increased in 2014, compared with 2013. Earnings further declined due to DCP Midstream's contribution of assets to its publicly traded master limited partnership, DCP Partners. Following the contribution, a percentage of the earnings from these assets are attributable to public unitholders, thus decreasing income attributable to DCP Midstream and, thereby, Phillips 66. See the "Business Environment and Executive Overview" section for additional information on market factors impacting DCP Midstream's results.

DCP Partners issues, from time to time, limited partner units to the public. These issuances benefited our equity in earnings from DCP Midstream, on an after-tax basis, by approximately $45 million in 2014, compared with approximately $62 million in 2013.

The NGL business had an increase in earnings of $79 million, compared with 2013. The increase was primarily due to improved margins driven by strong propane prices in early 2014. Additionally, 2014 earnings benefited from gains related to seasonal propane and butane storage activity. Also, earnings improved due to higher equity earnings from the DCP Sand Hills and DCP Southern Hills pipeline entities. These increases were partially offset by an increase in costs associated with growth projects.

2013 vs. 2012

Earnings from the Midstream segment increased $417 million in 2013, compared with 2012. The improvement was primarily driven by higher earnings from our Transportation business and DCP Midstream, partially offset by lower earnings from NGL.

Transportation earnings increased $409 million in 2013, compared with 2012. These increases primarily resulted from lower impairments in 2013, as well as increased throughput fees. In 2012, we recorded impairments totaling $303 million after-tax on our equity investment in REX, primarily reflecting a diminished view of fair value of west-to-east natural gas transmission, due to the impact of shale gas production in the northeast. For additional information on the REX impairment, see Note 11—Impairments, in the Notes to Consolidated Financial Statements. Throughput fees were higher in 2013, primarily due to the implementation of market-based intersegment transfer prices for transportation and terminaling services during 2013.

The $31 million increase in earnings of DCP Midstream in 2013 primarily resulted from an increase in gains associated with unit issuances by DCP Partners, as described below. In addition, higher natural gas and crude oil prices benefitted earnings. These increases were partially offset by lower NGL prices and higher interest expense.

DCP Partners unit issuances benefited our equity in earnings from DCP Midstream, on an after-tax basis, by approximately $62 million in 2013, compared with approximately $24 million in 2012.

NGL decreased $23 million in 2013, compared with 2012. The decrease was primarily due to inventory impacts, reflecting inventory reductions in 2012 in anticipation of the Separation, which caused liquidations of LIFO inventory values.

39

Table of Contents
Index to Financial Statements

Chemicals

	Year Ended December 31		
	2014	2013	2012
	Millions of Dollars		
Net Income Attributable to Phillips 66	$1,137	986	823
	Millions of Pounds		
CPChem Externally Marketed Sales Volumes*			
Olefins and Polyolefins	16,815	16,071	14,967
Specialties, Aromatics and Styrenics	6,294	6,230	6,719
	23,109	22,301	21,686

*Represents 100 percent of CPChem's outside sales of produced petrochemical products, as well as commission sales from equity affiliates.

Olefins and Polyolefins Capacity Utilization (percent)	88 %	88	93

The Chemicals segment consists of our 50 percent interest in CPChem, which we account for under the equity method. CPChem uses NGL and other feedstocks to produce petrochemicals. These products are then marketed and sold or used as feedstocks to produce plastics and other chemicals. CPChem's business is structured around two primary operating segments: Olefins and Polyolefins (O&P) and Specialties, Aromatics and Styrenics (SA&S). The O&P segment produces and markets ethylene and other olefin products; ethylene produced is primarily consumed within CPChem for the production of polyethylene, normal alpha olefins and polyethylene pipe. The SA&S segment manufactures and markets aromatics products, such as benzene, styrene, paraxylene and cyclohexane, as well as polystyrene and styrene-butadiene copolymers. SA&S also manufactures and/or markets a variety of specialty chemical products. Unless otherwise noted, amounts referenced below reflect our net 50 percent interest in CPChem.

2014 vs. 2013

Earnings from the Chemicals segment increased $151 million, or 15 percent, in 2014, compared with 2013. The increase in earnings was primarily driven by improved ethylene and polyethylene realized margins due to higher sales prices. Additionally, Chemicals benefited from higher equity earnings from CPChem's O&P equity affiliates.

These increases were partially offset by lower ethylene and polyethylene sales volumes and increased costs related to the Port Arthur facility fire. In addition, impairments of $69 million after-tax in 2014 further offset a portion of the increase to earnings. See the "Business Environment and Executive Overview" section for information on market factors impacting CPChem's results.

In July 2014, a localized fire occurred in the olefins unit at CPChem's Port Arthur, Texas facility, shutting down ethylene production. The Port Arthur ethylene unit restarted in November. CPChem incurred, on a 100 percent basis, $85 million of associated repair and rebuild costs. Because the Port Arthur ethylene unit was down due to the fire, CPChem experienced a significant reduction in production and sales in several of its product lines stemming from the lack of the Port Arthur ethylene supply. CPChem's property damage and business interruption insurance coverage limited the potential extent of the financial impact. In the fourth quarter of 2014, CPChem reached an agreement with insurers and recognized into income $120 million related to advanced payments against its business interruption insurance claim.

Table of Contents
Index to Financial Statements

2013 vs. 2012

CPChem continued to benefit from price-advantaged NGL feedstocks in 2013 due to the location of its manufacturing facilities in the U.S. Gulf Coast and Middle East. Earnings from the Chemicals segment increased $163 million, or 20 percent, in 2013, compared with 2012. The increase in earnings was primarily driven by:

- Lower costs and interest associated with CPChem's 2012 early retirement of $1 billion of debt.
- Improved polyethylene realized margins.
- Higher equity earnings from CPChem's equity affiliates, reflecting increased volumes and margins.
- Lower asset impairments.

These increases were partially offset by lower olefins sales volumes related to ethylene outages. In addition, increased turnaround and maintenance activity resulted in lower volumes and higher costs.

Table of Contents
Index to Financial Statements

Refining

	Year Ended December 31		
	2014	2013	2012
	Millions of Dollars		
Net Income (Loss) Attributable to Phillips 66			
Atlantic Basin/Europe	$203	27	545
Gulf Coast	250	59	491
Central Corridor	942	1,481	2,257
Western/Pacific	306	44	(385)
Other Refining	70	136	183
Worldwide	$1,771	1,747	3,091
	Dollars Per Barrel		
Refining Margins			
Atlantic Basin/Europe	$8.65	6.87	9.28
Gulf Coast	7.50	6.04	8.29
Central Corridor	15.26	18.62	26.37
Western/Pacific	8.22	8.20	11.04
Worldwide	9.93	9.90	13.35
	Thousands of Barrels Daily		
Operating Statistics			
Refining operations*			
Atlantic Basin/Europe			
Crude oil capacity	588	588	588
Crude oil processed	554	546	555
Capacity utilization (percent)	94 %	93	94
Refinery production	605	578	599
Gulf Coast			
Crude oil capacity	733	733	733
Crude oil processed	676	651	657
Capacity utilization (percent)	92 %	89	90
Refinery production	771	736	743
Central Corridor			
Crude oil capacity	485	477	470
Crude oil processed	475	472	454
Capacity utilization (percent)	98 %	99	97
Refinery production	494	489	471
Western/Pacific			
Crude oil capacity	440	440	439
Crude oil processed	403	410	398
Capacity utilization (percent)	92 %	93	91
Refinery production	435	445	419
Worldwide			
Crude oil capacity	2,246	2,238	2,230
Crude oil processed	2,108	2,079	2,064

Capacity utilization (percent)	94 %	93	93
Refinery production	2,305	2,248	2,232

*Includes our share of equity affiliates.

Table of Contents
Index to Financial Statements

The Refining segment buys, sells and refines crude oil and other feedstocks into petroleum products (such as gasoline, distillates and aviation fuels) at 14 refineries, mainly in the United States and Europe.

2014 vs. 2013

Earnings for the Refining segment were $1,771 million in 2014, an increase of $24 million, or 1 percent, compared with 2013. The slight increase in earnings in 2014 was primarily due to higher realized refining margins related to secondary products, as well as increased volumes. In addition, earnings were impacted by a gain on disposition and a related deferred tax adjustment associated with the sale of MRC, together totaling $369 million after-tax.

These increases were mostly offset by:

- Lower earnings from decreased gasoline and distillate margins.
- Negative impacts due to inventory draws in a declining price environment.
- Impairment of the Whitegate Refinery of $131 million after-tax.
- Lower interest income received from equity affiliates.

See the “Business Environment and Executive Overview” section for information on industry crack spreads and other market factors impacting this year’s results.

Our worldwide refining crude oil capacity utilization rate was 94 percent in 2014, compared to 93 percent in 2013. The increase reflects lower unplanned downtime related to power outages that were experienced in the Gulf Coast region in 2013.

2013 vs. 2012

Earnings for the Refining segment were $1,747 million in 2013, a decrease of $1,344 million, or 43 percent, compared with 2012. The decrease in earnings in 2013 was primarily due to lower realized refining margins as a result of a 16 percent reduction in market cracks and impacts related to lower feedstock advantage. In addition to margins, refining results were also impacted by a $104 million after-tax gain from the sale of the Trainer Refinery and associated terminal and pipeline assets in 2012. These decreases were partially offset by reduced impairments recorded in 2012, primarily related to MRC and WRG.

