

Registered number
529086

Phillips 66 Limited
Annual report and financial statements
for the year ended 31 December 2018



Phillips 66 Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

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

	2018	2017	Change
	\$ million	\$ million	%
Turnover	16,498	11,700	41.0%
Gross profit	898	494	81.8%
Profit for the year	777	485	60.2%
Shareholder's funds	3,315	3,344	-0.9%
	2018	2017	Change
Inventory turnover	18.9	16.7	13.2%
Quick ratio	1.2	1.2	0.0%

The gross profit for the year was \$898 million (2017 : \$494 million). The profit for the year was \$777 million (2017 : \$485 million). Refining gross margin improved in line with global benchmarks and a strong specialties market. Refinery utilisation remained high due to continuation of strong operating excellence performance. UK Marketing volumes and revenue remained strong with product prices having a positive impact on margins.

An impairment of \$39 million has been recognised against the investments in subsidiary companies Phillips 66 Funding Ltd. and Phillips 66 UK Funding Limited.

The company's operations have many performance indicators in place measuring Health, Safety and Environment to ensure that it continues to build on a legacy of strong commitment and performance. Safety of personnel, coupled with a responsible pro-active approach to managing the environment is core to the company's business. The ultimate financial impact arising from environmental policies, laws and regulations is difficult to determine as current and new standards continue to evolve.

Phillips 66 Limited
Strategic report (continued)

Subsequent events

In 2019 to the date of this report the company had the following dividend transactions:

	Dividend received \$ million	Dividend paid \$ million
March	21	131
July	-	348

In January 2019, as part of a group restructure, 100 ordinary £1 shares were issued and the company acquired a 100% interest in Phillips 66 GmbH, the non-cash consideration for both transactions being \$4 million.

In March 2019 the company increased its investments in Phillips 66 UK Funding Limited and NJB Enterprise Limited by \$5 million and \$4 million respectively.

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 2018 and 2017, 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.

Phillips 66 Limited
Strategic report (continued)

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.

Geopolitical risk

The company has assessed the potential impact of Brexit on its operations following the referendum of 2016. The different scenarios have been assessed by the directors and there are plans and contingencies in place to avoid the business being unduly adversely affected. Further developments in this area are continually monitored in line with the company's risk management processes and procedures.

This report was approved by the board on 11 September 2019 and signed on its behalf.



L L Jenkins
Director

11 September 2019

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

Phillips 66 Limited

Directors' report

The directors present their Annual report on the affairs of the company, together with the Strategic report and financial statements, for the year ended 31 December 2018.

Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

Management believe that the current market conditions approximately represent future margins.

The company has significant financial resources and this together with long range financial forecasts means the directors believe that the company is well placed to manage its business and financial risks for the foreseeable future. The company is party to a centralised cash pooling arrangement between all the Phillips 66 pooling participants and the Bank and has access, if required to surplus cash within the pool. Phillips 66 Company and Phillips 66 have each provided an unlimited cross guarantee to the Bank in respect of the obligations of the pool participants under the cash pooling arrangement.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 \$694 million during the year (2017: \$556 million).

The directors do not recommend a final dividend for the year ended 31 December 2018 (2017 : \$Nil).

Directors

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

G S Taylor
J E Davidson (resigned 31 December 2018)
M Wolf
K D Head
M J Lambert (resigned 31 August 2018)
D J Cunningham
L L Jenkins (appointed 31 August 2018)
R E Sherwell (appointed 31 December 2018)

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 2018 and which has continued into 2019. 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.

Phillips 66 Limited
Directors' report (continued)

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.

Employees

The directors support the participation of employees in the activities of the company, encourage employees to become involved in the pursuit of safety, efficiency and high performance, and provide employees with regular communication on the company's and the Phillips 66 group's plans, performance and programmes so that the views of employees can be taken into in making decisions which are likely to affect their interests. In addition, location and business unit managers carry out regular employee communication either by employee briefings or by participation in formal consultative procedures according to their various needs and requirements. The stock ownership plan enables all employees to purchase parent company shares and have these purchases matched by the employer and thus participate in the Phillips 66 group's performance.

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 s386 of the Companies Act 1985 and continuing under the Companies Act 2006, an elective resolution was passed dispensing with the requirement to appoint the auditor annually. This election was in force immediately before 1 October 2007, therefore Ernst & Young LLP are deemed to continue as the auditor.

