Phillips 66
Form 10-K
February 21, 2014


2013

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, 2013 |
| | 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. | [ ] |

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 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of $58.91, was $36.0 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 587,624,299 shares of common stock outstanding at January 31, 2014.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 7, 2014 (Part III).

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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 59.

# PART I

## Items 1 and 2. BUSINESS AND PROPERTIES

### CORPORATE STRUCTURE

Phillips 66, headquartered in Houston, Texas, was incorporated in Delaware on November 10, 2011, in connection with, and in anticipation of, a restructuring of ConocoPhillips. 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 between ConocoPhillips and Phillips 66, 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 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.

Effective January 1, 2013, 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 disaggregated the former Refining and Marketing (R&M) segment into two separate operating segments titled "Refining" and "Marketing and Specialties."

- We moved our Transportation and power businesses from the former R&M segment to the Midstream and Marketing and Specialties (M&S) segments, respectively.

This realignment resulted in the following 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, and delivers refined and specialty products to market. The Midstream segment includes, among other businesses, our 50 percent equity investment in DCP Midstream, LLC (DCP Midstream).

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 15 refineries, mainly in the United States, Europe and Asia.

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

At December 31, 2013, Phillips 66 had approximately 13,500 employees.

## SEGMENT AND GEOGRAPHIC INFORMATION

For operating segment and geographic information, see Note 25—Segment Disclosures and Related Information, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

## MIDSTREAM

The Midstream segment consists of two primary business lines:

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

- Natural gas and natural gas liquids - gathers, processes, transports and markets natural gas, and transports, fractionates and markets natural gas liquids. Our investment in DCP Midstream is included in this business line.

### Transportation

We own or lease various assets to provide environmentally safe, strategic and timely delivery 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, 2013, 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, 14 crude oil terminals and 1 petroleum coke exporting facility.

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The following table depicts our ownership interest in major pipeline systems as of December 31, 2013:

| Name | Origination/Terminus | Interest | Size | 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 | 33 |
| Line O | Cushing, OK/Borger, TX | 100 | 10” | 276 | 37 |
| WA Line | Odessa, TX/Borger, TX | 100 | 12”, 14” | 289 | 118 |
| Cushing | Cushing, OK/Ponca City, OK | 100 | 18” | 62 | 130 |
| North Texas Crude | Wichita Falls, TX | 100 | 2”-16” | 339 | 28 |
| Oklahoma Mainline | Wichita Falls, TX/Ponca City, OK | 100 | 12” | 217 | 100 |
| Clifton Ridge † | Clifton Ridge, LA/Westlake, LA | 74 | 20” | 10 | 270 |
| Louisiana Crude Gathering | Rayne, LA/Westlake, LA | 100 | 4”-8” | 85 | 25 |
| Sweeny Crude | Sweeny, TX/Freeport, TX | 100 | 12”, 24”, 30” | 31 | 295 |
| Sweeny Crude Butadiene | Clemens, TX/Webster, TX | ** | 4”, 6” | 68 | 7 |
| Coast and Valley System | Central CA/Bay Area, CA | 100 | 8”-16” | 602 | 307 |
| Petroleum Product | | | | | |
| Harbor | Woodbury, NJ/Linden, NJ | 33 | 16” | 80 | 104 |
| 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 | 20 |
| Borger-Denver | McKee, TX/Denver, CO | 70 | 6”-12” | 405 | 38 |
| Gold Line | Borger, TX/St. Louis, IL | 100 | 8”-16” | 681 | 120 |
| SAAL | Amarillo, TX/Amarillo & Lubbock, TX | 33 | 6” | 121 | 18 |
| Cherokee 8” | 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 | 100 | 8”, 10” | 106 | 96 |
| Standish | Marland Junction, OK/Wichita, KS | 100 | 18” | 92 | 80 |
| Wichita/Ark City 1&2 | Ponca City, OK/Wichita, KS | 100 | 8”, 10” | 105 | 55 |
| Wood River | Medford, OK/Mt. Vernon, MO | 100 | 10”, 12” | 287 | 45 |
| Explorer | Texas Gulf Coast/Chicago, IL | 14 | 24”, 28” | 1,835 | 500 |
| Sweeny to Pasadena † | Sweeny, TX/Pasadena, TX | 74 | 12”, 18” | 120 | 264 |
| LA Basin | Los Angeles, CA | 100 | 6” - 20” | 89 | 357 |
| Richmond | Rodeo, CA/Richmond, CA | 100 | 6” | 14 | 26 |
| NGL | | | | | |
| Powder River | Sage Creek, WY/Borger, TX | 100 | 6”-8” | 695 | 19 |
| Skelly-Belvieu | Skellytown, TX/Mont Belvieu, TX | 50 | 8” | 571 | 29 |
| TX Panhandle Y1/Y2 | Sherhan, TX/Borger, TX | 100 | 3”-10” | 299 | 73 |
| Chisholm | Kingfisher, OK/Conway, KS | 50 | 4”-10” | 202 | 42 |
| Line EZ | Rankin, TX/Sweeny, TX | ** | 10” | 434 | 101 |
| Mextex | Artesia, NM/Benedum, TX | ** | 4”-12” | 305 | 51 |
| Sweeny EP | Mont Belvieu, TX/Sweeny, TX | ** | 8” | 85 | 40 |
| Sand Hills* | Permian Basin/Mont Belvieu, TX | 33 | 20” | 720 | 200 |

| | | | | | |
|---|---|---|---|---|---|
| Southern Hills* | U.S. Midcontinent/Mont Belvieu, TX | 33 | 20” | 800 | 175 |
| | | | | | |
| LPG | | | | | |
| Blue Line | Borger, TX/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 | 60 |
| Sweeny Propane/Butane | Clemens, TX/Pasadena, TX | ** | 8" | 65 | 31 |
| | | | | | |
| Natural Gas | | | | | |
| Rockies Express | Meeker, CO/Clarington, OH | 25 | 36”-42” | 1,679 | 1.8 BCFD |

*Phillips 66 has a direct one-third ownership in the pipeline entities; operated by DCP Midstream; reflects expected capacity; reported within NGL operations.
**100 percent interest held by CPChem. Operated by Phillips 66.
†Ownership interest excludes noncontrolling interests.

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Rockies Express Pipeline LLC (REX)
We have a 25 percent interest in REX. The REX natural gas pipeline runs 1,679 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.

Initial Public Offering of Phillips 66 Partners LP
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. On July 26, 2013, Phillips 66 Partners completed its initial public offering 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. We own a 71.7 percent limited partner interest and a 2.0 percent general partner interest in Phillips 66 Partners, while the public owns a 26.3 percent limited partner interest.
Headquartered in Houston, Texas, Phillips 66 Partners' 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, each of which is integral to a Phillips 66-operated refinery.
Marine Vessels
At December 31, 2013, we had 14 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 53 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 U.S. refinery and specialty operations. Rail movements are provided via a diverse fleet of more than 10,000 owned and leased railcars. In October 2012, we entered into an operating lease covering 2,000 newly constructed railcars. The railcars were delivered in batches throughout 2013. This is an expansion of our existing rail business and allows for increased delivery of advantaged crude to our refineries on the East and West Coasts. 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, 2013, DCP Midstream owned or operated 64 natural gas processing facilities, with a net processing capacity of approximately 7.5 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 67,000 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 2013, DCP Midstream gathered, processed and/or transported an average of 7.1 trillion British thermal units (TBTU) per day of natural gas, and produced approximately 426,000 barrels per day of NGL, compared with 7.1 TBTU per day and 402,000 barrels per day in 2012.
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 the following types of contractual arrangements.

- Percentage-of-proceeds/index arrangements. In general, DCP Midstream purchases natural gas from producers at the wellhead or other receipt points, gathers the wellhead natural gas through its gathering system, treats and processes it, and then sells the residue natural gas and NGL based on index prices from published market indices. DCP Midstream remits to the producers either an agreed-upon percentage of the actual proceeds received from the sale of the residue natural gas and NGL, or an agreed-upon percentage of the proceeds based on index-related prices for natural gas and NGL, regardless of the actual amount of sales proceeds which DCP Midstream receives. Certain of these arrangements may also result in the producer retaining title to all or a portion of the residue natural gas and/or the NGL in lieu of DCP Midstream returning sales proceeds to the producer. Additionally, these arrangements may include fee-based components. DCP Midstream's revenues from percentage-of-proceeds/index arrangements relate directly to the price of natural gas, NGL and condensate. DCP Midstream's revenues under percent-of-liquids arrangements relate directly to the price of NGL and condensate. More than 70 percent of the natural gas volumes gathered and processed are under percentage-of-proceeds contracts.

- Fee-based arrangements. DCP Midstream receives a fee or fees for one or more of the following services: gathering, processing, compressing, treating, storing or transporting natural gas and fractionating, storing and transporting NGL. Fee-based arrangements include natural gas arrangements pursuant to which DCP Midstream obtains natural gas at the wellhead or other receipt points at an index-related price at the delivery point less a specified amount, generally the same as the fees it would otherwise charge for gathering the natural gas from the wellhead location to the delivery point. The revenue DCP Midstream earns from these arrangements is directly related to the volume of natural gas or NGL that flows through its systems and is not directly dependent on commodity prices. However, to the extent that a sustained decline in commodity prices results in a decline in volumes, DCP Midstream's revenues from these arrangements could be reduced.

