Phillips 66

May 9, 2018

C O R P O R A T E P A R T I C I P A N T S

Paula Johnson, *Executive Vice President, Legal and Government Affairs, General Counsel, Corporate Secretary*

Greg C. Garland, *Chairman and Chief Executive Officer*

P R E S E N T A T I O N

Paula Johnson:

Good morning. I hope everyone is doing well this morning. We'll get the last folks to come in and take a seat. I'm Paula Johnson. I'm Phillips 66's General Counsel and Corporate Secretary. Welcome to our 2018 Annual Meeting of Stockholders.

The meeting is about to begin, but first we'd like to take a moment to provide you with some safety information. There are several exits around the room. In the unlikely event that we should need to evacuate, please go to the nearest exit as directed by the meeting hosts. Will the hosts please stand and raise your hands? Thank you.

We also ask that you turn off all cell phones and other electronic devices during the meeting this morning. No cameras or sound recording devices other than those used by Philip 66 personnel to record the proceedings are permitted. Thank you.

Operator:

Please welcome to the stage Greg Garland.

Greg C. Garland:

Good morning, everyone. I'm Greg Garland, Chairman and CEO of Phillips 66. It's my pleasure to welcome you here today and my privilege to serve as Chair of this meeting today. With that I'm going to call the meeting to order.

Each of you received an agenda when you walked in the room this morning. As indicated on the agenda, we'll first conduct the business of the meeting by presenting and voting on all the proposals. After the business of the meeting has been conducted, we're going to provide you an update on our company operations which be followed by Q&A session.

You were also provided, with your agenda, the rules of conduct for the meeting. We ask you to follow those and abide by those, please, so that we can proceed in an orderly manner today. Also, we found that the best way to ensure we have plenty of time for your questions and for your comments is to save those for the Q&A session after the business update.

Let's get started. Paula, do we have quorum?

Paula Johnson:

We do. The Board of Directors appointed James D. Gaughan of Carl T. Hagberg and Associates to serve as the Inspector of Elections. Mr. Gaughan reports that shareholders entitled to cast more than 89% of the votes eligible to be cast at this meeting are present in person or represented by proxy. Therefore, a quorum is present and the meeting is duly convened.

Greg C. Garland:

Thanks, Paula. Before we proceed, it's my pleasure to introduce to you the Members of the Board of Directors of your company who are here with us today. As I introduce each Director, I ask you to stand and be recognized. In addition to myself today, the Members are: Gary K. Adams, Gary is the former Chief Advisor of Chemicals for IHS Markit; J. Brian Ferguson, Brian was Chairman and CEO of Eastman Chemical Company and is the Chairman of our Audit and Finance Committee; William R. Loomis, Jr., Bill is an independent financial advisor and former General Partner, Managing Director of Lazard Freres & Co., he's Chair of our Nominating Governance Committee.

John E. Lowe, John is Non-Executive Chairman at Apache, he's a Senior Executive Advisor to Tudor, Pickering, and Holt, and is Chairman of our Public Policy Committee; Harold W. McGraw, III, Terry is Chairman Emeritus of S&P Global; Denise L. Ramos, Denise is the Chief Executive Officer and the President of ITT; Glenn F. Tilton, Glenn is a former Chairman of the Midwest of JPMorgan Chase & Co., and is a former Chairman, President and CEO of United Airlines Corporation, he's also our Lead Director.

Victoria J. Tschinkel, Vicky serves as the Vice-Chairwoman of 1000 Friends of Florida; Dr. Marna C. Whittington, Marna is the former CEO of Allianz Global Investors Capital and chairs our Human Resources and Compensation Committee.

Please join me in thanking our Board for their dedicated service to our Company.

We will now consider four proposals that have been submitted to a vote of our shareholders today. Paula, would you please review the voting procedures?

Paula Johnson:

Any shareholder may vote by ballot at this meeting. If you previously submitted a valid proxy by mail, Internet, or phone, your votes will be cast as indicated in your proxy submission. You do not need to vote by ballot unless you wish to change your prior proxy vote. If you've not previously voted and would like to vote now, or if you'd like to change your prior proxy vote, please stand or raise your hand and meeting host will provide you with a ballot.

