



# Investor Update

*Greg Garland*

April 2012

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# Cautionary Statement

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The following presentation includes forward-looking statements. These statements relate to future events, such as anticipated revenues, earnings, business strategies, competitive position or other aspects of our operations or operating results. Actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, such as oil and natural gas prices; refining and marketing margins; operational hazards; potential failure to achieve, and potential delays in achieving, expected sales levels from existing and future assets; unexpected cost increases or technical difficulties in constructing, maintaining or modifying company facilities; international monetary conditions and exchange controls; potential liability for remedial actions under existing or future environmental regulations; potential liability from pending or future litigation; limited access to capital or significantly higher cost of capital related to illiquidity or uncertainty in the domestic or international financial markets; general domestic and international economic and political conditions; changes in tax, environmental and other laws applicable to Phillips 66's business; the operation and financing of Phillips 66's joint ventures; domestic and foreign supplies of crude oil, other feedstocks, and refined products such as gasoline, diesel, jet fuel, home heating oil and petrochemicals; overcapacity or undercapacity in the refining and chemical industries; and fluctuations in consumer demand for refined products. Other factors that could cause actual results to differ materially from those described in the forward-looking statements include other economic, business, competitive and/or regulatory factors affecting Phillips 66's business generally as set forth in Phillips 66's filings with the Securities and Exchange Commission (SEC).



