

Registered number
02809975

Phillips 66 CS Limited

Annual reports and financial statements for the year ended

31 December 2019



Phillips 66 CS Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2019.

Principal activities

The principal activities of the company are the purchasing, storage, blending, distribution and selling of hydrocarbon products.

Business review

The company has made an operating loss of \$2.8 million (2018: \$18.9 million) which is driven by challenging market conditions.

The company has made a total loss for the year of \$2.2 million (2018: \$14.5 million). The resulting loss was transferred to reserves.

Key Performance Indicators

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

| | 2019 | 2018 | Change |
|---------------------|---------------|---------------|---------------|
| | \$'000 | \$'000 | % |
| Turnover | 987,586 | 986,044 | 0.16 |
| Operating loss | 2,780 | 18,932 | 85.32 |
| Shareholder's funds | 167,363 | 169,606 | 1.32 |
| Acid test ratio | 3.3 | 11.5 | 71.30 |

The company's Balance sheet, on page 10 of the financial statements, shows the company has net assets of \$167 million (2018: \$170 million).

As part of the Phillips 66 group, the company operations have many performance indicators in place measuring Health, Safety and Environment to ensure that it continues to build on its strong commitment and performance. Safety of personnel, coupled with a responsible pro-active approach to managing the environment are 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.

Subsequent events

The Covid-19 pandemic caused market curves to move into a contango position which is beneficial for the company, though this is somewhat offset by reduced demand caused by the pandemic. Whilst demand has increased steadily since the easing of the national lockdown, the ongoing impact of the pandemic remains uncertain and may impact future earnings.

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 market, 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 the price risk of crude oil production.

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

Phillips 66 CS Limited
Strategic report (continued)

Principal risks and uncertainties (continued)

Commodity price risk

The group'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 2019 and 2018, 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 may be 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 may be exposed to foreign currency exchange rate risk resulting from entering into certain transactions denominated in currencies other than the functional currency.

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.

Covid-19

The Covid-19 pandemic has continued across the world. The Covid-19 pandemic has, at the time of approving these financial statements, had no adverse impact on the Company. Uncertainty as to the length of the COVID pandemic, future periods of lockdown and the other measures to combat COVID mean that the 2020 and 2021 full year impact cannot yet be known.

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.

Phillips 66 CS Limited
Strategic report (continued)

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

To the extent applicable to it, the Company's Board of Directors aligns its Corporate Governance approach with that of Phillips 66 Limited, which is the main Phillips 66 operating company in the UK and the Company's indirect parent. Phillips 66 Limited has adopted Corporate Governance Guidelines consistent with the Wates Corporate Governance Principles (the "Guidelines") as a general framework to assist the Phillips 66 Limited Board in carrying out its responsibilities for the business and affairs of Phillips 66 Limited to be managed by or under the direction of the Board of Phillips 66 Limited 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. The Company's Board has conducted itself in accordance with the Guidelines, to the extent applicable to it, in order 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 on 22 December 2020 and signed on its behalf by:



G S Taylor
Director

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

Phillips 66 CS 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 2019.

Going concern

In reaching their conclusion the directors reviewed a going concern assessment for the period to January 2022 prepared by the company. This quantified the forecast impact of the Covid-19 pandemic and indicated that the company will have sufficient funds to meet its liabilities as they fall due for that period.

In view of the historical losses, 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 to 31 January 2022, being a period of at least 12 months following the date of approval of the financial statements, 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 an unlimited cross guarantee to the Bank in respect of the obligations of the pool participants under the cash pooling arrangement.

After making enquiries, considering the impact of Covid-19 and the support available from the parent company, the directors have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. These considerations included the impact of Covid-19 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.

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 are disclosed in the Strategic report.

Dividends

The company did not pay a dividend to the ordinary shareholder during the year (2018: \$Nil).

The directors do not recommend a final dividend for the year ended 31 December 2019.

