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529086

Phillips 66 Limited

Annual report and financial statements

for the year ended 31 December 2021

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Phillips 66 Limited
Report and accounts
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Phillips 66 Limited
Company information

Directors	G S Taylor D J Cunningham L L Jenkins R E Sherwell N A Holland N E McKnight M E McCulloch R J Turner
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
Auditors	Ernst & Young LLP 1 More London Place, London SE1 2AF

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Phillips 66 Limited
Strategic report

The directors present their Strategic report for the year ended 31 December 2021.

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:

	2021 $ million	2020 $ million	Change %
Turnover	17,750	9,886	79.5%
Gross profit/(loss)	218	(518)	-142.1%
Profit/(loss) for the financial year	243	(272)	-189.3%
Shareholder's funds	2,959	2,744	7.8%

	2021	2020	Change
Inventory turnover	20.2	12.2	65.6%
Quick ratio	1.1	1.0	10.0%

The gross profit for the year was $218 million (2020: gross loss $518 million). The profit for the year was $243 million (2020: loss $272 million). Refining gross margin improved following increased demand for refined petroleum products as Covid-19 restrictions eased. This led to higher market crack spreads in 2021.

An impairment of $12 million has been recognised against the investment in subsidiary company Phillips 66 UK Funding Limited.

Subsequent events
In 2022 to the date of this report the company had the following dividend transactions:

	Dividend income $ million	Dividend paid $ million
August	109	91

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Subsequent events (continued)
In August 2022 dividend income was received from subsidiary companies Phillips 66 CS Limited of $7 million on its winding up and Phillips 66 GmbH of $102 million. In the same month a dividend of $91 million was paid to the company's parent Phillips 66 UK Holdings Limited.

Covid-19 restrictions were lifted in the UK in early 2022, though the ongoing impact of the Covid-19 pandemic remains uncertain and may impact future earnings.

In February 2022 Russia invaded Ukraine and consequent to this a number of countries around the world began imposing sanctions and export controls against Russia. These events have impacted commodity prices and the company's supply chain and could have a material effect on future earnings. Following the invasion the company took the action of halting all purchases of Russian crude oil.

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. For the years ended 31 December 2021 and 2020, the gains and losses from this activity were not material to the company's cash flows or income from continuing operations.

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.

Financial instruments and risk management (continued)

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.

Covid-19
Whilst Covid-19 restrictions were lifted in the UK in early 2022, and current demand for the company's products is strong, the pandemic still continues around the world. Uncertainty as to the length of the pandemic and potential future impacts on the UK economy mean that the company's future financial performance may be adversely impacted

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, and has implemented measures to ensure that all main sites of operations are covid-secure as far as possible.

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.

	2021	2020
Energy consumption used to calculate emissions (gas, electricity, transport, fuel, other) (GWh)	10,944	10,721
Scope 1 emissions from combustion of gas (tCO2e)	420,838	423,539
Scope 1 emissions from consumption of fuel for transport purposes (tCO2e)	110	120
Scope 2 emissions from purchased electricity (tCO2e)	157,223	150,022
Scope 3 emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO2e)	27	16
Total gross emissions based on mandatory listed above (tCO2e)	578,198	573,697
Intensity ratio (tCO2e) (gross figure based on mandatory listed above) / Mbbl feedstock	7,710	7,549
Methodology 2021 UK ETS and EPR permit methodologies 2020 EU 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)
tCO2e - Tonnes Carbon Dioxide Equivalent

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Streamlined energy and carbon reporting (SECR) (continued)

Actions taken towards building a lower-carbon value chain:
As a result of prior investments the company has been processing Used Cooking Oil up to 5,000 barrels per day, and has started producing advanced biofuels under the Renewable Transport Fuels Obligation. A partnership with British Airways has also been announced for the supply of Sustainable Aviation Fuel directly into Heathrow airport.

The company is also participating in two major projects that will help to reduce the carbon dioxide emissions from the Humber Refinery and which would contribute to the wider deployment of such technologies in the UK:
Humber Zero: a project for the retrofit of carbon capture technology to existing industrial emissions sources that will help to significantly reduce the carbon dioxide emissions of the Immingham industrial area.
Gigastack: a project for a 100MW electrolyser facility in Immingham that will utilize wind power to produce hydrogen for industrial fuel switching in the refinery, thereby reducing carbon dioxide emissions and helping to grow the hydrogen economy.

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.

Climate change
The company views climate change as a potentially significant risk. The company's Board of Directors maintain 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 company.

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, green hydrogen and sustainable fuels that will mitigate the negative financial impacts on some current activities and will maintain the profitability of the company.