# Phillips 66 – *The Advantaged Downstream Energy Company*

## Industry-leading

Refining & Marketing

Chemicals

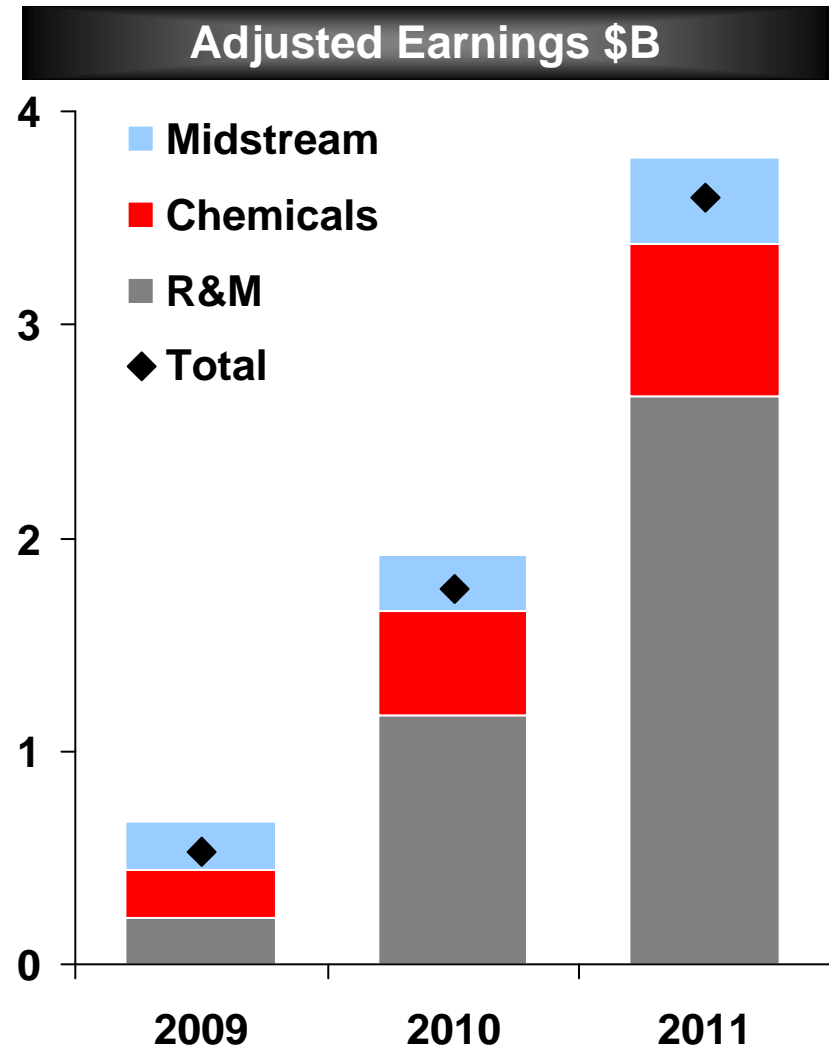
Midstream

Financial strength

## Earnings growth

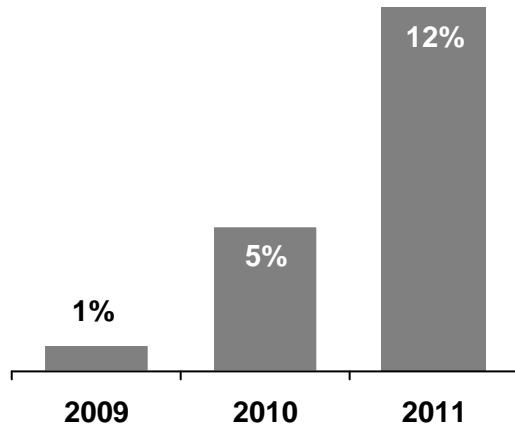
## Returns enhancement

## Shareholder distributions



# Improving Returns and Earnings

## R&M ROCE



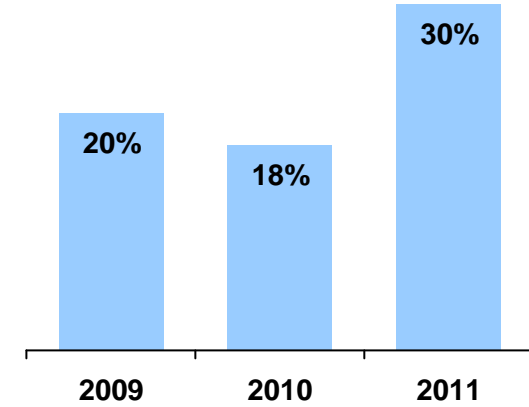
### Adjusted Earnings

\$0.2 B - 2009 - \$0.2 B

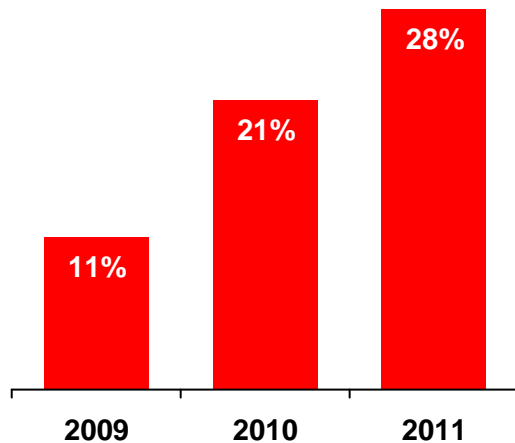
\$1.2 B - 2010 - \$0.3 B

\$2.7 B - 2011 - \$0.4 B

## Midstream ROCE



## Chemicals ROCE



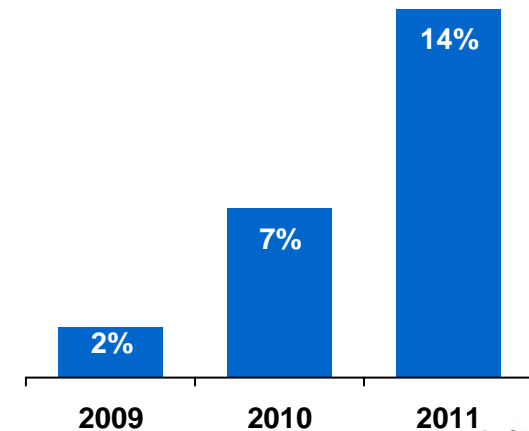
### Adjusted Earnings

\$0.2 B - 2009 - \$0.5 B

\$0.5 B - 2010 - \$1.8 B

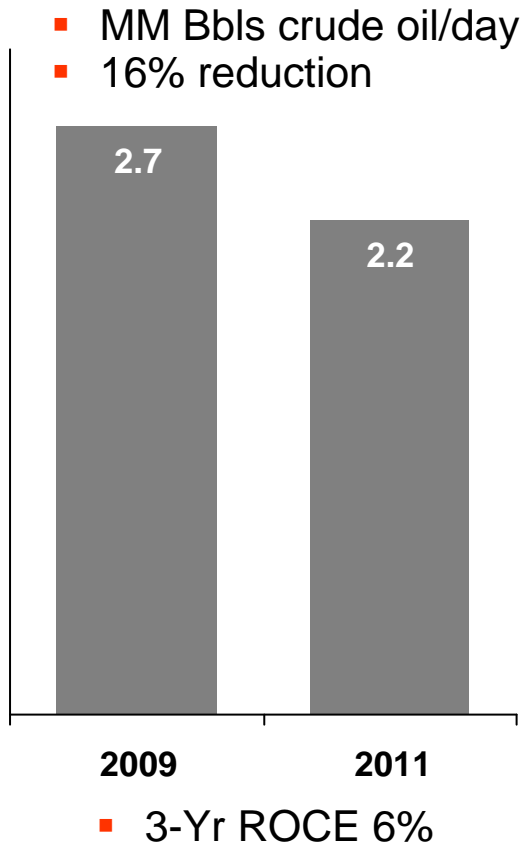
\$0.7 B - 2011 - \$3.6 B

## Phillips 66 ROCE

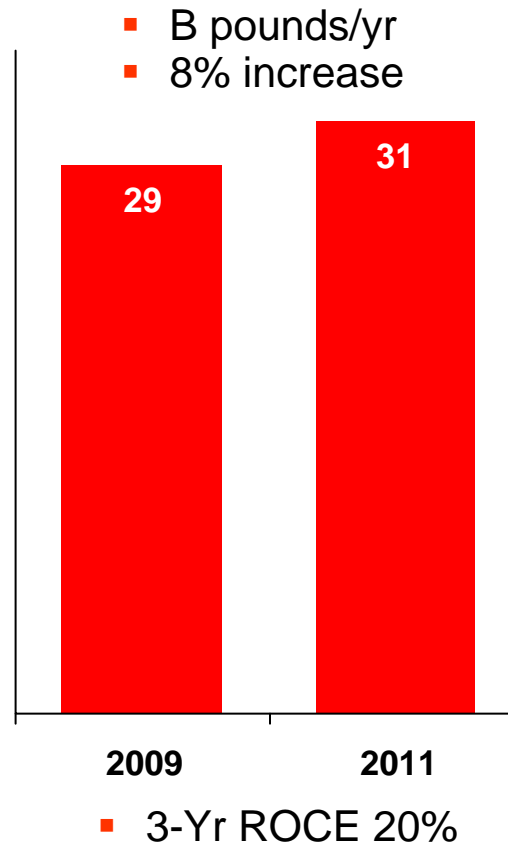


# Optimizing Portfolio

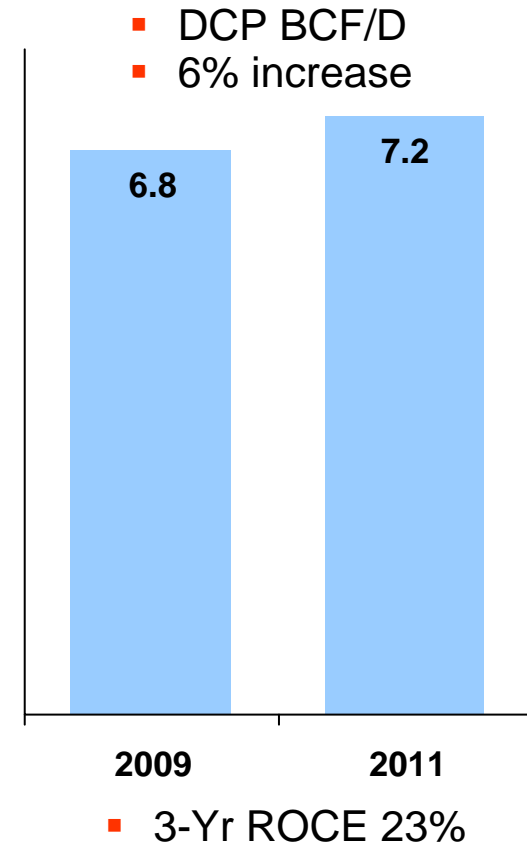
## Refining Capacity



## Chemicals Capacity



## Midstream Capacity

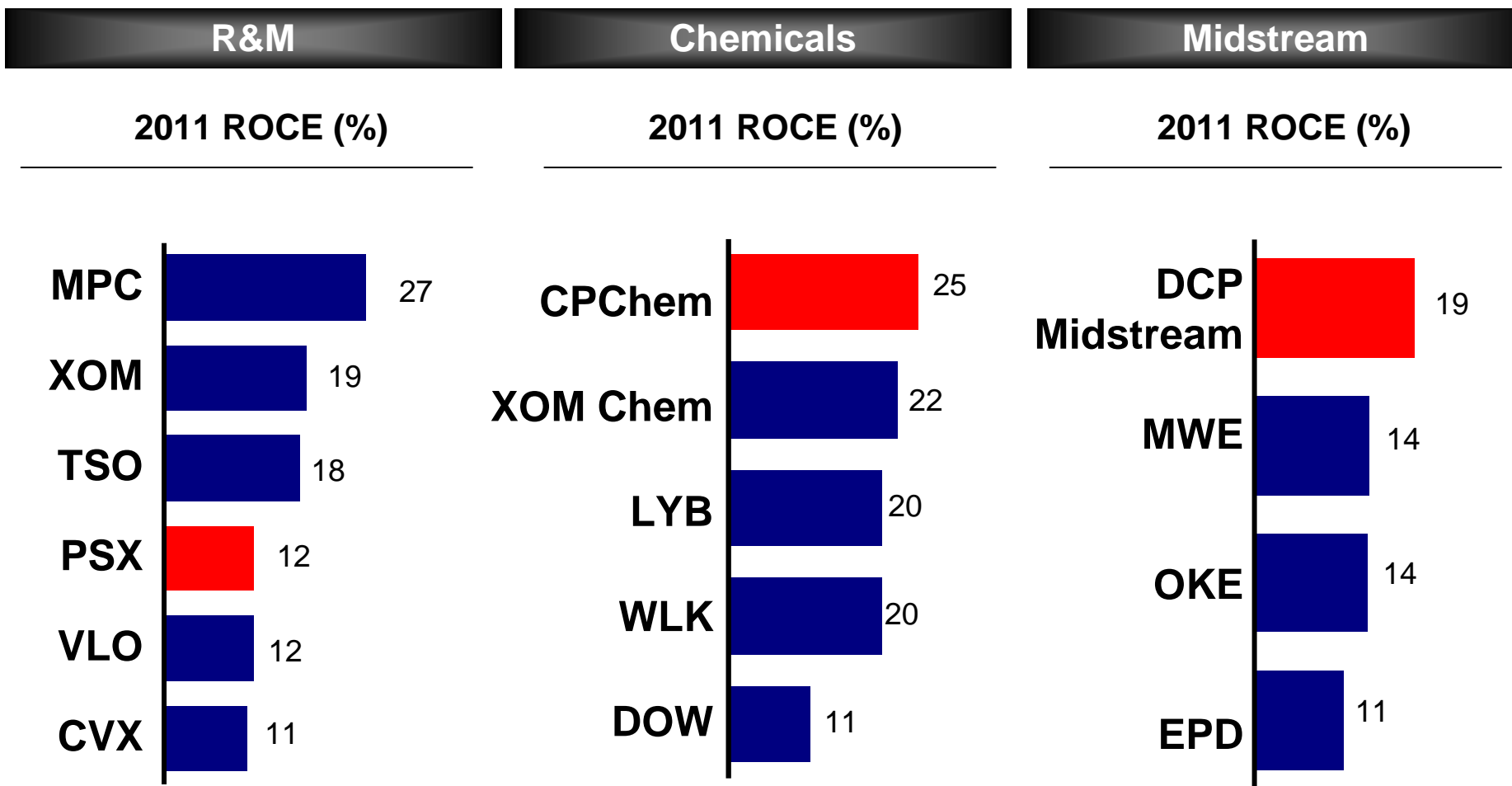


## Shifting portfolio to higher-return segments

Chemicals capacity is net CPCChem capacity, including equity affiliates.  
Midstream capacity is gross DCP name plate capacity.



# High-Performing Businesses



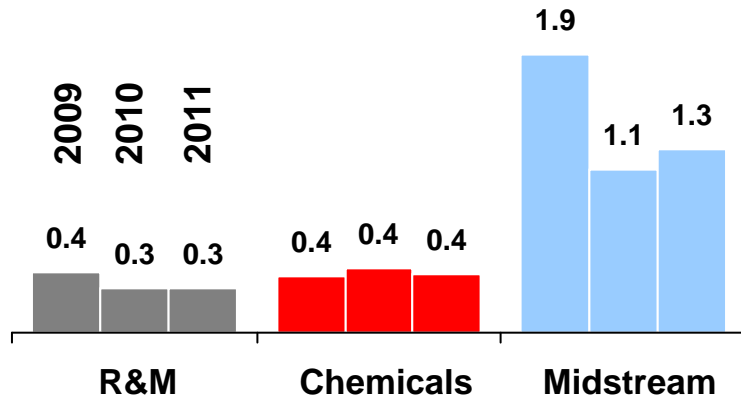
R&M: Net Income adjusted for special items / Assets – Liabilities. XOM R&M ROCE as disclosed by XOM.  
 Midstream: EBIT / Capital Employed.  
 Chemicals: Net Income plus Interest expense / Capital Employed. XOM Chemicals as disclosed by XOM.



# Operating Excellence

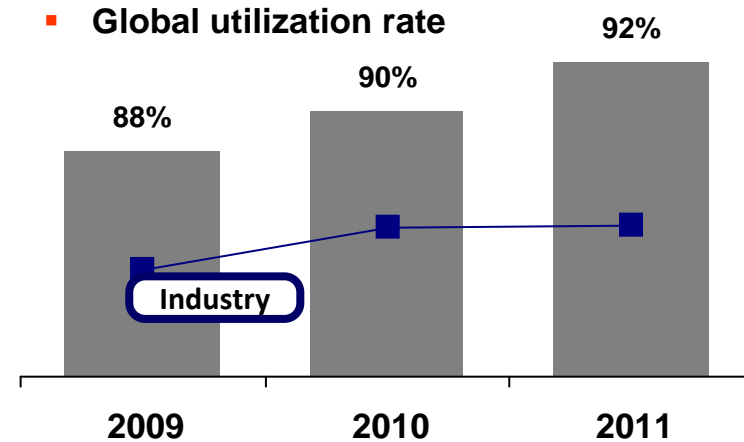
## Total Recordable Rates

- Incidents per 200,000 hours worked



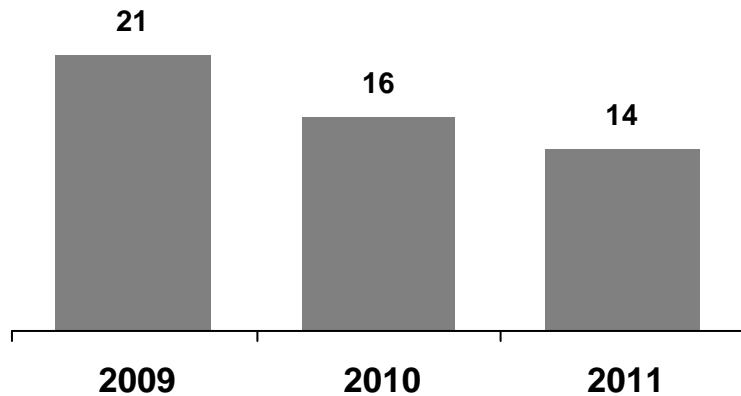
## Refining Reliability

- Global utilization rate



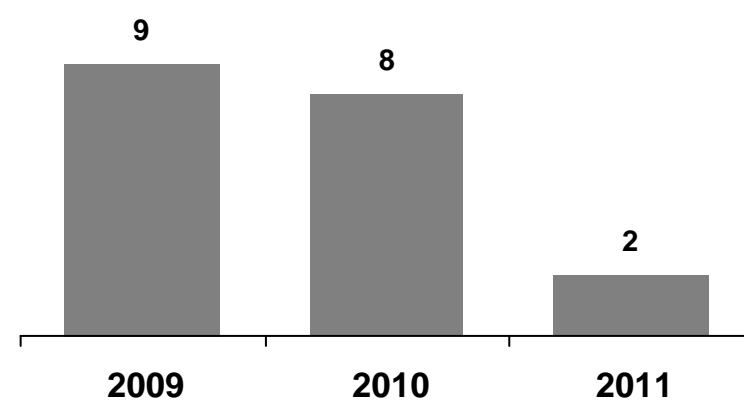
## R&M SO<sub>2</sub> Emissions

- Thousand tons / year



## R&M Hydrocarbon Spills

- Incidents per year of > 100 bbls



Committed to operating excellence

Refining reliability excludes Trainer and Wilhelmshaven.