Our worldwide refining crude oil capacity utilization rate was 93 percent in both 2013 and 2012, as the lack of weather disruptions were offset by higher turnaround activities.

Table of Contents
Index to Financial Statements

Marketing and Specialties

	Year Ended December 31		
	2014	2013	2012
	Millions of Dollars		
Net Income Attributable to Phillips 66			
Marketing and Other	$836	688	275
Specialties	198	206	269
Total Marketing and Specialties	$1,034	894	544
	Dollars Per Barrel		
Realized Marketing Fuel Margin*			
U.S.	$1.51	1.21	0.87
International	5.22	4.36	4.17
*On third-party petroleum products sales.			
	Dollars Per Gallon		
U.S. Average Wholesale Prices*			
Gasoline	$2.72	2.88	3.00
Distillates	2.95	3.10	3.19
*Excludes excise taxes.			
	Thousands of Barrels Daily		
Marketing Petroleum Products Sales			
Gasoline	1,195	1,174	1,101
Distillates	979	967	985
Other	17	17	17
	2,191	2,158	2,103

The M&S segment purchases for resale and markets refined petroleum products (such as gasoline, distillates and aviation fuels), mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of specialty products (such as base oils and lubricants), as well as power generation operations.

2014 vs. 2013

Earnings from the M&S segment increased $140 million, or 16 percent, in 2014, compared with 2013. See the “Business Environment and Executive Overview” section for information on marketing fuel margins and other market factors impacting this year’s results.

Both U.S. and international marketing margins benefited from the timing effect of falling gasoline prices experienced in the second half of 2014. U.S. marketing also benefited from a full year of consignment agreements entered into in 2013, while international marketing margins also benefited from foreign exchange gains in 2014.

In July 2013, we completed the sale of ICHP, and deferred the gain from the sale due to an indemnity provided to the buyer. In 2014, we recognized $126 million after-tax of the previously deferred gain, increasing earnings. These increases were partially offset by the lack of ICHP earnings in 2014, compared with earnings of $53 million in 2013.

Looking forward, absent claims under the ICHP indemnity, we expect the remaining deferred gain at December 31, 2014, of $243 million to be recognized in M&S's earnings in the first and second quarters of 2015. In addition, if the spot prices of gasoline stabilize or begin to increase in 2015, we would expect a reduction in M&S's margins in 2015, relative to 2014.

Table of Contents
Index to Financial Statements

2013 vs. 2012

Earnings from the M&S segment increased $350 million, or 64 percent, in 2013, compared with 2012.

During 2013, U.S. marketing margins benefited from higher Renewable Identification Numbers (RINs) values associated with renewable fuels blending activities, particularly during the first three quarters. RIN prices decreased during the fourth quarter, as concerns over their availability eased somewhat based on anticipated actions by the U.S. Environmental Protection Agency. The increased RIN prices offset weaker underlying components of our U.S. marketing margins during 2013.

M&S earnings benefited from higher international marketing margins in 2013, as well as an after-tax gain of $23 million from the sale of our E-Gas™ Technology business. Earnings in 2012 were lowered by income taxes associated with foreign dividends, and 2012 included a full year of earnings from our U.K. power generation business, which was sold in July 2013.

Corporate and Other

	Millions of Dollars Year Ended December 31		
	2014	2013	2012
Net Loss Attributable to Phillips 66			
Net interest expense	$(160)	(166)	(148)
Corporate general and administrative expenses	(156)	(145)	(116)
Technology	(58)	(50)	(49)
Repositioning costs	—	—	(55)
Other	(19)	(70)	(66)
Total Corporate and Other	$(393)	(431)	(434)

2014 vs. 2013

Net interest expense consists of interest and financing expense, net of interest income and capitalized interest. Net interest expense decreased $6 million in 2014, compared with 2013, primarily due to increased capitalized interest. This decrease in expense was partially offset due to an increase in average debt outstanding in 2014, reflecting the issuance of debt in late 2014. For additional information, see Note 14—Debt, in the Notes to Consolidated Financial Statements.

Corporate general and administrative expenses increased $11 million in 2014, compared with 2013. The increase was primarily due to increased employee benefit costs and charitable contributions.

The category "Other" includes certain income tax expenses, environmental costs associated with sites no longer in operation, foreign currency transaction gains and losses and other costs not directly associated with an operating segment. The decrease in costs was primarily due to increased utilization of foreign tax credit carryforwards. In addition, our results in 2013 were negatively impacted by higher environmental costs.

2013 vs. 2012

Net interest expense increased $18 million in 2013, compared with 2012, primarily due to increased average debt outstanding in 2013, reflecting the issuance of debt in early 2012 in connection with the Separation. For additional information, see Note 14—Debt, in the Notes to Consolidated Financial Statements.

Corporate general and administrative expenses increased $29 million in 2013, compared with 2012. The increase was primarily due to incremental costs and expenses associated with operating as a stand-alone company. Repositioning costs decreased $55 million in 2013, compared with 2012.

Discontinued Operations

	Millions of Dollars		
	Year Ended December 31		
	2014	2013	2012
Net Income Attributable to Phillips 66			
Discontinued operations	$706	61	48

In December 2013, we entered into an agreement to exchange the stock of PSPI, a flow improver business, which was included in our M&S segment, for shares of Phillips 66 common stock owned by the other party to the transaction. On February 25, 2014, we completed the PSPI share exchange, resulting in the receipt of approximately 17.4 million shares of Phillips 66 common stock and the recognition of a before-tax noncash gain of $696 million. See Note 7—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements, for additional information on this transaction.

Table of Contents
Index to Financial Statements

CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

	Millions of Dollars Except as Indicated			
	2014		2013	2012
Net cash provided by operating activities	$3,529		6,027	4,296
Short-term debt	842		24	13
Total debt	8,684		6,155	6,974
Total equity	22,037		22,392	20,806
Percent of total debt to capital*	28	%	22	25
Percent of floating-rate debt to total debt	1	%	1	15

*Capital includes total debt and total equity.

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources, but rely primarily on cash generated from operating activities. During 2014, we generated $3.5 billion in cash from operations and received $1.2 billion from asset dispositions, including return of investments in equity affiliates, and $2.5 billion in proceeds from the issuance of debt. Available cash was primarily used for capital expenditures and investments ($3.8 billion), repurchases of our common stock ($2.3 billion), the PSPI share exchange ($0.5 billion) and dividend payments on our common stock ($1.1 billion). During 2014, cash and cash equivalents decreased by $0.2 billion to $5.2 billion.

In addition to cash flows from operating activities, we rely on our commercial paper and credit facility programs, asset sales and our ability to issue securities using our shelf registration statement to support our short- and long-term liquidity requirements. We believe current cash and cash equivalents and cash generated by operations, together with access to external sources of funds as described below under “Significant Sources of Capital,” will be sufficient to meet our funding requirements in the near and long term, including our capital spending, dividend payments, defined benefit plan contributions, debt repayment and share repurchases.

Significant Sources of Capital

Operating Activities

Although net income was higher in 2014 than in 2013, there were large noncash items benefiting 2014 earnings, including the gain on the PSPI exchange, gains from asset dispositions and the deferred tax effects of certain asset dispositions. After consideration of these items, underlying earnings in 2014 were similar to 2013. However, working capital negatively impacted 2014 operating cash flow by $1,020 million, compared with a positive impact of $880 million in 2013. Working capital impacts in 2014 reflected the negative impact of lower commodity prices on accounts payable, with a lesser positive impact on accounts receivable as we generally carry higher payables on our balance sheet than receivables. See the following paragraph for a discussion of 2013 working capital effects. Benefiting 2014 operating cash flow, compared with 2013, was the receipt of a special distribution from WRB, of which $760 million was considered an operating cash flow, partially offset by lower distributions from CPChem.

During 2013, cash of $6,027 million was provided by operating activities, a 40 percent increase from cash from operations of $4,296 million in 2012. The increase in 2013 primarily reflected positive working capital impacts. Accounts payable activity increased cash from operations by $360 million in 2013, reflecting both higher volumes and commodity prices. By comparison, lower commodity prices and volumes reduced accounts payable by $985 million in 2012. Our distributions from CPChem increased over $500 million in 2013, compared with 2012, reflecting the completion of CPChem's debt repayments in 2012, which allowed increased dividends to us and our co-venturer. Partially offsetting the positive impact of working capital changes in 2013 were lower refining margins during 2013, reflecting less favorable market conditions and tightening crude differentials.

Our short- and long-term operating cash flows are highly dependent upon refining and marketing margins, NGL prices, and chemicals margins. Prices and margins in our industry are typically volatile, and are driven by market conditions over which we have little or no control. Absent other mitigating factors, as these prices and margins fluctuate, we would expect a corresponding change in our operating cash flows.

The level and quality of output from our refineries also impacts our cash flows. The output at our refineries is impacted by such factors as operating efficiency, maintenance turnarounds, market conditions, feedstock availability and weather conditions. We actively manage the operations of our refineries and, typically, any variability in their operations has not been as significant to cash flows as that caused by margins and prices. Our worldwide refining crude oil capacity utilization was 94 percent in 2014, compared with 93 percent in 2013. We are forecasting 2015 utilization to remain in the low 90-percent range.