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.

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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 20 September 2022 and signed on its behalf by:

DocuSigned by:
Les Jenkins
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L L Jenkins
Director

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

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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 2021.

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the company will continue in existence for at least until 31 October 2023, 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 Covid-19 pandemic and the 2022 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 of review, 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 a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. These considerations include the impact of Covid-19 and the 2022 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 review period. In reaching this conclusion the directors have had due regard to the financial strength of Phillips 66 and are satisfied that the 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 $69 million during the year (2020: $410 million).
The directors do not recommend a final dividend for the year ended 31 December 2021 (2020 : $Nil).

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

G S Taylor
D J Cunningham
L L Jenkins
R E Sherwell
N A Holland
N E McKnight
M E McCulloch (appointed 8 January 2021)
R K Semiz (appointed 14 January 2021, resigned 31 August 2022)
R J Turner (appointed 2 September 2022)

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 2021 and which has continued into 2022. 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 held monthly, quarterly, and annual meetings with numerous key materials and service suppliers (e.g. providers of engineering design services; chemicals and catalysts; haulage of petroleum products; rail freight services and waste management services) to mutually review operational and commercial performance under those company contracts.
- Customers: Marketing customer and stakeholder engagement activities continued to be severely restricted by Covid-19 in 2021. The company published a monthly 'Fuel For Thought' digital newsletter to retail customers and a similar quarterly newsletter to wholesale customers, and also published several adverts in industry trade magazines. The company hosted a customer golf event in September 2021. The company did not participate in any industry events during the year. Due to Covid-19 restrictions in 2021 other events with customers and stakeholders were unable to be supported.

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Relationships with suppliers, customers and other stakeholders (continued)

- Consumers: For consumers of JET products, the company continued the new JET image rollout across the retail network, which included information pamphlets on the new JET ULTRA premium fuels; and, the provision of a consumer-facing website. The virtual presence of JET branded sites on Google maps has been updated.
- Commercial trading counterparties: With the Government Covid-19 restrictions many of the traditional events switched from in-person to virtual events or had to be postponed. However, the company was still able to participate in ad hoc virtual meetings with trading counterparties. These meetings were used to discuss the various petroleum markets.
- Local Communities: The company supported local communities through the Phillips 66 Community and Education Initiative, aimed at supporting local charities, schools and organisations with donations and employees' time. The company continued to support areas and people impacted by Covid-19 and donated £41,000 worth of laptops to schools in areas of high deprivation to allow students without technology to remotely study and continue their education. The company's philanthropic team on top of its normal donations targeted extra support for charities that had seen a spike in their services due to Covid-19 including a number of domestic abuse and mental health charities. The company was awarded the Silver Armed Forces Covenant in recognition of the work and support provided to the armed forces, their families, veterans, and reservists. The company continued to develop STEM activities keeping students engaged through home learning and giving them opportunities to interact with industry.

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. Employees from the UK were represented in the European Works Council (EWC) up until 1 March 2021 when it was disbanded as a result of Brexit. This included supporting mechanisms at different sites designed to ensure ongoing, proactive consultation and information sharing across the organisation. In many cases these communications also include contract employees working in company locations. For those employees in the UK who were represented by the EWC they continue to be represented and consulted using local forums, committees and teams.

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;
- Early Careers Network; and
- European Works Council Meetings (to 1 March 2021).

Phillips 66 Limited
Directors' report (continued)

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.

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 he is obliged to take as a director in order to make himself 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 20 September 2022 and signed on its behalf by:

DocuSigned by:
Les Jenkins
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L L Jenkins
Director

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

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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.

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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 2021 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 2021 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 below. 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.

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 the period to 31 October 2023 being a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

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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 there is 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 where 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.

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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.

Our approach was as follows:

- 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 enquiries 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 enquiring 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 the Board of Directors, enquiring 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.

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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 members, 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.

Ernst & Young LLP

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

22-9-22

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Phillips 66 Limited
Income statement
for the year ended 31 December 2021

	Notes	2021 $ million	2020 $ million
Turnover	2	17,750	9,886
Cost of sales		(17,532)	(10,404)
Gross profit/(loss)		218	(518)
Dividends received		117	294
Impairment of investment	12	(12)	(128)
Operating profit/(loss)	3	323	(352)
Interest receivable	7	2	1
Interest payable	8	(10)	(9)
Profit/(loss) before taxation		315	(360)
Tax (expense)/credit	9	(72)	88
Profit/(loss) for the financial year		243	(272)

All activities relate to continuing operations.