Greg C. Garland:

Thank you, Paula. While the ballots are being distributed, I'm going to describe each of the proposals to be voted on today.

The first proposal on the agenda is for election of three Directors to serve for a term expiring at the 2021 Annual Meeting of the Shareholders. These three nominees for election are J. Brian Ferguson, Harold W. McGraw, III, and Victoria J. Tschinkel. As indicated in the proxy statement, the Board of Directors recommends that the shareholders elect these three Director nominees.

The second proposal on the agenda is ratification of the appointment of Ernst & Young as the Company's independent registered public accounting firm for 2018. The Audit and Finance Committee has appointed Ernst & Young to serve as Phillips 66's independent registered public accounting firm for 2018 and seeks ratification of that appointment by the shareholders.

As indicated in the proxy statement, Scott Miracle, who's a representative for Ernst & Young, he's here with us today. He'll be available to answer any questions you may have during the Q&A session later. Scott, would you please stand to be recognized? Good. Thanks, Scott.

The Board of Directors recommends that the shareholders ratify the selection of Ernst & Young.

The third proposal on the agenda today is an advisory vote approving the compensation of the named Executive Officers of Phillips 66. This is commonly referred to as a say-on-pay vote. As indicated in the proxy statement, the Board of Directors recommends that the shareholders vote for this proposal.

The fourth proposal on the agenda today is a Management proposal regarding the annual election of Directors. The vote is to amend the certificate of incorporation to declassify the Board of Directors. As indicated in the proxy statement, the Board of Directors recommends that the shareholders vote for this proposal.

Now that all the proposals have been presented, I declare that the polls are open. If you have not completed your ballots and wish to do so, please do that at this time and then pass your ballots to the aisles so that our hosts can collect them.

You guys are really fast. Okay. It appears that the ballots have all been collected so I declare that the polls are now closed.

While the votes are being tabulated, we're going to provide you with an update on the Company. We're going to give you some highlights of 2017, some of the things that we're doing in 2018 today. This is a great place to start, with this slide. This is a picture of CP Chem's new ethane cracker at Cedar Bayou, Texas. It's one of the largest and most efficient crackers in the world.

Before I go any further, I should cover the Safe Harbor statement. During our comments today, we'll make forward-looking statements. Actual results could differ materially. Sources of those differences are found here and in our filings with the SEC.

Our vision is providing energy, improving lives. We believe that reliable and affordable and abundant energy makes a fundamental difference to people across the globe. Energy helps fuel our economy and it helps sustain growth and it helps lift people out of poverty and have better lives.

Central to our vision of improving lives is giving back to the communities where we live and where we work. The people of Phillips 66 wholeheartedly embrace our vision, and last year volunteered 73,000 hours of their time in local communities. They participated in activities, such as working in the classroom to teach STEM and literacy activities. They also built houses for Habitat for Humanity, cleaned local parks; they volunteered for Special Olympics; they hosted waste disposal and recycling events.

Phillips 66 provided $24 million in direct financial support to organizations that promote education, safety, and environment. This includes 47 local police and fire departments and 40 colleges and universities. During 2017, we donated $4 million to disaster relief for flooding and fire events. Many of our employees were impacted during Hurricane Harvey and we provided $4 million in cash and interest-free loans to help them through this very difficult and challenging time.

At our Company, we match employee contributions to charitable contributions dollar-for-dollar. Last year over 1,600 organizations received support through our matching gift program.

This is our strategy. It's growth, it's returns, it's distributions built on an unwavering commitment to operating excellence and being a high-performing organization. We believe that our strategy creates long-term value for our shareholders and that the people of Phillips 66 are executing this strategy well. We delivered best-in-class operating performance in 2017. We completed return-enhancing projects that are improving our margins. By doing all this well, we could continue to reward our shareholders with solid distributions.

There's no doubt, though, our success is due to the amazing people of Phillips 66 who are committed to excellence and to always doing the right thing.

We always like to talk about operational excellence, operating excellence. We're committed to operating safely, reliably, while being mindful of our environmental stewardship responsibilities. We do this, not only because it's the right thing to do, but because we believe that we create long-term shareholder value by getting this part of our jobs right every day. 2017 was the safest year in the history of our company. Our performance is industry-leading. Our 2017 combined workforce recordable injury rate of 0.14 is a record low for our company. We also had the lowest number of reportable environmental events in our history.