Our operating cash flows are also impacted by distribution decisions made by our equity affiliates, including DCP Midstream, CPChem and WRB. Over the three years ended December 31, 2014, we received distributions of $654 million from DCP Midstream, $1,948 million from CPChem and $4,220 million from WRB. We cannot control the amount or timing of future distributions from equity affiliates; therefore, future distributions by these and other equity affiliates are not assured. We and our co-venturer in DCP Midstream have agreed to forgo distributions from DCP Midstream during the current low-commodity-price environment.

WRB

WRB is a 50-percent-owned business venture with Cenovus Energy Inc. (Cenovus). Cenovus was obligated to contribute $7.5 billion, plus accrued interest, to WRB over a 10-year period that began in 2007. In 2014, Cenovus prepaid its remaining balance under this obligation. As a result, WRB declared a special dividend, which was distributed to the co-venturers in 2014. Of the $1,232 million that we received, $760 million was considered a return on our investment in WRB (an operating cash inflow), and $472 million was considered a return of our investment in WRB (an investing cash inflow). The return-of-investment portion of the dividend was included in the “Proceeds from asset dispositions” line in our consolidated statement of cash flows. A further $129 million of distributions from WRB during 2014 was considered a return of investment.

Asset Sales

Proceeds from asset sales in 2014 were $1,244 million, compared with $1,214 million in 2013 and $286 million in 2012. The 2014 proceeds included a portion of the WRB special dividend as discussed above, as well as the sale of our interest in MRC. The 2013 proceeds included the sale of a power plant in the United Kingdom, as well as our gasification technology. The 2012 proceeds included the sale of a refinery and associated terminal and pipeline assets located in Trainer, Pennsylvania, as well as the sale of our Riverhead Terminal located in Riverhead, New York.

Phillips 66 Partners LP

Initial Public Offering

In 2013, we formed Phillips 66 Partners LP, a master limited partnership, to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and NGL pipelines and terminals, as well as other transportation and midstream assets. On July 26, 2013, Phillips 66 Partners completed its initial public offering (IPO) of 18,888,750 common units at a price of $23.00 per unit, which included a 2,463,750 common unit over-allotment option that was fully exercised by the underwriters. Phillips 66 Partners received $404 million in net proceeds from the sale of the units, after deducting underwriting discounts, commissions, structuring fees and offering expenses. Headquartered in Houston, Texas, Phillips 66 Partners’ assets currently consist of crude oil and refined petroleum product pipeline, terminal, and storage systems in the Central and Gulf Coast regions of the United States, as well as two crude oil rail-unloading facilities, all of which are integral to a connected Phillips 66-operated refinery.

Contributions to Phillips 66 Partners LP

Effective March 1, 2014, we contributed to Phillips 66 Partners certain transportation, terminaling and storage assets for total consideration of $700 million. These assets consisted of the Gold Line products system and the Medford spheres, two recently constructed refinery-grade propylene storage spheres. Phillips 66 Partners financed the acquisition with cash on hand of $400 million (primarily reflecting its IPO proceeds), the issuance to us of 3,530,595 and 72,053 additional common and general partner units, respectively, valued at $140 million, and a five-year, $160 million note payable to a subsidiary of Phillips 66.

Effective December 1, 2014, we contributed to Phillips 66 Partners certain logistics assets for total consideration of $340 million. These assets consisted of two recently constructed crude oil rail-unloading facilities located at or adjacent to our Bayway and Ferndale refineries, and the Cross Channel Connector pipeline assets located near the partnership's Pasadena terminal. Phillips 66 Partners financed the acquisition with the borrowing of $28 million under its revolving credit facility, the assumption of a five-year, $244 million note payable to a subsidiary of Phillips 66, and the issuance to Phillips 66 of 1,066,412 common and 21,764 general partner units valued at $68 million.

In addition to these two transactions, we made smaller contributions to Phillips 66 Partners of projects under development in the fourth quarter, for consideration in the aggregate of approximately $55 million.

Ownership
At December 31, 2014, we owned a 73 percent limited partner interest and a 2 percent general partner interest in Phillips 66 Partners, while its public unitholders owned a 25 percent limited partner interest. We consolidate Phillips 66 Partners as a variable interest entity for financial reporting purposes. See Note 4—Variable Interest Entities (VIEs), in the Notes to Consolidated Financial Statements, for additional information on why we consolidate the partnership. As a result of this consolidation, the public unitholders' ownership interest in Phillips 66 Partners is reflected as a noncontrolling interest in our financial statements, including $415 million in the equity section of our consolidated balance sheet at December 31, 2014. Generally, contributions of assets by us to Phillips 66 Partners will eliminate in consolidation, other than third-party debt or equity offerings made by Phillips 66 Partners to finance such transactions. For the 2014 contributions discussed above, the first did not impact our consolidated financial statements, while the second increased consolidated cash and debt by $28 million at the time of the transaction.

Recent Transactions
On February 13, 2015, we entered into a contribution agreement with Phillips 66 Partners under which Phillips 66 Partners will acquire our equity interest in Explorer Pipeline Company (19.46 percent), DCP Sand Hills Pipeline, LLC (33.33 percent), and DCP Southern Hills Pipeline, LLC (33.33 percent). We account for each of these investments under the equity method of accounting. The total consideration for the transaction is expected to be $1,010 million, which will consist of approximately $880 million in cash and the issuance of common units and general partner units to us with an aggregate fair value of $130 million. The transaction is expected to close in early March 2015, subject to standard closing conditions.

During February 2015, Phillips 66 Partners initiated two registered public offerings of securities:

- 5,250,000 common units representing limited partner interests, at a public offering price of $75.50 per unit. The net proceeds at closing are expected to be $384 million, not including an over-allotment option exercisable by the underwriters to purchase up to an additional 787,500 common units.

- $1.1 billion aggregate principal amount of senior notes, which include $300 million of 2.646% Senior Notes due 2020, $500 million of 3.605% Senior Notes due 2025, and $300 million of 4.680% Senior Notes due 2045.

Closings of both public offerings are expected to occur in late February 2015. Phillips 66 Partners expects to use the net proceeds of both offerings to fund the acquisition transaction discussed above, repay existing borrowings from a subsidiary of Phillips 66, fund capital expenditures and for general partnership purposes.

Credit Facilities and Commercial Paper

During the fourth quarter of 2014, we amended our Phillips 66 revolving credit facility, primarily to increase its borrowing capacity from $4.5 billion to $5 billion and to extend the term from June 2018 to December 2019. The Phillips 66 facility may be used for direct bank borrowings, as support for issuances of letters of credit, or as support for our commercial paper program. The facility is with a broad syndicate of financial institutions and contains covenants that we consider usual and customary for an agreement of this type for comparable commercial borrowers, including a maximum consolidated net debt-to-capitalization ratio of 60 percent. The agreement has customary events of default, such as nonpayment of principal when due; nonpayment of interest, fees or other amounts; violation of covenants; cross-payment default and cross-acceleration (in each case, to indebtedness in excess of a threshold amount); and a change of control. Borrowings under the facility will incur interest at the London Interbank Offered Rate (LIBOR) plus a margin based on the credit rating of our senior unsecured long-term debt as determined from time to time by Standard & Poor's

Table of Contents
Index to Financial Statements

Ratings Services (S&P) and Moody's Investors Service (Moody's). The facility also provides for customary fees, including administrative agent fees and commitment fees. As of December 31, 2014, no amount had been directly drawn under this facility and $51 million in letters of credit had been issued that were supported by the facility. As a result, we ended 2014 with $4.9 billion of capacity under this facility.

We have a $5 billion commercial paper program for short-term working capital needs. Commercial paper maturities are generally limited to 90 days. As of December 31, 2014, we had no borrowings under our commercial paper program.

During the fourth quarter of 2014, Phillips 66 Partners also amended its revolving credit facility, primarily to increase its borrowing capacity from $250 million to $500 million and to extend the term from June 2018 to November 2019. The Phillips 66 Partners facility is with a broad syndicate of financial institutions. As of December 31, 2014, $18 million had been drawn under the facility, leaving $482 million of available capacity.

Trade Receivables Securitization Facility
In 2014, we terminated our $696 million trade receivables securitization facility. No amounts were drawn on this facility throughout its duration, and at the time of termination no letters of credit were outstanding thereunder.

Debt Financing
In November 2014, we issued $2.5 billion of debt consisting of:

- $1.0 billion aggregate principal amount of 4.650% Senior Notes due 2034.
- $1.5 billion aggregate principal amount of 4.875% Senior Notes due 2044.

The notes are guaranteed by Phillips 66 Company, a 100-percent-owned subsidiary. Net proceeds received from these offerings will be used to repay $800 million in aggregate principal amount of our outstanding 1.950% Senior Notes due 2015, for capital expenditures, and for general corporate purposes.

Our $8.3 billion of outstanding Senior Notes were issued by Phillips 66 and are guaranteed by Phillips 66 Company. Our senior unsecured long-term debt has been rated investment grade by S&P (BBB+) and Moody's (A3). We do not have any ratings triggers on any of our corporate debt that would cause an automatic default, and thereby impact our access to liquidity, in the event of a downgrade of our credit rating. If our credit rating deteriorated to a level prohibiting us from accessing the commercial paper market, we would expect to be able to access funds under our liquidity facilities mentioned above.