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Phillips 66 Limited
Statement of comprehensive income
for the year ended 31 December 2021

	Notes	2021 $ million	2020 $ million
Profit/(loss) for the financial year		243	(272)
Other comprehensive income			
Items that cannot be reclassified to profit or loss:			
Remeasurement gain/(loss) on defined benefit pension plan	19	104	(60)
Remeasurement loss due to presentation currency differences on the pension liability	19	(2)	(4)
Foreign currency translation gain on pension asset	19	-	4
Foreign currency translation (loss)/gain		(35)	77
Tax on items relating to components of other comprehensive income	9	(26)	12
Total comprehensive income for the year		284	(243)

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Phillips 66 Limited
Registered number: 529086
Balance sheet
as at 31 December 2021

	Notes	2021 $ million	2020 $ million
Non-current assets			
Property, plant and equipment	11	1,222	1,166
Right-of-use assets	17	195	205
Investments	12	522	923
		1,939	2,294
Current assets			
Inventories	13	1,018	719
Debtors due within one year	14	1,791	1,324
Debtors due after one year	14	2	11
Cash at bank and in hand		410	486
		3,221	2,540
Creditors due within one year	15	(1,928)	(1,758)
Net current assets		1,293	782
Total assets less current liabilities		3,232	3,076
Creditors due after one year	16	(195)	(204)
Provisions for liabilities	18	(129)	(88)
Net assets excluding pension asset/(liability)		2,908	2,784
Pension asset/(liability)	19	51	(40)
Net assets including pension asset/(liability)		2,959	2,744
Capital and reserves			
Called up share capital	21	2	2
Share premium	23	93	93
Merger reserve	23	157	1,206
Capital reserve	23	43	43
Foreign currency translation reserve	23	(546)	(766)
Retained earnings		3,210	2,166
Shareholder's funds		2,959	2,744

The financial statements were approved by the Board of Directors and authorised for issue on 20 September 2022 and signed on its behalf by:

DocuSigned by:
Les Jenkins
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L L Jenkins
Director

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Phillips 66 Limited
Statement of changes in equity
for the year ended 31 December 2021

	Share capital $ million	Share premium $ million	Merger reserve $ million	Capital reserve $ million	Foreign currency translation $ million	Retained earnings $ million	Total $ million
At 1 January 2020	2	93	1,334	43	(847)	2,772	3,397
Loss for the financial year	-	-	-	-	-	(272)	(272)
Other comprehensive (expense)/income	-	-	-	-	81	(52)	29
Impairment of investment	-	-	(128)	-	-	128	-
Total comprehensive expense for the year	-	-	(128)	-	81	(196)	(243)
Equity dividends paid (Note 22)	-	-	-	-	-	(410)	(410)
At 31 December 2020	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 (Note 23)	-	-	(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

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Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021

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 2021.

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 Philips 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 at least until 31 October 2023, 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 Covid-19 pandemic and the 2022 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.

1 Accounting policies (continued)

1.2 Basis of preparation (continued)

Going concern (continued)

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 of review, 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 a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. These considerations include the impact of Covid-19 and the 2022 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 review period. In reaching this conclusion the directors have had due regard to the financial strength of Phillips 66 and are satisfied that the 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 maintain 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 company.

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, green hydrogen and sustainable fuels that will mitigate the negative financial impacts on some current activities and will maintain the profitability of the company.

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.

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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).

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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.

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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.

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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.

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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 as earned.

(r) Interest expense
Interest expense is recognised as incurred.

(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.

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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 and 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 2021 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(v) Financial liabilities
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. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Financial liabilities comprise borrowings, trade and other creditors.

(w) Dividends received
Dividends received are 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 2021 that have a material impact on the company's financial statements.

2 Turnover

	2021 $ million	2020 $ million
UK	6,112	3,646
Europe	4,964	3,688
Rest of world	6,674	2,552
	17,750	9,886

3 Operating profit/(loss)

This is stated after charging/(crediting):	2021 $ million	2020 $ million
Foreign currency translation	5	1
Depreciation of property, plant and equipment	81	79
Depreciation of right-of-use assets	25	23
Loss on disposal of investment	-	6

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4 Directors' remuneration

	2021 $ million	2020 $ million
Aggregate remuneration for qualifying services	5	5

The number of directors who:	2021	2020
Are members of a defined benefit pension plan	7	8
Exercised options over shares in the ultimate parent company	1	1

Remuneration of the highest paid director:	2021 $ million	2020 $ million
Aggregate remuneration for qualifying services	1.9	2.0

The highest paid director did not exercise share options in the ultimate parent company during the year (2020: not exercised).

