

Registered number
07855443

Phillips 66 Treasury Limited
Annual reports and financial statements for the year ended
31 December 2019



Phillips 66 Treasury Limited
Report and accounts
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Phillips 66 Treasury Limited Strategic report

The Directors present their Strategic report for the period ended 31 December 2019.

Principal activities

The principal activity of the company is to provide treasury management services which includes but is not limited to the execution of required foreign exchange transactions, and the investment of surplus cash in money markets.

Business review

Interest receivable and interest payable are the main factors behind profitability and these are driven by the amount of cash available in the Phillips 66 International cash pool. An impairment of \$3.5 million has been recognised against the investment in associate company Phillips 66 UK Funding Limited. The company has made a loss for the year after tax of \$1.6 million (2018: Profit \$1.2 million).

Key performance indicators

	2019	2018	%
	\$'000	\$'000	change
Interest receivable	15,668	14,264	10
Interest payable	8,987	7,750	16
(Loss)/profit before taxation	(1,176)	1,990	(159)
Shareholder's funds	46,110	47,734	(3)

The company's Balance sheet, on page 11 of the financial statements, shows the company has net assets of \$46.1 million (2018: \$47.7 million). The movement on the company's reserve is comprised of the profit for the year.

As part of the Phillips 66 group, 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.

Subsequent events

In June 2020 the company sold the 25% holding in its associate company Phillips 66 UK Funding Limited to Phillips 66 Limited, another group company, for cash consideration of \$30 million.

The development of the Covid-19 pandemic throughout 2020 to date has created significant volatility in markets that has impacted the return on investments and borrowing costs. Whilst to date this has not had any significant impact on the company's operations the ongoing impact of the Covid-19 pandemic on the company 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 the financial risks described below.

Financial instruments and risk management

The company's funding, liquidity and exposure to foreign exchange rate risks are managed by the use of derivative financial instruments. The company is responsible for managing the five notional currency pools that comprise the Phillips 66 International cash pool held at the Bank of America, in line with corporate guidelines. Depending upon overall group liquidity it will, in its own name, either swap funds available in one or more of the surplus pool currencies into its account in a deficit currency pool (to clear the deficit) or invest any surplus funds by local currency. These swaps are never speculative in nature.

Phillips 66 Treasury Limited
Strategic report (continued)

Principal risks and uncertainties (continued)

Financial instruments and risk management (continued)

If there are surplus funds after any corporate requirements have been met, the company will invest such amounts in bank deposits or other money market instruments in its own name in the currencies of the surplus, therefore there is no foreign exchange exposure on these investments. The company always borrows from its currency account and invests the same currency in the money markets.

Treasury operations are conducted within a framework of governance including an operating policy, board resolution and systems and processes which are monitored by the organisation under the framework of Sarbanes-Oxley controls.

All derivative financial instruments are carried at fair value and gains or losses are taken to the income statement as they arise.

Foreign currency risk

Changes in foreign exchange rates result in gains and losses to the company's monetary assets and liabilities and derivative positions. The company's cash balances and investments are remeasured to USD on a monthly basis at corporate translation rates, resulting in gains and losses. The company's derivative positions are marked to market, resulting in unrealised gains and losses and the company's settlement of foreign exchange transactions results in realised gains and losses.

Interest rate risk

The company is exposed to interest rate risk resulting from the company's banking arrangements. Interest is paid or received on each currency bank account at a margin that approximates to the appropriate overnight LIBOR rate less 0.375% or another rate which can be lower or higher due to market conditions.

Where liquidity in the International cash pool is surplus to corporate requirements, the company will earn a margin equal to the difference between the cost of borrowing funds from specific currency pools (approx. LIBOR less 0.375%) and the rate of interest on the money market investments. Such investments are limited to a maximum of 30 days.

Liquidity risk

Liquidity risk is the risk that the company may encounter difficulty in meeting obligations associated with financial liabilities. The company has policies that aim to mitigate this risk by only using funds that are already available in the International cash pool for which Phillips 66 company has provided a guarantee, and further by only entering into short term transactions with maturity dates of less than 12 months.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require the daily monitoring of counterparty exposure. The counterparties to the financial instruments transacted by the entity are typically major financial institutions or highly-rated non-financial entities.