Shelf Registration
We have a universal shelf registration statement on file with the SEC under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of various types of debt and equity securities.

Other Financing
During 2014, we recorded capital lease obligations related to equipment and transportation assets. These leases mature within the next fifteen years. During 2013, we entered into a capital lease obligation for use of an oil terminal in the United Kingdom which matures in 2033. The present value of our minimum capital lease payments for these obligations as of December 31, 2014, was $205 million.

Off-Balance Sheet Arrangements

As part of our normal ongoing business operations, we enter into agreements with other parties to pursue business opportunities, with costs and risks apportioned among the parties as provided by the agreements. In April 2012, in connection with the Separation, we entered into an agreement to guarantee 100 percent of certain outstanding debt obligations of Merey Sweeny, L.P. (MSLP). At December 31, 2014, the aggregate principal amount of MSLP debt guaranteed by us was $189 million.

For additional information about guarantees, see Note 15—Guarantees, in the Notes to Consolidated Financial Statements.

Table of Contents
Index to Financial Statements

Capital Requirements
For information about our capital expenditures and investments, see “Capital Spending” below.

Our debt balance at December 31, 2014, was $8.7 billion and our debt-to-capital ratio was 28 percent, within our target range of 20-to-30 percent.

On February 4, 2015, our Board of Directors declared a quarterly cash dividend of $0.50 per common share, payable March 2, 2015, to holders of record at the close of business on February 17, 2015. We are forecasting annual double-digit percentage increases in our dividend rate in 2015 and 2016.

During the second half of 2013, we entered into a construction agency agreement and an operating lease agreement with a financial institution for the construction of our new headquarters facility to be located in Houston, Texas. Under the construction agency agreement, we act as construction agent for the financial institution over a construction period of up to three years and eight months, during which time we request cash draws from the financial institution to fund construction costs. Through December 31, 2014, approximately $225 million had been drawn, of which approximately $205 million is recourse to us should certain events of default occur. The operating lease becomes effective after construction is substantially complete and we are able to occupy the facility. The operating lease has a term of five years and provides us the option, at the end of the lease term, to request to renew the lease, purchase the facility, or assist the financial institution in marketing it for resale.

During 2012 and 2013, our Board of Directors authorized repurchases totaling up to $5 billion of our outstanding common stock. In July 2014, our Board of Directors authorized additional share repurchases totaling up to $2 billion. The share repurchases are expected to be funded primarily through available cash. The shares will be repurchased from time to time in the open market at the company’s discretion, subject to market conditions and other factors, and in accordance with applicable regulatory requirements and the Tax Sharing Agreement entered into in connection with the Separation. We are not obligated to acquire any particular amount of common stock and may commence, suspend or discontinue purchases at any time or from time to time without prior notice. Since the inception of our share repurchases in 2012, we have repurchased a total of 73,227,369 shares at a cost of $4.9 billion through December 31, 2014. Shares of stock repurchased are held as treasury shares.

On October 15, 2014, we signed agreements to form two joint ventures to develop the Dakota Access Pipeline (DAPL) and Energy Transfer Crude Oil Pipeline (ETCOP) projects. We own a 25 percent interest in each joint venture, with our co-venturer holding the remaining 75 percent interest and acting as operator of both the DAPL and ETCOP systems. Our share of construction cost is estimated to be approximately $1.2 billion, which will be reflected as investments in equity-method affiliates. We expect the majority of this capital spending commitment to be incurred in 2015 and 2016, and anticipate it to be funded as part of our overall capital program.

Table of Contents
Index to Financial Statements

Contractual Obligations

The following table summarizes our aggregate contractual fixed and variable obligations as of December 31, 2014.

	Millions of Dollars Payments Due by Period				
	Total	Up to 1 Year	Years 2-3	Years 4-5	After 5 Years
Debt obligations (a)	$8,474	823	1,556	81	6,014
Capital lease obligations	210	19	19	17	155
Total debt	8,684	842	1,575	98	6,169
Interest on debt	6,373	363	682	606	4,722
Operating lease obligations	2,008	489	685	378	456
Purchase obligations (b)	83,381	27,161	17,023	6,735	32,462
Other long-term liabilities (c)					
Asset retirement obligations	279	8	10	10	251
Accrued environmental costs	496	84	113	80	219
Unrecognized tax benefits (d)	8	8	(d)	(d)	(d)
Total	$101,229	28,955	20,088	7,907	44,279

(a) For additional information, see Note 14—Debt, in the Notes to Consolidated Financial Statements.

(b) Represents any agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms. We expect these purchase obligations will be fulfilled by operating cash flows in the applicable maturity period. The majority of the purchase obligations are market-based contracts, including exchanges and futures, for the purchase of products such as crude oil and unfractionated NGL. The products are mostly used to supply our refineries and fractionators, optimize the supply chain, and resell to customers. Product purchase commitments with third parties totaled $39,822 million. In addition, $22,117 million are product purchases from CPChem, mostly for natural gas and NGL over the remaining contractual term of 85 years, and $8,575 million from Excel Paralubes, for base oil over the remaining contractual term of 10 years.

Purchase obligations of $6,385 million are related to agreements to access and utilize the capacity of third-party equipment and facilities, including pipelines and product terminals, to transport, process, treat, and store products. The remainder is primarily our net share of purchase commitments for materials and services for jointly owned facilities where we are the operator.

(c) Excludes pensions. For the 2015 through 2019 time period, we expect to contribute an average of $138 million per year to our qualified and nonqualified pension and other postretirement benefit plans in the United States and an average of $56 million per year to our non-U.S. plans, which are expected to be in excess of required minimums in many cases. The U.S. five-year average consists of $30 million for 2015 and then approximately $165 million per year for the remaining four years. Our minimum funding in 2015 is expected to be $30 million in the United States and $70 million outside the United States.

(d) Excludes unrecognized tax benefits of $134 million because the ultimate disposition and timing of any payments to be made with regard to such amounts are not reasonably estimable or the amounts relate to potential refunds. Also excludes interest and penalties of $16 million. Although unrecognized tax benefits are not a contractual obligation, they are presented in this table because they represent potential demands on our liquidity.

Table of Contents
Index to Financial Statements

Capital Spending

	Millions of Dollars			
	2015 Budget	2014	2013	2012
Capital Expenditures and Investments				
Midstream*	$3,163	2,173	597	707
Chemicals	—	—	—	—
Refining**	1,112	1,038	820	735
Marketing and Specialties	170	439	226	119
Corporate and Other**	155	123	136	140
Total consolidated from continuing operations	$4,600	3,773	1,779	1,701
Discontinued operations	$—	—	27	20
Selected Equity Affiliates***				
DCP Midstream*	$400	776	971	1,324
CPChem	1,453	897	613	371
WRB	203	140	109	136
	$2,056	1,813	1,693	1,831

*2012 consolidated amount includes acquisition of a one-third interest in the Sand Hills and Southern Hills pipeline projects from DCP Midstream for $459 million. This amount was also included in DCP Midstream’s capital spending, primarily in 2012.
**2015 budget includes non-cash capitalized leases of $11 million in Refining and $21 million in Corporate and Other.
***Our share of capital spending, which has been self-funded by the equity affiliate and is expected to be in 2015.

Midstream
During the three-year period ended December 31, 2014, DCP Midstream had a self-funded capital program, and thus required no new capital infusions from us or our co-venturer, Spectra Energy Corp. During this three-year period, on a 100 percent basis, DCP Midstream’s capital expenditures and investments were $6.1 billion. In 2012, we invested approximately $0.5 billion in total to acquire a one-third direct interest in DCP Sand Hills Pipeline, LLC (DCP Sand Hills) and DCP Southern Hills Pipeline, LLC (DCP Southern Hills). Phillips 66, Spectra Energy Partners and DCP Midstream Partners each own a one-third interest in each of the two pipeline entities, and both pipelines are operated by DCP Midstream. In 2013 and 2014, we made additional investments in both DCP Sand Hills and DCP Southern Hills, increasing our total direct investment to $0.8 billion.

Other capital spending in our Midstream segment not related to DCP Midstream or the Sand Hills and Southern Hills pipelines over the three-year period included construction activities in 2014 related to our Sweeny Fractionator One and Freeport LPG Export Terminal projects, our acquisition in 2014 of a 7.1 million-barrel-storage-capacity crude oil and petroleum products terminal located near Beaumont, Texas, the purchase in 2014 of an additional 5.7 percent interest in the refined products Explorer Pipeline, and spending associated with return, reliability and maintenance projects. In addition to our Sweeny Fractionator One and Freeport LPG Export Terminal projects, our major capital activities in 2013 and 2014 included the construction of rail racks to accept advantaged crude deliveries at our Bayway and Ferndale refineries.

Chemicals

During the three-year period ended December 31, 2014, CPChem had a self-funded capital program, and thus required no new capital infusions from us or our co-venturer, Chevron U.S.A. Inc. (Chevron), an indirect wholly-owned subsidiary of Chevron Corporation. During the three-year period, on a 100 percent basis, CPChem’s capital expenditures and investments were $3.8 billion. In addition, CPChem’s advances to equity affiliates, primarily used for project construction and start-up activities, were $0.5 billion and its repayments received from equity affiliates were $0.4 billion.