Directors

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

G S Taylor

L L Jenkins

K D Head

N A Holland

G R D Griffiths (appointed 18 November 2020)

Phillips 66 CS Limited
Directors' Report (continued)

Relationships with suppliers, customers and other stakeholders

The Company's Board of Directors understands that developing and maintaining strong mutually beneficial relationships with stakeholders in which the Company 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 numerous stakeholder engagement activities that are undertaken during the year.

The Company has engaged with its stakeholders during the financial year as follows:

Commercial counterparties: For the Company's commercial trading and storage counterparties, the Company performed several activities and participated or hosted events to inform and engage those counterparties. The Company participates in several industry events though out the year, such as the Institute of Petroleum Week where the Company hosts and attends various customer dinners and events, Asia Pacific Petroleum Conference events, ISCC Technical Committee meeting, Platts & Argus industry events and conferences, as well as several other ad hoc hospitality events with counterparties and storage providers.

Disclosure of information to auditors

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 company's 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.

Reappointment 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 on 22 December 2020 and signed on its behalf by:



G S Taylor
Director

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

Phillips 66 CS Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the 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 members of Phillips 66 CS Limited

Opinion

We have audited the financial statements of Phillips 66 CS Limited for the year ended 31 December 2019 which comprise the Income Statement, the Balance Sheet and Statement of changes in equity and the related notes 1 to 16, 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 (United Kingdom Generally Accepted Accounting Practice) including FRS 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 2019 and of its loss 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 members of Phillips 66 CS 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 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 directors' responsibilities statement set out 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 members of Phillips 66 CS 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

22 December 2020

Phillips 66 CS Limited
Income statement
for the year ended 31 December 2019

| | Notes | 2019 \$'000 | 2018 \$'000 |
|--|-------|----------------|-----------------|
| Turnover | 2 | 987,586 | 986,044 |
| Cost of sales | | (990,021) | (1,001,321) |
| Gross loss | | <u>(2,435)</u> | <u>(15,277)</u> |
| Administrative expenses | | (346) | (3,701) |
| Other operating income | | 1 | 46 |
| Operating loss | 3 | <u>(2,780)</u> | <u>(18,932)</u> |
| Interest receivable and similar income | 6 | 1,277 | 1,167 |
| Interest payable | 7 | (797) | - |
| Loss before taxation | | <u>(2,300)</u> | <u>(17,765)</u> |
| Tax credit | 8 | 57 | 3,264 |
| Loss for the financial year | | <u>(2,243)</u> | <u>(14,501)</u> |

All recognised gains and losses are included in the income statement and all activities relate to continuing operations.

Statement of comprehensive income

The company has no other items of comprehensive income other than the loss for the above two financial years.

Phillips 66 CS Limited
Registered number: 02809975
Balance sheet
as at 31 December 2019

| | Notes | 2019 \$'000 | 2018 \$'000 |
|--|-------|----------------|----------------|
| Tangible assets | 9 | 14,852 | - |
| Current assets | | | |
| Stocks | 10 | 11,655 | 10,035 |
| Debtors due within one year | 11 | 30,487 | 58,851 |
| Cash at bank | | 187,510 | 116,859 |
| | | <u>229,652</u> | <u>185,745</u> |
| Creditors: amounts due within one year | 12 | (68,873) | (16,139) |
| Total assets less current liabilities | | <u>175,631</u> | <u>169,606</u> |
| Creditors: amounts falling due after more than one year | 13 | (8,268) | - |
| Net assets | | <u>167,363</u> | <u>169,606</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 362,326 | 362,326 |
| Share premium | | 288,046 | 288,046 |
| Foreign currency translation reserve | | (218) | (218) |
| Accumulated losses | | (482,791) | (480,548) |
| Shareholder's funds | | <u>167,363</u> | <u>169,606</u> |

The Financial statements were approved by the Board of Directors and authorised for issue on 22 December 2020 and signed on its behalf by:



G S Taylor
Director

Phillips 66 CS Limited
Statement of changes in equity
for the year ended 31 December 2019

| | Share capital | Share premium | Foreign currency translation reserve | Accumulated losses | Total equity |
|---|------------------|------------------|---|-----------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 January 2018 | 362,326 | 288,046 | (218) | (466,047) | 184,107 |
| Loss for the financial year | - | - | - | (14,501) | (14,501) |
| At 31 December 2018 | 362,326 | 288,046 | (218) | (480,548) | 169,606 |
| Loss for the financial year | - | - | - | (2,243) | (2,243) |
| Total comprehensive expense for the year | - | - | - | (2,243) | (2,243) |
| At 31 December 2019 | 362,326 | 288,046 | (218) | (482,791) | 167,363 |

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019

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 2019.