This report was approved by the board on 11 September 2019 and signed on its behalf.



L L Jenkins
Director

11 September 2019

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

Phillips 66 Limited

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Opinion

We have audited the financial statements of Phillips 66 Limited for the year ended 31 December 2018 which comprise the Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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 light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no 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 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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.

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

13 September 2019

Phillips 66 Limited
Income statement
for the year ended 31 December 2018

	Notes	2018 \$ million	2017 \$ million
Turnover	2	16,498	11,700
Cost of sales		(15,600)	(11,206)
Gross profit		<u>898</u>	<u>494</u>
Dividends received		99	101
Impairment of investment	12	(39)	(16)
Loss on disposal of tangible fixed assets		(1)	-
Operating profit	3	<u>957</u>	<u>579</u>
Interest receivable	7	2	1
Interest payable	8	(9)	(7)
Profit before taxation		<u>950</u>	<u>573</u>
Tax expense	9	(173)	(88)
Profit for the financial year		<u>777</u>	<u>485</u>

All activities relate to continuing operations.


Phillips 66 Limited
Statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 \$ million	2017 \$ million
Profit for the financial year		777	485
Other comprehensive income			
Items that cannot be reclassified to profit or loss:			
Remeasurement gain on defined benefit pension plan	19	117	21
Remeasurement due to presentation currency differences on the pension liability	19	3	7
Foreign currency translation on pension asset	19	4	3
Foreign currency translation (loss)/gain		(211)	289
Tax on items relating to components of other comprehensive income	9	(20)	(6)
Total comprehensive income for the year		<u>670</u>	<u>799</u>

Phillips 66 Limited
Registered number: 529086
Balance sheet
as at 31 December 2018

	Notes	2018 \$ million	2017 \$ million
Fixed assets			
Tangible assets	11	1,199	1,293
Investments	12	1,073	1,163
		<u>2,272</u>	<u>2,456</u>
Current assets			
Inventories	13	887	764
Debtors due within one year	14	1,611	1,359
Debtors due after one year	14	3	10
Cash at bank and in hand		382	498
		<u>2,883</u>	<u>2,631</u>
Creditors due within one year	15	(1,720)	(1,495)
Net current assets		<u>1,163</u>	<u>1,136</u>
Total assets less current liabilities		<u>3,435</u>	<u>3,592</u>
Creditors due after one year	16	(114)	(128)
Provisions for liabilities	18	(86)	(76)
Net assets excluding pension asset/(liability)		<u>3,235</u>	<u>3,388</u>
Pension asset/(liability)	19	80	(44)
Net assets including pension asset/(liability)		<u>3,315</u>	<u>3,344</u>
Capital and reserves			
Called up share capital	20	2	2
Share premium		93	93
Merger reserve		1,453	1,488
Capital reserve		43	43
Foreign currency translation reserve		(981)	(774)
Retained earnings		2,705	2,492
Shareholder's funds		<u>3,315</u>	<u>3,344</u>

The financial statements were approved by the Board of Directors and authorised for issue on 11 September 2019 and signed on its behalf by:



L L Jenkins
Director

Phillips 66 Limited
Statement of changes in equity
for the year ended 31 December 2018

	Share capital \$ million	Share premium \$ million	Merger reserve \$ million	Capital reserve \$ million	Foreign currency translation \$ million	Retained earnings \$ million	Total \$ million
At 1 January 2017	2	93	1,488	43	(1,066)	2,541	3,101
Profit for the financial year	-	-	-	-	-	485	485
Other comprehensive income	-	-	-	-	292	22	314
Total comprehensive income for the year	-	-	-	-	292	507	799
Equity dividends paid (Note 21)	-	-	-	-	-	(556)	(556)
At 31 December 2017	2	93	1,488	43	(774)	2,492	3,344
Adjustment on adoption of IFRS 9	-	-	-	-	-	(5)	(5)
At 1 January 2018	2	93	1,488	43	(774)	2,487	3,339
Profit for the financial year	-	-	-	-	-	777	777
Other comprehensive (expense)/income	-	-	-	-	(207)	100	(107)
Impairment of investment	-	-	(35)	-	-	35	-
Total comprehensive income for the year	-	-	(35)	-	(207)	912	670
Equity dividends paid (Note 21)	-	-	-	-	-	(694)	(694)
At 31 December 2018	2	93	1,453	43	(981)	2,705	3,315

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018

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 2018.