Table of Contents
Index to Financial Statements

Refining
Capital spending for the Refining segment during the three-year period ended December 31, 2014, was $2.6 billion, primarily for air emission reduction and clean fuels projects to meet new environmental standards, refinery upgrade projects to increase accessibility of advantaged crudes and improve product yields, improvements to the operating integrity of key processing units, and safety-related projects.

Key projects completed during the three-year period included:

- Installation of facilities to reduce nitrous oxide emissions from the crude furnace and installation of a new high-efficiency vacuum furnace at Bayway Refinery.
- Completion of gasoline benzene reduction projects at the Alliance, Bayway, and Ponca City refineries.
- Installation of new coke drums at the Billings and Ponca City refineries.
- Installation of a new waste heat boiler at the Bayway Refinery to reduce carbon monoxide emissions while providing steam production.

Major construction activities in progress include:

- Installation of facilities to reduce nitrous oxide emissions from the fluid catalytic cracker at the Alliance Refinery.
- Installation of a tail gas treating unit at the Humber Refinery to reduce emissions from the sulfur recovery units.

Generally, our equity affiliates in the Refining segment are intended to have self-funding capital programs. During this three-year period, on a 100 percent basis, WRB's capital expenditures and investments were $0.8 billion. We expect WRB's 2015 capital program to be self-funding.

Marketing and Specialties
Capital spending for the M&S segment during the three-year period ended December 31, 2014, was primarily for the acquisition of, and investments in, a limited number of retail sites in the Western and Midwestern portions of the United States; the acquisition of Spectrum Corporation, a private label specialty lubricants business headquartered in Memphis, Tennessee, as well as the remaining interest that we did not already own in an entity that operates a power and steam generation plant; reliability and maintenance projects; and projects targeted at growing our international marketing business.

Corporate and Other
Capital spending for Corporate and Other during the three-year period ended December 31, 2014, was primarily for projects related to information technology and facilities.

2015 Budget
Our 2015 capital budget is $4.6 billion. This excludes our portion of planned capital spending by joint ventures DCP Midstream, CPChem and WRB totaling $2.1 billion, all of which are expected to be self-funded. We continually evaluate our capital budget in light of market conditions. As part of our disciplined approach to capital allocation, we retain the flexibility to adjust the capital budget as the year progresses.

In Midstream, we plan to invest $3.2 billion in our NGL and Transportation business lines. Midstream capital includes approximately $0.2 billion expected to be spent by Phillips 66 Partners to support organic growth projects. In NGL, construction of the 100,000 barrel-per-day Sweeny Fractionator One and the 4.4 million-barrel-per-month Freeport LPG Export Terminal on the U.S. Gulf Coast continues. In Transportation, we are investing in pipeline and rail infrastructure projects to move crude oil from the Bakken/Three Forks production area of North Dakota to market centers throughout the United States. In addition, expansion of the Beaumont Terminal and related infrastructure opportunities are being pursued.

We plan to spend $1.1 billion of capital in Refining, approximately 75 percent of which will be sustaining capital. These investments are related to reliability and maintenance, safety and environmental projects, including compliance with the new EPA Tier 3 gasoline specifications. Discretionary Refining capital investments are expected to be directed toward small, high-return, quick pay-out projects, primarily to enhance the use of advantaged crudes and improve product yields.

In Marketing and Specialties, we plan to invest approximately $0.2 billion for growth and sustaining capital. The growth investment reflects our continued plans to expand and enhance our fuel marketing business.

In Corporate and Other, we plan to fund approximately $0.2 billion in projects primarily related to information technology and facilities.

Contingencies

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

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

Legal and Tax Matters

Our legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. Our process facilitates the early evaluation and quantification of potential exposures in individual cases. This process also enables us to track those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, our legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, are required. See Note 22—Income Taxes, in the Notes to Consolidated Financial Statements, for additional information about income-tax-related contingencies.

Environmental

We are subject to the same numerous international, federal, state and local environmental laws and regulations as other companies in our industry. The most significant of these environmental laws and regulations include, among others, the:

- U.S. Federal Clean Air Act, which governs air emissions.
- U.S. Federal Clean Water Act, which governs discharges to water bodies.

- European Union Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which governs the manufacture, placing on the market or use of chemicals.
- U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which imposes liability on generators, transporters and arrangers of hazardous substances at sites where hazardous substance releases have occurred or are threatening to occur.
- U.S. Federal Resource Conservation and Recovery Act (RCRA), which governs the treatment, storage and disposal of solid waste.

Table of Contents
Index to Financial Statements

- U.S. Federal Emergency Planning and Community Right-to-Know Act (EPCRA), which requires facilities to report toxic chemical inventories to local emergency planning committees and response departments.
- U.S. Federal Safe Drinking Water Act, which governs the disposal of wastewater in underground injection wells.
- U.S. Federal Oil Pollution Act of 1990 (OPA90), under which owners and operators of onshore facilities and pipelines, lessees or permittees of an area in which an offshore facility is located, and owners and operators of vessels are liable for removal costs and damages that result from a discharge of oil into navigable waters of the United States.
- European Union Trading Directive resulting in the European Emissions Trading Scheme, which uses a market-based mechanism to incentivize the reduction of greenhouse gas emissions.

These laws and their implementing regulations set limits on emissions and, in the case of discharges to water, establish water quality limits. They also, in most cases, require permits in association with new or modified operations. These permits can require an applicant to collect substantial information in connection with the application process, which can be expensive and time consuming. In addition, there can be delays associated with notice and comment periods and the agency's processing of the application. Many of the delays associated with the permitting process are beyond the control of the applicant.

Many states and foreign countries where we operate also have, or are developing, similar environmental laws and regulations governing these same types of activities. While similar, in some cases these regulations may impose additional, or more stringent, requirements that can add to the cost and difficulty of marketing or transporting products across state and international borders.

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

An example in the fuels area is the Energy Policy Act of 2005, which imposed obligations to provide increasing volumes of renewable fuels in transportation motor fuels through 2012. These obligations were changed with the enactment of the Energy Independence and Security Act of 2007 (EISA). EISA requires fuel producers and importers to provide additional renewable fuels for transportation motor fuels and stipulates a mix of various types to be included through 2022. We have met the increasingly stringent requirements to date while establishing implementation, operating and capital strategies, along with advanced technology development, to address projected future requirements. It is uncertain how various future requirements contained in EISA, and the regulations promulgated thereunder, may be implemented and what their full impact may be on our operations. Also, we may experience a decrease in demand for refined petroleum products due to the regulatory program as currently promulgated. For the 2014 compliance year, the U.S. Environmental Protection Agency (EPA) proposed to reduce the statutory volumes of advanced and total renewable fuel using authority granted to it under EISA. We do not know whether this reduction will be finalized as proposed or whether the EPA will utilize its authority to reduce statutory volumes in future compliance years.

We also are subject to certain laws and regulations relating to environmental remediation obligations associated with current and past operations. Such laws and regulations include CERCLA and RCRA and their state equivalents. Remediation obligations include cleanup responsibility arising from petroleum releases from underground storage tanks located at numerous past and present owned and/or operated petroleum-marketing outlets throughout the United States. Federal and state laws require contamination caused by such underground storage tank releases be assessed and remediated to meet applicable standards. In addition to other cleanup standards, many states have adopted cleanup criteria for methyl tertiary-butyl ether (MTBE) for both soil and groundwater.

At RCRA-permitted facilities, we are required to assess environmental conditions. If conditions warrant, we may be required to remediate contamination caused by prior operations. In contrast to CERCLA, which is often referred to as "Superfund," the cost of corrective action activities under RCRA corrective action programs typically is borne solely by us. We anticipate increased expenditures for RCRA remediation activities may be required, but such annual expenditures for the near term are not expected to vary significantly from the range of such expenditures we have experienced over the past few years. Longer-term expenditures are subject to considerable uncertainty and may fluctuate significantly.

We occasionally receive requests for information or notices of potential liability from the EPA and state environmental agencies alleging we are a potentially responsible party under CERCLA or an equivalent state statute. On occasion, we also have been made a party to cost recovery litigation by those agencies or by private parties. These requests, notices and lawsuits assert potential liability for remediation costs at various sites that typically are not owned by us, but allegedly contain wastes attributable to our past operations. As of December 31, 2013, we reported we had been notified of potential liability under CERCLA and comparable state laws at 35 sites around the United States. During 2014, there were no new sites for which we received notification of potential liability and one site was deemed resolved and closed, leaving 34 unresolved sites with potential liability at December 31, 2014.

For most Superfund sites, our potential liability will be significantly less than the total site remediation costs because the percentage of waste attributable to us, versus that attributable to all other potentially responsible parties, is relatively low. Although liability of those potentially responsible is generally joint and several for federal sites and frequently so for state sites, other potentially responsible parties at sites where we are a party typically have had the financial strength to meet their obligations, and where they have not, or where potentially responsible parties could not be located, our share of liability has not increased materially. Many of the sites for which we are potentially responsible are still under investigation by the EPA or the state agencies concerned. Prior to actual cleanup, those potentially responsible normally assess site conditions, apportion responsibility and determine the appropriate remediation. In some instances, we may have no liability or attain a settlement of liability. Actual cleanup costs generally occur after the parties obtain EPA or equivalent state agency approval of a remediation plan. There are relatively few sites where we are a major participant, and given the timing and amounts of anticipated expenditures, neither the cost of remediation at those sites nor such costs at all CERCLA sites, in the aggregate, is expected to have a material adverse effect on our competitive or financial condition.