- Keep-whole and wellhead purchase arrangements. DCP Midstream gathers raw natural gas from producers for processing, markets the NGL and returns to the producer residue natural gas with a British thermal unit (BTU) content equivalent to the BTU content of the natural gas gathered. This arrangement keeps the producer whole in regard to the thermal value of the natural gas received. Under the terms of a wellhead purchase contract, DCP Midstream purchases natural gas from the producer at the wellhead or defined receipt point for processing and markets the resulting NGL and residue gas at market prices. DCP Midstream is exposed to the difference between the value of the NGL extracted from processing and the value of the BTU-equivalent of the residue natural gas, or "frac spread." Under these type of contracts, DCP Midstream benefits in periods when NGL prices are higher relative to natural gas prices.

DCP Midstream markets a portion of its NGL to us and CPChem under an existing 15-year supply agreement, which ends in December 2014. The contract provides for a ratable wind-down period which expires in January 2019, if it is not renegotiated or renewed. This purchase commitment is on an “if-produced, will-purchase” basis and is expected to have a relatively stable purchase pattern over the remaining term of the contract. Under the agreement, NGL is purchased at various published market-index prices, less transportation and fractionation fees.

During the first quarter of 2013, DCP Midstream Partners, LP (DCP Partners), DCP Midstream's sponsored master limited partnership, announced that construction of its 200 million cubic-feet-per-day Eagle Plant was complete and the plant was in-service. On February 3, 2014, DCP Midstream and DCP Partners announced that the 200 million cubic-feet-per-day Goliad Plant was in start-up. The DCP Midstream enterprise's total natural gas processing capacity in the Eagle Ford area increased to 1.2 billion cubic feet per day, upon completion of the Goliad Plant.

In June 2013, we, along with DCP Midstream and Spectra Energy, announced that the Sand Hills and Southern Hills NGL pipelines were in-service. The Sand Hills and Southern Hills pipelines began taking linefill in the fourth quarter of 2012 and the first quarter of 2013, respectively. The Sand Hills pipeline provides takeaway service from plants in the Permian and Eagle Ford basins to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu, Texas, market hub. The Sand Hills pipeline consists of approximately 720 miles of pipeline, and is expected to ramp up to a capacity of more than 200,000 barrels per day after completion of initial pump stations in 2014, with further capacity increases to 350,000 barrels per day possible with the installation of planned pump stations. The Southern Hills pipeline provides takeaway service from DCP Midstream and third-party plants in the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub. The Southern Hills pipeline consists of approximately 800 miles of pipeline, and is expected to ramp up to a capacity of 175,000 barrels per day after completion of planned pump stations in 2014. Phillips 66, Spectra Energy, and DCP Midstream each have a one-third direct interest in each of the DCP Southern Hills and DCP Sand Hills pipeline entities.

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Also in 2013, DCP Midstream began operations at its Rawhide Plant, a 75 million cubic-feet-per-day natural gas processing plant in Glasscock County, Texas. DCP Partners’ 110 million cubic-feet-per-day O’Connor Plant near Kersey, Colorado, began operations in late 2013. One of DCP Partners’ joint venture assets, the Texas Express Pipeline, originates near Skellytown in Carson County, Texas, and extends approximately 580 miles to Enterprise's NGL fractionation and storage complex at Mont Belvieu, Texas. The Texas Express Pipeline was completed and began operations in the fourth quarter of 2013.

Additionally in early 2014, an expansion of the O’Connor Plant is expected to increase the plant’s capacity to 160 million cubic feet per day. Another of DCP Partners’ joint venture projects, the Front Range Pipeline, originates in the Denver-Julesburg Basin and extends approximately 435 miles to Skellytown, Texas, with connections to the Mid-America pipeline and to the Texas Express Pipeline. The Front Range Pipeline connects to the O'Connor Plant as well as third party and DCP Midstream plants in the Denver-Julesburg Basin. The Front Range Pipeline was placed into service in the first quarter of 2014.

NGL Operations and Other

Our NGL and Other 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 2013, we announced the development of a 100,000 barrel-per-day NGL fractionator (Sweeny Fractionator One) to be located in Old Ocean, Texas, close to our Sweeny Refinery. Startup is expected by the second half of 2015. In addition, we announced plans to develop a LPG export terminal project in Freeport, Texas. The proposed LPG export terminal would provide 4.4 million barrels per month of LPG export capacity, be located at the site of our existing marine terminal in Freeport and would utilize existing Phillips 66 midstream, transportation and storage infrastructure to supply petrochemical, heating and transportation markets globally. Startup is planned for the second half of 2016. The LPG export terminal would be supplied from the Mont Belvieu area and from Phillips 66's Sweeny complex, including Sweeny Fractionator One. Final approval for both projects was received in the first quarter of 2014.

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## CHEMICALS

The Chemicals segment consists of our 50 percent equity investment in CPChem, which is headquartered in The Woodlands, Texas. At the end of 2013, CPChem owned or had joint-venture interests in 35 manufacturing facilities and 2 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, propylene, and other olefin products, which are primarily consumed within CPChem for the production of polyethylene, normal alpha olefins, polypropylene 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, mining chemicals and high-performance engineering plastics and compounds.

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.

The following table reflects CPChem's petrochemicals and plastics product capacities at December 31, 2013:

| | Millions of Pounds per Year | |
|---|---|---|
| | U.S. | Worldwide |
| O&P | | |
| Ethylene | 7,830 | 10,305 |
| 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 | 1,565 | 2,080 |
| Polyalphaolefins | 105 | 235 |
| Polyethylene pipe | 590 | 590 |
| Total O&P | 18,080 | 24,310 |
| | | |
| 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 | 100 | 170 |
| Specialty chemicals | 555 | 655 |
| Ryton® PPS | 61 | 81 |
| Total SA&S | 6,261 | 8,836 |

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

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In the fourth quarter of 2013, CPChem's board of directors approved 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 gas 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 reactors, 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 2012, CPChem announced plans to build the world's largest 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. Construction has begun, and the project is anticipated to startup during the second quarter of 2014. Upon completion, the new plant will be 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 the second quarter of 2013, CPChem completed the NGL Fractionator Expansion project at its Sweeny facility. The NGL fractionation expansion increased its capacity by approximately 22,000 barrels per day, or a 19 percent increase over its prior capacity.

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 during 2014.

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.

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REFINING

Our Refining segment buys, sells, and refines crude oil and other feedstocks into petroleum products (such as gasolines, distillates and aviation fuels) at 15 refineries, mainly in the United States, Europe and Asia.

The table below depicts information for each of our U.S. and international refineries at December 31, 2013:

| | | | Thousands of Barrels Daily | | | | |
|---|---|---|---|---|---|---|---|
| | | | Net Crude Throughput Capacity | | Net Clean Product Capacity** | | |
| Region/Refinery | Location | Interest | At December 31, 2013 | Effective January 1, 2014 | Gasolines | Distillates | Clean Product Yield Capability |
| Atlantic Basin/Europe | | | | | | | |
| Bayway | Linden, NJ | 100.00 % | 238 | 238 | 145 | 115 | 90 % |
| 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 | 85 |
| | | | 588 | 588 | | | |
| Gulf Coast | | | | | | | |
| Alliance | Belle Chasse, LA | 100.00 | 247 | 247 | 125 | 120 | 87 |
| Lake Charles | Westlake, LA | 100.00 | 239 | 239 | 90 | 115 | 70 |
| Sweeny | Old Ocean, TX | 100.00 | 247 | 247 | 125 | 120 | 87 |
| | | | 733 | 733 | | | |
| Central Corridor | | | | | | | |
| Wood River | Roxana, IL | 50.00 | 156 | 157 | 75 | 55 | 83 |
| Borger | Borger, TX | 50.00 | 73 | 73 | 50 | 25 | 89 |
| Ponca City | Ponca City, OK | 100.00 | 190 | 196 | 105 | 80 | 92 |
| Billings | Billings, MT | 100.00 | 59 | 59 | 35 | 25 | 89 |
| | | | 478 | 485 | | | |
| Western/Pacific | | | | | | | |
| Ferndale | Ferndale, WA | 100.00 | 101 | 101 | 55 | 30 | 75 |
| 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 |
| Melaka | Melaka, Malaysia | 47.00 | 80 | 80 | 20 | 50 | 80 |
| | | | 440 | 440 | | | |
| | | | 2,239 | 2,246 | | | |

*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.

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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 & Central Asia | Middle East & Africa |
| Bayway | l | | | | l | l | | | l |
| Humber | l | l | | l | | | | l | l |
| Whitegate | l | | | | | | | l | l |
| MiRO | l | l | | | | | | l | l |
| Alliance | l | | | | 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 | | | l |
| Melaka | 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 fuel, 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, one of the world's largest producers of specialty graphite cokes and one of Europe's largest anode coke producers. Approximately 60 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. We also operate a crude oil and products storage complex consisting of 7.5 million barrels of storage capacity and an offshore mooring buoy, located in Bantry Bay, about 80 miles southwest of the refinery in southern Cork County.