# Benefits of Spin

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- ❖ **Exploitation of opportunities at existing facilities**
- ❖ **Cash flow available to fund growth, returns and distributions**
- ❖ **Management focus**
  - ❖ Improving capital allocation
  - ❖ Margin expansion
  - ❖ Reducing operating costs
- ❖ **Greater disclosure of asset performance and financial results**

**Focus on value creation**





# Key Initiatives

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- ❖ **Creating differential shareholder value**
- ❖ **Continuously improving operating excellence**
- ❖ **Enhancing financial strength and flexibility**
- ❖ **Allocating cash flow well / returning excess cash to shareholders**
- ❖ **Growing Chemicals capacity**
- ❖ **Expanding Midstream business**
- ❖ **Streamlining, simplifying and reducing costs**
- ❖ **Improving normalized refining margins**

**Executing the plan**



# External Environment – Market Assumptions

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## Supply Growth

- U.S. shale gas and oil
- U.S. NGLs
- Canadian oil sands
- Ethanol and biofuels

## Expanding Demand

- Non-OECD energy demand
- Distillate outpacing gasoline demand
- U.S. NGL demand

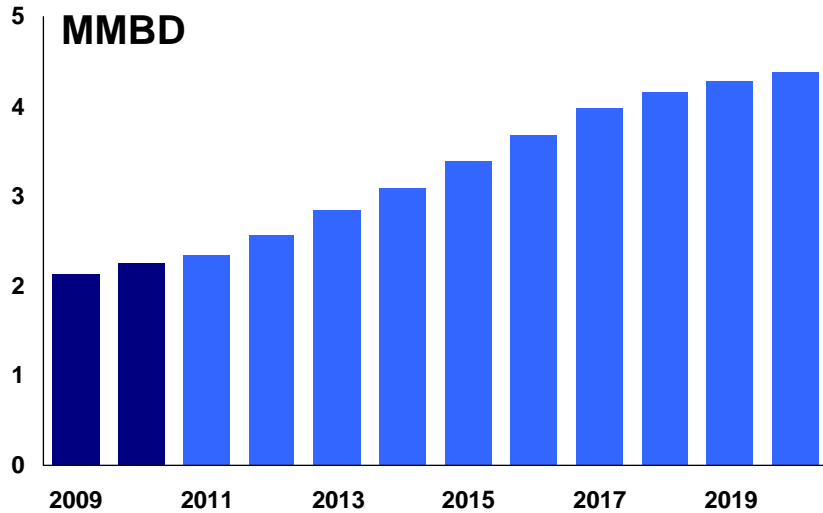
## Relentless Regulatory Pressure

- Renewables mandates
- Product specifications
- Stricter pipeline integrity standards
- Greenhouse gas legislation

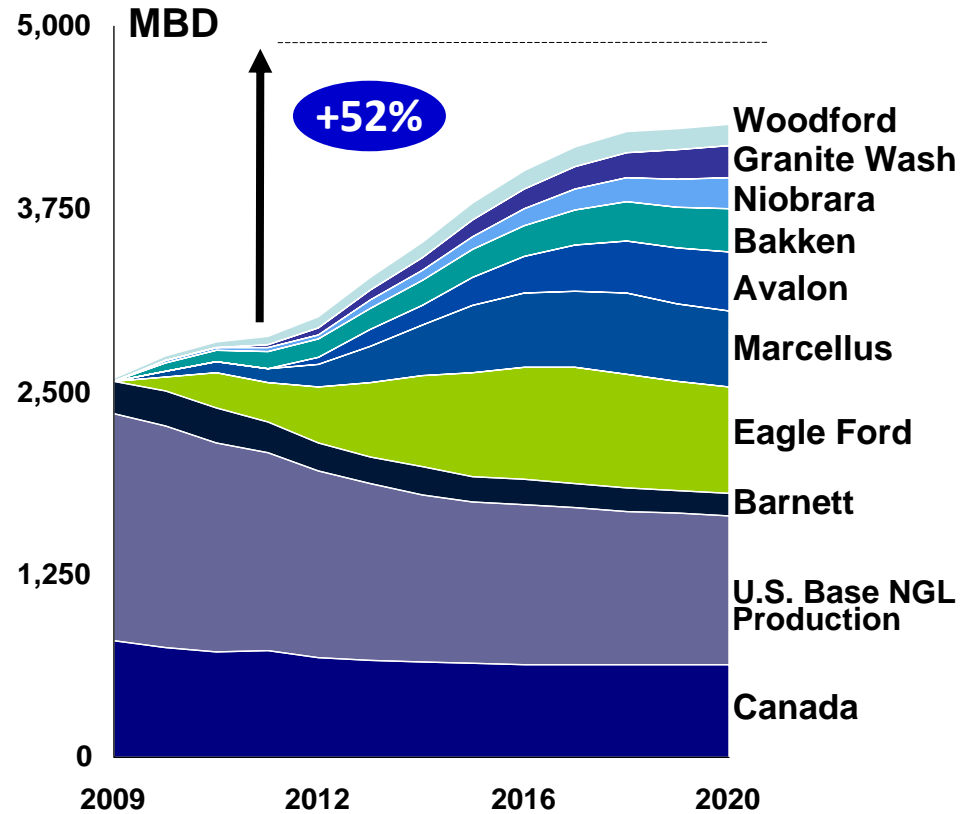


# North American Supply Growth

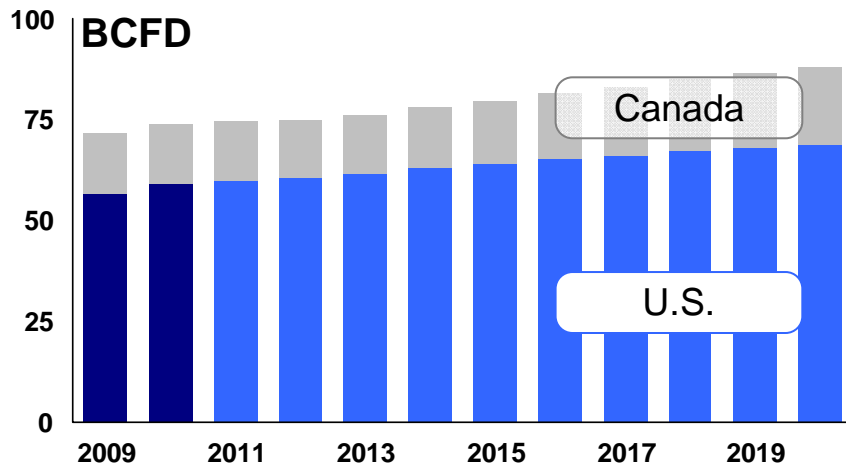
## U.S. Lower 48 Onshore Oil Production



## NGL Production (ex. Refining)



## U.S. and Canada Natural Gas Supply

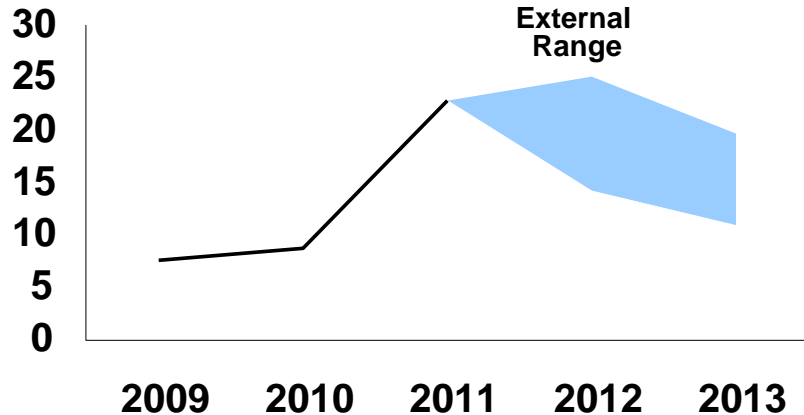


Sources: EIA, Wood Mackenzie, government and company reports, and internal analysis.