Expensed environmental costs were $630 million in 2014 and are expected to be approximately $680 million in each of 2015 and 2016. Capitalized environmental costs were $411 million in 2014 and are expected to be approximately $320 million in each of 2015 and 2016. This amount does not include capital expenditures made for another purpose that have an indirect benefit on environmental compliance.

Accrued liabilities for remediation activities are not reduced for potential recoveries from insurers or other third parties and are not discounted (except those assumed in a purchase business combination, which we record on a discounted basis).

Many of these liabilities result from CERCLA, RCRA and similar state laws that require us to undertake certain investigative and remedial activities at sites where we conduct, or once conducted, operations or at sites where our generated waste was disposed. We also have accrued for a number of sites we identified that may require environmental remediation, but which are not currently the subject of CERCLA, RCRA or state enforcement activities. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the future, we may incur significant costs under both CERCLA and RCRA. Remediation activities vary substantially in duration and cost from site to site, depending on the mix of unique site characteristics, evolving remediation technologies, diverse regulatory agencies and enforcement policies, and the presence or absence of potentially liable third parties. Therefore, it is difficult to develop reasonable estimates of future site remediation costs.

At December 31, 2014, our balance sheet included total accrued environmental costs of $496 million, compared with $492 million at December 31, 2013, and $530 million at December 31, 2012. We expect to incur a substantial amount of these expenditures within the next 30 years.

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

The EPA's Renewable Fuel Standard (RFS) program was implemented in accordance with the Energy Policy Act of 2005 and EISA. The RFS program sets annual quotas for the percentage of biofuels (such as ethanol) that must be blended into motor fuels consumed in the United States. A Renewable Identification Number (RIN) represents a serial number assigned to each gallon of biofuel produced or imported into the United States. As a producer of petroleum-based motor fuels, we are obligated to blend biofuels into the products we produce at a rate that is at least equal to the EPA’s quota and, to the extent we do not, we must purchase RINs in the open market to satisfy our obligation under the RFS program. The market for RINs has been the subject of fraudulent activity, and we have identified that we have unknowingly purchased RINs in the past that were invalid due to fraudulent activity of third parties. Although costs to replace fraudulently marketed RINs that have been determined to be invalid have not been material through December 31, 2014, it is reasonably possible that some additional RINs that we have previously purchased may also be determined to be invalid. Should that occur, we could incur additional replacement charges. Although the cost for replacing any additional fraudulently marketed RINs is not reasonably estimable at this time, we could have a possible exposure of approximately $150 million before tax. It could take several years for this possible exposure to reach ultimate resolution; therefore, we would not expect to incur the full financial impact of additional fraudulent RINs replacement costs in any single interim or annual period.

Climate Change

There has been a broad range of proposed or promulgated state, national and international laws focusing on greenhouse gas (GHG) reduction. These proposed or promulgated laws apply or could apply in countries where we have interests or may have interests in the future. Laws in this field continue to evolve, and while it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation, such laws, if enacted, could have a material impact on our results of operations and financial condition. Examples of legislation or precursors for possible regulation that do or could affect our operations include:

- European Union Emissions Trading Scheme (EU ETS), which is part of the European Union's policy to combat climate change and is a key tool for reducing industrial greenhouse gas emissions. EU ETS impacts factories, power stations and other installations across all EU member states.
- California's Global Warming Solutions Act, which requires the California Air Resources Board to develop regulations and market mechanisms that will target reduction of California's GHG emissions by 25 percent by 2020.
- The U.S. Supreme Court decision in Massachusetts v. EPA, 549 U.S. 497, 127 S. Ct. 1438 (2007), confirming that the EPA has the authority to regulate carbon dioxide as an "air pollutant" under the Federal Clean Air Act.
- The EPA's announcement on March 29, 2010 (published as "Interpretation of Regulations that Determine Pollutants Covered by Clean Air Act Permitting Programs," 75 Fed. Reg. 17004 (April 2, 2010)), and the EPA's and U.S. Department of Transportation's joint promulgation of a Final Rule on April 1, 2010, that triggers regulation of GHGs under the Clean Air Act. These collectively may lead to more climate-based claims for damages, and may result in longer agency review time for development projects to determine the extent of potential climate change.
- Carbon taxes in certain jurisdictions.
- GHG emission cap and trade programs in certain jurisdictions.

In the EU, the first phase of the EU ETS completed at the end of 2007 and Phase II was undertaken from 2008 through to 2012. The current phase (Phase III) runs from 2013 through to 2020, with the main changes being reduced allocation of free allowances and increased auctioning of new allowances. Phillips 66 has assets that are subject to the EU ETS, and the company is actively engaged in minimizing any financial impact from the EU ETS.

In the United States, some additional form of regulation may be forthcoming in the future at the federal or state levels with respect to GHG emissions. Such regulation could take any of several forms that may result in the creation of additional costs in the form of taxes, the restriction of output, investments of capital to maintain compliance with laws and regulations, or required acquisition or trading of emission allowances. We are working to continuously improve operational and energy efficiency through resource and energy conservation throughout our operations.

Compliance with changes in laws and regulations that create a GHG emission trading program or GHG reduction requirements could significantly increase our costs, reduce demand for fossil energy derived products, impact the cost and availability of capital and increase our exposure to litigation. Such laws and regulations could also increase demand for less carbon intensive energy sources. An example of one such program is California's cap and trade program, which was promulgated pursuant to the State's Global Warming Solutions Act. The program has been limited to certain stationary sources, which include our refineries in California, but beginning in January 2015 expanded to include emissions from transportation fuels distributed in California. We expect inclusion of transportation fuels in California’s cap and trade program as currently promulgated will increase our cap and trade program compliance costs. The ultimate impact on our financial performance, either positive or negative, from this and similar programs, will depend on a number of factors, including, but not limited to:

Table of Contents
Index to Financial Statements

- Whether and to what extent legislation or regulation is enacted.
- The nature of the legislation or regulation (such as a cap and trade system or a tax on emissions).
- The GHG reductions required.
- The price and availability of offsets.
- The amount and allocation of allowances.
- Technological and scientific developments leading to new products or services.
- Any potential significant physical effects of climate change (such as increased severe weather events, changes in sea levels and changes in temperature).
- Whether, and the extent to which, increased compliance costs are ultimately reflected in the prices of our products and services.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 2—Accounting Policies, in the Notes to Consolidated Financial Statements, for descriptions of our major accounting policies. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used. The following discussion of critical accounting estimates, along with the discussion of contingencies in this report, address all important accounting areas where the nature of accounting estimates or assumptions could be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

Impairments

Long-lived assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in future cash flows is expected to be generated by an asset group. If, upon review, the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset group, including applicable liabilities, the carrying value of the long-lived assets included in the asset group is written down to estimated fair value. Individual assets are grouped for impairment purposes based on a judgmental assessment of the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (for example, at a refinery complex level). Because there usually is a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined using one or more of the following methods: the present values of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants; a market multiple of earnings for similar assets; or historical market transactions of similar assets, adjusted using principal market participant assumptions when necessary. The expected future cash flows used for impairment reviews and related fair value calculations are based on judgmental assessments of future volumes, commodity prices, operating costs, margins, discount rates and capital project decisions, considering all available information at the date of review.

Investments in nonconsolidated entities accounted for under the equity method are reviewed for impairment when there is evidence of a loss in value. Such evidence of a loss in value might include our inability to recover the carrying amount, the lack of sustained earnings capacity which would justify the current investment amount, or a current fair value less than the investment’s carrying amount. When it is determined such a loss in value is other than temporary, an impairment charge is recognized for the difference between the investment’s carrying value and its estimated fair value. When determining whether a decline in value is other than temporary, management considers factors such as the length of time and extent of the decline, the investee's financial condition and near-term prospects, and our ability and intention to retain our investment for a period that will be sufficient to allow for any anticipated recovery in the market value of the investment. When quoted market prices are not available, the fair value is usually based on the present value of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants and a market analysis of comparable assets, if appropriate. Differing assumptions could affect the timing and the amount of an impairment of an investment in any period.

Asset Retirement Obligations
Under various contracts, permits and regulations, we have legal obligations to remove tangible equipment and restore the land at the end of operations at certain operational sites. Our largest asset removal obligations involve asbestos abatement at refineries. Estimating the timing and amount of payments for future asset removal costs is difficult. Most of these removal obligations are many years, or decades, in the future, and the contracts and regulations often have vague descriptions of what removal practices and criteria must be met when the removal event actually occurs. Asset removal technologies and costs, regulatory and other compliance considerations, expenditure timing, and other inputs into valuation of the obligation, including discount and inflation rates, are also subject to change.

Environmental Costs
In addition to asset retirement obligations discussed above, under the above or similar contracts, permits and regulations, we have certain obligations to complete environmental-related projects. These projects are primarily related to cleanup at domestic refineries, underground storage sites and non-operated sites. Future environmental remediation costs are difficult to estimate because they are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other responsible parties.