1.1 Statement of compliance

Phillips 66 CS Limited (the "Company") is a private company limited by shares incorporated and domiciled in England. These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the Companies Act 2006.

1.2 Basis of preparation

The financial statements have been 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 1 para 16 (statement of compliance with all IFRS), IAS 1 para 38A (cash flow related), IAS 1 para 111 (cash flow related);
- 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; and
- the requirements of IAS 24 para 17 in relation to key management compensation.

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

- the disclosures required by IFRS 7 Financial Instrument Disclosure.

Going concern

In reaching their conclusion the directors reviewed a going concern assessment for the period to January 2022 prepared by the company. This quantified the forecast impact of the Covid-19 pandemic and indicated that the company will have sufficient funds to meet its liabilities as they fall due for that period.

In view of the historical losses, 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 to 31 January 2022, being a period of at least 12 months following the date of approval of the financial statements, 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 an unlimited cross guarantee to the Bank in respect of the obligations of the pool participants under the cash pooling arrangement.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

1.2 Basis of preparation (continued)

Going concern (continued)

After making enquiries, considering the impact of Covid-19 and the support available from the parent company, the directors have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. These considerations included the impact of Covid-19 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.

1.3 Significant judgements and estimates

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

Leases

The operating leases that were recognised on the Balance sheet following the adoption of IFRS 16 Leases on 1 January 2019 were 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.

1.4 Significant accounting policies

a) Presentation currency

The company presents its financial statements in United States Dollars and are rounded to the nearest thousand dollars (\$'000).

b) Functional currency

The company's functional currency is the United States Dollar.

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.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

d) Deferred tax (continued)

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 constitutes the excess value of the share capital received by the company above the nominal value of the shares.

g) Foreign currency translation reserve

The currency translation reserve represents all exchange differences that arose as a result of translating the company's results and financial position from the functional currency to the presentation currency in prior years when the functional currency differed to the presentation currency.

h) 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.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

h) Financial assets (continued)

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 group 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.

i) 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.

j) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Significant components of

| | |
|--------------------------------|------------------------|
| Plant, machinery and equipment | Over life of the lease |
|--------------------------------|------------------------|

k) Inventories

Trading stocks are stated at fair value less costs to sell.

l) Interest income

Interest income is recognised as earned.

m) Interest expense

Interest expense is recognised as incurred.

n) Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenues associated with transactions commonly called buy/sell contracts, in which the purchase and sale of inventory or services with the same counterparty are entered into in contemplation of one another, are combined and reported net.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

o) Leases

IFRS 16 Leases replaced IAS 17 Leases with effect from 1 January 2019. 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. The company has applied the modified retrospective approach on adoption of IFRS 16. Under this approach comparative information has not been restated. Further details are set out under section 1.5 below. The accounting policy applicable for leases in the comparative period is disclosed in the following paragraph.

Rentals paid under operating leases are charged to the Income statement in the period in which they arise. Finance leases are capitalised with an offsetting liability shown in creditors as per FRS 101.

p) 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 account in line with the underlying sales transaction.

q) 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.