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 units, naphtha reformers, isomerization and aromatics recovery units, 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, 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.

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 20,000 barrels per day of high-quality, clear hydrocracked base oils.

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. Recent improvements have enhanced the refinery's ability to export refined products.

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. Prior to August 28, 2009, MSLP was owned 50/50 by ConocoPhillips and Petróleos de Venezuela S.A. (PDVSA). Under the agreements that govern the relationships between the partners, certain defaults by PDVSA with respect to supply of crude oil to the Sweeny Refinery triggered the right to acquire PDVSA’s 50 percent ownership interest in MSLP, which was exercised on August 28, 2009. PDVSA initiated arbitration with the International Chamber of Commerce challenging the exercise of the call right and claiming it was invalid. The arbitral tribunal held hearings on the merits of the dispute in December 2012, and post-hearing briefs were exchanged in March 2013. A decision from the arbitral tribunal is expected in the first quarter of 2014. Following the Separation, Phillips 66 generally indemnifies ConocoPhillips for liabilities, if any, arising out of the exercise of the call right or otherwise with respect to the joint venture or the refinery.

Central Corridor Region

WRB Refining LP (WRB)
We are the operator and managing partner of WRB, which consists of the Wood River and Borger refineries.

Prior to the Separation, ConocoPhillips had two 50/50 North American business ventures with Cenovus Energy Inc. (Cenovus): a Canadian upstream general partnership, FCCL Partnership (FCCL), and a downstream U.S. limited partnership, WRB. In accordance with the Separation and Distribution Agreement, ConocoPhillips retained its 50 percent interest in FCCL and a 0.4 percent interest in WRB, while contributing its remaining 49.6 percent interest in WRB to us in the Separation. On July 1, 2013, we increased our ownership interest in WRB to 50 percent by purchasing ConocoPhillips' remaining 0.4 percent interest.

WRB’s gross processing capability of heavy Canadian or similar crudes ranges between 235,000 and 255,000 barrels per day as a result of the coker and refining expansion (CORE) project at the Wood River Refinery.

- Wood River Refinery

The Wood River Refinery is located in Roxana, Illinois, about 15 miles northeast of St. Louis, Missouri, at the convergence 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. In the first full year of operation following the CORE Project, Wood River's clean product yield increased by 5 percent, heavy crude oil gross capacity doubled and overall production rates increased.

- 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 fuel, 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 fuel, 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.

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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. Recent improvements have enhanced the refinery's ability to export refined products.

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. Recent improvements have enhanced the refinery's ability to export refined products.

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. Recent improvements have enhanced the refinery's ability to export refined products.

Melaka Refinery
The Melaka Refinery, in Melaka, Malaysia, is a joint venture refinery in which we own a 47 percent interest. The refinery produces a high percentage of transportation fuels, such as gasoline and diesel fuels. Melaka capitalizes on hydrocracking and coking technology to upgrade low-cost feedstocks into higher-margin products. Our share of refined products is transported by tanker and marketed in Malaysia and other Asian markets.

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 (such as lubricants), as well as power generation operations.

Marketing

Marketing—United States

In the United States, as of December 31, 2013, we marketed gasoline, diesel and aviation fuel through approximately 8,600 marketer-owned or -supplied outlets in 48 states. The majority of these sites utilize the Phillips 66, Conoco or 76 brands.

At December 31, 2013, our wholesale operations utilized a network of marketers operating approximately 7,100 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 600 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. 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, approximately one-third of which were sold by year-end, with the remaining sites expected to be sold in 2014 and 2015. The consignment fuels agreements and the temporary retail site acquisitions were designed to support branded pull through of our refinery production.

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.

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, 2013, 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.

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, 2013, we had approximately 1,440 marketing outlets in our European operations, of which approximately 925 were company owned and 315 were dealer owned. We also held brand-licensing agreements with approximately 200 sites. In addition, through our joint venture operations in Switzerland, we have interests in 275 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 manufacture and 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 manufacture and market polypropylene in North America under the COPYLENE brand name.

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.

Other

Power Generation

We own a 50 percent operating interest in Sweeny Cogeneration, L.P., a joint venture which owns a simple-cycle 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.

In July 2013, we sold our interest in the Immingham Combined Heat and Power Plant.

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## DISCONTINUED OPERATIONS

Phillips Specialty Products Inc. (PSPI) supplies flow improver products to customers globally. LiquidPower flow improvers maximize the flow potential of pipelines while increasing their operational flexibility, capacity and economic performance. On December 30, 2013, we announced that we had entered into an agreement to exchange PSPI for shares of our common stock owned by the other party. We expect the transaction to close during the first quarter of 2014, subject to customary regulatory reviews.

## 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 progressing the technology development of second-generation biofuels both internally and with external collaborators.

## 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 2013 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, Europe and Asia. Based on the statistics published in the December 2, 2013, 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, 2013, we held a total of 510 active patents in 44 countries worldwide, including 216 active U.S. patents. During 2013, we received 24 patents in the United States and 33 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 $17 million in 2013. 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 $69 million, $70 million and $69 million in 2013, 2012 and 2011, 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 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.

Please 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 2011-2013 and those expected for 2014.

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.

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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. 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.

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

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. 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 to be employed in the project. We base these forecasted project economics on our best estimate of future market conditions. Most large-scale projects take many 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 a large part of our Midstream segment 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 manufacture 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 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 or refined product to or from one or more of our refineries 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 DCP Midstream'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 it 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. 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, 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 or mechanical failure, 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.

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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 result in actual results differing 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.

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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.

We may not be able to engage in desirable strategic or capital-raising transactions due to limitations imposed on us as part of the Separation. In addition, under some circumstances, we could be liable for adverse tax consequences resulting from engaging in significant strategic or capital-raising transactions.

To preserve the tax-free treatment to ConocoPhillips of the distribution, for the two-year period following the distribution we may be prohibited, except in specified circumstances, from:

- Entering into any transaction pursuant to which all or a portion of our stock would be acquired, whether by merger or otherwise.
- Issuing equity securities beyond certain thresholds.
- Repurchasing our common stock beyond certain thresholds.
- Ceasing to actively conduct the refining business.
- Taking or failing to take any other action that prevents the distribution and related transactions from being tax-free.

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These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business.

## 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
The EPA is seeking penalties in excess of $100,000 related to 1) allegations that Phillips 66 improperly generated certain sulfur credits at one or more of its terminals and 2) self-reported items in various annual fuel attestation reports. We are working with EPA 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, the Lake Charles Refinery 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, as well as certain provisions of the consent decree in Civil Action No. H-01-4430. We are working with the LDEQ to resolve this matter.

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 March 2012, the Bay Area Air Quality Management District (District) in California issued a $302,500 demand to settle five Notices of Violations (NOVs) issued between 2008 and 2010. The NOVs allege non-compliance with the District rules and/or facility permit conditions at the Rodeo Refinery. We are working with the District to resolve this matter.

In September 2012, the District issued a $213,500 demand to settle 14 NOVs issued in 2009 and 2010 with respect to alleged violations of regulatory and/or permit requirements at the Rodeo Refinery. We are working with the District to resolve this matter.

In October 2012, the District issued a $313,000 demand to settle 13 other 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 District to resolve this matter.

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.

In January 2013, the South Coast Air Quality Management District (SCAQMD) indicated that it was proceeding with enforcement regarding four NOVs issued to the Company that allege violations of air pollution regulations and/or facility permit conditions relating to operations at the Los Angeles Refinery. SCAQMD added two additional NOVs to this enforcement action in July 2013. We are working with SCAQMD to resolve these NOVs.

In November 2013, we resolved allegations brought by the U.S. Attorney's office that the Company violated the Migratory Bird Treaty Act with respect to self-reported bird deaths in a refinery storage area brine pond near our Borger, Texas, refinery by paying $298,820 in combined penalties, restitution, and a charitable contribution.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

| Name | Position Held | Age* |
|---|---|---|
| Greg C. Garland | Chairman, President and Chief Executive Officer | 56 |
| C. Doug Johnson | Vice President and Controller | 54 |
| Paula A. Johnson | Executive Vice President, Legal, General Counsel and Corporate Secretary | 50 |
| Greg G. Maxwell | Executive Vice President, Finance and Chief Financial Officer | 57 |
| Tim G. Taylor | Executive Vice President, Commercial, Marketing, Transportation and Business Development | 60 |
| Lawrence M. Ziemba | Executive Vice President, Refining | 58 |

*On February 15, 2014.

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 became Chairman of the Board of Directors, President and Chief Executive Officer of Phillips 66 on April 30, 2012. 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.

C. Doug Johnson became Vice President and Controller of Phillips 66 on April 30, 2012. Mr. Johnson served as General Manager, Upstream Finance, Strategy and Planning at ConocoPhillips since 2010. Prior to this, he served as General Manager, Downstream Finance from 2008 to 2010.