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 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;
- IAS 24.7 - disaggregation of Key Management Personnel remuneration; and
- IAS 1 Financial statements - capital disclosures and the requirements relating to 16, 38 A-D and 40 A-D.

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.

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.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.3 Judgements and key sources of estimation uncertainty (continued)

The following judgements and assumptions 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.

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.

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).

(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) Going concern

These financial statements have been prepared on a going concern basis. The directors believe this is appropriate as they have a reasonable expectation that the company has adequate resources to meet its liabilities as they fall due for the foreseeable future.

(d) 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.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(e) 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.

(f) Share capital

Ordinary shares are classed as equity.

(g) 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.

(h) 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.

(i) Capital reserve

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

(j) 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.

(k) Investments

Investments are held at cost less accumulated impairment losses.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(l) Tangible fixed assets

All fixed assets are initially recorded at cost. Cost of major overhaul activities are capitalised as a separate fixed asset component and depreciated over the period to the next expected turnaround. Significant components of an asset are depreciated separately. Depreciation is provided on all tangible fixed assets, 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 tangible fixed assets:

Fixed 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.

(m) 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.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(n) 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.

(o) Leases

Rents paid under operating leases are recognised in the Income statement in the period in which they arise. Finance leases are capitalised with an offsetting liability shown in creditors as per IAS17.

(p) 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.

(q) Pension costs

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.

(r) Interest income

Interest income is recognised as earned.

(s) Interest expense

Interest expense is recognised as incurred.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(t) 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.

(u) Financial guarantee

The company participates in a multiparty account cash pooling arrangement operated by Bank of America, together with other wholly owned subsidiaries of Phillips 66 Company. Each company within the arrangement guarantees 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.

(v) 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.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(v) Financial assets (continued)

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.

1.5 Changes in accounting policies and disclosures

New standards

The company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from contracts with customers:

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The company adopted IFRS 15 using the full retrospective method of adoption. There has been no impact of the adoption on the current and previous periods financial statements.

IFRS 9 Financial instruments:

IFRS 9 has brought together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. Comparatives have not been restated and adjustments on transition have been reported in opening retained earnings at 1 January 2018.

The impact on transition to IFRS 9 was a reduction of \$5 million in net assets. This adjustment related to the increase in the loss allowance for financial assets under IFRS 9's impairment requirements. As comparatives have not been restated certain items in the balance sheet at 31 December 2017 differ from the opening balance at 1 January 2018 as follows:

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.5 Changes in accounting policies and disclosures (continued)
New standards (continued)

IFRS 9 Financial instruments (continued):

	31 December 2017 \$ million	1 January 2018 \$ million	Adjustment on adoption of IFRS 9 \$ million
Non-current			
Deferred tax asset	8	9	1
Current			
Trade debtors	952	946	(6)
Net assets	<u>960</u>	<u>955</u>	<u>(5)</u>
Reserves			
Retained earnings	<u>2,492</u>	<u>2,487</u>	<u>(5)</u>

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the company's business model was made on the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The changes in the classification of the company's financial assets are as follows:

- Trade debtors and intercompany receivables previously classified as receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost.

On adoption of IFRS 9 the company had the following reclassification:

At 1 January 2018

	IAS 39 Loans and receivables \$ million	IFRS 9 Amortised cost \$ million
Trade receivables	<u>952</u>	<u>946</u>

The change in carrying amount is due to the additional impairment loss allowance under IFRS 9.

(b) Impairment

The adoption of IFRS 9 has introduced a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The adjustment to the 2018 opening balance sheet relating to ECL reduced both the carrying amounts of financial assets and the retained earnings reserve.

A reconciliation of the final impairment allowance under IAS 39 to the opening loss allowances in accordance with IFRS 9 is as follows:

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

1.5 Changes in accounting policies and disclosures (continued)
New standards (continued)

IFRS 9 Financial instruments (continued):
(b) Impairment (continued)

At 1 January 2018	IAS 39 loss allowance \$ million	Measurement adjustment on transition \$ million	IFRS 9 loss allowance \$ million
Trade receivables classified as loans and receivables under IAS 39 and as financial assets at amortised cost under IFRS 9	-	(6)	(6)

(c) Other adjustments

In addition to the adjustments above, upon adoption of IFRS 9, income tax expense was also adjusted as necessary.