Over the last few years we've worked at cost really hard at our company. Our operating cost did go up in 2017. About a third of increase was associated with growth projects that we brought online, another third was due to higher utilities and energy costs, and the balance, the last third, was due to maintenance activities and hurricane recovery activities.

We continue to work this hard. We're looking all across the system. We're looking at the value chain. We're looking at how we do our work every day for further efficiencies. For example, we believe that we can use technology to work even smarter and be more agile and more efficient. Across our refining system ran very well in 2017. We executed one of the heaviest turnaround years in the history of our company. We battled through Hurricane Harvey and we still had 95% capacity utilization. So, over the last several years we've consistently delivered top-tier utilization rates.

We also want to recognize our Refining employees today. We're very honored that four of our refineries were recently recognized by the AFPM for Safety Excellence in 2017. Our Bayway refinery received the Distinguished Safety Award, which is the highest annual award given by our industry. The Sweeny, Alliance, Wood River refineries were also recognized for top-tier Safety Excellence.

Environmental, social, and governance are topics that are very important to us at Phillips 66, and increasingly, more important to our investors. ESG leaderships starts at the top. It starts with our Board of Directors. They set the tone, they set the strategy, it goes from the Management all the way down to every person in our organization. We have an extensive outreach program, and through our efforts this last proxy season, we contacted and engaged owners that make up more than 50% of our shares outstanding. To put that in perspective for you, the industry average is about 25%. We have robust health, safety and environmental policies, plans and procedures. I think it's demonstrated by our performance that we've gone through. Our recordable rate is actually 25 times better than all of industry in the United States. Over the last five years, our environmental events are declined by 20% and our tier-one process safety event has been cut in half.

We're one of the few companies in our space that has a dedicated research and technology effort. Our research and development is focused on helping our Refining and Midstream businesses operate better, operate more efficiently, consume less energy, consume less water.

At our company at Phillips 66, we believe inclusiveness and diversity. We have many employee resource groups across the Company. They focus on raising cultural awareness, professional development, mentoring, recruiting, and outreach, as well as community involvement. We think it's important to give back to our communities and reinvest in the communities. Since 2012 we've reinvested over $125 million to many worthy organizations that promote education, literacy, environmental sustainability, and safety.

We've outlined our ESG process of guidelines and metrics in our Sustainability Report. If you're further interested, check it out; it's on our website.

During 2017 we achieved major milestones, completed growth projects, and momentum has continued into 2018. CPChem completed its U.S. Gulf Coast Petrochemicals project. The two polyethylene units were up last fall and the new ethane cracker achieved full operational rates in April this year. With that heavy lift of capital kind of behind them, we do expect that distributions will increase back from our chemicals joint venture.

At Phillips 66 Partners, we own a 25% interest in the Bakken pipeline which started up in June of 2017. This pipeline transports crude from the protection center in North Dakota to the market centers in Patoka, Illinois, also the U.S. Gulf Coast. The pipeline actually terminates at our Beaumont terminal. Beaumont is strategically located. It's connected to 11 different crude pipelines in 6 different refineries, has 11 million barrels of capacity today, and the capability to export 600,000 barrels a day of crude product. We have projects underway to add 3.5 million barrels of fully contracted crude storage by the end of this year, bringing total storage to 14.6 million.

As part of our strategy, we're investing in pipeline projects that move the products from the production centers to the market centers in the U.S. A good example of that is the recently announced project by Phillips 66 Partners. It's their largest organic project to date, the Gray Oak pipeline. It's going to transport crude from the Permian Basin and the Eagle Ford to markets, like our Sweeny refinery, and in the Houston area, and also Corpus Christi.

We have an open season underway. It's an extended open season for that project, which will determine the final scope and capacity, but it could be up to 700,000 barrels a day or more, and we expect that this project will complete by the end of 2019.

On the NGL side, the Sand Hills pipeline serves the Texas Gulf Coast by transporting the NGLs from the Permian, also the Eagle Ford to the Houston area, to our Sweeny complex and also the Mont Belvieu area; the fractionator is there. We started at 280,000 barrels a day. Today it's 400,000 barrels a day. By the end of this year it'll be 480,000 barrels a day. Sand Hills is owned two-thirds by DCP and one-third by Philip 66 Partners.

