

Registered number
529086

Phillips 66 Limited
Annual report and financial statements
for the year ended 31 December 2022



Phillips 66 Limited
Report and accounts
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Phillips 66 Limited
Company information

Directors	G S Taylor P M Fursey R E Sherwell N A Holland N E McKnight R J Turner C R Love
Company secretaries	R M White A Janaszek E M Price S Gennings
Registered office	7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD
Registered number	529086
Auditor	Ernst & Young LLP 1 More London Place, London SE1 2AF

Phillips 66 Limited Strategic report

The directors present their Strategic report for the year ended 31 December 2022.

Principal activities

The principal activities of the company are the purchasing, processing, storage, distribution and marketing of hydrocarbon products.

Business review

The company has three main operating divisions of Refining, Marketing and Commercial. The Refining division, comprising the Humber Refinery, refines crude oil and other feedstocks into finished petroleum products (such as gasolines, distillates, and coke) for UK consumption or export. The Marketing division sells refined products produced by the Humber Refinery as well as other purchased products, into UK inland markets. The Commercial division sources feedstocks for Phillips 66 European refineries, markets and sells their production for export markets and also trades in the oil, products and other commodity markets.

The company is committed to maintaining significant production of petroleum products from its principal assets. The financial results reflect both the current market conditions and the planned operations of the company's assets. It is the intention that the principal activities of the company will continue for the foreseeable future.

The company is also committed to pursuing projects, technologies and partnerships that support decarbonisation and the net-zero emissions ambitions of the UK government.

The key financial and other performance indicators during the year were as follows:

	2022	2021	Change
	\$ million	\$ million	%
Turnover	29,046	17,750	63.6%
Gross profit	1,411	218	547.2%
Profit for the financial year	1,411	243	480.7%
Shareholder's funds	3,259	2,959	10.1%
	2022	2021	Change
Inventory turnover	26.6	20.2	31.7%
Quick ratio	1.3	1.1	18.2%

The gross profit for the year was \$1,411 million (2021: gross profit \$218 million). The profit for the year was \$1,411 million (2021: profit \$243 million). Improved refining gross margins were driven by an unusually strong market caused by tight global supply that resulted in high market crack spreads.

During the year as part of a group restructure the company's subsidiary Phillips 66 Continental Holdings GmbH was disposed of to its parent Phillips 66 UK Holdings Limited. No gain or loss arose from this transaction.

Subsequent events

In 2023 to the date of this report the company had the following dividend transactions:

	Dividend income	Dividend paid
	\$ million	\$ million
February	104	-
July	-	500

Phillips 66 Limited
Strategic report (continued)

Subsequent events (continued)

In February 2023 dividend income was received from associate company Coop Mineraleol AG of \$104 million. In July 2023 a dividend of \$500 million was paid to the company's parent Phillips 66 UK Holdings Limited.

Three of the company's subsidiaries have been dissolved in 2023. Phillips 66 CS Limited was dissolved on 7 March 2023 and both Phillips 66 European Power Limited and Phillips 66 UK Development Limited were dissolved on 13 June 2023. No gains or losses were recognised on these dissolutions.

The company has assessed the potential impact of the ongoing conflict in Ukraine on its operations. As a result there is no expectation that the consequences of this will have any significant impact on the financial performance of the company.

There have been no other significant events since the balance sheet date.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are those that impact profitability and supply. The company operates in the worldwide crude oil and refined products markets, and as such, is exposed to fluctuations in crude oil prices. Generally, the company's policy is to remain exposed to market prices of commodities, however, executive management may elect to use derivative instruments to hedge price risk.

Risks and uncertainties include refinery down time, safety and crude supply, all of which could impact this company.

Financial instruments and risk management

Commodity price risk

The company's commercial organisation uses futures, forwards, swaps and options in various markets to accomplish the following objectives:

- Balance physical systems; in addition to cash settlement prior to contract expiration, exchange traded futures contracts may also be settled by physical delivery of the commodity, providing another source of supply to meet marketing demand.
- Manage the risk to the company's cash flows from price exposures on specific crude oil transactions.
- Enable the use of market knowledge gained from these activities to do a limited amount of trading not directly related to the company's physical business.

Interest rate risk

The company is exposed to interest rate risk resulting from the company's banking arrangements. The company does not comprehensively hedge its exposure to interest rate changes although the company may selectively hedge exposure to interest rate risk.

Foreign currency risk

The company is exposed to foreign currency exchange rate risk resulting from entering into certain transactions denominated in currencies other than the functional currency of the relevant business branch. The company does not comprehensively hedge its exposure to currency rate changes, although the company may selectively hedge exposures to foreign currency rate risk.

Investment risk

The company is exposed to investment valuation risk resulting from the fair value of its investment in its subsidiaries falling below the carrying value of the investment.

Phillips 66 Limited
Strategic report (continued)

Financial instruments and risk management (continued)

Geopolitical risk

Events relating to Russia and the military conflict in Ukraine, including international sanctions, trade restrictions, or any other actions taken by relevant parties may adversely impact future income. Management counter this risk through strategic financial planning.

Climate change risk

The company views climate change as a potentially significant risk. The company's Board of Directors maintains oversight of climate related risks and opportunities, regularly reviewing actions taken by management to monitor, control and report climate related exposures. Climate related impacts are considered as the company develops business plans and strategy, ensuring potential risks are mitigated by planned actions which are appropriately funded.

The company considers the only short-term risk to be potential extreme weather events impairing the operations of the Humber Refinery but based on detailed assessments undertaken believes the risk of any material adverse impacts to be very low. Short term changes in demand by product will not have a significant earnings impact for the companies. The company is actively participating in consultations on the proposed reduction in allocation of free allowances under the UK Emissions Trading Scheme, and currently views the outcome of these not sufficiently certain to be deemed a short-term risk.

The company recognises that as the economy transitions to a low-carbon economy, and legislative changes such as the ban of the sale of new ICE (internal combustion engine) vehicles in 2030 and the ban of ICE/Hybrid vehicles in 2035 are implemented, this will drive changes in the business model in the medium to long term. The company is actively working various initiatives associated with bio-feedstocks, carbon capture, hydrogen and lower carbon fuels that will mitigate the negative financial impacts on some current activities and will maintain the profitability of the company. The company's approach is to improve the efficiency of diversified and resilient operations and make investments to meet the world's evolving energy needs while advancing a lower-carbon future.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known.

Other business risks

The business of the company is exposed to risks of terrorism, cyber-disruption and pandemic diseases, such as Covid-19. In response the company has appropriate measures in place to deter, detect and respond to security risks.

Streamlined energy and carbon reporting (SECR)

For the purpose of SECR reporting, emissions releasing activities are categorised into 3 groups known as scopes, and these are described below:

Scope 1 (direct emissions): Emissions from activities owned or controlled by the company.

Scope 2 (energy indirect): Emissions released into the atmosphere associated with the company's consumption of purchased electricity, heat, steam and cooling.

Scope 3 (other indirect): Emissions that are a consequence of the company's actions, which occur at sources that the company does not own or control and which are not classed as scope 2 emissions.

Phillips 66 Limited
Strategic report (continued)

Streamlined energy and carbon reporting (SECR) (continued)

	2022	2021
Energy consumption used to calculate emissions (gas, electricity, transport, fuel, other) (GWh)	11,419	10,944
Scope 1 emissions from combustion of gas (tCO ₂ e)	1,275,392	1,107,468
Scope 1 emissions from consumption of fuel for transport purposes (tCO ₂ e)	123	110
Scope 2 emissions from purchased electricity (tCO ₂ e)	174,933	157,223
Scope 3 emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO ₂ e)	98	27
Total gross emissions based on mandatory listed above (tCO ₂ e)	1,450,546	1,264,828
Intensity ratio (tCO ₂ e) (gross figure based on mandatory listed above) / Mbbbl feedstock	16,989	16,867
Methodology		
2022 UK ETS and EPR permit methodologies		
2021 UK ETS and EPR permit methodologies		

GWh - Gigawatt hour is a unit of energy equivalent to one million kilowatt hours
kWh - Kilowatt hour (unit of measure for energy consumed commonly used as a billing unit)
tCO ₂ e - Tonnes Carbon Dioxide Equivalent

Actions taken towards building a lower-carbon value chain:

Production of fuels from waste: The Humber Refinery was the first refinery in the UK to produce biofuels at scale when used cooking oil (UCO) began to be used in the refining process. The Humber Refinery also has the UK's first at-scale advanced biofuels processor. Advanced biofuels are lower-carbon fuels made from waste, residues or substances of non-biological origins. The Humber Refinery was also the first refinery in the UK to produce sustainable aviation fuel at scale.