5 Staff costs

	2021 Number	2020 Number
Average number of employees during the year:		
Manufacturing and production	750	748
Marketing, operations, supply and administration	226	223
	976	971

	2021 $ million	2020 $ million
Wages and salaries	113	104
Social security costs	14	14
Other pension costs	36	30
Other employee costs	10	7
	173	155

6 Auditor's remuneration

	2021 $ million	2020 $ million
Fees payable to the company's auditors for the:		
Audit of the company's financial statements	0.1	0.1

There have been no fees payable in relation to non-audit services.

7 Interest receivable

	2021 $ million	2020 $ million
Interest income on loan to subsidiary	2	-
Interest income relating to pension plan	-	1
	2	1

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021 (continued)

8 Interest payable

	2021 $ million	2020 $ million
Finance charges payable under finance leases	4	4
Interest on lease liabilities	5	5
Interest expense relating to pension plan	1	-
	10	9

9 Taxation

(a) Tax expense in the Income statement

	2021 $ million	2020 $ million
Current income tax:		
Group relief payable and/or UK corporation tax expense	42	-
Amounts under/(over) provided in previous years	6	(97)
Total current income tax expense/(credit)	48	(97)
Deferred tax:		
Origination and reversal of temporary differences	(1)	-
Impact of change in tax laws and rates	25	9
Total deferred tax charge	24	9
Tax expense/(credit) in the Income statement	72	(88)

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

	2021 $ million	2020 $ million
Deferred tax:		
Actuarial gain/(loss) on defined benefit pension plan	26	(12)
Total deferred tax expense/(credit)	26	(12)
Tax expense/(credit) in the Statement of other comprehensive income	26	(12)

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021 (continued)

9 Taxation (continued)

(c) Reconciliation of the total tax expense/(credit)

The tax expense/(credit) in the Income statement for the year varies from the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

	2021 $ million	2020 $ million
Profit/(loss) before taxation	315	(360)
Accounting profit/(loss) before income tax	315	(360)
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	60	(68)
Foreign currency differences	-	2
Non-taxable income	(22)	(56)
Non-deductible expenses	5	25
Capital allowances super deduction	(1)	-
Income taxed in previous periods	(1)	-
Tax under provided in previous years	6	-
Change in tax laws and rate	25	9
Total tax expense/(credit) reported in the Income statement	72	(88)

(d) Unrecognised capital losses

The company has capital losses of $7 million (2020: $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 during the year was 19%. An increase in the corporation tax rate to 25% from 1 April 2023 was enacted in 2021, and the deferred tax of the company is fully measured at 25%.

(f) Deferred tax

Deferred tax in the Balance sheet	2021 $ million	2020 $ million
Deferred tax liability:		
Accelerated capital allowances	(116)	(88)
Pension	(13)	-
	(129)	(88)
Deferred tax asset:		
Pension	-	7
Other temporary differences	1	1
	1	8
Disclosed in the Balance sheet:		
Deferred tax asset	1	8
Deferred tax liability	(129)	(88)
	(128)	(80)

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021 (continued)

9 Taxation (continued)

(f) Deferred tax (continued)

Deferred tax in the Income statement	2021 $ million	2020 $ million
Accelerated capital allowances	2	1
Pension	(3)	(1)
Impact of change in tax laws and rates	25	9
Deferred tax expense	24	9

Deferred tax in the Statement of other comprehensive income	2021 $ million	2020 $ million
Pension	26	(12)
Deferred tax expense/(credit)	26	(12)

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 (2020: 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:

	2021 $ million	2020 $ million
Matching shares	3	3
	Number	**Number**
Number of issued ordinary shares	40,146	44,551
	$	**$**
Average price of ordinary shares issued	78.58	69.86

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 2021 is $0.08 million (2020: $0.08 million). The portion of that expense arising from equity-settled share-based payment transactions is $Nil (2020: $Nil).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021 (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 2021:

	2021		2020	
	Options	Weighted average exercise price	Options	Weighted average exercise price
		$		$
Outstanding at 1 January	28,834	77.40	23,834	74.84
Granted during the year	7,700	74.70	5,000	89.57
Exercised or settled	(7,000) [1]	53.34	- [1]	-
Transferred Out	-	-	-	-
Outstanding at 31 December	29,534	82.40	28,834	77.40
Vested at 31 December	29,534	82.40	28,834	77.40
Exercisable at 31 December	17,066	83.41	19,667	70.59

1 The weighted average share price at the date of exercise for the options exercised in 2021 was $83.50.
2 No options were exercised in 2020.