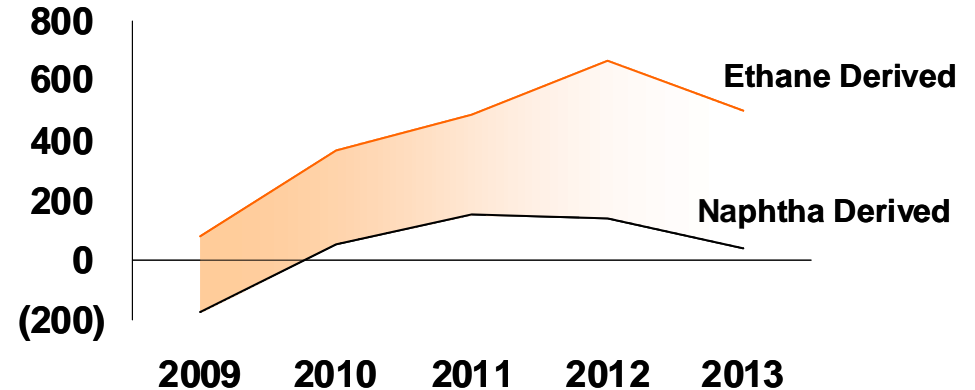


# Selected Refining Margins and Differentials

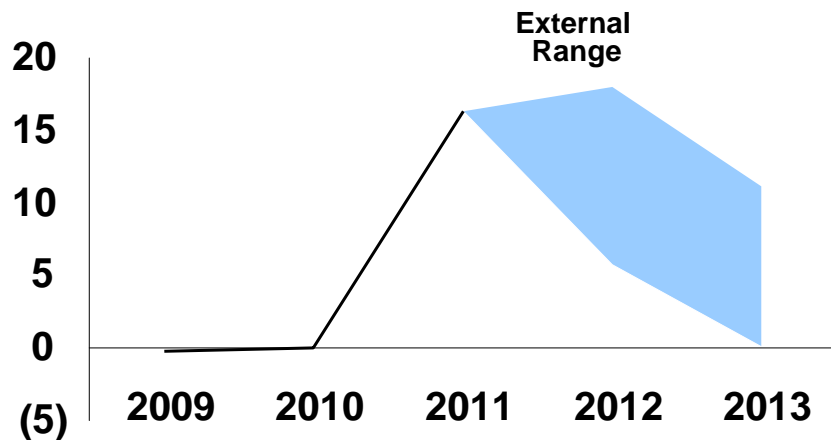
Global 3-2-1 (\$/BBL)



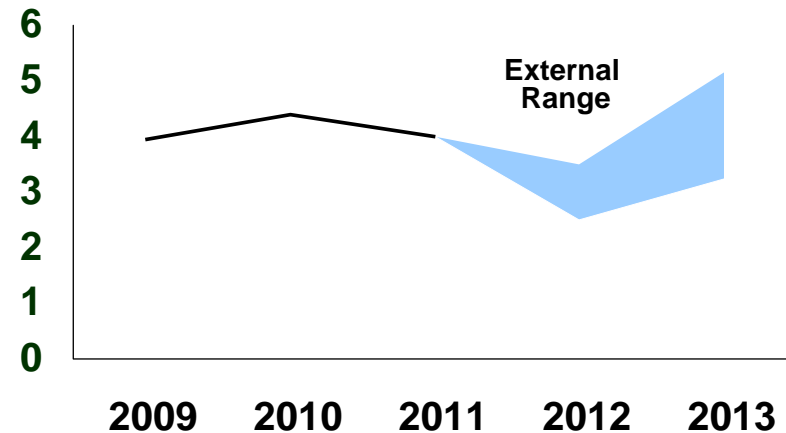
Ethylene Cash Margin (\$/Ton)



Brent / WTI Differential (\$/BBL)



Henry Hub (\$/MMBTU)





Global 3-2-1 is a PSX capacity-weighted average of GC 3-2-1 vs. WTI, Singapore 3-1-2 vs. Dubai, and NW Europe 3-1-2 vs. Brent. Source: Purvin & Gertz, PIRA, Turner Mason, CERA. Ethylene cash margin is from CMAI (U.S. Spot Ethylene minus production cash costs). Brent/WTI differential source: Purvin & Gertz, PIRA, CERA, Turner Mason. Henry Hub source: CERA, PIRA, MacKenzie







# The Advantaged Downstream Energy Company

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## Phillips 66 value proposition

-  High-performing businesses
-  Opportunities for growth and returns enhancement

## Advantaged portfolio

-  Breadth of investment opportunities with attractive returns
-  Superior risk-return profile
-  Strong balance sheet allows investments through the cycle
-  Greater than 80% of capital employed in the U.S.



# Strong Portfolio

## R&M



- 15 refineries (11 in US)
- Nelson complexity of 11
- 2.2 MMBPD refining capacity
- ~10,000 marketing outlets
- Lubes and specialties
- ~15,000 miles of pipeline
- 56 terminals

**12% ROCE in 2011**

## Midstream



- 50/50 JV with Spectra - DCP
- Large U.S. gatherer & processor
- Large U.S. NGL producer
- 61 plants and 12 fractionators
- ~62,000 miles of pipeline
- 9 BCF of natural gas storage
- Phillips 66 Midstream

**30% ROCE in 2011**

## Chemicals



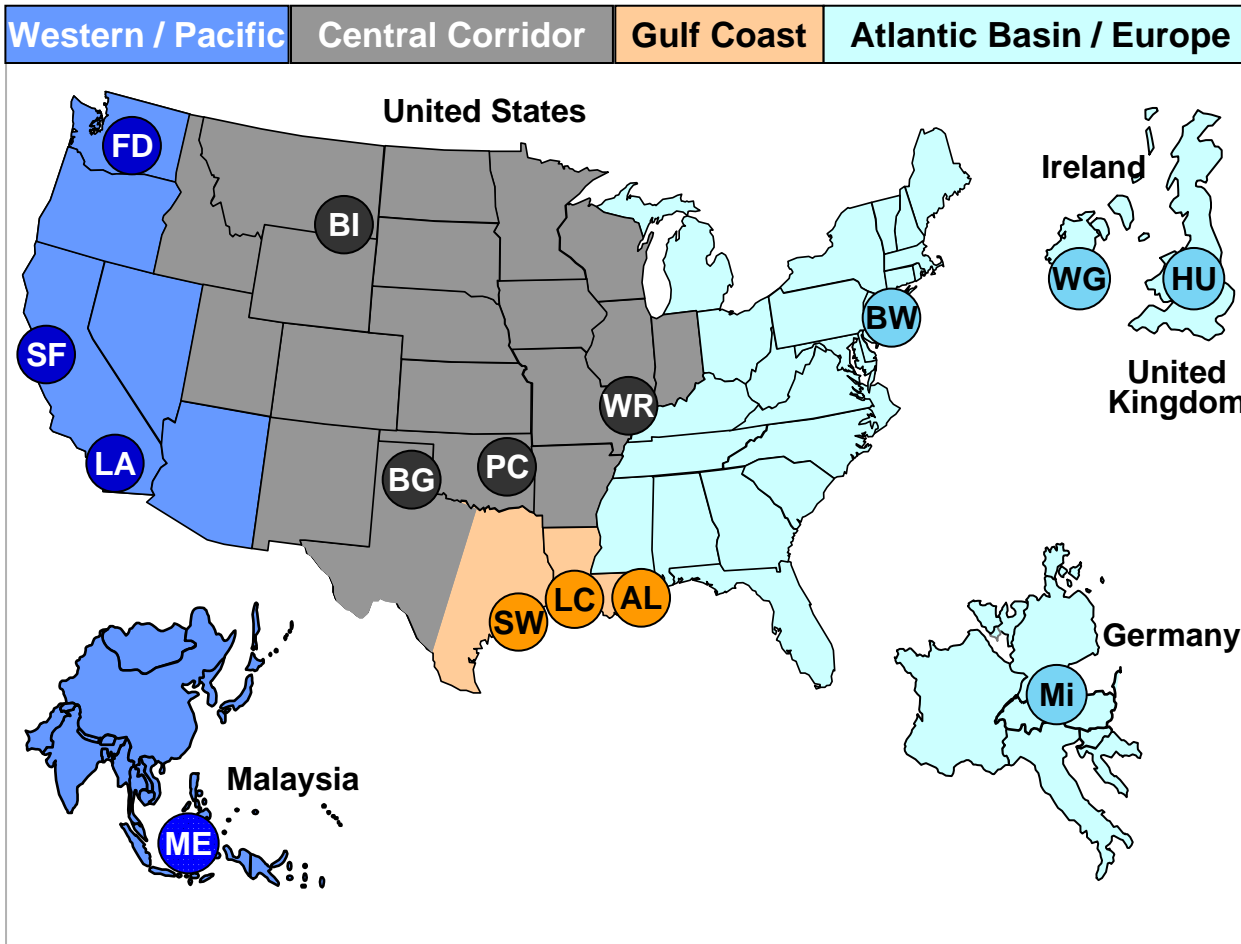
- 50/50 JV with Chevron - CPChem
- NA's largest producer of HDPE
- NA's 4<sup>th</sup> largest ethylene producer
- Leading Middle East position
- Strong global aromatics position

**28% ROCE in 2011**

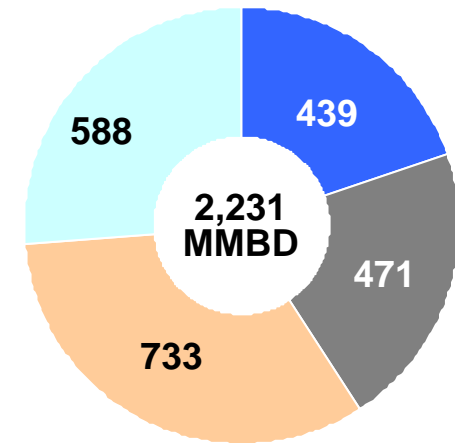
Nelson complexity based on O&GJ complexity for each refinery, updated for recent projects.



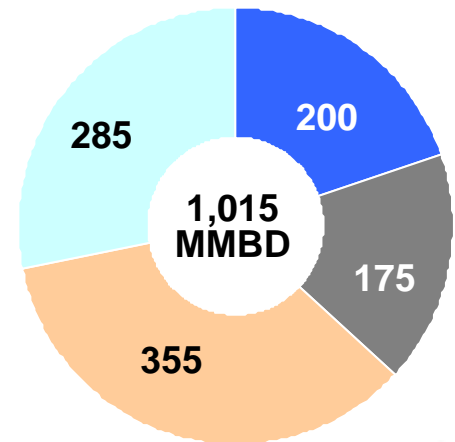
# Refining Assets



## Throughput Capacity



## Distillate Capacity



Capacity is net PSX.