Carbon capture and storage (CCS): The company is a part of Humber Zero, a regional CCS project that is expected to remove 8 million metrics tons of carbon dioxide, per year by 2030.

Supporting the electric vehicle (EV) supply chain through coke manufacture: The Humber Refinery is the only European facility producing battery-grade coke, which is used for a critical component for batteries in EVs and consumer electronics. The requirement for this is growing. By 2027, all UK and EU produced EVs are required to have at least 55% of the vehicle content by value produced domestically.

The company holds ISO14001:2015 environmental management system certification and maintains mature programmes for the management of environmental aspects and impacts to ensure compliance with the environmental permit and an overall high level of environmental performance. This includes programmes for the review of resource consumption and daily monitoring, as well as periodic review, for energy use and efficiency. The maintenance activities at the refinery ensure equipment integrity and efficiency, from large scale equipment shutdown activities, to steam leak and trap repair programmes. Capital allocation addresses energy efficiency upgrades such as the conversion of steam turbines to electric motors on rotating equipment.

Phillips 66 Limited
Strategic report (continued)

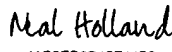
Statement by the directors on performance of their statutory duties in accordance with s172 Companies Act 2006

The company's Board of Directors consider they have acted prudently and in good faith and in a manner most likely to promote the success of the company having regard to the matters set out in Section 172 of the Companies Act 2006.

The company is an indirect subsidiary of Phillips 66, a diversified energy manufacturing and logistics company listed on the New York Stock Exchange. The Phillips 66 group manages its activities principally along business and functional lines to achieve overall business objectives but respects the status of the separate legal entities through which it transacts, maintaining the independence of each Board of Directors.

The company's Board of Directors has adopted Corporate Governance Guidelines consistent with the Wates Corporate Governance Principles (the "Guidelines") as a general framework to assist the Board in carrying out its responsibilities for the business and affairs of the company to be managed by or under the direction of the Board in accordance with the Companies Act 2006. The Guidelines address six principles of Purpose and Leadership, Board Composition, Board Accountability, Opportunity and Risk, Remuneration, and Stakeholder Relationships and Engagement. Since their adoption, the Board has conducted itself in accordance with the Guidelines to ensure decisions made take into account stakeholder input, the long-term consequences of decisions, and the company's reputation of high standards of business conduct.

This report was approved by the Board of Directors on 28 September 2023 and signed on its behalf by:

DocuSigned by:

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N A Holland
Director

Registered office:
7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD

Phillips 66 Limited Directors' report

The directors present their Annual report on the affairs of the company, together with the Strategic report and financial statements, for the year ended 31 December 2022.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the company will continue in existence for the period to 31 October 2024, being the going concern period. In reaching this conclusion the directors reviewed a going concern assessment for that period which included the review of financial forecasts that considered the impact of the ongoing military conflict in Ukraine along with earnings assumptions based on management's view of the current and future economic environment over the forecast period. These forecasts indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period.

In view of the inherent uncertainty with respect to the payment of dividends to its parent, the company has received confirmation from Phillips 66 Company, its indirect parent undertaking, that it will provide such financial assistance as may be required by the company to meet its liabilities, throughout the going concern period, as and when they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

The company is also party to a centralised cash pooling arrangement between all the Phillips 66 pooling participants and the Bank of America and has access, if required, to surplus cash within the pool. Phillips 66 Company and Phillips 66 have each provided a cross guarantee to the Bank in respect of the obligations of the pool participants under the cash pooling arrangement. These guarantees are limited to the aggregate of (i) the credit balance on all their accounts with the Bank at any time and (ii) 2 billion US dollars (\$2,000,000,000).

After considering uncertainties in the current economic environment along with the support available from the parent company, and after making enquiries, the directors have concluded that the company has adequate resources to continue in operation for the going concern period. These considerations include the impact of the ongoing military conflict in Ukraine on the wider Phillips 66 group, committed long-term facilities available to the group and cash flow projections for the group beyond the going concern period. In reaching this conclusion the directors have had due regard to the financial strength of Phillips 66 Company and are satisfied that Phillips 66 Company has the willingness and ability to provide support. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Streamlined energy and carbon reporting (SECR) information

Energy and carbon emissions are disclosed in the Strategic report.

Future developments

The directors are not aware, at the date of this report, of any likely major changes in the company's principal activities in the foreseeable future.

Financial instruments and risk management

Information relating to financial instruments and the management of financial risks is disclosed in the Strategic report.

Dividends

The company paid dividends amounting to \$869 million during the year (2021: \$69 million).

The directors do not recommend a final dividend for the year ended 31 December 2022 (2021 : \$Nil).

Phillips 66 Limited
Directors' report (continued)

Directors

The directors, who served throughout the year unless otherwise noted, were as follows:

G S Taylor
D J Cunningham (resigned 31 December 2022)
P M Fursey (appointed 1 January 2023)
L L Jenkins (resigned 31 May 2023)
R E Sherwell
N A Holland
N E McKnight
M E McCulloch (resigned 2 December 2022)
R K Semiz (resigned 31 August 2022)
R J Turner (appointed 2 September 2022)
C R Love (appointed 9 January 2023)

Directors indemnity provisions

In accordance with the company's articles of association each director is granted an indemnity from the company in respect of liabilities incurred as a result of their office, to the extent permitted by law. These indemnities were in force throughout the financial year and at the date of this report. In addition the company maintained a directors' and officers' liability insurance policy throughout 2022 and which has continued into 2023. Although their defence costs may be met, neither the company's indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons, should, as far as practicable, be identical to that of other employees.

Relationships with suppliers, customers and other stakeholders

The company's Board of Directors understands that developing and maintaining strong mutually beneficial relationships with suppliers, customers, and other stakeholders, such as the communities in which it does business, is critical to delivering on the company's strategy. In order to develop and maintain these relationships, the company's Board of Directors oversees and approves the numerous stakeholder engagement activities that are undertaken during the year.

Ways in which the company has engaged with its stakeholders (other than its affiliated company shareholders) in this financial year were as follows:

- Suppliers: The company engages with suppliers on safety and operational integrity.
- Customers: The company is committed to offering high quality products at competitive prices and continues to develop the JET brand awareness. The company also hosted a Marketing Customer conference in October 2022.

Phillips 66 Limited
Directors' report (continued)

Relationships with suppliers, customers and other stakeholders (continued)

- Commercial trading counterparties: The company engaged with commercial trading counterparties to discuss the various petroleum markets. Following Covid-19 restrictions some of the traditional events and face to face meetings with trading counterparties returned to pre-Covid levels.
- Local Communities: The company supports local communities through the Phillips 66 Community and Education Initiative, which is aimed at supporting local communities, charities, schools and organisations with donations and employees' time. The company continues to develop STEM activities to keep students engaged through a Sustainability Challenge delivered across the Humber area to 30 secondary schools, focused on STEM skills and also aims for the students to consider how they can make a positive impact both on the future and on the Humber journey to achieve Net Zero.

Employee engagement and interests

The company's Board of Directors recognise that employee engagement underpins superior business performance and is committed to measuring engagement through periodic opinion surveys, with ongoing measurement and action planning.

There is no recognised trade union representing any part of the company workforce.

Examples of engagement which took place with employees during this financial year include:

- Humber Staff Forum at the company's Humber Refinery;
- Newsletters;
- Town Hall meetings (updates from senior UK managers/Board members and executives from Phillips 66);
- Leaders meetings;
- Culture and communication teams;
- Inclusion and Diversity Network;
- Safety teams;
- Breakfast Briefings in the London office;
- Various departmental work team meetings; and
- Early Careers Network.

Corporate Governance Arrangements

As described in the Section 172 statement in the Strategic report, the company's Board of Directors has adopted Corporate Governance Guidelines consistent with the Wates Corporate Governance Principles (the "Guidelines") as a general framework to assist the Board in carrying out its responsibilities for the business and affairs of the company to be managed by or under the direction of the Board and the Guidelines have been applied since they were adopted.

Phillips 66 Limited
Directors' report (continued)

Disclosure of information to auditor

Each person who was a director at the time this report was approved confirms that:

- So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware; and
- Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Re-appointment of auditor

Pursuant to section 487(2) of the Companies Act 2006, Ernst & Young LLP are deemed to continue as the auditor.