For vested share options outstanding as at 31 December 2021, the weighted-average remaining contractual life is 6.4 years (2020: 5.3 years).

The weighted average fair value of options granted during the year was $74.70 (2020: $89.57). The range of exercise prices for options outstanding at the end of the year was $31.25 - $94.97 (2020: $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 2021 and 31 December 2020.

Assumptions used	2021	2020
Risk-free interest rate %	0.93%	1.58%
Dividend yield %	5.30%	3.20%
Volatility factor %	32.11%	25.23%
Expected life (years)	6.76	6.96

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.

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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 2021:

	2021		2020	
	Stock units	Weighted average grant date fair value	Stock units	Weighted average grant date fair value
		$		$
Outstanding as at beginning of period	136,036	87.98	97,364	90.74
Granted during the year	70,464	78.33	67,982	80.40
Forfeited during the year	(2,219)	73.91	(449)	92.79
Transferred out	-	-	-	-
Issued	(28,568)	94.97	(28,861)	79.37
Outstanding at 31 December	175,713	83.23	136,036	87.98
Not vested at 31 December	142,367	83.07	108,801	87.36

At 31 December 2021, 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 26 months.

Performance share plan

Under the P66 Omnibus Plan, the company also annually grants to senior management restricted PSUs that vest: (i) with respect to awards for performance periods beginning before 2009, when the employee becomes eligible for retirement by reaching age 55 with five years of service; or (ii) with respect to awards for performance periods beginning in 2009, five years after the grant date of the award (although recipients can elect to defer the lapsing of restrictions until retirement after reaching age 55 with five years of service); or (iii) with respect to awards for performance periods beginning in 2013 or later, on the grant date.

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.

The company settles PSUs with performance periods that begin before 2013 by issuing one share of Phillips 66 common stock for each PSU. Recipients of these PSUs receive a quarterly cash payment of a dividend equivalent beginning on the grant date and ending on the settlement date.

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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 2021:

	2021		2020	
	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	2,156	99.74	3,145	112.73
Transferred out	-	-	-	-
Cash settled during the year	(2,156)	99.74	(3,145)	112.73
Issued	-	-	-	-
Outstanding at 31 December	-	-	-	-
Not vested at 31 December	-	-	-	-

There were no lapsed restrictions on Performance share plan awards during the year (2020: Nil).

At 31 December 2021, 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 2021	229	2,585	132	2,946
Foreign currency translation	(2)	(27)	(1)	(30)
Additions	-	65	86	151
Assets under construction transfers	-	130	(130)	-
Disposals	-	(310)	(2)	(312)
At 31 December 2021	227	2,443	85	2,755
Depreciation				
At 1 January 2021	131	1,649	-	1,780
Foreign currency translation	(1)	(17)	-	(18)
Charge for the year	6	74	-	80
Disposals	-	(309)	-	(309)
At 31 December 2021	136	1,397	-	1,533
Net book value				
At 31 December 2021	91	1,046	85	1,222
At 31 December 2020	98	936	132	1,166

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.

The difference of $1 million between the total depreciation charge of $80 million stated above and the amount going through the Income statement of $81 million as stated in Note 3 represents the difference on foreign currency translation to the rate ruling at the balance sheet date.

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

12 Investments in subsidiary undertakings

	2021 $ million	2020 $ million
Cost and net book value		
At 1 January 2021	923	985
Foreign currency translation	(10)	32
Additions	840	41
Disposals	-	(7)
Return of capital	(1,219)	-
Impairment	(12)	(128)
At 31 December 2021	522	923

The company made the following additional investments during the year:

Company	Date	Consideration
Phillips 66 CS Limited	23 September 2021	$150 million
Phillips 66 UK Funding Limited	29 January 2021	$662 million
JET Retail UK Limited	15 January 2021	$27 million
JET Retail UK Limited	16 December 2021	$10 million

The difference of $9 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.

Dividend income from Phillips 66 Funding Ltd. ($661 million), Phillips 66 CS Limited ($140 million) and Phillips 66 UK Funding Limited ($433 million) has been recognised as a return of capital. The difference of $25 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.

The impairment represents the reduction in the recoverable value of the investment in Phillips 66 UK Funding Limited.