# Marketing and Specialty Businesses

## U.S. Marketing

- Ensures refinery off take
- Highly integrated with refining assets

## European Marketing

- Highest market efficiency
- Strong ROCE

## Lubricants

- Large finished lubes supplier
- Co-located with refineries

## Flow Improver

- High-return business
- Strong market share



Average adjusted earnings of ~\$500 MM per year 2009-2011

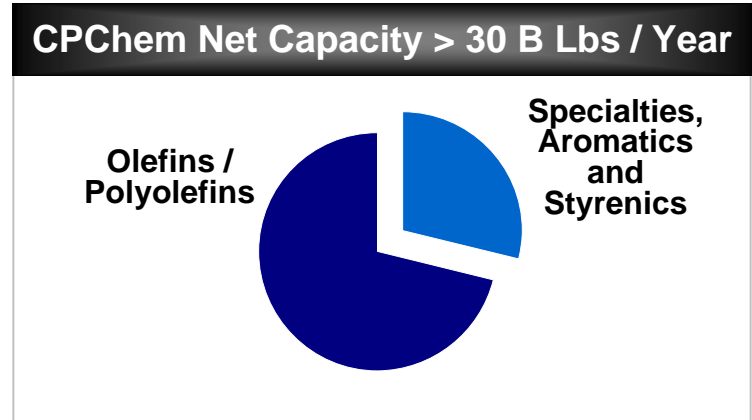
Marketing & Specialties includes other non-refining R&M Capital Employed and Adjusted Earnings.





# Chemicals

- 50/50 JV with Chevron – CPCChem
- Global portfolio
  - 80% of capacity in U.S.
- Advantaged feedstock position
  - 70-80% of U.S. capacity is ethane-based
- Proprietary technology drives competitive advantage
- #1 ROCE in peer group



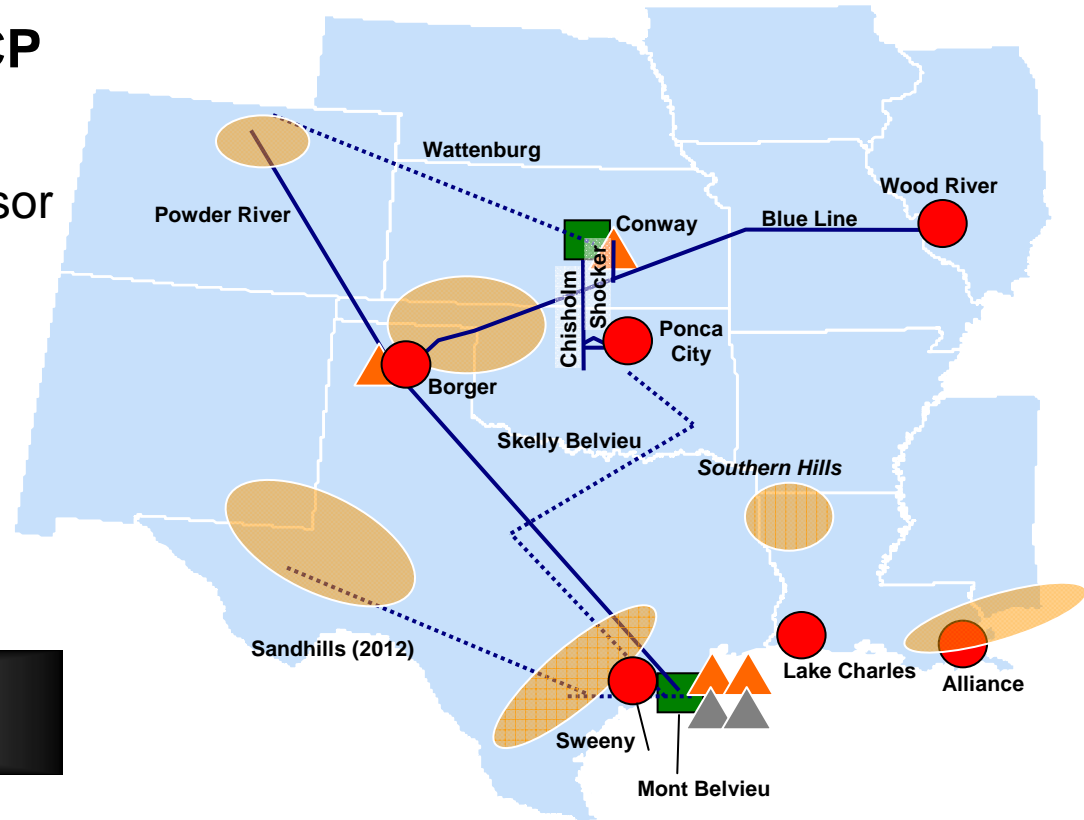
# Midstream

## 50/50 JV with Spectra – DCP

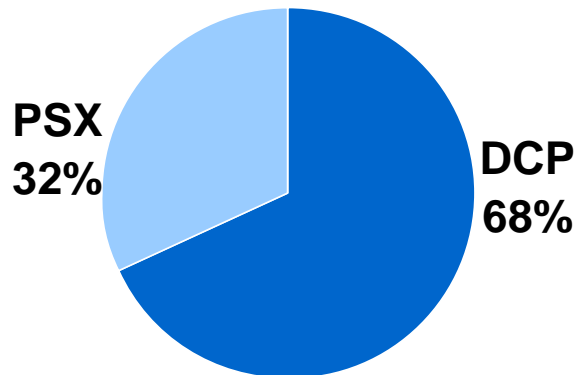
- ☞ Large U.S. NGL producer
- ☞ Large gatherer and processor
- ☞ Assets overlay shale plays
- ☞ Growing MLP – DPM

## Phillips 66 Midstream

- ☞ U.S. fractionation position
- ☞ 25% interest in REX



**2009-2011 Midstream Adjusted Earnings**



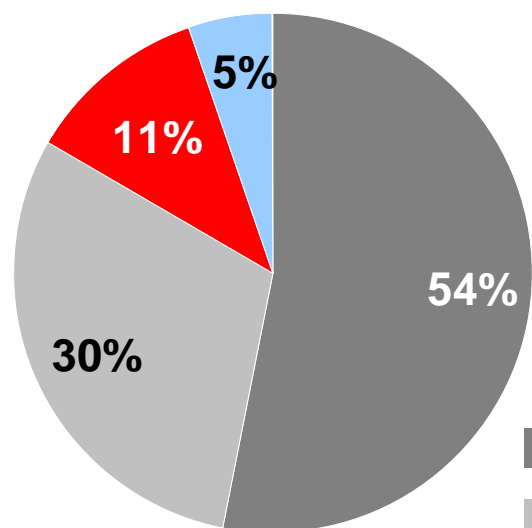
- P66 NGL pipeline
- ⋯ DCP NGL pipeline
- ▲ P66 fractionation
- ▲ DCP fractionation
- P66 refineries
- DCP gathering and processing assets
- Major hub



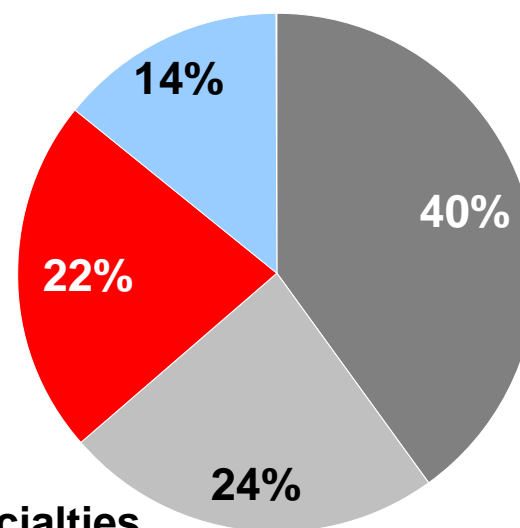
# Differentiated Portfolio

- Capital employed of \$24 B at year-end 2011
- Refining represents ~40% of 2009-2011 adjusted earnings

2011 Capital Employed



2009 – 2011 Adjusted Earnings



- Refining
- Marketing & Specialties
- Chemicals
- Midstream

Corporate and Other excluded from Capital Employed and Adjusted Earnings.  
Marketing & Specialties includes other non-refining R&M Adjusted Earnings.



# Strategic Priorities

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## 🔴 Enhance return on capital

- 🔴 Portfolio optimization
- 🔴 Margin improvement

## 🔴 Deliver profitable growth

- 🔴 Chemicals expansion
- 🔴 Midstream growth
- 🔴 Specialties and transportation

## 🔴 Grow shareholder distributions

- 🔴 Regular dividends
- 🔴 Share repurchases



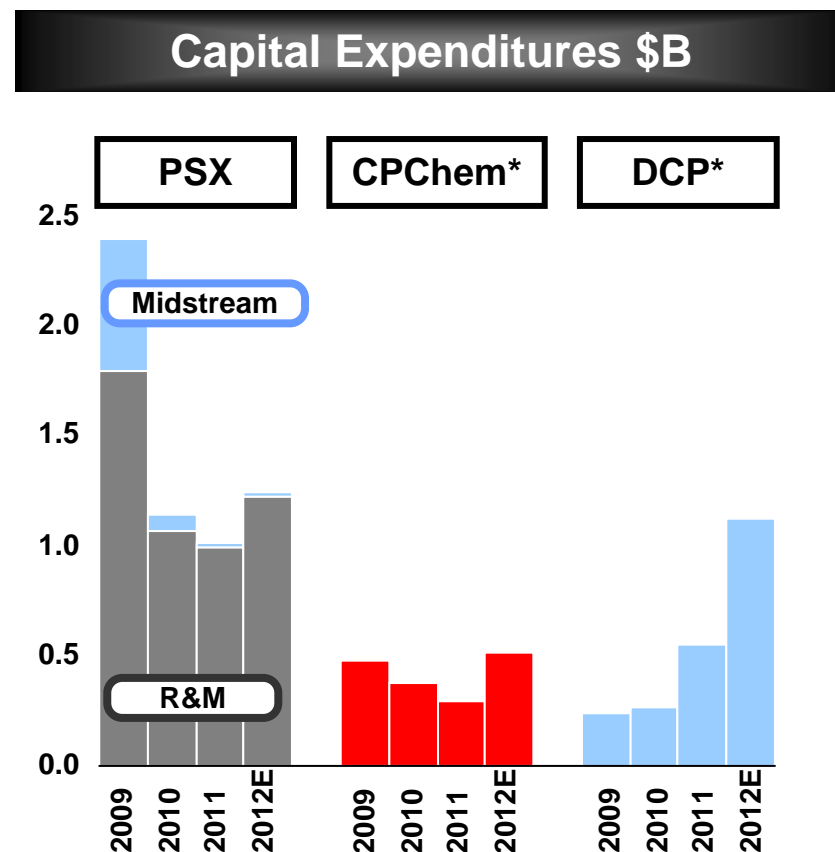
# Enhance Return on Capital

## Optimize portfolio

- Shift capital employed to higher returning assets / segments
- Continuous high-grade of portfolio