This report was approved by the Board of Directors on 28 September 2023 and signed on its behalf by:

DocuSigned by:

Neal Holland

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N A Holland
Director

Registered office:
7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD

Phillips 66 Limited
Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in UK GAAP (FRS101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent auditor's report
to the member of Phillips 66 Limited**

Opinion

We have audited the financial statements of Phillips 66 Limited for the year ended 31 December 2022 which comprise the Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment and reviewing post year end trial balance of the company to identify significant changes or lack of expected changes in the financial information of the company.
- Reviewing the minutes for meetings of the Board of Directors and making inquiries of management and those charged with governance to identify events or conditions that may individually or collectively cast doubt on the company's ability to continue as a going concern.
- Assessing the ability of the parent company to provide support to the company, due to management receiving a letter of support as part of their going concern assessment.
- Reviewing the company's going concern disclosures in the financial statements to assess whether the disclosures were appropriate and in conformity with FRS 101.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 October 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

**Independent auditor's report
to the member of Phillips 66 Limited (continued)**

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Independent auditor's report
to the member of Phillips 66 Limited (continued)**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

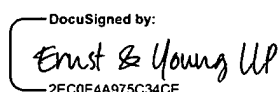
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101), Companies Act 2006, Bribery Act 2010, Companies (Miscellaneous Reporting) Regulation 2018, and relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how Phillips 66 Limited is complying with those frameworks by making inquiries of management to understand the policies and procedures in place as well as reviewing corroborative evidence as necessary.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by inquiring with management to understand the policies and procedures in place to detect fraud and by considering the risk of management override. We tested specific transactions back to source documentation or independent confirmation as appropriate.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved reviewing minutes from meetings of the Board of Directors, inquiring with key management personnel and testing journals identified by specific risk criteria.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Independent auditor's report
to the member of Phillips 66 Limited (continued)**

Use of our report

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Bilal Raja (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 September 2023

Phillips 66 Limited
Income statement
for the year ended 31 December 2022

	Notes	2022 \$ million	2021 \$ million
Turnover	2	29,046	17,750
Cost of sales		(27,635)	(17,532)
Gross profit		<u>1,411</u>	<u>218</u>
Impairment of investment	12	-	(12)
Loss on disposal of tangible fixed assets		(3)	-
Operating profit	3	<u>1,408</u>	<u>206</u>
Income from investments		267	117
Income from participating interests		15	-
Interest receivable	7	7	2
Interest payable	8	(9)	(10)
Profit before taxation		<u>1,688</u>	<u>315</u>
Tax expense	9	(277)	(72)
Profit for the financial year		<u>1,411</u>	<u>243</u>

All activities relate to continuing operations.


Phillips 66 Limited
Statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022 \$ million	2021 \$ million
Profit for the financial year		1,411	243
Other comprehensive (expense)/income			
Items that cannot be reclassified to profit or loss:			
Remeasurement gain on defined benefit pension plan	19	103	104
Remeasurement loss due to presentation currency differences on the pension liability	19	(5)	(2)
Foreign currency translation gain on pension asset	19	8	-
Foreign currency translation loss		(322)	(35)
Tax on items relating to components of other comprehensive income	9	(26)	(26)
Total comprehensive income for the year		<u>1,169</u>	<u>284</u>

Phillips 66 Limited
Registered number: 529086
Balance sheet
as at 31 December 2022

	Notes	2022 \$ million	2021 \$ million
Non-current assets			
Property, plant and equipment	11	1,122	1,222
Right-of-use assets	17	162	195
Investments	12	249	522
		<u>1,533</u>	<u>1,939</u>
Current assets			
Inventories	13	1,058	1,018
Debtors due within one year	14	3,193	1,791
Debtors due after one year	14	1	2
Cash at bank and in hand		609	410
		<u>4,861</u>	<u>3,221</u>
Creditors due within one year	15	(2,967)	(1,928)
		<u>1,894</u>	<u>1,293</u>
Net current assets			
		<u>3,427</u>	<u>3,232</u>
Total assets less current liabilities			
Creditors due after one year	16	(164)	(195)
Provisions for liabilities	18	(143)	(129)
		<u>3,120</u>	<u>2,908</u>
Net assets excluding pension asset			
Pension asset	19	139	51
		<u>3,259</u>	<u>2,959</u>
Net assets including pension asset			
Capital and reserves			
Called up share capital	21	2	2
Share premium	23	93	93
Merger reserve	23	7	157
Capital reserve	23	43	43
Foreign currency translation reserve	23	(789)	(546)
Retained earnings		3,903	3,210
		<u>3,259</u>	<u>2,959</u>
Shareholder's funds			

The financial statements were approved by the Board of Directors and authorised for issue on 28 September 2023 and signed on its behalf by:

DocuSigned by:

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N A Holland
Director

Phillips 66 Limited
Statement of changes in equity
for the year ended 31 December 2022

	Share capital \$ million	Share premium \$ million	Merger reserve \$ million	Capital reserve \$ million	Foreign currency translation \$ million	Retained earnings \$ million	Total \$ million
At 1 January 2021	2	93	1,206	43	(766)	2,166	2,744
Profit for the financial year	-	-	-	-	-	243	243
Other comprehensive (expense)/income	-	-	-	-	(35)	76	41
Dissolution of subsidiary	-	-	(1,049)	-	255	794	-
Total comprehensive income for the year	-	-	(1,049)	-	220	1,113	284
Equity dividends paid (Note 22)	-	-	-	-	-	(69)	(69)
At 31 December 2021	2	93	157	43	(546)	3,210	2,959
Profit for the financial year	-	-	-	-	-	1,411	1,411
Other comprehensive (expense)/income	-	-	-	-	(314)	72	(242)
Disposal of subsidiary (Note 23)	-	-	(150)	-	71	79	-
Total comprehensive income for the year	-	-	(150)	-	(243)	1,562	1,169
Equity dividends paid (Note 22)	-	-	-	-	-	(869)	(869)
At 31 December 2022	2	93	7	43	(789)	3,903	3,259

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022

1 Accounting policies

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2022.

1.1 Statement of compliance

Phillips 66 Limited (the "company") is a private company limited by shares incorporated and domiciled in England. These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with the Companies 2006.

1.2 Basis of preparation

The financial statements are prepared under the historical cost convention. The company is exempt from preparing consolidated financial statements under section 401 of the Companies Act 2006. Consolidated financial statements that include the results of the company are prepared by the company's ultimate parent company, Phillips 66, a company registered in Delaware, USA, and are available at Companies House and online at www.phillips66.com.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraphs 10 (d) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transactions is wholly owned by such a member;
- the requirements of IAS 24 para 17 in relation to key management compensation; and
- the requirements of IAS 1 Financial statements - capital disclosures and the requirements relating to 16, 38 A-D, 40 A-D and IAS 1 para 111 (cash flow related).

As the consolidated financial statements of Phillips 66 include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The disclosures required by IFRS 7 Financial Instrument Disclosure;
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement; and
- IAS 36 Impairments - certain disclosures.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the company will continue in existence for the period to 31 October 2024, being the going concern period. In reaching this conclusion the directors reviewed a going concern assessment for that period which included the review of financial forecasts that considered the impact of the ongoing military conflict in Ukraine along with earnings assumptions based on management's view of the current and future economic environment over the forecast period. These forecasts indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period.

In view of the inherent uncertainty with respect to the payment of dividends to its parent, the company has received confirmation from Phillips 66 Company, its indirect parent undertaking, that it will provide such financial assistance as may be required by the company to meet its liabilities, throughout the going concern period, as and when they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.2 Basis of preparation (continued)

Going concern (continued)

The company is also party to a centralised cash pooling arrangement between all the Phillips 66 pooling participants and the Bank of America and has access, if required, to surplus cash within the pool. Phillips 66 Company and Phillips 66 have each provided a cross guarantee to the Bank in respect of the obligations of the pool participants under the cash pooling arrangement. These guarantees are limited to the aggregate of (i) the credit balance on all their accounts with the Bank at any time and (ii) 2 billion US dollars (\$2,000,000,000).

After considering uncertainties in the current economic environment along with the support available from the parent company, and after making enquiries, the directors have concluded that the company has adequate resources to continue in operation for the going concern period. These considerations include the impact of the ongoing military conflict in Ukraine on the wider Phillips 66 group, committed long-term facilities available to the group and cash flow projections for the group beyond the going concern period. In reaching this conclusion the directors have had due regard to the financial strength of Phillips 66 Company and are satisfied that Phillips 66 Company has the willingness and ability to provide support. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Climate change

The company views climate change as a potentially significant risk. The company's Board of Directors maintains oversight of climate related risks and opportunities, regularly reviewing actions taken by management to monitor, control and report climate related exposures. Climate related impacts are considered as the company develops business plans and strategy, ensuring potential risks are mitigated by planned actions which are appropriately funded.

The company considers the only short-term risk to be potential extreme weather events impairing the operations of the Humber Refinery but based on detailed assessments undertaken believes the risk of any material adverse impacts to be very low. Short term changes in demand by product will not have a significant earnings impact for the companies. The company is actively participating in consultations on the proposed reduction in allocation of free allowances under the UK Emissions Trading Scheme, and currently views the outcome of these not sufficiently certain to be deemed a short-term risk.