2 Turnover

	2018 \$ million	2017 \$ million
UK	5,761	4,186
Europe	4,677	2,478
Rest of world	6,060	5,036
	<u>16,498</u>	<u>11,700</u>

3 Operating profit

	2018 \$ million	2017 \$ million
This is stated after charging/(crediting):		
Foreign currency translation	(18)	(3)
Operating leases	18	18
Depreciation	94	97
Loss/(gain) on derivatives	1	(2)
Loss on disposal of investment	-	6

4 Directors' remuneration

	2018 \$ million	2017 \$ million
Aggregate remuneration for qualifying services	<u>4</u>	<u>3</u>
The number of directors who:		
Are members of a defined benefit pension plan	6	6
Exercised options over shares in the ultimate parent company	<u>-</u>	<u>-</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

4 Directors' remuneration (continued)	2018 \$ million	2017 \$ million
Remuneration of the highest paid director:		
Aggregate remuneration for qualifying services	<u>1.5</u>	<u>0.9</u>
The highest paid director did not exercise share options in the ultimate parent company during the year (2017: not exercised).		
5 Staff costs	2018 Number	2017 Number
Average number of employees during the year:		
Manufacturing and production	723	741
Marketing, operations, supply and administration	<u>254</u>	<u>277</u>
	<u>977</u>	<u>1,018</u>
	2018 \$ million	2017 \$ million
Wages and salaries	100	95
Social security costs	13	13
Other pension costs	24	30
Other employee costs	5	6
Severance costs	<u>1</u>	<u>7</u>
	<u>143</u>	<u>151</u>
6 Auditor's remuneration	2018 \$ million	2017 \$ million
Fees payable to the company's auditors for the:		
Audit of the company's financial statements	<u>0.1</u>	<u>0.1</u>
There have been no other fees payable in relation to non-audit services.		
7 Interest receivable	2018 \$ million	2017 \$ million
Bank interest	<u>2</u>	<u>1</u>
8 Interest payable	2018 \$ million	2017 \$ million
Bank overdrafts	2	-
Finance charges payable under finance leases	5	5
Other finance charges	1	-
Interest expense relating to pension plan	<u>1</u>	<u>2</u>
	<u>9</u>	<u>7</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

9 Taxation

(a) Tax expense in the Income statement

	2018 \$ million	2017 \$ million
Current income tax:		
Group relief payable and/or UK corporation tax expense	170	93
Amounts under/(over) provided in previous years	1	(5)
Total current income tax expense	<u>171</u>	<u>88</u>
Deferred tax:		
Origination and reversal of temporary differences	2	-
Tax expense in the Income statement	<u>173</u>	<u>88</u>

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

	2018 \$ million	2017 \$ million
Deferred tax:		
Actuarial gain on defined benefit pension plan	20	6
Total deferred tax expense	<u>20</u>	<u>6</u>
Tax expense in the Statement of other comprehensive income	<u>20</u>	<u>6</u>

(c) Reconciliation of the total tax expense

The tax expense in the Income statement for the year varies from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018 \$ million	2017 \$ million
Profit before taxation	950	573
Accounting profit before income tax	<u>950</u>	<u>573</u>
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25%)	180	110
Foreign currency differences	3	(1)
(Income) and expenses having no tax effect	(10)	(13)
Income taxed in previous periods	(1)	(2)
Tax under/(over) provided in previous years	1	(5)
Change in tax laws and rate	-	(1)
Total tax expense reported in the Income statement	<u>173</u>	<u>88</u>

(d) Unrecognised capital losses

The company has capital losses of \$7 million (2017: \$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

Under enacted legislation, the main rate of corporation tax reduces to 17% from 1 April 2020. The company's deferred tax liability has been adjusted accordingly.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

9 Taxation (continued)

(f) Deferred tax

Deferred tax in the Balance sheet

	2018	2017
	\$ million	\$ million
Deferred tax liability:		
Accelerated capital allowances	(72)	(76)
Pension	(14)	-
	<u>(86)</u>	<u>(76)</u>
Deferred tax asset:		
Pension	-	8
Adjustment on adoption of IFRS 9	1	-
	<u>1</u>	<u>-</u>
Disclosed in the Balance sheet:		
Deferred tax asset	1	8
Deferred tax liability	(86)	(76)
	<u>(85)</u>	<u>(68)</u>