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12 Investments in subsidiary undertakings (continued)

Particulars of principal subsidiary undertakings

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
Jet Petroleum Limited	100%	England [1]	Dormant
JET Petrol Limited	100%	Northern Ireland [2]	Dormant
Phillips 66 TS Limited	100%	England [1]	Agent for Phillips 66 Trading Limited
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 European Power Limited	100%	England [1]	Dormant
Phillips 66 UK Development Limited	100%	England [1]	Dormant
Phillips 66 UK Funding Limited	100%	England [1]	Intermediate holding company
JET Retail UK Limited	100%	England [1]	Retail sale of automotive fuel and other goods
Phillips 66 Continental Holdings GmbH	100%	Germany [4]	Holding company
Phillips 66 GmbH	100%	Switzerland [12]	Intermediate holding company
Qingdao Phillips 66 Energy Co. Ltd.	100%	China [11]	Sale, purchase and storage of hydrocarbon products
Associated Petroleum Terminals (Immingham) Limited	50%	England [5]	Operation of marine terminal
Humber Oil Terminals Trustee Limited	50%	England [5]	Trustee for participants in relation to their terminal
Crude Oil Terminals (Humber) Limited	50%	England [1]	Provide facilities for terminal
Humber LPG Terminal Limited	50%	England [1]	Dormant
Warwickshire Oil Storage Limited	50%	England [6]	Petroleum product storage facility
Phillips 66 CS Limited	100%	England [1]	Sale, purchase and storage of hydrocarbon products
Phillips 66 Healthcare Trustee Limited	100%	England [1]	Trustee of Phillips 66 Healthcare Trust

In June 2021 as part of a group reorganisation the company's subsidiary Phillips 66 Funding Ltd. was dissolved. No gain or loss arose on the dissolution.

Particulars of other indirect holdings held

Phillips 66 UK Funding Limited direct subsidiaries:

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
Phillips 66 Ireland Pension Trust Limited	100%	Republic of Ireland [7]	Pension Fund Trustee

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2021 (continued)

12 Investments in subsidiary undertakings (continued)

Particulars of other indirect holdings held (continued)

Phillips 66 Continental Holding GmbH direct subsidiaries:

Company	Proportion of shares and voting rights	Country of incorporation		Principal activities
JET Tankstellen Deutschland GmbH	100%	Germany	[4]	Purchasing of crude oil, sale of refined products
Oberrheinische Mineraloelwerke GmbH	25%	Germany	[8]	Former Joint Venture Oil Refinery
Mineraloelraffinerie Oberrhein Verwaltungs GmbH	18.75%	Germany		General partner of Mineraloelraffinerie Oberrhein GmbH & Co KG

JET Tankstellen Deutschland GmbH direct subsidiaries:

Company	Proportion of shares and voting rights	Country of incorporation		Principal activities
JET Tankstellen Austria GmbH	100%	Austria	[9]	Sale of refined products
JET Energy Trading GmbH	100%	Germany	[4]	Wholesale business for refined products
Deutsche Transalpine Oelleitung GmbH	3%	Germany		Construction and operation of pipelines
GVÖ Gebinde-Verwertungsgesellschaft der Mineralölwirtschaft mbH	1%	Germany		Recycling of lube oil cans and containers
GKG Mineraloel Handel GmbH & Co.KG	50%	Germany	[10]	Wholesale business for refined products
GKG Mineraloel Handel Verwaltungsgesellschaft mbH	50%	Germany	[10]	General partner of GKG Mineraloel Handel GmbH & Co. KG
Societe du Pipeline Sud-Europeen	2%	France		Construction and operation of pipelines

Oberrheinische Mineraloelwerke GmbH direct subsidiary:

Company	Proportion of shares and voting rights	Country of incorporation		Principal activities
Mineraloelraffinerie Oberrhein GmbH & Co. KG	75%	Germany	[8]	Joint Venture Oil Refinery

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12 Investments in subsidiary undertakings (continued)

Particulars of other indirect holdings held (continued)

Phillips 66 GmbH investment in associate undertaking:

Company	Proportion of shares and voting	Country of incorporation	Principal activities
Coop Mineraloel AG	49%	Switzerland [13]	Sale of mineral oil products, operation of petrol stations and convenience stores
Societa Italiana Per L´Oleodotto	3%	Italy	Crude oil pipeline operation
Transalpine Oelleitung in Oesterreich GmbH	3%	Austria	Crude oil pipeline operation

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 Trident Trust Company (Cayman) ltd, Fourth Floor, One Capital Place, Po Box 847, Grand Cayman, KY1 1103
4 Caffamacherreihe 1, 20355 Hamburg, Germany
5 Queens Road, Immingham, DN40 2PN, UK
6 Olympus House, Olympus Avenue, Leamington Spa, CV34 6BF, UK
7 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
8 Nordliche Raffineriestrasse 1, Karlsruhe 76187, Germany
9 Samergasse 27, Salzburg, 5020, Austria
10 Liebknechtstrasse 50, 70565 Stuttgart, Germany
11 Room 301, Office Building 5, No.42 Dongjing Road, Qingdao Free Trade Zone, Shandong Province, China
12 c/o Lambrigger Treuhand AG, Industriestrasse 49, Switzerland, 6302 Zug
13 Hegenheimermattweg 65, 4123 Allschwil, Switzerland