1.5 Changes in accounting policy and disclosure

IFRS 16 Leases

The company adopted IFRS 16 Leases on 1 January 2019, as a consequence all operating lease contracts, with limited exceptions, were recognised on the balance sheet as right-of-use assets and corresponding lease liabilities. The company applied the modified retrospective transition method, and consequently comparative information is not restated. As a practical expedient, no reassessment has been performed of contracts that were previously identified as leases and contracts that were not previously identified as containing a lease applying IAS 17 Leases ("IAS 17") and IFRIC 4 Determining whether an Arrangement contains a Lease. At the date of adoption additional lease liabilities were recognised for leases previously classified as operating leases under IAS 17. These lease liabilities were measured at the present value of the remaining lease payments and discounted using company specific incremental borrowing rates at January 1, 2019. The weighted average incremental borrowing rate applied was 3.67%. A corresponding right-of-use asset was recognised for an amount equal to each lease liability. As a practical expedient the recognition exemption for leases with a remaining term of less than 12 months from the adoption date was applied upon adoption.

The application of IFRS 16 has had a significant impact on the classification of expenses and the timing of expenses recognised in the Income statement compared with the previous accounting for operating leases under IAS 17. From 1 January 2019 expenses related to leases previously classified as operating leases are presented under 'Depreciation' and 'Interest expense'. Prior to 2019, these were included in 'Operating lease charges'.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

1.5 Changes in accounting policy and disclosure (continued)
IFRS 16 Leases (continued)

The adoption of IFRS 16 resulted in the recognition of lease liabilities and right-of-use assets of \$28 Million on 1 January 2019. There was no impact on equity.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

| Assets | \$'000 |
|---|---------------|
| Operating lease commitments at 31 December 2018 | 27,756 |
| Weighted average incremental borrowing rate at 1 January 2019 | 3.67% |
| Discounted operating lease commitments at 1 January 2019 | 26,640 |
| Add: Lease payments relating to renewal periods not included in operating lease commitments at 31 December 2018 | 1,514 |
| Lease liabilities at 1 January 2019 | 28,154 |

2 Turnover

Turnover and operating loss are principally attributable to the trading of hydrocarbons in Europe.

3 Operating loss

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| This is stated after (crediting)/charging: | | |
| Foreign currency translation | (831) | (252) |
| Depreciation of right-of-use assets | 13,302 | - |
| Operating lease charges | - | 14,937 |

4 Information regarding Directors and employees

(a) Directors' emoluments

No emoluments were paid to the directors for their qualifying services to Phillips 66 CS Limited in the current and preceding period.

Phillips 66 manages its operations at a segmental and geographical level. For this reason the company's directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and the other group companies in which they hold office.

(b) Employees

The company had no employees in the current and preceding period. All contracts of employment are held by Phillips 66 Limited.

5 Auditor remuneration

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Fees payable to the company's auditor for the: | | |
| Audit of the company's annual accounts | 55 | 54 |

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

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

| | | |
|---|---------------|---------------|
| 6 Interest receivable and similar income | 2019 | 2018 |
| | \$'000 | \$'000 |

| | | |
|---------------|-------|-------|
| Bank interest | 1,277 | 1,167 |
|---------------|-------|-------|

| | | |
|---------------------------|---------------|---------------|
| 7 Interest payable | 2019 | 2018 |
| | \$'000 | \$'000 |

| | | |
|-------------------------------|-----|---|
| Interest on lease liabilities | 797 | - |
|-------------------------------|-----|---|

8 Taxation

| | | |
|---|---------------|---------------|
| (a) Tax credit in the income statement | 2019 | 2018 |
| | \$'000 | \$'000 |

Current income tax:

| | | |
|---------------------------|------|---------|
| UK corporation tax credit | (31) | (3,239) |
|---------------------------|------|---------|

| | | |
|---|------|------|
| Amounts over provided in previous years | (26) | (25) |
|---|------|------|

| | | |
|---------------------------------|------|---------|
| Total current income tax credit | (57) | (3,264) |
|---------------------------------|------|---------|

| | | |
|------------------------------------|------|---------|
| Tax credit in the income statement | (57) | (3,264) |
|------------------------------------|------|---------|

(b) Reconciliation of the total tax credit

The tax credit in the Income Statement for the year varies from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

| | | |
|-----------------------------------|---------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Loss before tax | (2,300) | (17,765) |
| Accounting loss before income tax | (2,300) | (17,765) |

| | | |
|--|---------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%) | (437) | (3,375) |