Intangible Assets and Goodwill
At December 31, 2014, we had $756 million of intangible assets determined to have indefinite useful lives, and thus they are not amortized. This judgmental assessment of an indefinite useful life must be continuously evaluated in the future. If, due to changes in facts and circumstances, management determines these intangible assets have finite useful lives, amortization will commence at that time on a prospective basis. As long as these intangible assets are judged to have indefinite lives, they will be subject to annual impairment tests that require management’s judgment of the estimated fair value of these intangible assets.

At December 31, 2014, we had $3.3 billion of goodwill recorded in conjunction with past business combinations. Goodwill is not amortized. Instead, goodwill is subject to at least annual reviews for impairment at a reporting unit level. The reporting unit or units used to evaluate and measure goodwill for impairment are determined primarily from the manner in which the business is managed. A reporting unit is an operating segment or a component that is one level below an operating segment.

Effective January 1, 2014, we reallocated $52 million of goodwill from the Refining segment to the M&S segment based upon the realignment of certain assets between the reporting units. Goodwill was reassigned to the reporting units using a relative fair value approach. Goodwill impairment testing was completed and no impairment recognition was required. See Note 27—Segment Disclosures and Related Information, for additional information on this segment realignment. Sales or dispositions of significant assets within a reporting unit are allocated a portion of that reporting unit’s goodwill, based on relative fair values, which adjusts the amount of gain or loss on the sale or disposition.

Because quoted market prices for our reporting units were not available, management applied judgment in determining the estimated fair values of the reporting units for purposes of performing the goodwill impairment test. Management used all available information to make this fair value determination, including observed market earnings multiples of comparable companies, our common stock price and associated total company market capitalization and the present values of expected future cash flows using discount rates commensurate with the risks involved in the assets.

We completed our annual impairment test, as of October 1, 2014, and concluded that the fair value of our reporting units exceeded their recorded net book values (including goodwill). Our Refining reporting unit had a percentage excess of fair value over recorded net book value of approximately 60 percent. Our Transportation and M&S reporting unit's fair values exceeded their recorded net book values by over 100 percent. However, a decline in the estimated fair value of one or more of our reporting units in the future could result in an impairment. For example, a prolonged or significant decline in our stock price or a significant decline in actual or forecasted earnings could provide evidence of a significant decline in fair value and a need to record a material impairment of goodwill for one or more of our reporting units.

Tax Assets and Liabilities

Our operations are subject to various taxes, including federal, state and foreign income taxes and transactional taxes such as excise, sales/use, property and payroll taxes. We record tax liabilities based on our assessment of existing tax laws and regulations. The recording of tax liabilities requires significant judgment and estimates. We recognize the financial statement effects of an income tax position when it is more likely than not that the position will be sustained upon examination by a taxing authority. A contingent liability related to a transactional tax claim is recorded if the loss is both probable and estimable. Actual incurred tax liabilities can vary from our estimates for a variety of reasons, including different interpretations of tax laws and regulations and different assessments of the amount of tax due.

In determining our income tax provision, we assess the likelihood our deferred tax assets will be recovered through future taxable income. Valuation allowances reduce deferred tax assets to an amount that will, more likely than not, be realized. Judgment is required in estimating the amount of valuation allowance, if any, that should be recorded against our deferred tax assets. Based on our historical taxable income, our expectations for the future, and available tax-planning strategies, we expect the net deferred tax assets will more likely than not be realized as offsets to reversing deferred tax liabilities and as reductions to future taxable income. If our actual results of operations differ from such estimates or our estimates of future taxable income change, the valuation allowance may need to be revised.

New tax laws and regulations, as well as changes to existing tax laws and regulations, are continuously being proposed or promulgated. The implementation of future legislative and regulatory tax initiatives could result in increased tax liabilities that cannot be predicted at this time.

Projected Benefit Obligations

Determination of the projected benefit obligations for our defined benefit pension and postretirement plans are important to the recorded amounts for such obligations on the balance sheet and to the amount of benefit expense in the income statement. The actuarial determination of projected benefit obligations and company contribution requirements involves judgment about uncertain future events, including estimated retirement dates, salary levels at retirement, mortality rates, lump-sum election rates, rates of return on plan assets, future health care cost-trend rates, and rates of utilization of health care services by retirees. Due to the specialized nature of these calculations, we engage outside actuarial firms to assist in the determination of these projected benefit obligations and company contribution requirements. Due to differing objectives and requirements between financial accounting rules and the pension plan funding regulations promulgated by governmental agencies, the actuarial methods and assumptions for the two purposes differ in certain important respects. Ultimately, we will be required to fund all promised benefits under pension and postretirement benefit plans not funded by plan assets or investment returns, but the judgmental assumptions used in the actuarial calculations significantly affect periodic financial statements and funding patterns over time. Benefit expense is particularly sensitive to the discount rate and return on plan assets assumptions. A 1 percent decrease in the discount rate assumption would increase annual benefit expense by an estimated $80 million, while a 1 percent decrease in the return on plan assets assumption would increase annual benefit expense by an estimated $30 million. In determining the discount rate, we use yields on high-quality fixed income investments with payments matched to the estimated distributions of benefits from our plans.

In 2014 and 2013, the company used an expected long-term rate of return of 7 percent for the U.S. pension plan assets, which account for 75 percent of the company’s pension plan assets. The actual asset returns for 2014 and 2013 were 9 percent and 16 percent, respectively. For the eight years prior to the Separation, actual asset returns averaged 7 percent for the U.S. pension plan assets. The 2013 asset returns of 16 percent were associated with a broad recovery in the financial markets during the year.

NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The new standard converged guidance on recognizing revenues in contracts with customers under accounting principles generally accepted in the United States and International Financial Reporting Standards. This ASU is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. ASU 2014-09 is effective for annual and quarterly reporting periods of public entities beginning after December 15, 2016. Early application for public entities is not permitted. We are currently evaluating the provisions of ASU 2014-09 and assessing the impact, if any, it may have on our financial position and results of operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Instrument Market Risk

We and certain of our subsidiaries hold and issue derivative contracts and financial instruments that expose our cash flows or earnings to changes in commodity prices, foreign currency exchange rates or interest rates. We may use financial- and commodity-based derivative contracts to manage the risks produced by changes in the prices of crude oil and related products, natural gas, NGL, and electric power; fluctuations in interest rates and foreign currency exchange rates; or to capture market opportunities.

Our use of derivative instruments is governed by an "Authority Limitations" document approved by our Board of Directors that prohibits the use of highly leveraged derivatives or derivative instruments without sufficient market liquidity for comparable valuations. The Authority Limitations document also establishes the Value at Risk (VaR) limits for us, and compliance with these limits is monitored daily. Our Chief Financial Officer monitors risks resulting from foreign currency exchange rates and interest rates. Our President monitors commodity price risk. The Commercial organization manages our commercial marketing, optimizes our commodity flows and positions, and monitors related risks of our businesses.

Commodity Price Risk

We sell into or receive supply from the worldwide crude oil, refined products, natural gas, NGL, and electric power markets and are exposed to fluctuations in the prices for these commodities.

These fluctuations can affect our revenues and purchases, as well as the cost of operating, investing and financing activities. Generally, our policy is to remain exposed to the market prices of commodities.

Our Commercial organization uses futures, forwards, swaps and options in various markets to optimize the value of our supply chain, which may move our risk profile away from market average prices to accomplish the following objectives:

- Balance physical systems. In addition to cash settlement prior to contract expiration, exchange-traded futures contracts also may be settled by physical delivery of the commodity, providing another source of supply to meet our refinery requirements or marketing demand.
- Meet customer needs. Consistent with our policy to generally remain exposed to market prices, we use swap contracts to convert fixed-price sales contracts, which are often requested by refined product consumers, to a floating-market price.
- Manage the risk to our cash flows from price exposures on specific crude oil, refined product, natural gas, and electric power transactions.
- Enable us to use the market knowledge gained from these activities to capture market opportunities such as moving physical commodities to more profitable locations, storing commodities to capture seasonal or time premiums, and blending commodities to capture quality upgrades. Derivatives may be utilized to optimize these activities.

We use a VaR model to estimate the loss in fair value that could potentially result on a single day from the effect of adverse changes in market conditions on the derivative financial instruments and derivative commodity instruments held or issued, including commodity purchase and sales contracts recorded on the balance sheet at December 31, 2014, as derivative instruments. Using Monte Carlo simulation, a 95 percent confidence level and a one-day holding period, the VaR for those instruments issued or held for trading purposes at December 31, 2014 and 2013, was immaterial to our cash flows and net income.

The VaR for instruments held for purposes other than trading at December 31, 2014 and 2013, was also immaterial to our cash flows and net income.

Table of Contents
Index to Financial Statements

Interest Rate Risk
The following tables provide information about our debt instruments that are sensitive to changes in U.S. interest rates. These tables present principal cash flows and related weighted-average interest rates by expected maturity dates. Weighted-average variable rates are based on effective rates at the reporting date. The carrying amount of our floating-rate debt approximates its fair value. The fair value of the fixed-rate financial instruments is estimated based on quoted market prices.