Paula A. Johnson became Executive Vice President, Legal, General Counsel and Corporate Secretary of Phillips 66 on May 1, 2013. 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 and Managing Counsel, Litigation and Claims from 2006 to 2009.

Greg G. Maxwell became Executive Vice President, Finance and Chief Financial Officer of Phillips 66 on April 30, 2012. Mr. Maxwell retired as CPChem's Senior Vice President, Chief Financial Officer and Controller in 2012, a position held since 2003.

Tim G. Taylor became Executive Vice President, Commercial, Marketing, Transportation and Business Development of Phillips 66 on April 30, 2012. 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.

Lawrence M. Ziemba became Executive Vice President, Refining of Phillips 66 on February 1, 2014. Prior to this, Mr. Ziemba served as Executive Vice President, Refining, Projects and Procurement since April 30, 2012. Mr. Ziemba served as President, Global Refining, at ConocoPhillips since 2010. Prior to this, he served as President, U.S. Refining, from 2003 to 2010.

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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 starting May 1, 2012, the date on which our stock began trading "regular-way" on the NYSE:

| | Stock Price | | |
|---|---|---|---|
| | High | Low | Dividends |
| 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 |
| | | | |
| 2012 | | | |
| Second Quarter | $34.91 | 28.75 | — |
| Third Quarter | 48.22 | 32.35 | .2000 |
| Fourth Quarter | 54.32 | 42.45 | .2500 |

| | |
|---|---|
| Closing Stock Price at December 31, 2013 | $77.13 |
| Closing Stock Price at January 31, 2014 | $73.09 |
| Number of Stockholders of Record at January 31, 2014 | 46,800 |

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, 2013 | 3,907,141 | $60.20 | 3,907,141 | $807 |
| November 1-30, 2013 | 3,029,100 | 65.85 | 3,029,100 | 608 |
| December 1-31, 2013 | 2,922,943 | 71.88 | 2,921,190 | 2,398 |
| Total | 9,859,184 | $65.40 | 9,857,431 | |

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

**During 2013, our Board of Directors authorized additional share repurchases of $1 billion and $2 billion on July 30 and December 6, respectively. The share repurchases are expected to be funded primarily through available cash. The shares under both 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 and the Tax Sharing Agreement entered into in connection with the Separation. During 2012, our Board of Directors authorized the repurchase of up to $2 billion of our outstanding common stock. We began purchases under this authorization, which had no expiration date, in the third quarter of 2012, and completed the share repurchase program in October 2013. 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.

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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 year ended December 31, 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, 2010, and 2009, consist entirely of the combined results of the downstream businesses.
- The selected balance sheet data at December 31, 2013 and 2012, consist of the consolidated balances of Phillips 66, while the selected balance sheet data at December 31, 2011, 2010, and 2009, consist of the combined balances of the downstream businesses.

| | Millions of Dollars Except Per Share Amounts | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Sales and other operating revenues | $171,596 | 179,290 | 195,931 | 146,433 | 112,601 |
| Income from continuing operations | 3,682 | 4,083 | 4,737 | 710 | 460 |
| Income from continuing operations attributable to Phillips 66 | 3,665 | 4,076 | 4,732 | 705 | 457 |
| Per common share | | | | | |
| Basic | 5.97 | 6.47 | 7.54 | 1.13 | 0.73 |
| Diluted | 5.92 | 6.40 | 7.45 | 1.12 | 0.72 |
| Net income | 3,743 | 4,131 | 4,780 | 740 | 479 |
| Net income attributable to Phillips 66 | 3,726 | 4,124 | 4,775 | 735 | 476 |
| Per common share* | | | | | |
| Basic | 6.07 | 6.55 | 7.61 | 1.17 | 0.76 |
| Diluted | 6.02 | 6.48 | 7.52 | 1.16 | 0.75 |
| Total assets | 49,798 | 48,073 | 43,211 | 44,955 | 42,880 |
| Long-term debt | 6,131 | 6,961 | 361 | 388 | 403 |
| Cash dividends declared per common share | 1.3275 | 0.4500 | — | — | — |

*See Note 11—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.

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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 59.

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, 2013, we had total assets of $49.8 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.

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, 2013, 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 organization were:

- We disaggregated the former Refining and Marketing (R&M) segment into two separate operating segments titled "Refining" and "Marketing and Specialties."
- 

We moved our Transportation and power businesses from the former R&M segment to the Midstream and Marketing and Specialties (M&S) segments, respectively.

The segment alignment is presented for the year ended December 31, 2013, with the prior periods recast for comparability. Certain prior period amounts have also been recast to reflect Phillips Specialty Products Inc. (PSPI) as discontinued operations due to its planned disposition.

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Executive Overview
We reported earnings of $3.7 billion in 2013, generated $6.0 billion in cash from operating activities, and received $1.2 billion from asset dispositions. We used available cash to fund capital expenditures and investments of $1.8 billion, pay dividends of $0.8 billion, repurchase $2.2 billion of our common stock and repay $1.0 billion of debt. We ended 2013 with $5.4 billion of cash and cash equivalents and approximately $5.4 billion of total capacity under our available liquidity facilities.

In July 2013, Phillips 66 Partners LP, a master limited partnership we formed, completed its initial public offering of 18,888,750 common units, raising net proceeds of $404 million. 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, each of which is integral to a Phillips 66-operated refinery to which it is connected.

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. 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 2013, our worldwide refining crude oil capacity utilization rate was 93 percent, the same as in 2012.

- Deliver profitable growth and enhance returns. We have budgeted $2.7 billion in capital expenditures and investments in 2014, approximately 40 percent higher than our 2013 budget. Including our share of expected capital spending by joint ventures DCP Midstream, LLC (DCP Midstream), Chevron Phillips Chemical Company (CPChem) and WRB Refining LP (WRB), our total 2014 capital program is expected to be $4.6 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 growing 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, our Chemicals joint venture, CPChem, plans significant reinvestment of its earnings to build additional processing capacity benefiting from lower-cost NGL feedstocks. We plan to improve refining returns through greater use of advantaged feedstocks, disciplined capital allocation and portfolio optimization. We continue to focus on funding the most attractive growth opportunities across our portfolio.

- 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 56 percent during 2013, and it has been almost 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. As of December 31, 2013, we repurchased $2.6 billion, or approximately 44.1 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 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 success, as well as to 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, to a lesser extent, crude oil prices. Industry NGL annual average prices decreased from 2011 to 2012 and again from 2012 to 2013, due to relatively higher inventories driven by growing NGL production from liquids-rich shale plays with limited corresponding demand increase from the petrochemical industry and constrained export capacity. Natural gas prices decreased from 2011 to 2012, but increased from 2012 to 2013. The decrease in natural gas prices in 2012 was largely due to higher supply levels and relatively lower demand. The increase in 2013 was primarily driven by relatively colder weather in the first half of the year, which lowered inventory stock levels to below the five-year average low, as well as pipeline constraints in the Northeast United States.

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 continues to experience higher ethylene margins in regions of the world where production is based upon NGL versus crude-derived feedstocks. In particular, North American ethane-based crackers benefited from the lower-priced feedstocks and improved ethylene margins. This margin strength was sustained through the ethylene chain, including polyethylene.

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) increased from 2011 to 2012, but decreased from 2012 to 2013. The 2012 domestic industry average crack spread improved over 2011 primarily as a result of improved global demand for refined products resulting from worldwide economic recovery, along with limited net increase in global refining capacity. U.S. margins in the Midcontinent were especially strong, which was attributed to the region's crude feedstock advantage during this period. The decrease in the domestic industry average crack spread from 2012 to 2013 was largely due to the larger decline in gasoline and distillates prices compared to crude prices during 2013, as a result of expansion in refining capacity.

U.S. crude production continues to increase and nationwide growth is benefiting from slower decline rates in legacy production areas. 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 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 2013. 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 over the year narrowed considerably, stemming from increased pipeline outlets from Cushing to the Gulf Coast, as well as tightening Canadian light crude supply in the Midcontinent region.

The Northwest Europe benchmark crack spread increased from 2011 to 2012, but decreased from 2012 to 2013. The improved benchmark crack spread in Northwest Europe for 2012, compared with 2011, resulted from improved global demand for refined products with worldwide economic recovery. The decline from 2012 to 2013 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 the marketing fuel margins, while an upward trend of spot prices has an unfavorable impact on marketing fuel margins.

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## RESULTS OF OPERATIONS

### Consolidated Results

A summary of the company’s earnings by business segment follows:

| | Millions of Dollars<br>Year Ended December 31<br>2013 | 2012 | 2011 |
|---|---|---|---|
| Midstream | $469 | 53 | 2,149 |
| Chemicals | 986 | 823 | 716 |
| Refining | 1,851 | 3,217 | 1,529 |
| Marketing and Specialties | 790 | 417 | 530 |
| Corporate and Other | (431) | (434) | (192) |
| Discontinued Operations | 61 | 48 | 43 |
| Net income attributable to Phillips 66 | $3,726 | 4,124 | 4,775 |

### 2013 vs. 2012

Our earnings decreased $398 million, or 10 percent, in 2013, primarily resulting from lower 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 Malaysian Refining Company Sdn. Bdh. (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 interest and costs resulting from CPChem's early debt retirements in 2012.