## Improve margins

- Capture advantaged feedstock
- Grow clean product yield
- Increase access to export markets
- Manage costs

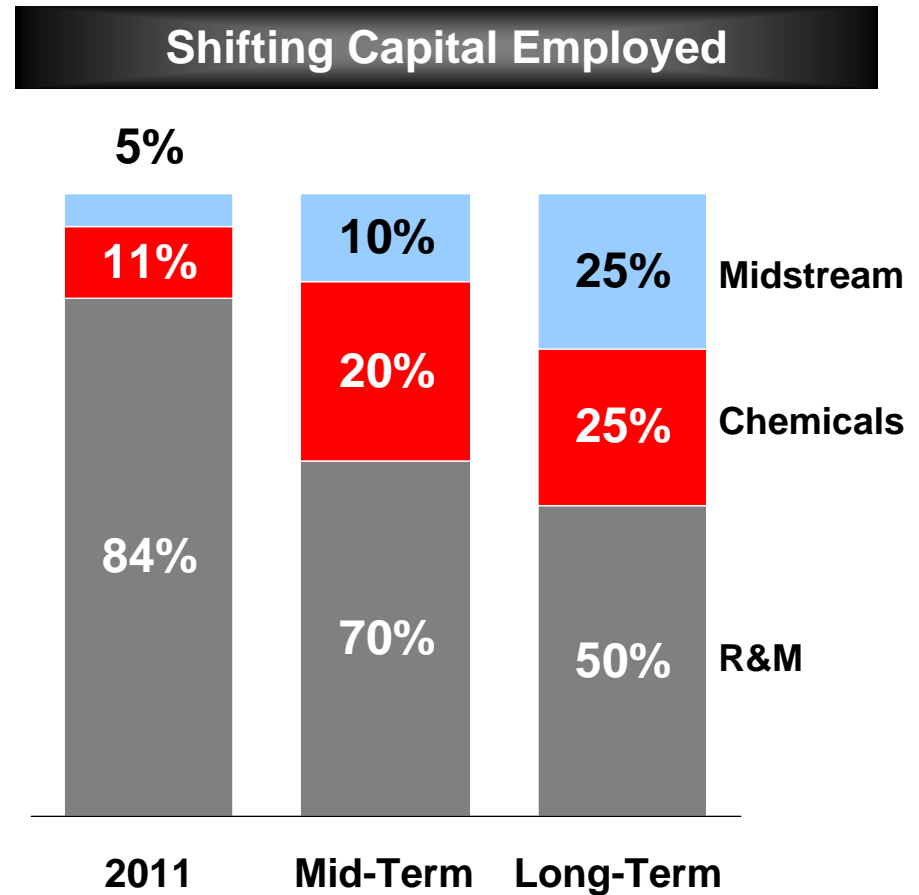


Note: Represents PSX's proportionate share of CPCChem and DCP's self-funded capital expenditures and investments, and CPCChem proportional share of JV capex and major project spending.



# Optimize Portfolio

- 🛡️ Increase investment in higher-returning businesses
- 🛡️ Rationalize low-returning refining assets
- 🛡️ Disciplined portfolio management process



**Improving capital efficiency through portfolio actions**

Capital Employed excludes corporate.



# Capture Advantaged Feedstock Opportunities

## Shale oil to Phillips 66 refineries

- 100 MBD – Current shale oil processed
- 460 MBD – Total shale oil processing capability

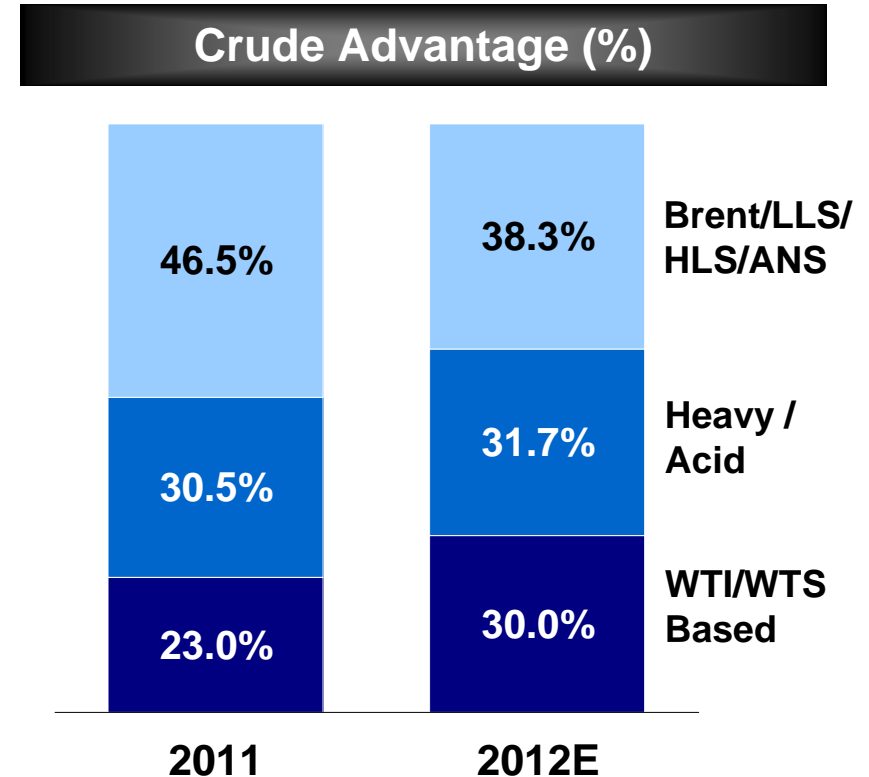
## Billings advantaged crude project

- Enables 100% heavy sour crude slate

## West Coast

- Crude import infrastructure
- Utilization of unit trains

## Canadian crudes to Gulf Coast

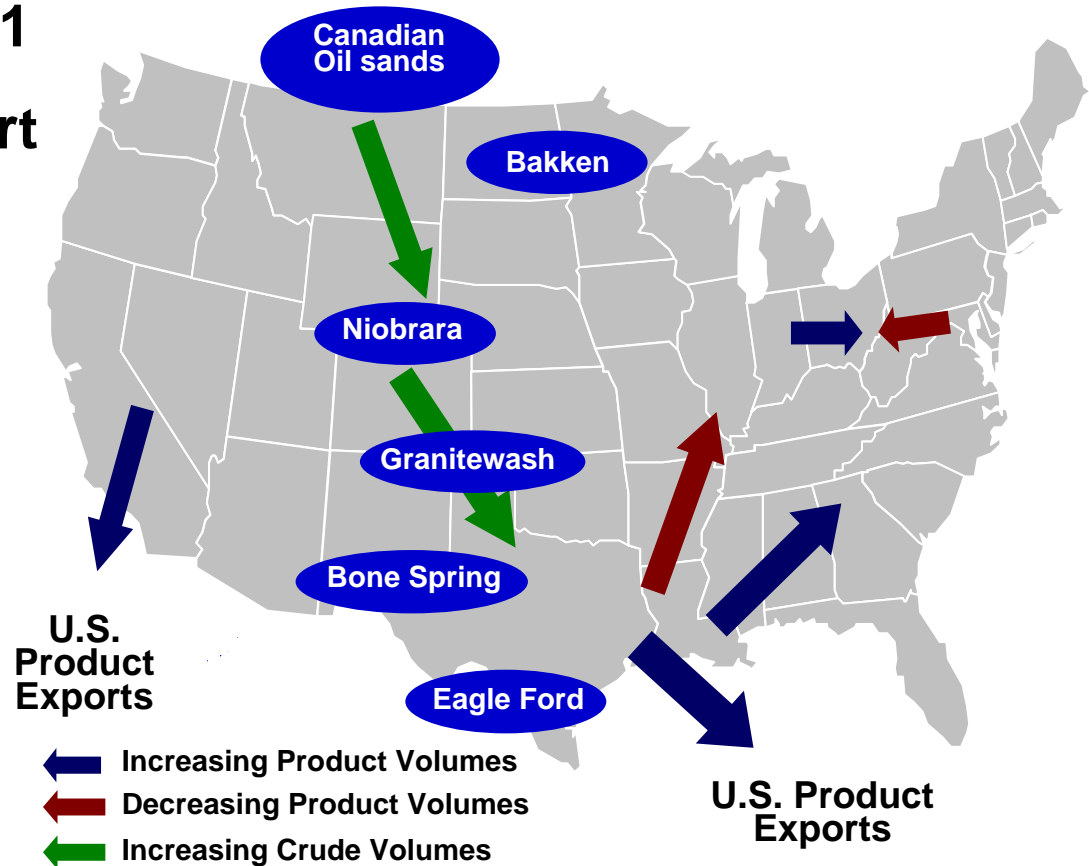
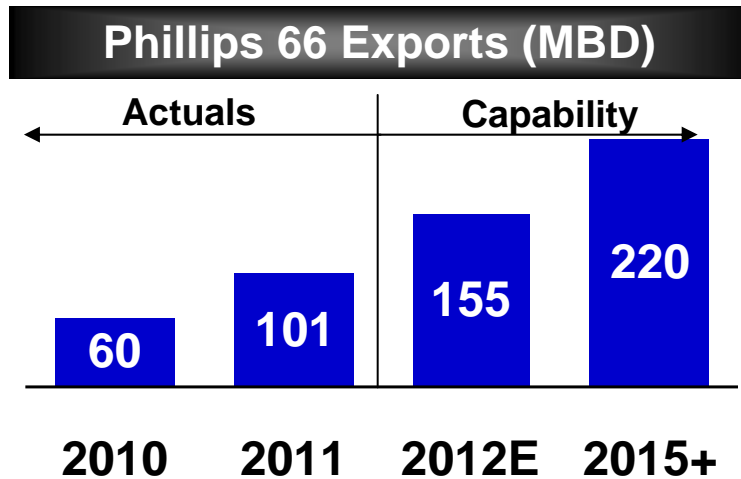