Deferred tax in the Income statement

	2018	2017
	\$ million	\$ million
Accelerated capital allowances	1	-
Pension	1	-
Deferred tax expense	<u>2</u>	<u>-</u>

Deferred tax in the Statement of other comprehensive income

	2018	2017
	\$ million	\$ million
Pension	20	6
Deferred tax expense	<u>20</u>	<u>6</u>

10 Share based payments

Cash settled share based payments

Share incentive plan

The company's Share incentive plan is open to all employees. Employees can contribute a portion of their pre-tax monthly salary. The employee's contributions are then used to purchase shares in the company's ultimate parent company, Phillips 66, at market value. Contributions up to 2.5% of base salary (2017: 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:

	2018	2017
	\$ million	\$ million
Matching shares	<u>3</u>	<u>3</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

10 Share based payments (continued)

Share incentive plan (continued)

	Number	Number
Number of issued ordinary shares	28,017	35,230
	\$	\$
Average price of ordinary shares issued	108.97	85.98

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 2018 is \$0.10 million (2017: \$0.08 million). The portion of that expense arising from equity-settled share-based payment transactions is \$Nil (2017: \$Nil).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year to 31 December 2018:

	2018		2017	
	Options	Weighted average exercise price	Options	Weighted average exercise price
		\$		\$
Outstanding at 1 January	43,284	50.48	111,223	41.78
Granted during the year	5,900	94.85	4,000	78.48
Exercised or settled	(17,775) ¹	24.38	(58,939) ²	30.53
Transferred Out	-	-	(13,000)	75.11
Outstanding at 31 December	31,409	73.58	43,284	50.48
Vested at 31 December	21,375	66.75	35,550	44.47
Exercisable at 31 December	21,375	66.75	35,550	44.47

1 The weighted average share price at the date of exercise for the options exercised in 2018 was \$95.82.

2 The weighted average share price at the date of exercise for the options exercised in 2017 was \$94.01.

For vested share options outstanding as at 31 December 2018, the weighted-average remaining contractual life is 5.2 years (2017: 3.5 years).

The weighted average fair value of options granted during the year was \$20.69 (2017: \$16.95). The range of exercise prices for options outstanding at the end of the year was \$31.25 - \$94.85 (2017: \$20.27 - \$78.62).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

10 Share based payments (continued)

Stock option plan (continued)

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 2018 and 31 December 2017.

Assumptions used	2018	2017
Risk-free interest rate %	2.81%	2.28%
Dividend yield %	2.80%	2.90%
Volatility factor %	25.41%	26.91%
Expected life (years)	7.18	7.22

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.

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 2018:

	2018		2017	
	Stock units	Weighted average grant date fair value	Stock units	Weighted average grant date fair value
		\$		\$
Outstanding as at beginning of period	107,769	77.16	120,085	69.80
Granted during the year	31,449	95.31	37,277	78.34
Forfeited during the year	(331)	90.89	(1,694)	77.61
Transferred out	(2,246)	83.90	(4,243)	59.34
Issued	(45,530)	76.35	(43,656)	59.63
Outstanding at 31 December	91,111	83.61	107,769	77.16
Not vested at 31 December	70,426	83.87	77,806	77.14

At 31 December 2018, the remaining unrecognised compensation cost from the unvested RSU awards held by employees of Phillips 66 was \$2.0 million, which will be recognised over a weighted-average period of 21 months, the longest period being 31 months.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

10 Share based payments (continued)

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.

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 2018:

	2018		2017	
	Stock units	Weighted average grant date fair value	Stock units	Weighted average grant date fair value
Outstanding as at beginning of period	-	\$ -	3,073	\$ 70.60
Granted during the year	2,876	99.74	3,550	86.88
Transferred out	-	-	(2,855)	74.14
Cash settled during the year	(2,876)	99.74	(3,550)	86.88
Issued			(218)	24.19
Outstanding at 31 December	-	-	-	-
Not vested at 31 December	-	-	-	-

There were no lapsed restrictions on Performance share plan awards during the year (2017: 218).