### 2012 vs. 2011

Our earnings decreased $651 million, or 14 percent, in 2012, primarily resulting from:

- A $1,437 million after-tax decrease in net gains on asset dispositions in 2012. 2011 results included significant gains on the disposition of three pipeline systems.
- A $648 million after-tax increase in impairments in 2012, primarily reflecting impairments of our equity investments in MRC and REX.
- A $137 million after-tax increase in net interest expense, reflecting the issuance of $7.8 billion of debt during the first-half of 2012 in connection with the Separation.
- Lower NGL prices during 2012, which contributed to decreased earnings from our Midstream segment.

These items were partially offset by:

- Improved margins in the Refining segment.

- Improved ethylene and polyethylene margins in the Chemicals segment.

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

Income Statement Analysis

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 May 2013. For additional information, see Note 5—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 9—Impairments, in the Notes to Consolidated Financial Statements.

See Note 20—Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our provision for income taxes and effective tax rates.

2012 vs. 2011

Sales and other operating revenues decreased 8 percent in 2012, while purchased crude oil and products decreased 11 percent. The decreases were mainly due to processing lower refining volumes at our wholly owned refineries, resulting from the shutdown of Trainer Refinery in September 2011, combined with lower crude oil and NGL prices.

Equity in earnings of affiliates increased 10 percent in 2012, primarily resulting from improved earnings from WRB and CPChem. Equity in earnings of WRB increased 43 percent, mainly due to higher refining margins in the Central Corridor, combined with processing higher volumes associated with the coker and refining expansion (CORE) project at the Wood River Refinery. Equity in earnings of CPChem increased 22 percent, primarily resulting from higher ethylene and polyethylene margins.

These improvements were partially offset by:

- Lower earnings from DCP Midstream, mainly due to a decrease in NGL prices.
- Lower earnings from Excel Paralubes, Merey Sweeny, L.P. (MSLP) and MRC, mainly due to lower margins.
- The absence of earnings from Colonial Pipeline Company, which was sold in December 2011.

Net gain on dispositions decreased 88 percent in 2012, primarily resulting from 2011 gains associated with the disposition of three pipeline systems, compared with a net gain associated with the sale of Trainer Refinery and

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associated terminal and pipeline assets in the second quarter of 2012. For additional information, see Note 5—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements.

Other income increased $90 million in 2012, primarily associated with a keep-whole payment received from a third party associated with the sale of its ownership interest in REX, gains from trading activities not directly related to our physical business, and income received from ConocoPhillips associated with shared services.

Selling, general and administrative expenses increased 22 percent in 2012, primarily resulting from one-time and incremental costs associated with the Separation, as well as incremental costs relating to a prior retail disposition program.

Impairments in 2012 included our investments in MRC and REX, a marine terminal and associated assets, and equipment formerly associated with the canceled WRG upgrade project. Impairments in 2011 included the Trainer Refinery and associated terminal and pipeline assets. For additional information, see Note 9—Impairments, in the Notes to Consolidated Financial Statements.

Interest and debt expense increased $229 million in 2012, primarily due to approximately $7.8 billion of new debt issued in early 2012. For additional information, see Note 12—Debt, in the Notes to Consolidated Financial Statements.

See Note 20—Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our provision for income taxes and effective tax rates.

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Segment Results

Midstream

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | Millions of Dollars | | |
| Net Income (Loss) Attributable to Phillips 66 | | | |
| Transportation | $200 | (210) | 1,779 |
| DCP Midstream | 210 | 179 | 287 |
| NGL Operations and Other | 59 | 84 | 83 |
| Total Midstream | $469 | 53 | 2,149 |
| | Dollars Per Unit | | |
| Weighted Average NGL Price* | | | |
| DCP Midstream (per barrel) | $31.84 | 34.24 | 50.64 |
| DCP Midstream (per gallon) | 0.76 | 0.82 | 1.21 |

*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* | 3,167 | 2,898 | 2,981 |
| Terminals | 1,274 | 1,169 | 1,173 |
| Operating Statistics | | | |
| NGL extracted** | 213 | 201 | 192 |
| NGL fractionated*** | 115 | 105 | 112 |

*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 our share of equity affiliates.
***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 and terminaling services associated with the movement of crude oil, refined and specialty products, natural gas and NGL. The Midstream segment includes our 50 percent equity investment in DCP Midstream, as well as NGL fractionation, trading and marketing businesses in the United States.

2013 vs. 2012

Earnings from the Midstream segment increased $416 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 Operations and Other.

Transportation earnings increased $410 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 after-tax impairments totaling $303 million 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 9—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 Midstream Partners, LP (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. See the “Business Environment and Executive Overview” section for additional information on NGL prices.

DCP Partners, a subsidiary of DCP Midstream, 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 $62 million in 2013, compared with approximately $24 million in 2012.

NGL Operations and Other decreased $25 million, or 30 percent, 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.

2012 vs. 2011

Earnings from the Midstream segment decreased $2,096 million in 2012, compared with 2011. The decrease was primarily due to lower net gains on disposition of assets and higher impairments in our Transportation business, as well as decreased equity earnings from DCP Midstream. These items were partially offset by a keep-whole payment received from a third party associated with the sale of its ownership in REX.

Transportation earnings decreased $1,989 million in 2012, compared with 2011. During 2011, Transportation included an after-tax gain of $1,595 million on the sales of Seaway Products Pipeline Company, and our ownership interest in Colonial Pipeline Company and Seaway Crude Pipeline Company. For additional information, see Note 5—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements. Additionally, in 2012, we recorded after-tax impairments totaling $303 million on our equity investment in REX.

A $108 million decrease in earnings of DCP Midstream in 2012 mainly resulted from lower NGL prices and, to a lesser extent, lower natural gas prices, partially offset by lower depreciation, favorable volume impacts due to greater NGL extracted from liquid rich areas (such as Permian Basin, Eagle Ford Shale and Denver-Julesburg Basin), and increased gains from the issuance of limited partner units by DCP Partners. Issuances of limited partner units by DCP Partners benefited our equity earnings from DCP Midstream by approximately $24 million after tax in 2012, compared with approximately $11 million after tax in 2011.

During the second quarter of 2012, DCP Midstream completed a review of the estimated depreciable lives of its major classes of properties, plants and equipment. As a result of that review, the depreciable lives were extended. This change in accounting estimate was implemented on a prospective basis, effective April 1, 2012.

Chemicals

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | Millions of Dollars | | |
| Net Income Attributable to Phillips 66 | $986 | 823 | 716 |
| | Millions of Pounds | | |
| CPChem Externally Marketed Sales Volumes* | | | |
| Olefins and polyolefins | 16,071 | 14,967 | 14,305 |
| Specialties, aromatics and styrenics | 6,230 | 6,719 | 6,704 |
| | 22,301 | 21,686 | 21,009 |

*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 % | 93 | 94 |

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.

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 and polyolefins sales volumes related to ethylene outages. In addition, increased turnaround and maintenance activity resulted in lower volumes and higher costs. See the "Business Environment and Executive Overview" section for information on market factors impacting CPChem's results.

2012 vs. 2011

Earnings from the Chemicals segment increased $107 million, or 15 percent, in 2012, compared with 2011. The increase was primarily driven by higher ethylene and polyethylene margins and lower utility costs, partially offset by a loss on early extinguishment of debt and asset impairments. Ethylene margins benefited from lower feedstock costs, particularly lower ethane and propane prices during 2012. Utility costs benefited from lower natural gas prices during 2012.

During 2012, CPChem retired $1 billion of fixed-rate debt. CPChem also incurred prepayment premiums and wrote off the associated unamortized debt issuance costs. As a result, CPChem recognized a loss on early extinguishment of debt in 2012 of $287 million (100 percent basis), which decreased our equity in earnings from CPChem, on an after-tax basis, by approximately $90 million.

In addition, during 2012, CPChem recorded asset impairments totaling $91 million (100 percent basis), which decreased our equity in earnings from CPChem, on an after-tax basis, by $28 million. These asset impairments primarily included certain specialties, aromatics and styrenics asset groups and were mainly driven by decreases in cash flow projections.