13 Inventories

	2021 $ million	2020 $ million
Raw materials and consumables	265	189
Work in progress	195	126
Finished goods and goods for resale	558	404
	1,018	719

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14 Debtors

Debtors due within one year	2021 $ million	2020 $ million
Trade debtors	1,283	965
Amounts owed by group companies	451	295
Corporation tax	-	20
Other debtors	57	44
	1,791	1,324

Debtors due after one year	2021 $ million	2020 $ million
Deferred tax asset (see note 9)	1	8
Other debtors	1	3
	2	11

15 Creditors due within one year

	2021 $ million	2020 $ million
Trade creditors	694	536
Amounts owed to group companies	142	185
Corporation tax	12	-
Other taxes and social security costs	551	765
Lease liabilities	15	12
Finance lease	7	7
Accruals and deferred income	507	253
	1,928	1,758

16 Creditors due after one year

	2021 $ million	2020 $ million
Lease liabilities	96	97
Finance lease	99	107
	195	204

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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 2020	201	20	221
Foreign currency translation	7	1	8
Depreciation charge	(20)	(4)	(24)
At 31 December 2020	**188**	**17**	**205**
Foreign currency translation	(2)	-	(2)
Additions	17	-	17
Depreciation charge	(21)	(4)	(25)
At 31 December 2021	**182**	**13**	**195**

The movement on lease liabilities is set out below:

	2021 $ million	2020 $ million
At 1 January	**223**	**237**
Foreign currency translation	(2)	(1)
Additions	17	-
Accretion of interest	9	5
Payments	(30)	(18)
At 31 December	**217**	**223**

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

	2021 $ million	2020 $ million
Not later than one year	22	19
After one year but not more than five years	69	62
After five years	126	142
	217	223

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18 Provisions for liabilities

	Deferred tax (Note 9 (f)) $ million
At 1 January 2021	
Non-current	88
	88
Arising during the year	41
At 31 December 2021	129
Current	-
Non-current	129
	129

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 17 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.

The Defined Contribution Plan	**2021**	**2020**
Contributions at 31 December are:	**$ million**	**$ million**
Contributions by employer	3.4	2.8
Contributions by members	1.8	1.4

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.

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19 Employee benefits (continued)

The Defined Benefit Plan (continued)

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 2018, a Schedule of Contributions was agreed on 21 February 2019, with an effective date of 1 April 2019.

As at 31 December 2021 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 $44 million surplus at the valuation date of 31 March 2018.

In 2022, the employer contributions to the defined benefit plan are expected to be $19 million (2021: $19 million),and $2 million employee pension contributions (2021: $2 million).

At 31 December 2021 an asset of $51 million has been recognised in the Balance sheet (2020: liability of $40 million).

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

		2021		2020
Plan assets at fair value:	%	$ million	%	$ million
Equities	41.0%	424	39.6%	385
Corporate bonds	6.4%	66	5.9%	57
LDI Portfolio	28.1%	290	29.9%	290
Emerging market debt	4.4%	45	4.9%	48
HY debt, bank loans	8.7%	90	8.6%	83
Insurance linked securities	4.5%	46	4.6%	45
Property	6.4%	66	6.1%	59
Cash	0.5%	5	0.4%	3
Fair value of plan assets		1,032		970
Present value of plan liabilities		(981)		(1,010)
Defined benefit pension plan asset/(liability)		51		(40)

The value of indirect employer related equity investments at 31 December 2021 is $0.2 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 4.4% allocation to Insurance Linked securities (Securis), 8.8% allocation to Multi-Asset Credit (Oak Hill) and 6.4% allocation to UK Real Estate Fund (Schroder).