The company recognises that as the economy transitions to a low-carbon economy, and legislative changes such as the ban of the sale of new ICE (internal combustion engine) vehicles in 2030 and the ban of ICE/Hybrid vehicles in 2035 are implemented, this will drive changes in the business model in the medium to long term. The company is actively working various initiatives associated with bio-feedstocks, carbon capture, hydrogen and lower carbon fuels that will mitigate the negative financial impacts on some current activities and will maintain the profitability of the company. The company's approach is to improve the efficiency of diversified and resilient operations and make investments to meet the world's evolving energy needs while advancing a lower-carbon future.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the amounts reported in the balance sheet and income statement for the year. However, the nature of estimation means that actual outcomes may differ from those estimates.

The following judgements have had the most significant effect on amounts recognised in the financial statements:

Investments

Fixed asset investments are stated at cost less provisions for diminution in value.

Each investment is subject to an annual impairment test that makes an estimate of the investment's recoverable amount in order to determine the extent of any impairment loss. The recoverable amount is determined as the higher of the fair value less costs of disposal and the value in use with the value of the underlying net assets being taken as the best estimate of this. Where the carrying amount of an investment exceeds the recoverable amount, the investment is considered impaired and written down to the recoverable amount.

Pensions

Accounting for the cost of the pension plan is based on actuarial valuations, relying on key assumptions for discount rates, expected return on plan assets, future salary increases and mortality tables.

Pension Plan assets include assets classified as Level 3 under FRED 62 regulations which use valuation techniques with non-observable inputs and/or have redemption restrictions.

Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. For more information see Note 9.

Leases

Lease liabilities recognised under IFRS 16 Leases are measured applying an incremental borrowing rate to the future remaining payments under these lease contracts. The incremental borrowing rates applied are based on the Phillips 66 group Treasury cost of debt rates which include factors subject to estimation. If a lower or higher incremental borrowing rate had been applied, the lease liability and corresponding right-of-use asset would have been higher or lower respectively.

Asset Retirement Obligation

Management consider the Humber Refinery to have an indefinite life as the intention is to transition its products over time in line with the UK's decarbonisation strategy. Consequently there is no need to recognise any decommissioning provisions or make any contingent liability disclosure in relation to asset retirement.

1.4 Significant accounting policies

(a) Presentation currency

The financial statements are prepared in US dollars and are rounded to the nearest million dollars (\$'million).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(b) Functional currency

The branches within the company have either British pounds or US dollars as their functional currency. A 'currency translation reserve' is created due to the British pounds functional currency branches within the entity. The company has continued to adopt US dollars as its reporting currency.

Transactions in currencies other than the functional currency are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange ruling at the end of the financial period. Exchange gains or losses are taken to the Income statement.

(c) Taxation

Current taxation, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(d) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements at the reporting date.

Deferred tax is recognised on all taxable or deductible temporary differences except:

- Where the deferred tax asset or liability arises from the initial recognition of an asset or liability in a transaction other than a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss;
- In respect of temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- In respect of a deferred tax asset on a deductible temporary difference, it is not probable that taxable profit will be available against which it can be utilised.

Deferred tax assets and liabilities are recorded at the tax rates that are expected to apply in the period of realisation or settlement, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside of profit or loss in correlation to the underlying transaction, either in other comprehensive income or directly in equity.

(e) Share capital

Ordinary shares are classed as equity.

(f) Share premium

The share premium account represents the excess value of the share capital received by the company above the nominal value of the shares issued.

(g) Merger reserve

The merger reserve represents the excess value of the share capital received by the company over the nominal value of the shares issued in a group reconstruction.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(h) Capital reserve

The capital reserve represents cash received from the parent undertaking without the issue of any additional shares.

(i) Foreign currency translation reserve

All exchange differences arising as a result of translating the company's results and financial position from the functional currency to the presentation currency are recognised in other comprehensive income for the period. The cumulative effect of these exchange differences is recognised by the foreign currency translation reserve.

(j) Investments

Investments are held at cost less accumulated impairment losses.

(k) Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Cost of major overhaul activities are capitalised as a separate component and depreciated over the period to the next expected turnaround. Significant components of an asset are depreciated separately. Depreciation is provided on all property, plant and equipment other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value of each asset evenly over its expected useful lives as follows:

Freehold buildings	15 - 50 years
Leasehold land and buildings	50 years and 15 years respectively, or over life of lease if shorter
Plant, machinery and equipment	3 - 30 years

Impairment of property, plant and equipment:

Assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate the carrying value of an asset may not be recoverable. Assets are assessed for impairment at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other assets. An asset's recoverable amount is the higher of its fair value or its value in use. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting the expected cash flows arising from the use of the asset at the rate of return that the market would expect from an investment of similar risk.

The expected future cash flows used for impairment reviews are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(l) Inventories

Trading stocks are stated at fair value less costs to sell and non-trading stocks are stated at the lower of cost and net realisable value as follows:

Raw materials	- purchase cost on a first in, first out basis
Consumables	- average purchase cost
Work in progress and finished goods	- cost of direct materials and labour plus attributable duty and overheads based on normal levels of activity, as determined on a first in, first out basis.

(m) Revenue recognition

Revenues associated with sales of crude oil, natural gas liquids (NGL), petroleum and chemical products, and other items are recognised when title passes to the customer, which is when the risk of ownership passes to the purchaser and physical delivery of goods occurs, either immediately or within a fixed delivery schedule that is reasonable and customary in the industry.

Revenues associated with transactions commonly called buy/sell contracts, in which the purchase and sale of inventory with the same counterparty are entered into in contemplation of one another, are combined and reported net (i.e., on the same Income statement line) in the "cost of sales" line in the Income statement.

(n) Leases

Under IFRS 16 all lease contracts, with limited exceptions, are recognised in the financial statements by way of right-of-use assets and corresponding lease liabilities.

(o) Share based payments

The company has applied the requirements of IFRS 2 "Share based payments". IFRS 2 requires that the entity receiving the benefit of service should recognise an expense relating to share based payments irrespective of the entity which holds the employees contract of service.

All UK employees are eligible to participate in the Share incentive plan. The shares purchased by the employees are eligible for matching. In accordance with IFRS 2, the company records an expense of obtaining the matching shares to satisfy the terms of the Partnership share agreement for employees who provide services to the company.

Certain eligible UK employees are awarded Restricted stock units as part of the Restricted stock programme granted by Phillips 66. The awards are held in escrow until the restrictions lapse. The company records the expense of obtaining the shares to satisfy its obligations to the employees who provide services to this company. A liability equal to the cost of obtaining the shares to satisfy the company's obligations to its employees is recognised for each cash-settled share based payment.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(p) Pension

The company is committed to providing retirement benefits in the form of a defined benefit pension plan, which is closed to new entrants and a UK based defined contribution retirement plan opened to new entrants.

The company has applied the requirements of IAS 19 for the defined benefit pension plan, under the IAS 19 requirements, the current service cost of providing pension benefits to employees, together with the cost of any benefits relating to past service, is charged to operating profit and is included in staff costs. The interest cost and the expected return on assets are shown as a net amount of finance costs or income adjacent to interest. Actuarial gains and losses are recognised immediately in the Statement of other comprehensive income. The difference between the fair value of plan assets and the present value of the defined benefit obligation is shown separately in the Balance sheet.

The majority of Plan asset valuations are classed as Level 2 under FRED 62 regulations and are based on the market quoted prices of the respective underlying securities. The remaining Plan assets are classed as Level 3 and are referred to in Note 1.3 above.

(q) Interest income

Interest income is recognised using the effective interest method which calculates the income and allocates over the relevant period.

(r) Interest expense

Interest expense is recognised using the effective interest method which calculates the expense and allocates over the relevant period.

(s) Derivative instruments

The company uses derivative instruments to hedge the effects of fluctuations in the price of crude oil. The instruments are measured at fair value. Any gains or losses arising from commodity derivative contracts are recognised in the Income statement.

(t) Financial guarantee

The company participates in a multiparty account cash pooling arrangement operated by Bank of America, together with other wholly owned subsidiaries of Phillips 66 Company. Each company within the arrangement guarantees to the payment of the liabilities of the other companies within the arrangement as they fall due, and to make good any default by other companies within the arrangement. No value is recognised by the company in the Balance sheet for this guarantee, as it is not considered probable that there will be an outflow of resources under this guarantee.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(u) Financial assets

Initial recognition and measurement:

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement:

For purposes of subsequent measurement, financial assets are classified at either amortised cost or fair value through profit or loss.