Phillips 66 Treasury Limited
Strategic report (continued)

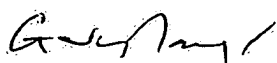
Principal risks and uncertainties (continued)

Financial instruments and risk management (continued)

Covid-19

The Covid-19 pandemic has continued across the world. The Covid-19 pandemic has, at the time of approving these financial statements, created significant volatility in markets that has impacted the return on investments and borrowing costs. Whilst this is not considered to be material, 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.

This report was approved by the board on 22 December 2020 and signed on its behalf.



G S Taylor
Director

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

Phillips 66 Treasury 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 operating activities of the company and its trading relationship with other group companies 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 is 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 (2018: \$Nil).

Directors

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

G S Taylor
N A Holland
L L Jenkins
M E Wolf (appointed 23 April 2020)
R E Sherwell (appointed 18 November 2020)
N E McKnight (appointed 18 November 2020)

Phillips 66 Treasury Limited
Directors' report (continued)

Disclosure of information to auditor

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

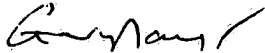
- So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware; and
- Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that 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 §418 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.



G S Taylor
Director

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

Phillips 66 Treasury Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the 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 Treasury Limited

Opinion

We have audited the financial statements of Phillips 66 Treasury Limited for the year ended 31 December 2019 which comprise the Income statement, Statement of comprehensive income, Balance sheet, 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 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 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 member of Phillips 66 Treasury 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 member of Phillips 66 Treasury 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.



Matthew Fox
(Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
Hull

22 December 2020

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

	Notes	2019 \$'000	2018 \$'000
Interest receivable	5	15,668	14,264
Interest payable	6	(8,987)	(7,750)
Net interest income		<u>6,681</u>	<u>6,514</u>
Other operating expenses		(4,404)	(2,306)
Impairment of investment		(3,453)	(2,218)
(Loss)/profit before taxation	2	<u>(1,176)</u>	<u>1,990</u>
Tax expense	7	(448)	(801)
(Loss)/profit for the financial year		<u>(1,624)</u>	<u>1,189</u>

All activities relate to continuing operations.

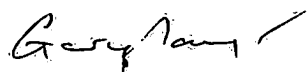
Statement of comprehensive income

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

Phillips 66 Treasury Limited
Registered number: 07855443
Balance sheet
as at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Fixed assets			
Investments	8	32,565	34,311
Current assets			
Debtors due within one year	9	6,854	7,098
Cash at bank and in hand		<u>1,139,630</u>	<u>1,635,490</u>
		1,146,484	1,642,588
Creditors: amounts falling due within one year	10	<u>(1,132,939)</u>	<u>(1,629,165)</u>
Net current assets		13,545	13,423
Net assets		<u>46,110</u>	<u>47,734</u>
Capital and reserves			
Called up share capital	11	1,585	1,585
Retained earnings		<u>44,525</u>	<u>46,149</u>
Shareholder's funds		<u>46,110</u>	<u>47,734</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 Treasury Limited
Statement of changes in equity
for the year ended 31 December 2019

	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
At 1 January 2018	1,585	44,960	46,545
Profit for the financial year	-	1,189	1,189
Total comprehensive income for the year	-	1,189	1,189
At 31 December 2018	1,585	46,149	47,734
Loss for the financial year	-	(1,624)	(1,624)
Total comprehensive expense for the year	-	(1,624)	(1,624)
At 31 December 2019	1,585	44,525	46,110

Phillips 66 Treasury 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 Treasury Limited 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' (FRS101) and in accordance with the Companies Act 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 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 Philips 66 include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IAS 36 Impairments - certain disclosures.

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 operating activities of the company and its trading relationship with other group companies 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.

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

1 Accounting policies (continued)

1.2 Basis of preparation (continued)

Going concern (continued)

The company is also party to a centralised cash pooling arrangement between all the Phillips 66 pooling participants and the Bank of America and has access, if required to surplus cash within the pool. Phillips 66 Company and Phillips 66 have each provided 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.

1.3 Judgements and key sources of estimation uncertainty

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

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

Investment in associated undertaking

The investment in the associated undertaking is held at cost less accumulated impairment losses.

The 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 the investment exceeds the recoverable amount, the investment is considered impaired and written down to the recoverable amount.