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:

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

Recognised in the Income statement	2021 $ million	2020 $ million
Current service cost	30	25
Net interest on defined benefit liability	1	(1)
Total recognised in the Income statement	31	24

Recognised in the Statement of comprehensive income	2021 $ million	2020 $ million
Return on plan assets (excluding amounts included in net interest expense)	(71)	(83)
Actuarial gain due to demographic assumptions changes	(2)	(1)
Actuarial (gain)/loss due to financial assumptions changes	(31)	144
Remeasurement due to presentation currency differences on the pension liability	2	(4)
Net foreign currency translation on pension assets and liabilities	-	4
Total recognised in the Statement of comprehensive income	(102)	60

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

	2021 $ million	2020 $ million
As at 1 January	1,010	810
Current service cost	30	25
Interest expense	15	16
Benefits paid	(33)	(23)
Participant contributions	2	2
Actuarial losses	(32)	143
Foreign currency differences	(11)	37
Defined benefit obligation at 31 December	981	1,010

The defined benefit obligation comprises $992 million (2020: $1,003 million) arising from the funded section and $7 million (2020: $7 million) from the unfunded section.

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

	2021 $ million	2020 $ million
As at 1 January	970	839
Interest income	14	17
Employer contributions	19	19
Participant contributions	2	2
Benefits paid	(33)	(23)
Return on plan assets	71	83
Foreign currency differences	(11)	33
Fair value of plan assets at 31 December	1,032	970

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19 Employee benefits (continued)

The Defined Benefit Plan (continued)

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 2018. 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.

		2021	2020
Main assumptions:		**%**	**%**
Rate of salary increases	2022-2026 / 2021-2025	2.65%	2.65%
(promotional scale in addition)	Post 2026 / 2025	3.05%	3.05%
Rate of increase in pensions in payment			
CPI maximum 5%		2.70%	2.30%
CPI maximum 2.5%		1.85%	1.75%
Discount rate		1.75%	1.45%
Inflation assumption - RPI		3.10%	2.70%
Inflation assumption - CPI		2.75%	2.30%
Assumed life expectancy on retirement at age 65		**Years**	**Years**
Male member aged 65		22.1	22.1
Female member aged 65		24.2	24.2
Male member aged 45		23.5	23.5
Female member aged 45		25.7	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% p.a. from 2030 due to the announced alignment of RPI to CPIH from 2030. Overall expected average gap of 0.4% p.a. (prior year overall gap was 0.4% p.a.). The assumed life expectancy rates are based on the CMI 2019 model with long term improvement rate of 1.25% p.a.

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

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

	2021	2020
Assumptions	**$ million**	**$ million**
Discount rate		
0.25% increase	(927)	(953)
0.25% decrease	(1,040)	(1,072)
Inflation		
0.25% increase	(1,007)	(1,051)
0.25% decrease	(956)	(966)

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19 Employee benefits (continued)

The Defined Benefit Plan (continued)

Assumptions (continued)	2021 $ million	2020 $ million
Life expectancy of members		
Increase by 1 year	(1,006)	(1,038)

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 2021 the company had the following open commitments in respect of currency swaps with Phillips 66 Treasury Limited:

Buy: USD 404 million
Sell: GBP 299 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	2021 $ million	2020 $ million
Allotted, called up and fully paid:			
At 1 January 2021 - 405,501 ordinary £1 shares	416,000	2	2
At 31 December 2021 - 405,501 ordinary £1 shares	416,000	2	2

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.

22 Dividends

	2021 $ million	2020 $ million
Declared and paid during the year:		
Equity dividends paid on ordinary shares: $171 per share (2020: $1,010 per share)	69	410

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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 2021 this reserve included an amount of $1,049 million in respect of Phillips 66 Funding Ltd., this amount was removed from the merger reserve when as a result of a group reorganisation this company was dissolved in June 2021. The amount transferred to retained earnings was $794 million and the movement in the GBP/USD exchange rates between when the merger reserve was created and when the company was dissolved resulted in a transfer to the foreign currency translation reserve of $255 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 Post balance sheet date events

In 2022 to the date of this report the company had the following dividend transactions:

	Dividend received $ million	Dividend paid $ million
August	109	91

In August 2022 dividend income was received from subsidiary companies Phillips 66 CS Limited of $7 million on its winding up and Phillips 66 GmbH of $102 million. In the same month a dividend of $91 million was paid to the company's parent Phillips 66 UK Holdings Limited.

Covid-19 restrictions were lifted in the UK in early 2022, though the ongoing impact of the Covid-19 pandemic remains uncertain and may impact future earnings.

In February 2022 Russia invaded Ukraine and consequent to this a number of countries around the world began imposing sanctions and export controls against Russia. These events have impacted commodity prices and the company's supply chain and could have a material effect on future earnings. Following the invasion the company took the action of halting all purchases of Russian crude oil.

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

25 Capital commitments

	2021 $ million	2020 $ million
Amounts contracted for but not provided in the accounts	18	5

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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.

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				
2021	-	19	-	107
2020	-	30	-	118

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 2021 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 2021 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.