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Refining

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | Millions of Dollars | | |
| Net Income (Loss) Attributable to Phillips 66 | | | |
| Atlantic Basin/Europe | $42 | 565 | (330) |
| Gulf Coast | 130 | 579 | 466 |
| Central Corridor | 1,484 | 2,263 | 1,439 |
| Western/Pacific | 45 | (385) | 29 |
| Other refining | 150 | 195 | (75) |
| Worldwide | $1,851 | 3,217 | 1,529 |
| | Dollars Per Barrel | | |
| Refining Margins | | | |
| Atlantic Basin/Europe | $6.87 | 9.28 | 5.93 |
| Gulf Coast | 6.63 | 9.02 | 8.01 |
| Central Corridor | 18.62 | 26.37 | 19.87 |
| Western/Pacific | 8.20 | 11.04 | 9.13 |
| Worldwide | 10.10 | 13.59 | 9.79 |
| | Thousands of Barrels Daily | | |
| Operating Statistics | | | |
| Refining operations* | | | |
| Atlantic Basin/Europe | | | |
| Crude oil capacity | 588 | 588 | 726 |
| Crude oil processed | 546 | 555 | 682 |
| Capacity utilization (percent) | 93% | 94 | 94 |
| Refinery production | 578 | 599 | 736 |
| Gulf Coast | | | |
| Crude oil capacity | 733 | 733 | 733 |
| Crude oil processed | 651 | 657 | 658 |
| Capacity utilization (percent) | 89% | 90 | 90 |
| Refinery production | 736 | 743 | 748 |
| Central Corridor | | | |
| Crude oil capacity | 477 | 470 | 471 |
| Crude oil processed | 472 | 454 | 433 |
| Capacity utilization (percent) | 99% | 97 | 92 |
| Refinery production | 489 | 471 | 448 |
| Western/Pacific | | | |
| Crude oil capacity | 440 | 439 | 435 |
| Crude oil processed | 410 | 398 | 393 |
| Capacity utilization (percent) | 93% | 91 | 91 |
| Refinery production | 445 | 419 | 419 |
| Worldwide | | | |
| Crude oil capacity | 2,238 | 2,230 | 2,365 |
| Crude oil processed | 2,079 | 2,064 | 2,166 |

| | | | |
|---|---|---|---|
| Capacity utilization (percent) | 93 % | 93 | 92 |
| Refinery production | 2,248 | 2,232 | 2,351 |

*Includes our share of equity affiliates.

The Refining segment buys, sells and refines crude oil and other feedstocks into petroleum products (such as gasoline, distillates and aviation fuels) at 15 refineries, mainly in the United States, Europe and Asia.

2013 vs. 2012

Earnings for the Refining segment were $1,851 million in 2013, a decrease of $1,366 million, or 42 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. 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 93 percent in both 2013 and 2012, as the lack of weather disruptions were offset by higher turnaround activities.

2012 vs. 2011

Refining reported earnings of $3,217 million in 2012, an increase of $1,688 million, or 110 percent, compared with 2011. The increase in earnings in 2012 was primarily due to improved worldwide refining margins driven by improved market conditions and optimizing access to lower-cost crude oil feedstocks, as well as a net gain on disposition of the Trainer Refinery and associated terminal and pipeline assets. These were partially offset by higher impairments and increased maintenance and repair expense associated with our Bayway Refinery as a result of severe weather disruptions.

During 2012, Refining included an after-tax gain of $104 million from the sale of the Trainer Refinery and associated terminal and pipeline assets. For additional information, see Note 5—Assets Held for Sale or Sold, in the Notes to Consolidated Financial Statements.

Additionally, during 2012, Refining results included an after-tax impairment of $564 million on our equity investment in MRC and an after-tax impairment of $42 million related to equipment formerly associated with the canceled WRG upgrade project, compared with an after-tax impairment of $303 million on the Trainer Refinery during 2011.

Our worldwide refining capacity utilization rate was 93 percent in 2012, compared with 92 percent in 2011. The improvement was primarily due to improved market conditions, partially offset by higher turnaround and maintenance activities, as well as severe weather disruptions.

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Marketing and Specialties

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | Millions of Dollars | | |
| Net Income Attributable to Phillips 66 | | | |
| Marketing and Other | $673 | 263 | 401 |
| Specialties | 117 | 154 | 129 |
| Total Marketing and Specialties | $790 | 417 | 530 |
| | Dollars Per Barrel | | |
| Realized Marketing Fuel Margin* | | | |
| U.S. | $1.21 | 0.87 | 0.74 |
| International | 4.36 | 4.17 | 4.26 |
| *On third-party petroleum products sales. | | | |
| | Dollars Per Gallon | | |
| U.S. Average Wholesale Prices* | | | |
| Gasoline | $2.88 | 3.00 | 2.94 |
| Distillates | 3.10 | 3.19 | 3.12 |
| *Excludes excise taxes. | | | |
| | Thousands of Barrels Daily | | |
| Marketing Petroleum Products Sales | | | |
| Gasoline | 1,174 | 1,101 | 1,204 |
| Distillates | 967 | 985 | 1,039 |
| Other | 17 | 17 | 18 |
| | 2,158 | 2,103 | 2,261 |

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 lubricants), as well as power generation operations.

2013 vs. 2012

Earnings from the M&S segment increased $373 million, or 89 percent, in 2013, compared with 2012. See the "Business Environment and Executive Overview" section for information on marketing fuel margins and other market factors impacting this year's results.

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. As a result, we would expect the benefit to our U.S. marketing margins from RINs to be lower in 2014 than we experienced in 2013. 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 in May 2013. 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.

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2012 vs. 2011

Earnings from the M&S segment decreased $113 million, or 21 percent, in 2012, compared with 2011. During 2012, the segment was negatively impacted by higher income taxes associated with foreign dividends, increased costs, and lower volumes, partially offset by higher U.S. margins. In addition, 2011 earnings benefited from an after-tax gain of $26 million from the sale of our delayed coker licensing business.

Corporate and Other

| | Millions of Dollars | | |
|---|---|---|---|
| | Year Ended December 31 | | |
| | 2013 | 2012 | 2011 |
| Net Loss Attributable to Phillips 66 | | | |
| Net interest expense | $(166) | (148) | (11) |
| Corporate general and administrative expenses | (145) | (116) | (76) |
| Technology | (50) | (49) | (53) |
| Repositioning costs | — | (55) | — |
| Other | (70) | (66) | (52) |
| Total Corporate and Other | $(431) | (434) | (192) |

2013 vs. 2012

Net interest expense consists of interest and financing expense, net of interest income and capitalized interest. 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 12—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.

2012 vs. 2011

Net interest expense increased $137 million in 2012, compared with 2011, primarily due to approximately $7.8 billion of new debt issued in early 2012. For additional information, see Note 12—Debt, in the Notes to Consolidated Financial Statements.

Corporate general and administrative expenses increased $40 million in 2012, compared with 2011. The increase was primarily due to incremental costs and expenses associated with operating as a stand-alone company for the eight months subsequent to the Separation.

Repositioning costs consist of expenses related to the Separation. Expenses incurred in the eight-month period subsequent to the Separation primarily included compensation and benefits, employee relocations and moves, information systems, and shared services costs.

The "Other" category 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. Changes in the "Other" category were mainly due to an after-tax impairment of $16 million on a corporate property in 2012.

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Discontinued Operations

| | Millions of Dollars Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Net Income Attributable to Phillips 66 | | | |
| Discontinued operations | $61 | 48 | 43 |

On December 30, 2013, we entered into an agreement to exchange PSPI for shares of our common stock held by the other party, with closing expected in the first quarter of 2014. Accordingly, we have reflected PSPI as discontinued operations, and recast prior periods for comparability. See the "Outlook" section for additional information on this transaction.

## CAPITAL RESOURCES AND LIQUIDITY

### Financial Indicators

| | Millions of Dollars Except as Indicated | | | | |
|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 |
| Net cash provided by operating activities | $6,027 | | 4,296 | | 5,006 |
| Short-term debt | 24 | | 13 | | 30 |
| Total debt | 6,155 | | 6,974 | | 391 |
| Total equity | 22,392 | | 20,806 | | 23,293 |
| Percent of total debt to capital* | 22 | % | 25 | | 2 |
| Percent of floating-rate debt to total debt | 1 | % | 15 | | 13 |

*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 2013, we generated $6.0 billion in cash from operations, received $1.2 billion from asset dispositions and received $0.4 billion as a result of net proceeds received from the issuance of Phillips 66 Partners' common units. This available cash was primarily used for capital expenditures and investments ($1.8 billion), repurchases of our common stock ($2.2 billion), debt repayments ($1.0 billion) and dividend payments on our common stock ($0.8 billion). During 2013, cash and cash equivalents increased by $1.9 billion to $5.4 billion, of which $425 million was held by Phillips 66 Partners.

In addition to cash flows from operating activities, we rely on our credit facility programs, asset sales and 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, repayment of debt and share repurchases.

### Significant Sources of Capital

#### Operating Activities

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 the 2013 period 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 cash from operations 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.

During 2012, cash of $4,296 million was provided by operating activities, a 14 percent decrease from cash from operations of $5,006 million in 2011. The decrease primarily reflected the impact of working capital changes. Accounts payable activity lowered cash from operations by $985 million in 2012, primarily reflecting lower commodity prices and volumes. Inventory management had a reduced benefit to working capital in 2012, compared with 2011. Partially offsetting the negative impact of working capital changes were improved U.S. refining margins during 2012, reflecting improved market conditions and increasing access to lower-cost crude oil feedstocks. Increased distributions from equity affiliates, particularly WRB, whose refineries are located in the Central Corridor region, also partially offset the negative impact of working capital changes in 2012.

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 93 percent in both 2013 and 2012. We are forecasting 2014 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, 2013, we received distributions of $812 million from DCP Midstream, $1,893 million from CPChem and $3,302 million from WRB. We cannot control the amount of future distributions from equity affiliates; therefore, future distributions by these and other equity affiliates are not assured.