Effects of:

| | | |
|---|-----|----|
| Expenses not deductible/(non taxable income) for tax purposes | (5) | 89 |
|---|-----|----|

| | | |
|------------------------------|-----|-----|
| Foreign currency differences | 560 | 203 |
|------------------------------|-----|-----|

| | | |
|--|-------|-------|
| Temporary differences on adoption of FRS 101 | (149) | (157) |
|--|-------|-------|

| | | |
|-------------------------------------|------|------|
| Tax over provided in previous years | (26) | (24) |
|-------------------------------------|------|------|

| | | |
|---|------|---------|
| Total tax credit reported in the Income Statement | (57) | (3,264) |
|---|------|---------|

(c) Unrecognised deferred tax

The Company has estimated tax losses of \$15 million (2018 : \$15 million) and other temporary differences of \$3 million (2018: \$4 million) for which a deferred tax asset has not been recognised.

(d) Change in corporation tax rate

The main rate of corporation tax has been 19% since 1 April 2017. A reduction in the corporation tax rate to 17% from 1 April 2020 was enacted during 2016. However, in the March 2020 budget, it was announced that the main rate of corporation tax will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020. This change is not anticipated to have a material impact on the company's future tax position.

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

9 Tangible fixed assets

| | Land and buildings |
|---|-------------------------------|
| | <i>At cost</i> |
| | \$'000 |
| Cost or valuation | |
| Recognition of right-of-use assets on adoption of IFRS 16 | 28,154 |
| At 31 December 2019 | <u>28,154</u> |
| Depreciation | |
| Recognition of right-of-use assets depreciation on adoption of IFRS16 | 13,302 |
| At 31 December 2019 | <u>13,302</u> |
| Net book value | |
| At 31 December 2019 | <u>14,852</u> |

| 10 Stocks | 2019 | 2018 |
|-------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Raw materials and consumables | 11,655 | 10,035 |
| | <u>11,655</u> | <u>10,035</u> |

| 11 Debtors due within one year | 2019 | 2018 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Trade debtors | 16,921 | 1,945 |
| Amounts owed by group companies | 13,536 | 56,886 |
| Other debtors | 30 | 20 |
| | <u>30,487</u> | <u>58,851</u> |

| 12 Creditors: amounts due within one year | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Lease liabilities | 13,397 | - |
| Trade creditors | 2,286 | 7,389 |
| Amounts owed to group companies | 46,699 | 7,973 |
| Accruals and deferred income | 6,491 | 777 |
| | <u>68,873</u> | <u>16,139</u> |

| 13 Creditors: amounts falling due after one year | 2019 | 2018 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Lease liabilities | 1,598 | - |
| Other creditors | 6,670 | - |
| | <u>8,268</u> | <u>-</u> |

Phillips 66 CS Limited
Notes to the financial statements
for the year ended 31 December 2019 (continued)

14 Share capital and rights attaching to the Company's shares

| | Authorised | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------|-------------------|------------------------|------------------------|
| Allotted, called up and fully paid: | | | |
| 500 Ordinary \$1.61 shares | 500 | 1 | 1 |
| 225,000,000 Ordinary \$1.61 shares | 225,000 | 362,250 | 362,250 |
| 50,000 Ordinary £1 shares | 50,000 | 75 | 75 |
| | | <u>362,326</u> | <u>362,326</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.

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

15 Leases

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

| | 2019 \$'000 |
|--|------------------------|
| Not later than one year | 13,397 |
| After one year but no more than five years | <u>1,598</u> |
| | <u>14,995</u> |

16 Ultimate controlling party

Phillips 66, a company registered in Delaware, USA, which the members regard as the entity's ultimate parent undertaking with respect to the year ended 31 December 2019, 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 2019 Annual Report may be obtained from 2331 CityWest Blvd, Houston, TX 77042, USA.

Phillips 66 UK Funding Limited, a company registered in England is the immediate parent undertaking with respect to the year ended 31 December 2019.