Financial assets at amortised cost:

The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The company's financial assets at amortised cost includes trade receivables and cash at bank.

Financial assets at fair value through profit or loss:

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. This category comprises derivative instruments.

Impairment of financial assets:

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows expected to be received.

For trade receivables the company applies a simplified approach in calculating ECLs. The company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(v) Financial liabilities

Initial recognition and measurement:

Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs. For interest-bearing borrowings this is typically equivalent to the fair value of the proceeds received, net of issue costs associated with the borrowing. Financial liabilities comprise borrowings, trade and other creditors.

Subsequent measurement:

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method.

(w) Dividend income

Dividend income is recognised as income when the right to receive payment has been established, which is when the shareholders approve the dividend.

(x) Dividends paid

Dividends are recognised when the dividend becomes legally payable, in the case of interim dividends to equity shareholders this is when paid.

(y) Cash and cash equivalents

Cash and cash equivalents comprise cash balances held at bank.

1.5 Changes in accounting policies and disclosures

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the company's financial statements.

2 Turnover	2022	2021
	\$ million	\$ million
UK	9,827	6,112
Europe	7,820	4,964
Rest of world	11,399	6,674
	<u>29,046</u>	<u>17,750</u>
3 Operating profit	2022	2021
	\$ million	\$ million
This is stated after charging/(crediting):		
Foreign currency translation	(21)	5
Depreciation of property, plant and equipment	78	81
Depreciation of right-of-use assets	<u>22</u>	<u>25</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

4 Directors' remuneration	2022	2021
	\$ million	\$ million
Aggregate remuneration for qualifying services	6	5
The number of directors who:	2022	2021
Are members of a defined benefit pension plan	7	7
Exercised options over shares in the ultimate parent company	-	1
Remuneration of the highest paid director:	2022	2021
	\$ million	\$ million
Aggregate remuneration for qualifying services	2.4	1.9
The highest paid director did not exercise share options in the ultimate parent company during the year (2021: not exercised).		
5 Staff costs	2022	2021
	Number	Number
Average number of employees during the year:		
Manufacturing and production	744	750
Marketing, operations, supply and administration	224	226
	968	976
	2022	2021
	\$ million	\$ million
Wages and salaries	102	113
Social security costs	14	14
Other pension costs	30	36
Other employee costs	11	10
	157	173
6 Auditor's remuneration	2022	2021
	\$'000	\$'000
Fees payable to the company's auditors for the:		
Audit of the company's financial statements	46	48
Other assurance services	75	60
	121	108
7 Interest receivable	2022	2021
	\$ million	\$ million
Bank interest	6	-
Interest income on loan to subsidiary	-	2
Interest income relating to pension plan (Note 19)	1	-
	7	2

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

8 Interest payable	2022	2021
	\$ million	\$ million
Bank overdrafts	2	-
Finance charges payable under finance leases	3	4
Interest on lease liabilities	4	5
Interest expense relating to pension plan (Note 19)	-	1
	<u>9</u>	<u>10</u>

9 Taxation

(a) Tax expense in the Income statement

	2022	2021
	\$ million	\$ million
Current income tax:		
Group relief payable and/or UK corporation tax expense	274	42
Amounts under provided in previous years	-	6
Total current income tax expense	<u>274</u>	<u>48</u>
Deferred tax:		
Origination and reversal of temporary differences	3	(1)
Impact of change in tax laws and rates	-	25
Total deferred tax expense	<u>3</u>	<u>24</u>
Tax expense in the Income statement	<u>277</u>	<u>72</u>

(b) Tax relating to items in the Statement of other comprehensive income

	2022	2021
	\$ million	\$ million
Deferred tax:		
Actuarial gain on defined benefit pension plan	26	26
Total deferred tax expense	<u>26</u>	<u>26</u>
Tax expense in the Statement of other comprehensive income	<u>26</u>	<u>26</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

9 Taxation (continued)

(c) Reconciliation of the total tax expense

The tax expense in the Income statement for the year varies from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

	2022	2021
	\$ million	\$ million
Profit before taxation	1,688	315
Accounting profit before income tax	<u>1,688</u>	<u>315</u>
Tax calculated at UK standard rate of corporation tax of 19% (2021: 19%)	321	60
Foreign currency differences	8	-
Non-taxable income	(54)	(22)
Non-deductible expenses	3	5
Capital allowances super deduction	(1)	(1)
Income taxed in previous periods	(2)	(1)
Tax under provided in previous years	-	6
Change in tax laws and rate	<u>2</u>	<u>25</u>
Total tax expense reported in the Income statement	<u>277</u>	<u>72</u>

(d) Unrecognised capital losses

The company has capital losses of \$7 million (2021: \$7 million). A deferred tax asset has not been recognised in respect of these losses as their use is uncertain.

(e) Change in Corporation Tax rate

The main rate of corporation tax is 19%. The corporation tax rate was increased to 25% from 1 April 2023, but is not anticipated to have a material impact on the company's future tax position.

(f) Deferred tax

Deferred tax in the Balance sheet	2022	2021
	\$ million	\$ million
Deferred tax liability:		
Accelerated capital allowances	(108)	(116)
Pension	<u>(35)</u>	<u>(13)</u>
	<u>(143)</u>	<u>(129)</u>
Deferred tax asset:		
Other temporary differences	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>
Disclosed in the Balance sheet:		
Deferred tax asset	1	1
Deferred tax liability	<u>(143)</u>	<u>(129)</u>
	<u>(142)</u>	<u>(128)</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

9 Taxation (continued)

(f) Deferred tax (continued)

Deferred tax in the Income statement	2022	2021
	\$ million	\$ million
Accelerated capital allowances	5	2
Pension	(2)	(3)
Impact of change in tax laws and rates	-	25
Deferred tax expense	<u>3</u>	<u>24</u>
Deferred tax in the Statement of other comprehensive income	2022	2021
	\$ million	\$ million
Pension	<u>26</u>	<u>26</u>
Deferred tax expense/(credit)	<u>26</u>	<u>26</u>

10 Share based payments

Cash settled share based payments

Share incentive plan

The company's Share incentive plan is open to all employees. Employees can contribute a portion of their pre-tax monthly salary. The employee's contributions are then used to purchase shares in the company's ultimate parent company, Phillips 66, at market value. Contributions up to 2.5% of base salary (2021: 2.5%) are eligible for company matching on a "2 for 1" basis. The matching shares must be left in the plan for at least five years to qualify for tax relief.

To satisfy the group's obligation under the Share incentive plan, the company recognised an expense of:

	2022	2021
	\$ million	\$ million
Matching shares	<u>3</u>	<u>3</u>
	Number	Number
Number of issued ordinary shares	<u>30,981</u>	<u>40,146</u>
	\$	\$
Average price of ordinary shares issued	<u>92.54</u>	<u>78.58</u>

Stock option plan

The company has a Stock option plan for certain senior executives. The options are exercisable at a price equal to the market value of the shares on the date of the grant. The vesting period of the stock options is three years. If the options remain unexercised after the tenth anniversary of the grant date, the options will expire.

The expense recognised for stock options in respect of employee services received during the year to 31 December 2022 is \$0.09 million (2021: \$0.08 million). The portion of that expense arising from equity-settled share-based payment transactions is \$Nil (2021: \$Nil).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

10 Share based payments (continued)

Stock option plan (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year to 31 December 2022:

	2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January	29,534	\$ 82.40	28,834	\$ 77.40
Granted during the year	5,700	89.05	7,700	74.70
Exercised or settled	(4,700) ¹	72.26	(7,000) ¹	53.34
Transferred Out	-	-	-	-
Outstanding at 31 December	30,534	85.20	29,534	82.40
Vested at 31 December	30,534	85.20	29,534	82.40
Exercisable at 31 December	18,033	86.57	17,066	83.41

1 The weighted average share price at the date of exercise for the options exercised in 2022 was \$92.04.

2 No options were exercised in 2021.

For vested share options outstanding as at 31 December 2022, the weighted-average remaining contractual life is 6.75 years (2021: 6.4 years).

The weighted average fair value of options granted during the year was \$89.05 (2021: \$74.70). The range of exercise prices for options outstanding at the end of the year was \$72.26 - \$94.97 (2021: \$31.25 - \$94.97).

The fair market values of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes-Merton option-pricing model. The following table lists the inputs to the model used for the years ending 31 December 2022 and 31 December 2021.

Assumptions used	2022	2021
Risk-free interest rate %	1.97%	0.93%
Dividend yield %	5.10%	5.30%
Volatility factor %	33.67%	32.11%
Expected life (years)	6.61	6.76

After the company's separation from ConocoPhillips in 2012, and through 2015, the volatility of options granted was calculated using a formula that adjusted the pre-separation historical volatility of ConocoPhillips by the ratio of Phillips 66 implied market volatility on the grant date divided by the pre-separation implied market volatility of ConocoPhillips. From 2016, the volatility of options granted was calculated using historical Phillips 66 end-of-week closing stock prices.