**Increases margins and returns**



# Increase Exports

-  Increased exports in 2011
-  Additional planned export capability increases
-  Coastal refineries



**Increases margins and returns**

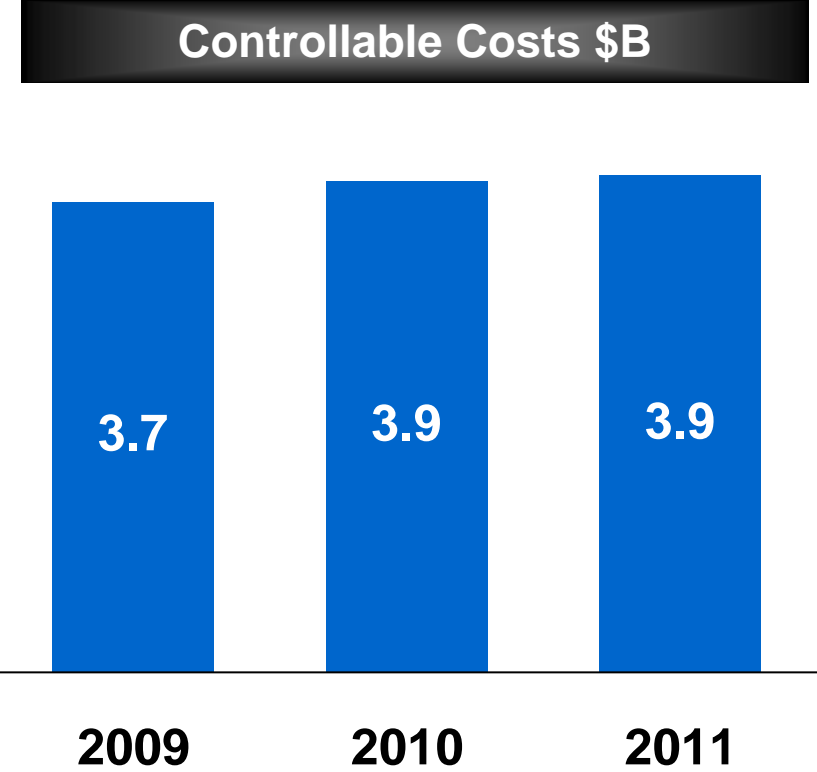




# Cost Initiatives

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- 🚩 **Target \$200 MM cost reduction**
  - 🚩 Eliminate spin-related dis-synergies
- 🚩 **Drive unit operating costs lower**
- 🚩 **Potential procurement savings**



Controllable Costs do not include market impacts or time-related costs such as turnarounds.



# Deliver Profitable Growth



## 🛡️ Chemicals

- 🛡️ Olefins and polyolefins
- 🛡️ Derivatives

## 🛡️ Midstream

- 🛡️ NGL logistics
- 🛡️ Gathering and Processing capacity

## 🛡️ Refining & Marketing




- 🛡️ Specialties and transportation
- 🛡️ Limited opportunities for profitable capacity growth






# Chemicals Growth

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## Growth in the Middle East

-  Saudi Arabia: S-Chem and Saudi Polymers Company ventures
-  Qatar: Q-Chem I and Q-Chem II ventures
-  Pursuing additional opportunities

## Growth in the U.S.

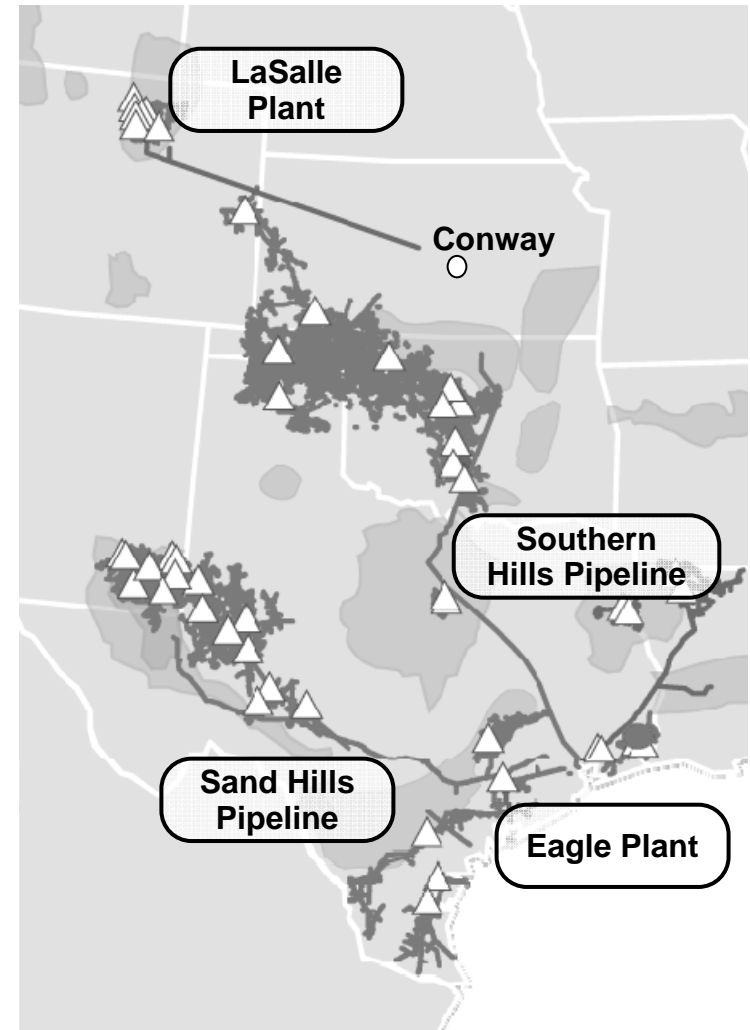
-  2014 start-up of Cedar Bayou 1-hexene plant
-  Gulf Coast \$5 B ethane cracker and ethylene derivative complex
-  NGL fractionation expansion at Sweeny

**Earnings tripled between 2009 and 2011**



# Midstream Growth – DCP Opportunities

- ~\$4 B of growth projects in execution
  - ◻ Online 2011 – 2014
- >\$2 B of additional opportunities
  - ◻ Online 2012 – 2014
- Adding >500 MBD NGL logistics capacity
- Increasing gathering and processing capability
- Optimizing existing asset base and leveraging projects in execution



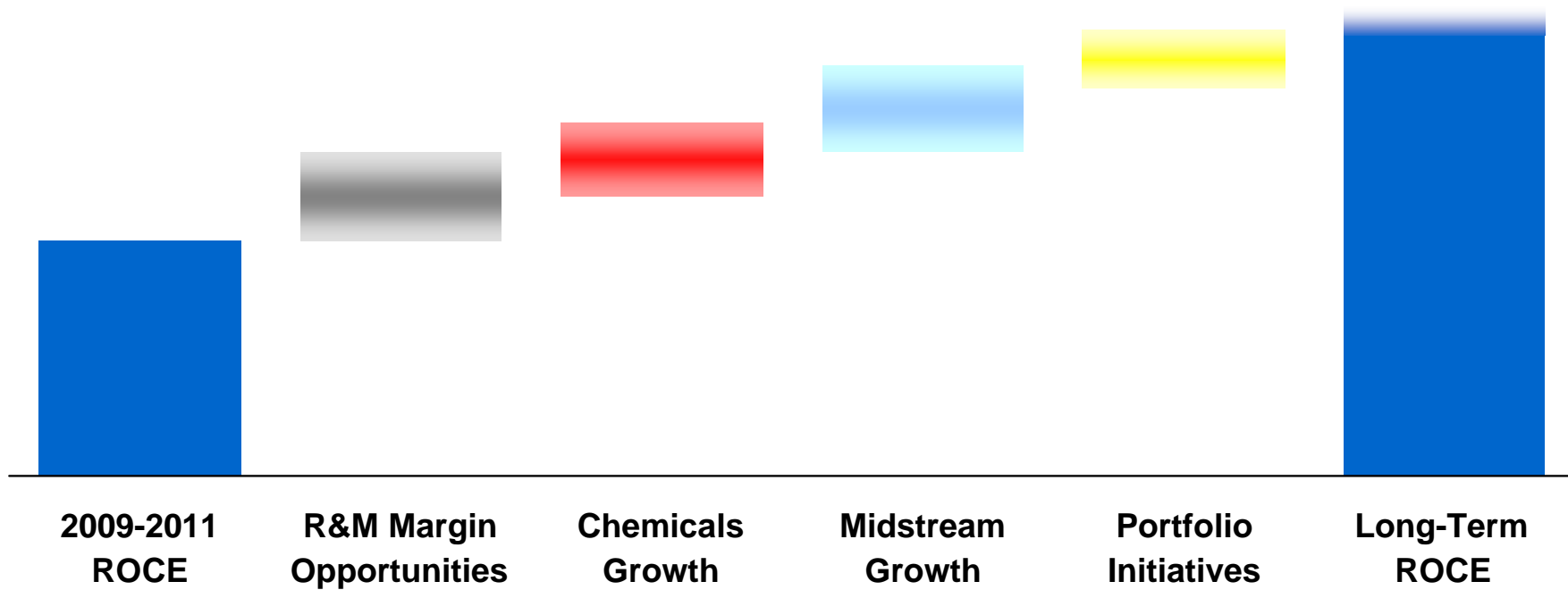
**Growing NGL infrastructure / expanding gathering & processing capability**



# Returns Improvement

2009-2011  
ROCE 8%

Long-Term  
ROCE 15%+



Return-enhancing growth



# Shareholder Distributions



## 🔴 Dividends

- 🔴 Initial quarterly dividend of \$0.20 / share
- 🔴 Expect annual increases
- 🔴 Affordable
  - 2013 expected dividend cost of ~\$500 MM
  - ~20% of 2009-2011 Cash from Operations