1.4 Significant accounting policies

(a) Presentation currency

The financial statements are prepared in US dollars and are rounded to the nearest thousand dollars (\$'000).

(b) Functional currency

The functional currency of the company is US dollars.

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.

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

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(c) Taxation

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

(d) Share capital

Ordinary shares are classified as equity.

(e) Investment in associated undertaking

The investment in the associated undertaking is held at cost less accumulated impairment losses.

(f) Interest income

Interest income is recognised as earned.

(g) Interest expense

Interest expense is recognised as incurred.

(h) Derivative instruments

The company uses derivative financial instruments in management of the Phillips 66 International cash pool. Any gains or losses arising from the use of derivative financial instruments are recognised in the Income statement.

(i) Borrowings

Overdrafts consist of short term borrowings that incur interest at market rates.

(j) 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.

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

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

(j) Financial assets (continued)

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 group company trade receivables and cash at bank.

Financial assets at fair value through profit or loss:

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

Impairment of financial assets:

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

For 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.

(k) 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 and other creditors.

1.5 Changes in accounting policy and disclosure

There are no amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019 that have a material impact on the company.

2 Profit before taxation	2019	2018
	\$'000	\$'000
This is stated after charging/(crediting):		
Foreign currency translation loss	6,137	1,867
(Gain)/loss on derivatives	<u>(1,823)</u>	<u>291</u>

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

3 Information regarding directors and employees

(a) Directors' remuneration

No emoluments were paid to the directors for their qualifying services to Phillips 66 Treasury 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.

4 Auditor remuneration	2019	2018
	\$'000	\$'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	23	23

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

5 Interest receivable	2019	2018
	\$'000	\$'000
Bank interest	15,668	14,264

6 Interest payable	2019	2018
	\$'000	\$'000
Bank overdrafts	8,987	7,750

7 Taxation

(a) Tax expense in the Income statement

	2019	2018
	\$'000	\$'000
Current income tax:		
UK corporation tax expense	449	802
Amounts over provided in previous years	(1)	(1)
Total current income tax expense	448	801
Tax expense in the Income statement	448	801

The tax expense in the Income statement is disclosed as follows:

Income tax expense	448	801
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Phillips 66 Treasury Limited
Notes to the financial statements
for the year ended 31 December 2019

7 Taxation (continued)

(b) 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% (2018: 19%). The differences are reconciled below:

	2019	2018
	\$'000	\$'000
(Loss)/profit before taxation	(1,176)	1,990
Accounting profit before income tax	<u>(1,176)</u>	<u>1,990</u>
Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%)	(223)	378
Foreign currency differences	19	13
Non-taxable expenses/(income) not deductible for tax	20	(10)
Impairment of investment	633	421
Tax over provided in previous years	<u>(1)</u>	<u>(1)</u>
Total tax expense reported in the Income statement	<u>448</u>	<u>801</u>

(c) 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.

8 Investments

	Investments in associate undertakings \$'000
Cost	
At 1 January 2019	34,311
Additions	1,707
Impairment	<u>(3,453)</u>
At 31 December 2019	<u>32,565</u>

The company holds a 25% interest in the ordinary share capital of Phillips 66 UK Funding Limited, another group company, and the impairment represents the reduction in the recoverable value of this investment.

Phillips 66 UK Funding Limited is a company incorporated in England, its registered address is 7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD, UK and its principal activity is to act as an intermediate holding company.

The investment in Phillips 66 UK Funding Limited was sold after the year end date, please see the Subsequent events section of the Strategic report for further details.

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9 Debtors due within one year	2019	2018
	\$'000	\$'000
Derivatives and other financial instruments	6,415	3,427
Amounts owed by group companies	6	3,430
Other debtors	-	65
Prepayments and accrued income	433	176
	<u>6,854</u>	<u>7,098</u>

10 Creditors: amounts falling due within one year	2019	2018
	\$'000	\$'000
Bank overdrafts	1,130,700	1,619,667
Amounts owed to group companies	871	5
Derivatives and other financial instruments	-	6,854
Corporation tax	1,256	1,935
Accruals and deferred income	112	704
	<u>1,132,939</u>	<u>1,629,165</u>

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

	Authorised	2019	2018
		\$'000	\$'000
Allotted, called up and fully paid:			
1,000,000 £1 Ordinary shares	1,000,000	<u>1,585</u>	<u>1,585</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 on reserves except as stated in the Statement of changes in equity.