The company calculates the average period of time lapsed between grant dates and exercise dates of past grants to estimate the expected life of new option grants.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

10 Share based payments (continued)

Restricted stock units

The company awards certain eligible employees with Restricted stock units (RSUs). Each award is held in escrow until the restrictions on the awards lapse. When the restrictions lapse, the number of shares of unrestricted stock, equal to the number of RSUs will be registered in the name of the employee and the RSUs will be terminated.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in stock units during the year to 31 December 2022:

	2022		2021	
	Stock units	Weighted average grant date fair value	Stock units	Weighted average grant date fair value
		\$		\$
Outstanding as at beginning of period	175,713	83.23	136,036	87.98
Granted during the year	62,144	89.27	70,464	78.33
Forfeited during the year	(1,446)	84.46	(2,219)	73.91
Transferred out	-	-	-	-
Issued	(45,562)	94.35	(28,568)	94.97
Outstanding at 31 December	190,849	82.53	175,713	83.23
Not vested at 31 December	156,121	82.48	142,367	83.07

At 31 December 2022, the remaining unrecognised compensation cost from the unvested RSU awards held by employees of Phillips 66 was \$4.8 million, which will be recognised over a weighted-average period of 20 months, the longest period being 30 months.

Performance share plan

For PSU awards with performance periods beginning before 2013, the company recognises compensation expense beginning on the date of grant and ending on the date the PSUs are scheduled to vest; however, since these awards are authorised three years prior to the grant date, the company recognises compensation expense for employees that will become eligible for retirement by or shortly after the grant date over the period beginning on the date of authorisation and ending on the date of grant. Since PSU awards with performance periods beginning in 2013 or later vest on the grant date, the company recognises compensation expense beginning on the date of authorisation and ending on the grant date for all employees participating in the PSU grant.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

10 Share based payments (continued)

Performance share plan (continued)

The company settles PSUs with performance periods beginning in 2013 or later by paying cash equal to the fair value of the PSU on the grant date, which is also the date the PSU vests. Since these PSUs vest and settle on the grant date, dividend equivalents are never paid on these awards.

The following table illustrates our Performance share program activity to 31 December 2022:

	2022		2021	
	Stock units	Weighted average grant date fair value	Stock units	Weighted average grant date fair value
Outstanding as at beginning of period	-	\$ -	-	\$ -
Granted during the year	1,294	71.82	2,156	99.74
Transferred out	-	-	-	-
Cash settled during the year	(1,294)	71.82	(2,156)	99.74
Issued	-	-	-	-
Outstanding at 31 December	-	-	-	-
Not vested at 31 December	-	-	-	-

At 31 December 2022, the remaining unrecognised compensation cost from unvested PSU awards held by employees of Phillips 66 was \$Nil.

11 Property, plant and equipment

	Land and buildings \$ million	Plant and machinery \$ million	Assets under construction \$ million	Total \$ million
Cost				
At 1 January 2022	227	2,443	85	2,755
Foreign currency translation	(25)	(265)	(10)	(300)
Additions	-	56	58	114
Assets under construction transfers	-	56	(56)	-
Disposals	-	(6)	-	(6)
At 31 December 2022	<u>202</u>	<u>2,284</u>	<u>77</u>	<u>2,563</u>
Depreciation				
At 1 January 2022	136	1,397	-	1,533
Foreign currency translation	(15)	(152)	-	(167)
Charge for the year	5	73	-	78
Disposals	-	(3)	-	(3)
At 31 December 2022	<u>126</u>	<u>1,315</u>	<u>-</u>	<u>1,441</u>
Net book value				
At 31 December 2022	<u>76</u>	<u>969</u>	<u>77</u>	<u>1,122</u>
At 31 December 2021	<u>91</u>	<u>1,046</u>	<u>85</u>	<u>1,222</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

11 Property, plant and equipment (continued)

In the directors' opinion, there is no significant difference between the book value and the market value of land.

Right-of-use assets are set out in Note 17.

12 Investments	2022	2021
	\$ million	\$ million
Cost and net book value		
At 1 January 2022	522	923
Foreign currency translation	(56)	(10)
Additions	187	840
Disposals	(83)	-
Return of capital	(321)	(1,219)
Impairment	-	(12)
At 31 December 2022	249	522

The company made the following additional investments during the year:

Company	Date	Consideration
Coop Mineraloel AG	1 November 2022	\$177 million
JET H2 Energy Austria GmbH	13 July 2022	\$2 million

The difference of \$8 million between the sum of the amounts stated above and the additions figure in the table at the head of this note represents the difference on foreign currency translation to the rate ruling at the balance sheet date.

In November 2022 as part of a group reorganisation the company's subsidiary Phillips 66 Continental Holdings GmbH was disposed of to its parent Phillips 66 UK Holdings Limited. No gain or loss arose on this transaction.

Dividend income from Phillips 66 UK Funding Limited. (\$315 million) and Phillips 66 CS Limited (\$5 million) has been recognised as a return of capital. The difference of \$1 million between the sum of these amounts and the return of capital figure in the table at the head of this note represents the difference on foreign currency translation to the rate ruling at the balance sheet date.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

12 Investments (continued)

Direct subsidiary undertakings

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
JET Petrol Limited	100%	Northern Ireland	² Dormant
Jet Petroleum Limited	100%	England	¹ Dormant
JET Retail UK Limited	100%	England	¹ Retail sale of automotive fuel and other goods
Phillips 66 CS Limited	100%	England	¹ Sale, purchase and storage of hydrocarbon products
Phillips 66 European Power Limited	100%	England	¹ Dormant
Phillips 66 GmbH	100%	Switzerland	⁷ Intermediate holding company
Phillips 66 Healthcare Trustee Limited	100%	England	¹ Trustee of Phillips 66 Healthcare Trust
Phillips 66 Pension Plan Trustee Limited	100%	England	¹ Trustee of Phillips 66 Pension Plan
Phillips 66 Treasury Limited	100%	England	¹ Provide treasury management services
Phillips 66 TS Limited	100%	England	¹ Agent for Phillips 66 Trading Limited
Phillips 66 UK Development Limited	100%	England	¹ Dormant
Phillips 66 UK Funding Limited	100%	England	¹ Intermediate holding company
Qingdao Phillips 66 Energy Co. Ltd.	100%	China	⁶ Sale, purchase and storage of hydrocarbon products

Phillips 66 CS Limited was dissolved on 7 March 2023 and both Phillips 66 European Power Limited and Phillips 66 UK Development Limited were dissolved on 13 June 2023, please see note 24 for further details.

Indirect investments

Phillips 66 UK Funding Limited:

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
Phillips 66 Ireland Pension Trust Limited	100%	Republic of Ireland	⁵ Pension Fund Trustee

Phillips 66 GmbH:

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
Societa Italiana Per L'Oleodotto Transalpino	3%	Italy	Crude oil pipeline operation
Oesterreichische Erdgasleitung GmbH	3%	Austria	Crude oil pipeline operation

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

12 Investments (continued)

Other investments

Company	Proportion of shares and voting	Country of incorporation	Principal activities
Associated Petroleum Terminals (Immingham) Limited	50%	England	³ Operation of marine terminal
Coop Mineraloel AG	49%	Switzerland	⁸ Sale of mineral oil products, operation of petrol stations and convenience stores
Crude Oil Terminals (Humber) Limited	50%	England	¹ Provide facilities for terminal
Humber LPG Terminal Limited	50%	England	¹ Dormant
Humber Oil Terminals Trustee Limited	50%	England	³ Trustee for participants in relation to their terminal
JET H2 Energy Austria GmbH	50%	Austria	⁹ Development and operating of hydrogen filling station network
Warwickshire Oil Storage Limited	50%	England	⁴ Petroleum product storage facility
Associated Petroleum Terminals (Immingham):			
Company	Proportion of shares and voting	Country of incorporation	Principal activities
APT Pension Scheme Trustees Limited	100%	England	³ Pension Fund Trustee
JET H2 Energy Austria GmbH:			
Company	Proportion of shares and voting	Country of incorporation	Principal activities
JET H2 Energy Denmark ApS	100%	Denmark	¹⁰ Development and operating of hydrogen filling station network
JET H2 Energy Germany GmbH	100%	Germany	¹¹ Development and operating of hydrogen filling station network

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

12 Investments (continued)

Registered offices

The address of the above undertakings registered offices, where more than a 20% interest is held, are as follows:

- 1 7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD, UK
- 2 3rd Floor, 40 Linehall Street, Belfast, BT2 8BA, Ireland
- 3 Queens Road, Immingham, DN40 2PN, UK
- 4 Olympus House, Olympus Avenue, Leamington Spa, CV34 6BF, UK
- 5 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
- 6 Room 301, Office Building 5, No.42 Dongjing Road, Qingdao Free Trade Zone, Shandong Province, China
- 7 c/o Lambrigger Treuhand AG, Industriestrasse 49, Switzerland, 6302 Zug
- 8 Hegenheimerweg 65, 4123 Allschwil, Switzerland
- 9 Siezenheimer Straße 35, 5020 Salzburg, Austria
- 10 C/O Bech-Bruun Advokatpartnerselskab Langelinie Allé 35 2100 København Ø Denmark
- 11 Rödingsmarkt 9, 20459 Hamburg Germany

13 Inventories

	2022	2021
	\$ million	\$ million
Raw materials and consumables	259	265
Work in progress	235	195
Finished goods and goods for resale	564	558
	<u>1,058</u>	<u>1,018</u>

14 Debtors

Debtors due within one year

	2022	2021
	\$ million	\$ million
Trade debtors	1,668	1,283
Amounts owed by group companies	1,401	451
Corporation tax	5	-
Other debtors	119	57
	<u>3,193</u>	<u>1,791</u>

Debtors due after one year

	2022	2021
	\$ million	\$ million
Deferred tax asset (see note 9)	1	1
Other debtors	-	1
	<u>1</u>	<u>2</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

15 Creditors due within one year	2022	2021
	\$ million	\$ million
Trade creditors	1,133	694
Amounts owed to group companies	859	142
Corporation tax	119	12
Other taxes and social security costs	610	551
Lease liabilities	12	15
Finance lease	7	7
Accruals and deferred income	227	507
	<u>2,967</u>	<u>1,928</u>

16 Creditors due after one year	2022	2021
	\$ million	\$ million
Lease liabilities	83	96
Finance lease	81	99
	<u>164</u>	<u>195</u>

17 Leases

Right-of use assets arising out of recognition of leases under IFRS 16 are set out below:

	Land and buildings \$ million	Plant and machinery \$ million	Total \$ million
At 1 January 2021	188	17	205
Additions	17	-	17
Depreciation charge	(21)	(4)	(25)
Foreign currency translation	(2)	-	(2)
At 31 December 2021	<u>182</u>	<u>13</u>	<u>195</u>
Additions	8	1	9
Depreciation charge	(18)	(4)	(22)
Foreign currency translation	(19)	(1)	(20)
At 31 December 2022	<u>153</u>	<u>9</u>	<u>162</u>

The movement on lease liabilities is set out below:

	2022	2021
	\$ million	\$ million
At 1 January	217	223
Additions	9	17
Accretion of interest	7	9
Payments	(27)	(30)
Foreign currency translation	(23)	(2)
At 31 December	<u>183</u>	<u>217</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

17 Leases (continued)

Lease liabilities in respect of right-of-use assets are due as follows:

	2022	2021
	\$ million	\$ million
Not later than one year	19	22
After one year but not more than five years	59	69
After five years	105	126
	<u>183</u>	<u>217</u>

18 Provisions for liabilities

	Deferred tax
	(Note 9 (f))
	\$ million
At 1 January 2022	
Non-current	<u>129</u>
	129
Arising during the year	<u>14</u>
At 31 December 2022	<u>143</u>
Current	-
Non-current	<u>143</u>
	<u>143</u>

Financial Guarantee

The company participates in a multiparty account cash pooling arrangement operated by Bank of America, together with other wholly owned subsidiaries of Phillips 66 Company. Each company within the arrangement guarantees the payment of the liabilities of the other companies within the arrangement as they fall due, and to make good any default by other companies within the arrangement. No value is recognised by the company in the Balance sheet for this guarantee, as it is not considered probable that there will be an outflow of resources under this guarantee. There were 16 legal entities within the cash pool at the balance sheet date.

19 Employee benefits

Phillips 66 Limited UK Pension Plan

Phillips 66 Limited is the sponsoring employer of a final salary defined benefit pension plan; operated by the company in the UK, providing retirement benefits to all eligible employees. With effect from 1 April 2013 a new defined contribution section of the Phillips 66 UK Pension Plan was established for new hires. The defined benefit section, which was closed to new hires, continued unchanged for employees who joined the company prior to 1 April 2013.

	2022	2021
	\$ million	\$ million
The Defined Contribution Plan		
Contributions at 31 December are:		
Contributions by employer	3.8	3.4
Contributions by members	2.0	1.8

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan

The Defined Benefit Pension Plan assets are held under a trust for the benefit of current and former employees. The central control and management of the trust is undertaken by a Board of Trustee Directors, comprised of three Member Nominated Directors (MND) and six Employer Appointed Directors. This complies with the requirement for one third of the trustees to be MND. The Pension Plan and Board of Trustee Directors are governed by Trust Deed and Rules.

The level of contributions are agreed between the Trustee and Phillips 66 Limited following a triennial actuarial valuation, or at any other time where deemed necessary. The company agrees a Schedule of Contributions with the Trustee which is certified by the Actuary. The Schedule of Contributions sets out the rates of employer and employee contributions and also the dates by which the contributions will be paid to the Plan. Following the most recently completed triennial valuation, as at 31 March 2021, a Schedule of Contributions was agreed on 25 April 2022.

As at 31 December 2022 the employer contribution rate to pre-fund future service accrual, as a percentage of pensionable salaries was 37.9%, there were no deficit payments as the Plan was at a \$64 million surplus at the valuation date of 31 March 2021.

In 2023, the employer contributions to the defined benefit plan are expected to be \$16 million (2022: \$19 million), and \$2 million employee pension contributions (2022: \$2 million).

At 31 December 2022 an asset of \$139 million has been recognised in the Balance sheet (2021: asset of \$51 million).

The assets and liabilities of the Plan at 31 December are:

		2022		2021
	%	\$ million	%	\$ million
Plan assets at fair value:				
Equities	28.7%	179	41.0%	424
Corporate bonds	3.7%	23	6.4%	66
Liability driven investing portfolio	26.8%	167	28.1%	290
Emerging market debt	6.6%	41	4.4%	45
High yield debt, bank loans	7.6%	47	8.7%	90
Insurance linked securities	7.4%	46	4.5%	46
Property	8.7%	54	6.4%	66
Cash	10.5%	65	0.5%	5
Fair value of plan assets		622		1,032
Present value of plan liabilities		(483)		(981)
Defined benefit pension plan asset		139		51

The value of indirect employer related equity investments at 31 December 2022 is \$0.1 million. No Plan investments are directly in property occupied by Phillips 66. All Plan assets are invested in units of pooled investment vehicles, including equities, bonds and alternative assets. The Plan asset portfolio is well diversified across different asset classes, regions and risk premium. The majority of Plan assets are index-tracking funds, so their valuation is based on the market quoted prices of the respective underlying securities. They are therefore classified as Level 2 under FRED 62 guidance. There are three holdings which use valuation techniques with non-observable inputs and/or have redemption restrictions and are therefore, classified as Level 3 under FRED 62 regulations. These are the 7.4% allocation to Insurance Linked securities (Securis), 8.4% allocation to Multi-Asset Credit (Oak Hill) and 8.7% allocation to UK Real Estate Fund (Schroder).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

The liability matching is done through the use of longer-dated index linked government bonds and leveraged products such as swaps and gilt repurchase agreements. The Plan risks are credit risk, currency risk, interest rate risk, and other price risk.