At 31 December 2018, the remaining unrecognised compensation cost from unvested PSU awards held by employees of Phillips 66 was \$Nil.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

11 Tangible fixed assets

	Land and buildings \$ million	Plant and machinery \$ million	Assets under construction \$ million	Total \$ million
Cost				
At 1 January 2018	386	2,492	48	2,926
Foreign currency translation	(21)	(136)	(3)	(160)
Additions	-	18	54	72
Assets under construction transfers	-	26	(26)	-
Disposals	(5)	(49)	-	(54)
At 31 December 2018	<u>360</u>	<u>2,351</u>	<u>73</u>	<u>2,784</u>
Depreciation				
At 1 January 2018	151	1,482	-	1,633
Foreign currency translation	(8)	(81)	-	(89)
Charge for the year	14	76	-	90
Disposals	(5)	(44)	-	(49)
At 31 December 2018	<u>152</u>	<u>1,433</u>	<u>-</u>	<u>1,585</u>
Net book value				
At 31 December 2018	<u>208</u>	<u>918</u>	<u>73</u>	<u>1,199</u>
At 31 December 2017	<u>235</u>	<u>1,010</u>	<u>48</u>	<u>1,293</u>

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

The difference of \$4 million between the depreciation charge of \$90 million stated above and the amount going through the Income statement of \$94 million as stated in Note 3 represents the difference on foreign currency translation to the rate ruling at the balance sheet date.

Included within land and buildings are capital leases with a net book value of \$109 million as at 31 December 2018 (2017: \$123 million). There were no additions during the year in respect of property held under finance lease (2017: \$1 million).

12 Investments in subsidiary undertakings

	2018 \$ million	2017 \$ million
Cost and net book value		
At 1 January 2018	1,163	1,116
Foreign currency translation	(64)	107
Additions	13	-
Disposals	-	(44)
Impairment	(39)	(16)
At 31 December 2018	<u>1,073</u>	<u>1,163</u>

The impairment represents the reduction in the recoverable value of the investments in Phillips 66 Funding Ltd. and Phillips 66 UK Funding Limited.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

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 Trading Limited	100%	England	¹ Emissions trader
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
NJB Enterprise Limited	100%	England	¹ Intermediate holding company
Phillips 66 European Power Limited	100%	England	¹ Dormant
Phillips 66 UK Development Limited	100%	England	¹ Dormant
Phillips 66 UK Funding Limited	75%	England	¹ Intermediate holding company
Phillips 66 Funding Ltd.	100%	Cayman islands	³ Provide funding to group companies
Phillips 66 Continental Holdings GmbH	100%	Germany	⁴ 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

The company made the following investments during the year:

Company	Date	Consideration
Phillips 66 UK Development Limited	5 March 2018	\$3
Phillips 66 European Power Limited	31 July 2018	\$983
Qingdao Phillips 66 Energy Co. Ltd.	1 September 2018	\$1 million
NJB Enterprise Limited	1 October 2018	\$10 million

A further \$2 million was invested in in NJB Enterprise Limited in December 2018.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

12 Investments in subsidiary undertakings (continued)

Particulars of principal subsidiary undertakings (continued)

The investments in Qingdao Phillips 66 Energy Co. Ltd. and NJB Enterprise Limited were made as part of the company's strategy to develop the market for its products in China and the UK respectively.

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 CS Limited	100%	England	¹ Sale, purchase and storage of hydrocarbon products
Phillips 66 Ireland Pension Trust Limited	100%	Republic of Ireland	⁷ Pension Fund Trustee

NJB Enterprise Limited direct subsidiary:

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
JET Retail UK Limited	100%	England	¹ Retail sale of automotive fuel and other goods

Phillips 66 Treasury Limited investment in associate undertaking:

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
Phillips 66 UK Funding Limited	25%	England	¹ Intermediate holding company

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

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

12 Investments in subsidiary undertakings (continued)

Particulars of other indirect holdings held (continued)

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

JET Tankstellen Deutschland GmbH direct subsidiaries (continued):

Company	Proportion of shares and voting rights	Country of incorporation	Principal activities
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

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

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

12 Investments in subsidiary undertakings (continued)

Registered offices (continued)

- 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

13 Inventories

	2018	2017
	\$ million	\$ million
Raw materials and consumables	184	223
Work in progress	151	149
Finished goods and goods for resale	552	392
	<u>887</u>	<u>764</u>

14 Debtors due within one year

	2018	2017
	\$ million	\$ million
Trade debtors	1,328	952
Amounts owed by group companies	249	322
Corporation tax	7	47
Other debtors	27	38
	<u>1,611</u>	<u>1,359</u>