12 Liquidity analysis for financial liabilities

The liquidity analysis of the financial liabilities as at 31 December 2019 is set out below. Each class of liability within the balance sheet has been aged with reference to when the particular liability falls due.

Due not later than one month	\$'000
Financial liabilities as at 31 December 2019	<u>1,131,683</u>
Financial liabilities as at 31 December 2018	<u>1,627,230</u>

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13 Net liquidity of continuing operations

Contractual maturities of financial liabilities and derivatives are set out below.

	In the first year \$'000	Contractual amount \$'000	Carrying amount \$'000
31 December 2019			
Financial assets			1,140,069
Trade and other payables	(983)	(983)	(983)
Bank overdrafts	<u>(1,130,700)</u>	<u>(1,130,700)</u>	<u>(1,130,700)</u>
Financial liabilities	<u>(1,131,683)</u>	<u>(1,131,683)</u>	<u>(1,131,683)</u>
Receivable from currency derivatives	6,415	6,415	6,415
Payable from currency derivatives	<u>-</u>	<u>-</u>	<u>-</u>
Net derivatives	<u>6,415</u>	<u>6,415</u>	<u>6,415</u>
Net financial position			14,801
31 December 2018			
Financial assets			1,639,161
Trade and other payables	(709)	(709)	(709)
Bank overdrafts	<u>(1,619,667)</u>	<u>(1,619,667)</u>	<u>(1,619,667)</u>
Financial liabilities	<u>(1,620,376)</u>	<u>(1,620,376)</u>	<u>(1,620,376)</u>
Receivable from currency derivatives	3,427	3,427	3,427
Payable from currency derivatives	<u>(6,854)</u>	<u>(6,854)</u>	<u>(6,854)</u>
Net derivatives	<u>(3,427)</u>	<u>(3,427)</u>	<u>(3,427)</u>
Net financial position			15,358

The company has no financial assets impaired or past due as at 31 December 2019.

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14 Derivative credit exposure

All derivatives are categorised as level 2 instruments. Level 2 fair values for these bilateral OTC derivatives are determined by reference to market interest rates.

The company has the following derivatives included in the financial statements at fair value using mark to market basis. The mark to market calculation assumes the Reuters month end spot rate plus points and revalues to create gain or loss. The net present value is derived from the value date and position date.

This represents the maximum credit exposure of the company as at 31 December.

	2019		2018	
	Asset \$'000	Liability \$'000	Asset \$'000	Liability \$'000
Foreign exchange forward contracts	6,415	-	3,427	(6,854)

15 Derivative sensitivity analysis for market risk

The company is responsible for managing the 5 notional currency pools that comprise the Phillips 66 International cash pool held at Bank of America, in line with corporate guidelines. Depending upon overall group liquidity, it will in its own name, either swap funds available in one or more of the surplus pool currencies into its account in a deficit currency pool (to clear the deficit), or invest any surplus funds by local currency.

All swaps are fully hedged back to the base currencies that have been sold. There is no foreign exchange exposure on the principal sums sold. The only resultant exposure is that of interest rate risk. When a currency is sold (fully hedged), the funds are paid from the company's appropriate currency bank account, with the resulting overdraft charged at the applicable overnight interest rate, whilst the proceeds are deposited in its bank account of the currency purchased, earning the applicable overnight deposit rate. The swap itself is based upon fixed interest rate differentials. Most currency swaps are typically for periods of less than 30 days.

If there are surplus funds after any corporate requirements have been met, the company will invest such amounts in bank deposits in its own name in the currencies of the surplus. There is no foreign exchange exposure. The company always borrows from its currency account and invests the same currency in the money markets. It will be exposed to interest rate risk, because its borrowing cost is based upon overnight deposit rates of interest, whilst its money market interest income will either be set at a fixed rate or be at a variable rate. Typically such deposits are placed for 7 days or less and are generally never for more than 30 days.

The company had the following outstanding currency swaps exposure:

	2019	2018
Buy:	GBP 273 million	Nil
Buy:	CAD 331 million	Nil
Sell:	USD 610 million	Nil

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16 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 to 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 Limited is the immediate parent company and is registered in England.