The amounts recognised in the Income statement and in the Statement of comprehensive income for the year are set out as follows:

Recognised in the Income statement	2022 \$ million	2021 \$ million
Current service cost	24	30
Net interest on defined benefit asset	(1)	1
Total recognised in the Income statement	<u>23</u>	<u>31</u>
Recognised in the Statement of comprehensive income	2022 \$ million	2021 \$ million
Return on plan assets (excluding amounts included in net interest expense)	309	(71)
Actuarial loss/(gain) due to demographic assumptions changes	9	(2)
Actuarial gain due to financial assumptions changes	(449)	(31)
Actuarial loss due to experience adjustments	28	-
Remeasurement due to presentation currency differences on the pension liability	5	2
Net foreign currency translation on pension assets and liabilities	(8)	-
Total recognised in the Statement of comprehensive income	<u>(106)</u>	<u>(102)</u>

Changes in the present value of the defined benefit pension obligation are set out as follows:

	2022 \$ million	2021 \$ million
As at 1 January	981	1,010
Current service cost	24	30
Interest expense	16	15
Benefits paid	(34)	(33)
Participant contributions	2	2
Actuarial gains	(412)	(32)
Foreign currency differences	(94)	(11)
Defined benefit obligation at 31 December	<u>483</u>	<u>981</u>

The defined benefit obligation comprises \$479 million (2021: \$992 million) arising from the funded section and \$4 million (2021: \$7 million) from the unfunded section.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

Changes in the fair value of plan assets are set out as follows:

	2022	2021
	\$ million	\$ million
As at 1 January	1,032	970
Interest income	17	14
Employer contributions	16	19
Participant contributions	2	2
Benefits paid	(34)	(33)
Return on plan assets	(309)	71
Foreign currency differences	(102)	(11)
Fair value of plan assets at 31 December	<u>622</u>	<u>1,032</u>

Pension contributions are determined by the Trustee and company, with the advice of independent qualified actuaries, Capita Employee Benefits (Consulting) Limited, on the basis of triennial valuations using the projected unit method. The latest valuation for the Phillips 66 UK Pension Plan is as at 31 March 2021. The projected unit method is an accrued benefits valuation method in which the plan liabilities make allowance for future earnings. Plan assets are stated at their market values at the respective balance sheet dates and overall expected rates of return as recommended by a qualified actuary, are based on current market conditions and are approved by the company.

		2022	2021
		%	%
Main assumptions:			
Rate of salary increases	to 2026	2.65%	2.65%
(promotional scale in addition)	Post 2026	3.05%	3.05%
Rate of increase in pensions in payment			
CPI maximum 5%		2.55%	2.70%
CPI maximum 2.5%		1.75%	1.85%
Discount rate		4.90%	1.75%
Inflation assumption - RPI		2.95%	3.10%
Inflation assumption - CPI		2.65%	2.75%
Assumed life expectancy on retirement at age 65		Years	Years
Male member aged 65		23.3	22.1
Female member aged 65		25.2	24.2
Male member aged 45		24.5	23.5
Female member aged 45		26.6	25.7

The discount rate is in line with AA corporate bond yield curve, to reflect duration of Plans' liabilities, using an extended dataset rounded to the nearest 0.05% p.a. The assumptions for inflation; Retail Prices Inflation (RPI) is in line with price inflation derived from yield curve less 0.4% p.a. inflation "risk premium" rounds to the nearest 0.05% p.a. The Consumer Prices Index (CPI) is derived assuming an RPI/CPI gap of 1.0% pa before 2030 and 0% pa from 2030 due to the announced alignment of RPI to CPIH from 2030. Overall expected average gap of 0.3% pa (prior year overall gap was 0.35% pa). The assumed life expectancy rates are based on the CMI 2021 model with long term improvement rate of 1.25%p.a., a smoothing parameter of 7.5, initial addition parameter of zero and no weight to 2020 or 2021 data.

The sensitivities regarding the principal assumptions used to measure the Plan liabilities are set out as follows:

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

Sensitivity analysis for significant actuarial assumptions as at 31 December showing how the defined benefit obligation would be affected:

Assumptions	2022 \$ million	2021 \$ million
Discount rate		
0.25% increase	(463)	(927)
0.25% decrease	(505)	(1,040)
Inflation		
0.25% increase	(492)	(1,007)
0.25% decrease	(474)	(956)
Life expectancy of members		
Increase by 1 year	(491)	(1,006)

20 Derivative exposure

The company's subsidiary Phillips 66 Treasury Limited manages foreign exchange trading on behalf of other non-US companies in the Phillips 66 group. At 31 December 2022 the company had the following open commitments in respect of currency swaps with Phillips 66 Treasury Limited:

Buy: USD 632 million
Sell: USD 163 million
Sell: GBP 115 million

The swaps are based on fixed interest rates and are for periods of less than 30 days.

21 Share capital and rights attaching to the company's shares

	Authorised	2022 \$ million	2021 \$ million
Allotted, called up and fully paid:			
At 1 January 2022 - 405,501 ordinary £1 shares	416,000	<u>2</u>	<u>2</u>
At 31 December 2022 - 405,501 ordinary £1 shares	416,000	<u>2</u>	<u>2</u>

Subject to the provisions of Companies Act 2006 and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the company may by ordinary resolution determine or, subject to and in default of such determination, as the directors shall determine. There are currently no shares with special rights.

Distribution

Subject to the provisions of Companies Act 2006, the company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the directors.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

22 Dividends	2022	2021
	\$ million	\$ million
<i>Declared and paid during the year:</i>		
Equity dividends paid on ordinary shares: \$2,145 per share (2021: \$171 per share)	869	69

23 Reserves

Share premium

This reserve represents the premium received for new shares above their nominal value.

Merger reserve

This reserve records the cumulative effect of the excess of consideration received over the nominal value of shares issued in a group reconstruction. On 1 January 2022 this reserve included an amount of \$150 million in respect of Phillips 66 Continental Holdings GmbH, this amount was removed from the merger reserve when as a result of a group reorganisation this company was disposed of to its parent Phillips 66 UK Holdings Limited in November 2022. The amount transferred to retained earnings was \$79 million and the movement in the GBP/USD exchange rates between when the merger reserve was created and when the company was disposed of resulted in a transfer to the foreign currency translation reserve of \$71 million.

Capital reserve

This reserve records the cumulative effect of cash received from the parent undertaking without the issue of any shares.

Foreign currency translation reserve

This reserve records the cumulative effect of foreign exchange differences arising on the translation of the company's results and financial position from the functional currency to the presentation currency that are recognised in other comprehensive income.

There were no movements in reserves other than disclosed in the Statement of changes in equity.

24 Subsequent events

In 2023 to the date of this report the company had the following dividend transactions:

	Dividend received	Dividend paid
	\$ million	\$ million
February	104	-
July	-	500

In February 2023 dividend income was received from associate company Coop Mineraleol AG of \$104 million. In July 2023 a dividend of \$500 million was paid to the company's parent Phillips 66 UK Holdings Limited.

Three of the company's subsidiaries have been dissolved in 2023. Phillips 66 CS Limited was dissolved on 7 March 2023 and both Phillips 66 European Power Limited and Phillips 66 UK Development Limited were dissolved on 13 June 2023. No gains or losses were recognised on these dissolutions.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

24 Subsequent events (continued)

The company has assessed the potential impact of the ongoing conflict in Ukraine on its operations. As a result there is no expectation that the consequences of this will have any significant impact on the financial performance of the company.

There have been no other significant events since the balance sheet date.

25 Capital commitments

	2022	2021
	\$ million	\$ million
Amounts contracted for but not provided in the accounts	<u>26</u>	<u>18</u>

26 Contingent liability

Prior to the separation of Phillips 66 from ConocoPhillips, the company held a number of UK Continental Shelf (UKCS) exploration & production licences for the benefit of ConocoPhillips Inc. Under Part IV of the Petroleum Act 1998 the Department of Energy and Climate Change may serve notice on certain persons, including licensees, requiring them to submit for approval a decommissioning programme for offshore facilities and pipelines within relevant licence areas and to comply with such programmes once approved. A number of such notices were served on Phillips 66. In all but one case, these notices have been withdrawn but it is still possible for Phillips 66 to be made liable for decommissioning of those assets in certain circumstances. Under the agreements relating to the separation of Phillips 66 from ConocoPhillips it was agreed that ConocoPhillips will assume all liabilities associated with upstream assets and it is expected that ConocoPhillips will meet these decommissioning programme obligations. Therefore, the company would only have a liability in the event of default. However, for the one field where it remains subject to a notice, the company will remain formally liable to submit and comply with, the decommissioning programme. Nevertheless, the company would not expect to have any financial liability for such programme except in the event of a default of one of the current owners and in such event, the company expects to be fully indemnified by ConocoPhillips in respect of any expenditure made. It is not possible at this time to estimate the timing of any such liability or the financial value of the liability.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2022 (continued)

27 Related party transactions

In accordance with FRS101 the company has taken advantage of the exemption not to disclose related party transactions with other wholly owned members of the group.

The company's interests in associated undertakings are detailed in Note 12.

The company's transactions, in the normal course of business, with its related parties during the year and previous year are as follows:

	Sales to related party \$ million	Purchases from related party \$ million	Amounts owed by related party \$ million	Amounts owed to related party \$ million
Joint ventures				
2022	-	29	1	88
2021	-	19	-	107

28 Ultimate controlling party

Phillips 66, a company registered in Delaware, USA, which the directors regard as the company's ultimate parent undertaking with respect to the year ended 31 December 2022 is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Copies of the 2022 Annual Report may be obtained from Companies House and online at www.phillips66.com.

Phillips 66 UK Holdings Limited is the immediate parent company and is registered in England.