Debtors due after one year

Deferred tax asset (see note 9)	1	8
Other debtors	2	2
	<u>3</u>	<u>10</u>

15 Creditors due within one year

	2018	2017
	\$ million	\$ million
Trade creditors	598	624
Amounts owed to group companies	317	126
Corporation tax	79	78
Other taxes and social security costs	424	420
Finance lease	6	6
Accruals and deferred income	296	241
	<u>1,720</u>	<u>1,495</u>

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

16 Creditors due after one year	2018 \$ million	2017 \$ million
Finance lease	113	127
Accruals and deferred income	1	1
	<u>114</u>	<u>128</u>

17 Obligations under leases

Operating lease agreements where the company is the lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land & buildings 2018 \$ million	Land & buildings 2017 \$ million	Other 2018 \$ million	Other 2017 \$ million
Not later than one year	15	13	1	2
After one year but not more than five years	44	24	2	2
After five years	113	60	-	9
	<u>172</u>	<u>97</u>	<u>3</u>	<u>13</u>

18 Provisions for liabilities

	Deferred tax (Note 9 (f)) \$ million
At 1 January 2018	
Non-current	<u>76</u>
	76
Arising during the year	
Utilised	<u>10</u>
At 31 December 2018	<u>86</u>
Current	-
Non-current	<u>86</u>
	<u>86</u>

Financial Guarantee

The company participates in a multiparty account cash pooling arrangement operated by Bank of America, together with other wholly owned subsidiaries of Phillips 66 Company. Each company within the arrangement guarantees the payment of the liabilities of the other companies within the arrangement as they fall due, and to make good any default by other companies within the arrangement. No value is recognised by the company in the Balance sheet for this guarantee, as it is not considered probable that there will be an outflow of resources under this guarantee. There were 24 legal entities within the cash pool at the balance sheet date.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

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

Contributions at 31 December are:

	2018	2017
	\$ million	\$ million
Contributions by employer	1.8	1.3
Contributions by members	0.9	0.7

The Defined Benefit Plan

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

The level of contributions are agreed between the Trustee and Phillips 66 Limited following a triennial actuarial valuation, or at any other time where deemed necessary. The company agrees a Schedule of Contributions with the Trustee which is certified by the Actuary. The Schedule of Contributions sets out the rates of employer and employee contributions and also the dates by which the contributions will be paid to the Plan. Following the most recently completed triennial valuation, as at 31 March 2018, a Schedule of Contributions was agreed on 21 February 2019, with an effective date of 1 April 2019.

As at 31 December 2018 the contribution rate to pre-fund future service accrual, as a percentage of pensionable salaries was 35.7%, in addition the company made deficit contributions to the value of \$3.2 million in 2018 (2017: \$3 million) and supplementary contributions to the value of \$3.2 million (2017: \$3 million) into the Plan as agreed on the Schedule of Contributions. From 1 April 2019, the Company's contributions for future service accrual are at the rate of 37.9% of pensionable salaries; there are no payments for past service as the Plan was at a \$44 million surplus at the valuation date of 31 March 2018.

In 2019, the employer contributions to the defined benefit plan are expected to be \$21 million (2018: \$27 million), \$2 million employee pension contributions (2018: \$3 million) and deficit/supplementary funding expected to be \$Nil (2018: \$6 million).

At 31 December 2018 an asset of \$80 million has been recognised in the Balance sheet (2017: liability of \$44 million).

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

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

		2018		2017
	%	\$ million	%	\$ million
Plan assets at fair value:				
Equities	40.8%	294	42.4%	329
Corporate bonds	10.8%	78	10.6%	82
UK Government bonds	26.7%	192	25.3%	196
Emerging market debt	5.6%	40	5.8%	45
HY debt, bank loans	9.4%	68	9.5%	74
Insurance linked securities	5.8%	42	5.8%	45
Cash	0.9%	6	0.6%	5
Fair value of plan assets		720		776
Present value of plan liabilities		(640)		(820)
Defined benefit pension plan asset/(deficit)		80		(44)

The value of indirect employer related equity investments at 31 December 2018 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 assets are invested in a diversified range of industries across a broad range of geographies. 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. The only holding which uses valuation techniques with non-observable inputs and is classified as Level 3 under FRED 62 regulations, is the 6% of allocation in an open-ended Cayman Islands Master Feeder Fund that invests in securities and other instruments exposed to risks traditionally associated with the insurance and reinsurance industry and in particular, non-life property catastrophe insurance risk.