Asset Sales

Proceeds from asset sales in 2013 were $1,214 million, compared with $286 million in 2012 and $2,627 million in 2011. 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. The 2011 proceeds included the sale of our ownership interests in Colonial Pipeline Company and Seaway Crude Pipeline Company, as well as the Wilhelmshaven Refinery and Seaway Products Pipeline Company. As of December 31, 2013, a before-tax gain of $375 million associated with 2013 asset sales was deferred due to an indemnity provided to the buyer. A portion of the deferred gain is denominated in a foreign currency; accordingly, the amount of the deferred gain translated into U.S. dollars is subject to change based on currency fluctuations. Absent claims under the indemnity, the deferred gain will be recognized into earnings as our exposure under this indemnity declines, currently expected to begin in the second half of 2014 and end in the first half of 2015.

Initial Public Offering of Phillips 66 Partners LP

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. On July 26, 2013, Phillips 66 Partners completed its initial public offering 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 consist of crude oil and refined petroleum product pipeline, terminal, and storage systems in the Central and Gulf Coast regions of the United States, each of which is integral to a connected Phillips 66-operated refinery.

We currently own a 71.7 percent limited partner interest and a 2.0 percent general partner interest in Phillips 66 Partners, while the public owns a 26.3 percent limited partner interest. We consolidate Phillips 66 Partners as a variable interest entity for financial reporting purposes (for additional information, see Note 3—Variable Interest Entities (VIEs), in the Notes to Consolidated Financial Statements). The public's ownership interest in Phillips 66 Partners is reflected as a noncontrolling interest in our financial statements, including $409 million in the equity section of our consolidated balance sheet as of December 31, 2013. Phillips 66 Partners' cash and cash equivalents at December 31, 2013, were $425 million.

Credit Facilities

During the second quarter of 2013, we amended our revolving credit agreement by entering into the First Amendment to Credit Agreement (Amendment). The Amendment increased the borrowing capacity from $4.0 billion to $4.5 billion, extended the term from February 2017 to June 2018, reduced the margin applied to interest and fees accruing on and after the Amendment effective date, and made certain amendments with respect to Phillips 66 Partners. As of December 31, 2013, no amount had been drawn under this facility; however, $51 million in letters of credit had been issued that were supported by this facility.

The revolving credit agreement 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 credit agreement 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 Ratings Services (S&P) and Moody's Investors Service (Moody's). The revolving credit agreement also provides for customary fees, including administrative agent fees and commitment fees.

On June 7, 2013, Phillips 66 Partners entered into a senior unsecured $250 million revolving credit agreement (Revolver) with a syndicate of financial institutions, which became effective upon its initial public offering of common units on July 26, 2013. Phillips 66 Partners has the option to increase the overall capacity of the Revolver by up to an additional $250 million, subject to certain conditions. The Revolver has an initial term of five years. As of December 31, 2013, no amount had been drawn under this facility.

Trade Receivables Securitization Facility
Our trade receivables securitization facility, which was entered into during April 2012, has a term of three years. During the second quarter of 2013, we amended the facility by entering into the First Amendment to Receivables Purchase Agreement (Securitization Amendment). The Securitization Amendment decreased the borrowing capacity from $1.2 billion to $696 million and made certain amendments with respect to Phillips 66 Partners. As of December 31, 2013, no amount had been drawn under this facility. However, $26 million in letters of credit had been issued that were collateralized by trade receivables held by a subsidiary under this facility.

Debt Financings
Our $5.8 billion of Senior Notes were issued by Phillips 66, and are guaranteed by Phillips 66 Company, a 100-percent-owned subsidiary. Our senior unsecured long-term debt has been rated investment grade by S&P and Moody's. 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 2013, we entered into a capital lease obligation for use of an oil terminal in the United Kingdom. The capital lease matures in 2033 and the present value of our minimum capital lease payments as of December 31, 2013, was $189 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 MSLP. At December 31, 2013, the aggregate principal amount of MSLP debt guaranteed by us was

$214 million.

For additional information about guarantees, see Note 13—Guarantees, in the Notes to Consolidated Financial Statements.

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

Our debt balance at December 31, 2013, was $6.2 billion and our debt-to-capital ratio was 22 percent, within our target range of 20-to-30 percent. During 2013, we prepaid the $1 billion outstanding balance on our $2 billion term loan. As a result of this prepayment, we have no material scheduled debt maturities in 2014.

On February 7, 2014, our Board of Directors declared a quarterly cash dividend of $0.39 per common share, payable March 3, 2014, to holders of record at the close of business on February 18, 2014.

During the second half of 2013, we entered into a construction agency agreement and an operating lease agreement with a financial institution to finance 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 we request draws from the financial institution to fund construction costs. The operating lease becomes effective after construction is substantially complete and we are able to occupy the facility. The operating lease has an initial term of five years and provides us the option, under specified circumstances, to request additional lease extensions, purchase the facility or assist the financial institution in marketing it for resale.

During 2012, our Board of Directors authorized the repurchase of up to $2 billion of our outstanding common stock. In October 2013, we completed our initial $2 billion share repurchase program. During 2013, our Board of Directors authorized additional share repurchases of $1 billion and $2 billion on July 30 and December 6, respectively. 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. Share repurchases under our repurchase programs totaled 44,106,380 shares at a cost of $2.6 billion through December 31, 2013. Shares of stock repurchased are held as treasury shares.

On December 30, 2013, we announced that we had entered into an agreement to exchange PSPI for shares of our common stock held by the other party. Following customary regulatory review, the transaction is expected to close in the first quarter of 2014. For additional information, see "Outlook" below.

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Contractual Obligations

The following table summarizes our aggregate contractual fixed and variable obligations as of December 31, 2013.

| | Millions of Dollars<br>Payments Due by Period<br>Total | Up to<br>1 Year | Years<br>2-3 | Years<br>4-5 | After<br>5 Years |
|---|---|---|---|---|---|
| Debt obligations (a) | $5,956 | 12 | 830 | 1,545 | 3,569 |
| Capital lease obligations | 199 | 12 | 16 | 17 | 154 |
| Total debt | 6,155 | 24 | 846 | 1,562 | 3,723 |
| Interest on debt | 3,838 | 249 | 468 | 382 | 2,739 |
| Operating lease obligations | 2,045 | 522 | 726 | 442 | 355 |
| Purchase obligations (b) | 123,189 | 39,923 | 17,824 | 10,983 | 54,459 |
| Other long-term liabilities (c) | | | | | |
| Asset retirement obligations | 309 | 8 | 13 | 12 | 276 |
| Accrued environmental costs | 492 | 93 | 114 | 59 | 226 |
| Unrecognized tax benefits (d) | 3 | 3 | (d) | (d) | (d) |
| Total | $136,031 | 40,822 | 19,991 | 13,440 | 61,778 |

(a) For additional information, see Note 12—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 $66,614 million. In addition, $39,759 million are product purchases from CPChem, mostly for natural gas and NGL over the remaining contractual term of 86 years, and $6,792 million from Excel Paralubes, for base oil over the remaining contractual term of 11 years.

Purchase obligations of $6,681 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 2014 through 2018 time period, we expect to contribute an average of $180 million per year to our qualified and nonqualified pension and other postretirement benefit plans in the United States and an average of $60 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 $175 million for 2014 and then approximately $185 million per year for the remaining four years. Our minimum funding in 2014 is expected to be $175 million in the United States and $60 million outside the United States.

(d) Excludes unrecognized tax benefits of $199 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 $18 million. Although unrecognized tax benefits are not a contractual obligation, they are presented in this table because they represent potential demands on our liquidity.

Capital Spending

| | Millions of Dollars | | | |
|---|---|---|---|---|
| | 2014 Budget | 2013 | 2012 | 2011 |
| Capital Expenditures and Investments | | | | |
| Midstream* | $1,417 | 528 | 704 | 122 |
| Chemicals | — | — | — | — |
| Refining | 1,002 | 889 | 738 | 771 |
| Marketing and Specialties | 126 | 226 | 119 | 106 |
| Corporate and Other | 136 | 136 | 140 | 17 |
| Total consolidated from continuing operations | $2,681 | 1,779 | 1,701 | 1,016 |
| Discontinued operations | $15 | 27 | 20 | 6 |
| Selected Equity Affiliates** | | | | |
| DCP Midstream* | $750 | 971 | 1,324 | 779 |
| CPChem | 1,046 | 613 | 371 | 222 |
| WRB | 145 | 109 | 136 | 414 |
| | $1,941 | 1,693 | 1,831 | 1,415 |

*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.
**Our share of capital spending, which is self-funded by the equity affiliate.

Midstream
During the three-year period ended December 31, 2013, 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 November 2012, we invested $0.5 billion in total to acquire a one-third direct interest in both the DCP Sand Hills and DCP Southern Hills pipeline entities. Phillips 66, Spectra Energy and DCP Midstream each own a one-third interest in each of the two pipeline entities, and both pipelines are operated by DCP Midstream. In 2013 we made additional investments in both the DCP Sand Hills and DCP Southern Hills pipeline entities, 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 was primarily for reliability and maintenance projects in our Transportation business.