	Millions of Dollars Except as Indicated							
Expected Maturity Date	Fixed Rate Maturity		Average Interest Rate		Floating Rate Maturity		Average Interest Rate	
Year-End 2014								
2015	$	825	2.11	%	$	—	—	%
2016		27	7.24			—	—	
2017		1,529	3.03			—	—	
2018		26	7.19			12	0.03	
2019		24	7.12			18	1.33	
Remaining years		6,020	4.90			38	0.03	
Total	$	8,451			$	68		
Fair value	$	8,806			$	68		

	Millions of Dollars Except as Indicated							
Expected Maturity Date	Fixed Rate Maturity		Average Interest Rate		Floating Rate Maturity		Average Interest Rate	
Year-End 2013								
2014	$	13	7.00	%	$	—	—	%
2015		815	2.04			—	—	
2016		15	7.00			—	—	
2017		1,516	2.99			—	—	
2018		17	7.00			13	0.05	
Remaining years		3,535	5.00			37	0.05	
Total	$	5,911			$	50		
Fair value	$	6,168			$	50		

For additional information about our use of derivative instruments, see Note 17—Derivatives and Financial Instruments, in the Notes to Consolidated Financial Statements.

Table of Contents
Index to Financial Statements

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

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “sho “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar expressions.

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

- Fluctuations in NGL, crude oil and natural gas prices and petrochemical and refining margins.
- Failure of new products and services to achieve market acceptance.
- Unexpected changes in costs or technical requirements for constructing, modifying or operating our facilities or transporting our products.
- Unexpected technological or commercial difficulties in manufacturing, refining or transporting our products, including chemicals products.
- Lack of, or disruptions in, adequate and reliable transportation for our NGL, crude oil, natural gas and refined products.
- The level and success of drilling and quality of production volumes around DCP Midstream’s assets and its ability to connect supplies to its gathering and processing systems, residue gas and NGL infrastructure.
- Inability to timely obtain or maintain permits, including those necessary for capital projects; comply with government regulations; or make capital expenditures required to maintain compliance.
- Failure to complete definitive agreements and feasibility studies for, and to timely complete construction of, announced and future capital projects.
- Potential disruption or interruption of our operations due to accidents, weather events, civil unrest, political events, terrorism or cyber attacks.
- International monetary conditions and exchange controls.
- Substantial investment or reduced demand for products as a result of existing or future environmental rules and regulations.
- Liability resulting from litigation or for remedial actions, including removal and reclamation obligations under environmental regulations.
- General domestic and international economic and political developments including: armed hostilities; expropriation of assets; changes in governmental policies relating to NGL, crude oil, natural gas or refined product pricing, regulation or taxation; and other political, economic or diplomatic developments.
- Changes in tax, environmental and other laws and regulations (including alternative energy mandates) applicable to our business.
- Limited access to capital or significantly higher cost of capital related to changes to our credit profile or illiquidity or uncertainty in the domestic or international financial markets.
- The operation, financing and distribution decisions of our joint ventures.
- Domestic and foreign supplies of crude oil and other feedstocks.
-

Domestic and foreign supplies of petrochemicals and refined products, such as gasoline, diesel, jet fuel and home heating oil.
- Governmental policies relating to exports of crude oil and natural gas.
- Overcapacity or undercapacity in the midstream, chemicals and refining industries.
- Fluctuations in consumer demand for refined products.
- The factors generally described in Item 1A.—Risk Factors in this report.

Table of Contents
Index to Financial Statements

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PHILLIPS 66

INDEX TO FINANCIAL STATEMENTS

Table of Contents
Index to Financial Statements

Report of Management

Management prepared, and is responsible for, the consolidated financial statements and the other information appearing in this annual report. The consolidated financial statements present fairly the company's financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. In preparing its consolidated financial statements, the company includes amounts that are based on estimates and judgments management believes are reasonable under the circumstances. The company's financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm appointed by the Audit and Finance Committee of the Board of Directors. Management has made available to Ernst & Young LLP all of the company's financial records and related data, as well as the minutes of stockholders' and directors' meetings.

Assessment of Internal Control Over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Phillips 66's internal control system was designed to provide reasonable assurance to the company's management and directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013), adopted by the Company on December 15, 2014. Based on this assessment, management concluded the company's internal control over financial reporting was effective as of December 31, 2014.

Ernst & Young LLP has issued an audit report on the company's internal control over financial reporting as of December 31, 2014, and their report is included herein.

/s/ Greg C. Garland	/s/ Greg G. Maxwell
Greg C. Garland Chairman and Chief Executive Officer	Greg G. Maxwell Executive Vice President, Finance and Chief Financial Officer

February 20, 2015

Table of Contents
Index to Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Phillips 66

We have audited the accompanying consolidated balance sheet of Phillips 66 as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule included in Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phillips 66 at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Phillips 66's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Houston, Texas
February 20, 2015

Table of Contents
Index to Financial Statements

Report of Independent Registered Public Accounting Firm on
Internal Control Over Financial Reporting

The Board of Directors and Stockholders
Phillips 66

We have audited Phillips 66's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Phillips 66's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included under the heading "Assessment of Internal Control Over Financial Reporting" in the accompanying "Report of Management." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Phillips 66 maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2014 consolidated financial statements of Phillips 66 and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 20, 2015

Table of Contents
Index to Financial Statements

Consolidated Statement of Income Phillips 66

	Millions of Dollars		
Years Ended December 31	2014	2013	2012
Revenues and Other Income			
Sales and other operating revenues*	$161,212	171,596	179,290
Equity in earnings of affiliates	2,466	3,073	3,134
Net gain on dispositions	295	55	193
Other income	120	85	135
Total Revenues and Other Income	164,093	174,809	182,752
Costs and Expenses			
Purchased crude oil and products	135,748	148,245	154,413
Operating expenses	4,435	4,206	4,033
Selling, general and administrative expenses	1,663	1,478	1,703
Depreciation and amortization	995	947	906
Impairments	150	29	1,158
Taxes other than income taxes*	15,040	14,119	13,740
Accretion on discounted liabilities	24	24	25
Interest and debt expense	267	275	246
Foreign currency transaction (gains) losses	26	(40)	(28)
Total Costs and Expenses	158,348	169,283	176,196
Income from continuing operations before income taxes	5,745	5,526	6,556
Provision for income taxes	1,654	1,844	2,473
Income from Continuing Operations	4,091	3,682	4,083
Income from discontinued operations**	706	61	48
Net income	4,797	3,743	4,131
Less: net income attributable to noncontrolling interests	35	17	7
Net Income Attributable to Phillips 66	$4,762	3,726	4,124
Amounts Attributable to Phillips 66 Common Stockholders:			
Income from continuing operations	$4,056	3,665	4,076
Income from discontinued operations	706	61	48
Net Income Attributable to Phillips 66	$4,762	3,726	4,124
Net Income Attributable to Phillips 66 Per Share of Common Stock (dollars)			
Basic			
Continuing operations	$7.15	5.97	6.47
Discontinued operations	1.25	0.10	0.08
Net Income Attributable to Phillips 66 Per Share of Common Stock	$8.40	6.07	6.55
Diluted			
Continuing operations	$7.10	5.92	6.40
Discontinued operations	1.23	0.10	0.08
Net Income Attributable to Phillips 66 Per Share of Common Stock	$8.33	6.02	6.48
Dividends Paid Per Share of Common Stock (dollars)	$1.8900	1.3275	0.4500

Average Common Shares Outstanding (in thousands)			
Basic	565,902	612,918	628,835
Diluted	571,504	618,989	636,764
*Includes excise taxes on petroleum product sales:	$14,698	13,866	13,371
**Net of provision for income taxes on discontinued operations:	$5	34	27

See Notes to Consolidated Financial Statements.

Table of Contents
Index to Financial Statements

Consolidated Statement of Comprehensive Income Phillips 66

	Millions of Dollars		
Years Ended December 31	2014	2013	2012
Net Income	$4,797	3,743	4,131
Other comprehensive income (loss)			
Defined benefit plans			
Prior service cost/credit:			
Prior service credit arising during the period	—	—	18
Amortization to net income of prior service cost	—	—	1
Actuarial gain/loss:			
Actuarial gain (loss) arising during the period	(451)	401	(152)
Amortization to net income of net actuarial loss	56	96	55
Plans sponsored by equity affiliates	(66)	88	(33)
Income taxes on defined benefit plans	169	(211)	18
Defined benefit plans, net of tax	(292)	374	(93)
Foreign currency translation adjustments	(294)	(21)	148
Income taxes on foreign currency translation adjustments	18	(2)	48
Foreign currency translation adjustments, net of tax	(276)	(23)	196
Hedging activities by equity affiliates	—	1	1
Income taxes on hedging activities by equity affiliates	—	(1)	—
Hedging activities by equity affiliates, net of tax	—	—	1
Other Comprehensive Income (Loss), Net of Tax	(568)	351	104
Comprehensive Income	4,229	4,094	4,235
Less: comprehensive income attributable to noncontrolling interests	35	17	7
Comprehensive Income Attributable to Phillips 66	$4,194	4,077	4,228

See Notes to Consolidated Financial Statements.

Table of Contents
Index to Financial Statements

Consolidated Balance Sheet	Phillips 66	
	Millions of Dollars	
At December 31	2014	2013
Assets		
Cash and cash equivalents	$5,207	5,400
Accounts and notes receivable (net of allowances of $71 million in 2014 and $47 million in 2013)	6,306	7,900
Accounts and notes receivable—related parties	949	1,732
Inventories	3,397	3,354
Prepaid expenses and other current assets		