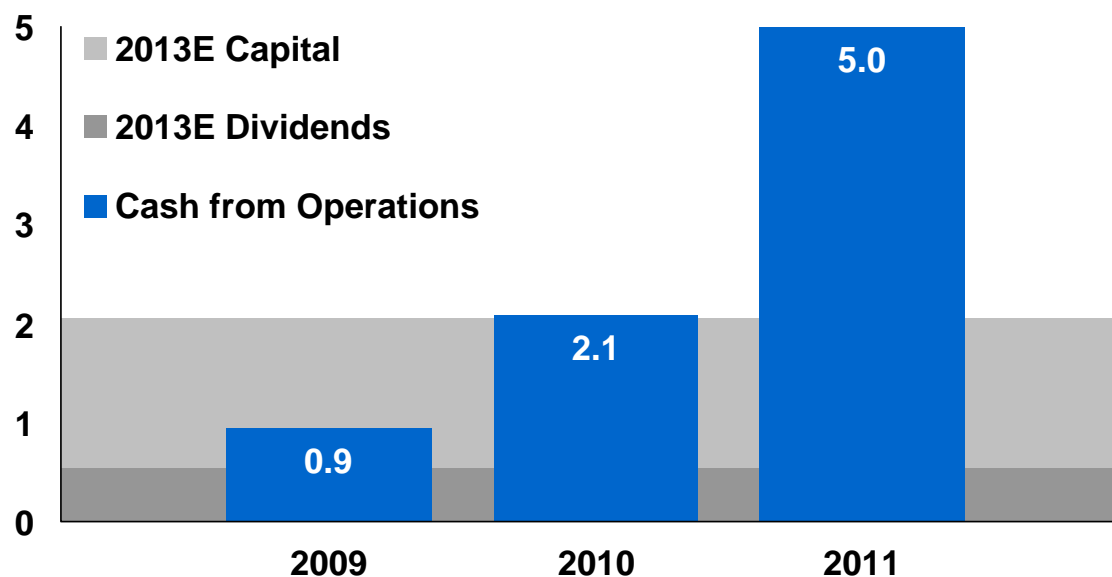
## 🔴 Share repurchases

- 🔴 Cash available after funding dividend growth and sustaining capital
- 🔴 Uses of excess cash
  - Growth capital
  - Debt reduction
  - Share repurchase
  - Cash balance



# Financial Strength and Flexibility

- Strong investment grade – BBB/Baa1
- Good liquidity with extended maturity profile
- Initial debt outstanding of \$8 B
  - Weighted average interest cost of 3.5% pre-tax
- 20-30% debt to total capitalization ratio target
  - Reduce debt
  - Increase cash balance
- Fund capital and distribution growth through economic cycles



# Compelling Investment Opportunity

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## 🔴 History of building high-performing businesses

- 🔴 Industry-leading R&M, Midstream and Chemicals segments
- 🔴 Focus on increasing ROCE and earnings growth
- 🔴 Balance sheet strength and financial flexibility

## 🔴 Growth through disciplined investments

- 🔴 Chemicals expansion built around advantaged feedstocks
- 🔴 Midstream growth in response to increasing shale gas and oil supply

## 🔴 Returns and capital efficiency

- 🔴 R&M, Midstream and Chemicals portfolio optimization
- 🔴 Increase access to advantaged crudes / feedstocks and finished product exports
- 🔴 Operating cost structure reduced

## 🔴 Distributions to shareholders

- 🔴 Dividend increased annually
- 🔴 Share repurchases when appropriate

*The Advantaged Downstream Energy Company*







# Investor Update

*Appendix*

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# PSX Non GAAP Reconciliations

	\$ Millions		
	2011	2010	2009
<b>Earnings<sup>1</sup></b>	<b>\$ 4,775</b>	<b>735</b>	<b>476</b>
<b>Less Adjustments</b>			
Gain (loss) on asset sales	1,545	116	120
Impairments	(318)	(1,118)	(116)
Cancelled projects	(28)	(29)	-
Severance accruals	(15)	(28)	-
Pending claims and settlements	-	35	(58)
<b>Total Adjustments</b>	<b>1,184</b>	<b>(1,024)</b>	<b>(54)</b>
<b>Adjusted earnings</b>	<b>3,591</b>	<b>1,759</b>	<b>530</b>

	\$ Millions		
	2011	2010	2009
<b>Adjustments</b>			
<b>R&amp;M</b>			
Gain (loss) on asset sales	1,629	116	32
Impairments	(314)	(8)	(116)
Cancelled projects	(28)	-	-
Severance accruals	(15)	-	-
Pending claims and settlements	-	35	(58)
<b>United States</b>	<b>1,272</b>	<b>143</b>	<b>(142)</b>
Gain (loss) on asset sales	(84)	-	-
Impairments	(4)	(1,110)	-
Cancelled projects	-	(29)	-
Severance accruals	-	(28)	-
<b>International</b>	<b>(88)</b>	<b>(1,167)</b>	<b>-</b>
<b>Total R&amp;M</b>	<b>1,184</b>	<b>(1,024)</b>	<b>(142)</b>
<b>Midstream</b>			
Gain (loss) on asset sales	-	-	88
<b>Total</b>	<b>-</b>	<b>-</b>	<b>88</b>
<b>Total Phillips 66 Adjustments</b>	<b>1,184</b>	<b>(1,024)</b>	<b>(54)</b>

	\$ Millions		
	2011	2010	2009
<b>Earnings<sup>1</sup></b>			
<b>R&amp;M</b>			
United States	3,637	1,013	(124)
International	211	(867)	195
	3,848	146	71
Midstream	403	262	317
Chemicals	716	486	228
Corporate & Other	(192)	(159)	(140)
<b>Total Phillips 66.</b>	<b>4,775</b>	<b>735</b>	<b>476</b>

<b>Adjusted Earnings</b>			
<b>R&amp;M</b>			
United States	2,365	870	18
International	299	300	195
	2,664	1,170	213
Midstream	403	262	229
Chemicals	716	486	228
Corporate & Other	(192)	(159)	(140)
<b>Total Phillips 66.</b>	<b>3,591</b>	<b>1,759</b>	<b>530</b>

<sup>1</sup> *Attributable to Phillips 66.*



# PSX Non GAAP Reconciliations

## PSX - ROCE

	2011	2010	2009
<b>Numerator (\$MM)</b>			
Net income	4,780	740	479
After-tax interest expense	<u>11</u>	<u>1</u>	<u>1</u>
GAAP ROCE earnings	4,791	741	480
Non-core earnings impacts	<u>(1,184)</u>	<u>1,024</u>	<u>54</u>
Adjusted earnings	3,607	1,765	534
<b>Denominator (\$MM)</b>			
GAAP average capital employed <sup>1</sup>	25,064	26,906	26,498
<b>Annualized ROCE</b>	14%	7%	2%
<b>Annualized GAAP ROCE</b>	19%	3%	2%

## R&M - ROCE

	2011	2010	2009
<b>Numerator (\$MM)</b>			
Net income	3,853	151	74
After-tax interest expense	<u>-</u>	<u>-</u>	<u>-</u>
GAAP ROCE earnings	3,853	151	74
Non-core earnings impacts	<u>(1,184)</u>	<u>1,024</u>	<u>142</u>
Adjusted earnings	2,669	1,175	216
<b>Denominator (\$MM)</b>			
GAAP average capital employed <sup>1</sup>	21,367	23,289	23,643
<b>Annualized ROCE</b>	12%	5%	1%
<b>Annualized GAAP ROCE</b>	18%	1%	0%

## Chemicals - ROCE

	2011	2010	2009
<b>Numerator (\$MM)</b>			
Net income	716	486	228
After-tax interest expense	<u>-</u>	<u>-</u>	<u>-</u>
GAAP ROCE earnings	716	486	228
Non-core earnings impacts	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted earnings	716	486	228
<b>Denominator (\$MM)</b>			
GAAP average capital employed <sup>1</sup>	2,570	2,281	2,024
<b>Annualized ROCE</b>	28%	21%	11%
<b>Annualized GAAP ROCE</b>	28%	21%	11%

## Midstream - ROCE

	2011	2010	2009
<b>Numerator (\$MM)</b>			
Net income	403	262	317
After-tax interest expense	<u>-</u>	<u>-</u>	<u>-</u>
GAAP ROCE earnings	403	262	317
Non-core earnings impacts	<u>-</u>	<u>-</u>	<u>(88)</u>
Adjusted earnings	403	262	229
<b>Denominator (\$MM)</b>			
GAAP average capital employed <sup>1</sup>	1,355	1,488	1,128
<b>Annualized ROCE</b>	30%	18%	20%
<b>Annualized GAAP ROCE</b>	30%	18%	28%

<sup>1</sup> Total equity plus total debt.



# PSX Non GAAP Reconciliations

	\$ Millions			Three Year Average
	2011	2010	2009	
<b>Marketing, Specialties and Other Earnings<sup>1</sup></b>	<b>2,200</b>	<b>566</b>	<b>420</b>	<b>1,062</b>
<b>Less Adjustments</b>				
Gain (loss) on asset sales	1,629	116	32	592
Impairments	-	(8)	(116)	(41)
Pending claims and settlements	-	35	-	12
<b>Total Adjustments</b>	<b>1,629</b>	<b>143</b>	<b>(84)</b>	<b>563</b>
<b>Adjusted earnings</b>	<b>571</b>	<b>423</b>	<b>504</b>	<b>499</b>

	\$ Millions		
	2011	2010	2009
Controllable costs	3,928	3,893	3,719
Add: Turnarounds and new cost streams	334	498	597
Market impacts (utilities, bankcard fees, etc.)	1,219	1,182	1,095
<b>Total Phillips 66</b>	<b>5,481</b>	<b>5,573</b>	<b>5,411</b>
GAAP Production costs	4,072	4,189	4,097
GAAP SG&A	1,409	1,384	1,314
<b>Total Phillips 66</b>	<b>5,481</b>	<b>5,573</b>	<b>5,411</b>

<sup>1</sup> *Attributable to Phillips 66.*