Chemicals
During the three-year period ended December 31, 2013, 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 $2.4 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. Our agreement with Chevron regarding CPChem generally provides that instead of CPChem incurring debt, CPChem's owners would provide funding in the form of shareholder loans or capital as necessary to

fund CPChem's capital requirements to the extent these requirements exceed CPChem's available cash from operations. We are currently forecasting CPChem to remain self-funding through 2014.

Refining

Capital spending for the Refining segment during the three-year period ended December 31, 2013, was $2.4 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 Refinery.
- 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 new coke drums at the Ponca City Refinery.
- Installation of a tail gas treating unit at the Humber Refinery to reduce emissions from the sulfur recovery units.
- Installation of rail racks to accept advantaged crude deliveries at the Bayway and Ferndale refineries.

Generally, our equity affiliates in the Refining segment are intended to have self-funding capital programs. Although WRB did not require capital infusions from us during the three-year period ended December 31, 2013, we did provide loan financing to WRB to assist it in meeting its operating and capital spending requirements. WRB repaid these loans in full during 2011. During this three-year period, on a 100 percent basis, WRB’s capital expenditures and investments were $1.3 billion. We expect WRB’s 2014 capital program to be self-funding.

Marketing and Specialties
Capital spending for the M&S segment during the three-year period ended December 31, 2013, 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, reliability and maintenance projects, and projects targeted at growing our international marketing and specialties businesses.

Corporate and Other
Capital spending for Corporate and Other during the three-year period ended December 31, 2013, was primarily for projects related to information technology and facilities.

2014 Budget
Our 2014 planned capital budget is $2.7 billion. This excludes our portion of planned capital spending by DCP Midstream, CPChem and WRB totaling $1.9 billion, which is not expected to require cash outlays by us.

In Midstream, we plan $1.4 billion of investment in our NGL Operations and Transportation business lines. This represents an increase of $0.9 billion over 2013. In 2014, we expect to begin construction of a 100,000 barrel-per-day NGL fractionator and a 4.4 million-barrel-per-month liquefied petroleum gas export terminal on the U.S. Gulf Coast. In addition, several rail offloading facilities and other crude handling projects will increase our access to advantaged refining feedstocks, while pipeline expansion and connection projects will grow capacity and allow for greater refined product exports.

We plan to spend $1.0 billion of direct capital expenditures in Refining, approximately 70 percent of which will be for sustaining capital. These investments are related to reliability and maintenance, safety and environmental projects, including those to comply with Tier 3 emission standards. Other Refining capital investments will be directed toward relatively small, high-return projects, primarily to enhance use of advantaged crudes, as well as to improve product yields, increase energy efficiency and expand export capability.

In the M&S segment, we plan to invest about $0.1 billion of growth and sustaining capital. The growth investment reflects our intent to expand the international fuels marketing business.

Within Corporate and Other, we expect to invest approximately $0.1 billion in 2014 related to information technology and facilities.

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Contingencies

A number of lawsuits involving a variety of claims have been made 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 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 20—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.
- 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.

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- 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 compliance year 2014, 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, 2012, we reported we had been notified of potential liability under CERCLA and comparable state laws at 48 sites around the United States. During 2013, we were notified of 3 new sites, settled and closed 1 site, and determined 15 sites were resolved, leaving 35 unresolved sites with potential liability at December 31, 2013.

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 $665 million in 2013 and are expected to be approximately $645 million in each of 2014 and 2015. Capitalized environmental costs were $252 million in 2013 and are expected to be approximately $365 million in each of 2014 and 2015. 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, 2013, our balance sheet included total accrued environmental costs of $492 million, compared with $530 million at December 31, 2012, and $542 million at December 31, 2011. 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. Although costs to replace fraudulently marketed RINs that have been determined to be invalid have not been material through December 31, 2013, 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 RIN 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 Emissions Trading Scheme (ETS), the program through which many of the European Union (EU) member states are implementing the Kyoto Protocol.
- 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. Challenges to both the announcement and rulemaking were denied by the Court of Appeals for the D.C. Circuit (see Coalition for Responsible Regulation v. EPA, 684 F.3d 102 (D.C. Cir. 2012)), but are now pending before the U.S. Supreme Court.
- Carbon taxes in certain jurisdictions.
- GHG emission cap and trade programs in certain jurisdictions.

In the EU, we have assets that are subject to the ETS. The first phase of the ETS was completed at the end of 2007 and Phase II ran from 2008 through 2012. Phase III runs from 2013 through 2020 and there will likely be a significant increase in auctioning levels, including 100 percent auctioning to the power sector in the United Kingdom and across most of the EU. We are actively engaged to minimize any financial impact from the trading scheme.

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 scheme 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 currently is limited to certain stationary sources, which include our refineries in California, but beginning in 2015 will expand 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 would 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:

- 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, the carrying value 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—generally at an entire 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 based on the present values of expected future cash flows using discount rates believed to be consistent with those used by principal market participants, or based on a multiple of operating cash flows validated with historical market transactions of similar assets where possible. 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 believed to be consistent with those used by principal market participants, plus market analysis of comparable assets owned by the investee, 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 material 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 future asset removal costs necessary for this accounting calculation 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, 2013, we had $694 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, 2013, we had $3.1 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, 2013, we realigned our operating segments and determined that goodwill (which, prior to the realignment, had been assigned fully to our former R&M segment) should now be assigned to three of the realigned operating segments—Midstream, Refining and M&S. We further determined that, for the Midstream segment, Transportation constituted a reporting unit. For the Refining and M&S segments, we determined the goodwill reporting unit was at the operating segment level, due to the economic similarities of the components of those segments.

Goodwill was reassigned to the realigned reporting units using a relative fair value approach. Goodwill impairment testing was completed and no impairment recognition was required. In the future, the sale or disposition of a significant asset within a reporting unit will be allocated a portion of that reporting unit's goodwill, based on relative fair values, which will adjust 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.

During the fourth quarter of 2013, we estimated that the fair values of the Transportation, Refining and M&S reporting units were approximately 220 percent, 30 percent and 45 percent higher than the recorded net book values (including goodwill) of these reporting units, respectively. However, a lower fair value estimate in the future could result in an impairment. A prolonged or significant decline in our stock price could provide evidence of a need to record a material impairment of goodwill.

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 $60 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 2013 and 2012, 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 2013 and 2012 were 16 percent and 5 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.

OUTLOOK

On December 30, 2013, we entered into an agreement pursuant to which we will exchange all of our common stock in PSPI for shares of Phillips 66 common stock owned by the other party. We expect PSPI's balance sheet at closing to include approximately $450 million of cash and cash equivalents. The exact number of Phillips 66 shares to be delivered will be determined by reference to the volume weighted average price of Phillips 66 common stock on the closing date. Had the closing occurred on February 14, 2014, approximately 18 million shares of Phillips 66 common stock would have been exchanged. The reacquired stock will be held as treasury shares. Following customary regulatory review, the transaction is expected to close in the first quarter of 2014. We expect to record a gain of approximately $710 million when the transaction closes, subject to working capital and other adjustments.

On February 13, 2014, we entered into an agreement to contribute to Phillips 66 Partners certain transportation, terminaling and storage assets for total consideration of $700 million. These assets consist of our Gold Product Pipeline System and the Medford Spheres, two newly constructed refinery-grade propylene storage spheres. Phillips 66 Partners expects to finance the acquisition with cash on hand of $400 million, the issuance of additional units valued at $140 million, and a five-year, $160 million note payable to a subsidiary of Phillips 66. The number of additional units will be based on the average daily closing price of Phillips 66 Partners' common units for the 10 trading days prior to February 13, 2014, or $38.86 per unit, with 98 percent issued as common units and 2 percent issued as general partner units. The transaction is targeted to occur on March 1, 2014.

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## 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 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 Executive Vice President over the Commercial organization 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, 2013, 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, 2013 and 2012, were immaterial to our cash flows and net income.

The VaR for instruments held for purposes other than trading at December 31, 2013 and 2012, were also immaterial to our cash flows and net income.

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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 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 | | |

| | Millions of Dollars Except as Indicated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Expected Maturity Date | Fixed Rate Maturity | | Average Interest Rate | | Floating Rate Maturity | | Average Interest Rate | |
| Year-End 2012 | | | | | | | | |
| 2013 | $ | 12 | 7.00 | % | $ | — | — | % |
| 2014 | | 14 | 7.00 | | | 286 | 1.47 | |
| 2015 | | 814 | 2.04 | | | 714 | 1.47 | |
| 2016 | | 15 | 7.00 | | | — | — | |
| 2017 | | 1,516 | 2.99 | | | — | — | |
| Remaining years | | 3,552 | 5.00 | | | 50 | 0.24 | |
| Total | $ | 5,923 | | | $ | 1,050 | | |
| Fair value | $ | 6,508 | | | $ | 1,050 | | |

For additional information about our use of derivative instruments, see Note 15—Derivatives and Financial Instruments, in the Notes to Consolidated 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 natural gas drilling around DCP Midstream’s assets, the level and quality of gas production volumes around its assets and its ability to connect supplies to its gathering and processing systems in light of competition.
- 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 under capacity 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.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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