The liability matching is done through the use of longer-dated index linked government bonds. There are no derivatives, annuities or longevity swaps. The Plan risks are liquidity risk, counterparty risk and currency risk.

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

Recognised in the Income statement	2018	2017
	\$ million	\$ million
Current service cost	26	30
Past service cost	(6)	-
Net interest on defined benefit liability	1	2
Total recognised in the Income statement	21	32

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

Recognised in the Statement of comprehensive income	2018 \$ million	2017 \$ million
Return on plan assets (excluding amounts included in net interest expense)	47	(46)
Actuarial gain due to demographic assumptions changes	(15)	-
Actuarial gain due to financial assumptions changes	(104)	11
Actuarial gain due to experience adjustments	(51)	-
Remeasurement due to presentation currency differences on the pension liability	3	7
Foreign currency translation on pension asset/(liability)	(4)	(3)
Total recognised in the Statement of comprehensive income	(124)	(31)

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

	2018 \$ million	2017 \$ million
As at 1 January	820	700
Current service cost	26	30
Past service cost	(6)	-
Interest expense	21	20
Benefits paid	(16)	(10)
Participant contributions	2	2
Actuarial (gains)/losses	(169)	10
Foreign currency differences	(38)	68
Defined benefit obligation at 31 December	640	820

The defined benefit obligation comprises \$636 million (2017: \$815 million) arising from the funded section and \$4 million (2017: \$5 million) from the unfunded section.

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

	2018 \$ million	2017 \$ million
As at 1 January	776	629
Interest income	20	18
Employer contributions	27	28
Participant contributions	2	2
Benefits paid	(16)	(10)
Return on plan assets	(47)	44
Foreign currency differences	(42)	65
Fair value of plan assets at 31 December	720	776

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.

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

19 Employee benefits (continued)

The Defined Benefit Plan (continued)

	2018	2017
Main assumptions:	%	%
Rate of salary increases	3.10%	3.60%
Rate of increase in pensions in payment		
CPI maximum 5%	2.15%	2.15%
CPI maximum 2.5%	1.60%	1.60%
Discount rate	2.95%	2.55%
Inflation assumption - RPI	3.10%	3.10%
Inflation assumption - CPI	2.10%	2.10%
Assumed life expectancy on retirement at age 65	Years	Years
Male member aged 65	22.3	22.6
Female member aged 65	24.3	24.8
Male member aged 45	23.7	24.4
Female member aged 45	25.9	26.7

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 0.3% p.a. inflation "risk premium" rounds to the nearest 0.05% p.a, the Consumer Prices Index (CPI) is RPI less 1.0%. The assumed life expectancy rates are based on the CMI 2017 (core) 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:

Assumptions	2018	2017
	\$ million	\$ million
Discount rate		
0.25% increase	(608)	(770)
0.25% decrease	(675)	(874)
Inflation		
0.25% increase	(667)	(858)
0.25% decrease	(618)	(781)
Life expectancy of members		
Increase by 1 year	(654)	(837)

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

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

	Authorised	2018 \$ million	2017 \$ million
Allotted, called up and fully paid:			
405,401 ordinary £1 shares	416,000	<u>2</u>	<u>2</u>

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

Distribution

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

21 Dividends

	2018 \$ million	2017 \$ million
Declared and paid during the year:		
Equity dividends paid on ordinary shares: \$1,712 per share (2017: \$1,372 per share)	<u>694</u>	<u>556</u>

22 Capital commitments

	2018 \$ million	2017 \$ million
Amounts contracted for but not provided in the accounts	<u>2</u>	<u>2</u>

23 Contingent liability

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

Phillips 66 Limited
Notes to the financial statements
for the year ended 31 December 2018 (continued)

24 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				
2018	-	37	-	122
2017	1	28	-	133
Other related parties				
2018	-	-	-	-
2017	-	2	-	-

Purchases from other related parties includes an amount of \$Nil (2017: \$1 million) in respect of properties purchased from directors under the company's relocation policy.

25 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 2018 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 2018 Annual Report may be obtained from 2331 CityWest Blvd, Houston, TX 77042, USA.

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