You look at our energy manufacturing center in Sweeny, Texas where we integrate complex refining, petrochemical operations, NGL fractionation storage, and export facilities running extremely well. We have further plans to expand our fractionation capacity at Sweeny and we expect by the middle of this year we'll have the project underway.

In Refining, our strategy is to invest in projects that have high return. They're quick payouts, and mainly they're focused on increasing yields or increasing our access to more attractively priced feedstocks. Our refining projects that are completed in 2017 and 2018 should add about 25,000 barrels a day of clean product yield.

In 2017, at Billings, we increased our heavy Canadian crude capacity to 100%. At Ponca City we completed a project that recovers more diesel. At Bayway and Wood River we recently completed FCC unit modernizations which increased clean product deals at those facilities. At Lake Charles we completed a crude unit modification to run more domestic crudes.

In our U.S. Marketing business, we rolled out signature image designs for Phillips 66, 76, and Conoco brands. During 2017, we revitalized over 400 sites, bringing the total number of reimaged sites to almost 1,300. In Europe we continue to grow and generate high returns through our branded JET and COOP retail outlets. During 2017 we completed construction of 30 new JET sites and 12 new COOP sites.

It's important to us to maintain a strong balance sheet with an investment-grade credit rating that provides us with a very efficient cost of capital for our company. Our balance sheet management is really designed to protect that credit rating through all points in the cycle, so our cash flows allow us to fund our sustaining capital which is about $1 billion a year. It allows us to pay a superior, growing, strong, competitive dividend. We increased the dividend 11% last year. We've increased it seven times since 2012 and that represents a 30% compound annual growth rate.

Our 2018 consolidated capital budget is $2.3 billion. That includes $1.4 billion of growth capital this year.

Historically, we've taken about 60% of the cash from all sources and reinvested in our company, and about 40% of the cash from all sources and returned it back to Shareholders through dividends and share repurchases. We'll bounce around that number some, but over the long term we think that's about the right allocation for our company.

Since our company was formed in 2012, we've returned over $20 billion back to shareholders through dividends, share repurchases, and share exchanges. To put that in perspective, our market capital when we formed the Company was $20 billion. Today, our market cap is over $50 billion. We've repurchased and exchanged close to 30% of shares outstanding at the time of the spend.

We are a high-performing organization. The people of Phillips 66 are a highly engaged workforce. They're committed to and they're living our values of safety, honor, and commitment. These values guide how we conduct our business, how we make our decisions, how we engage with each other and colleagues, how we engage with our customers and our suppliers, the people that regulate us, all of our stakeholders.

We value inclusiveness and diversity. We're committed to being an inclusive place to work. Diversity of thought brings value to our company. It's embraced by our Management, and it's not just part of our HR processes it's how we work together each day at Phillips 66. We continue to invest in our people in mentoring and training development programs because we believe this provides a source of competitive advantage at Phillips 66; the people of Phillips 66. We continue to hold ourselves accountable for our results. We're raising the bar on our performance management process to make sure we improve the experience for our employees, but also that we continue to drive pursuing excellence, building capability, and always doing the right thing.

We believe that Phillips 66 is a compelling investment opportunity. We have a good strategy, and the people of Phillips 66 are executing it well. We believe that we have the right combination of people, portfolio, and projects that enable us to continue to create and capture value for the shareholders of Phillips 66. We'll be steadfast in our strategy and true to our vision of providing energy and improving lives.

That's my favorite slide. I'm just going to leave it up there.

Now that the Inspector General of Elections has had time to provide a certification of the results, Paula, would you please read the results.

Paula Johnson:

The preliminary results based on the voting of shares represented by valid proxies on file and tabulated at the meeting this morning show that each of the three nominees for election have been reelected as Directors to serve until the 2021 Annual Meeting. Each Director nominee received at least 97% of the votes cast at today's meeting. The appointment of Ernst & Young as the independent registered public accounting firm for Phillips 66 for 2018 has been ratified, having received the favorable vote of more than 99% of the votes present at today's meeting.

The compensation of the named Executive Officers for Phillips 66 has been approved, having received the favorable vote of more than 93% of the votes present at today's meeting. The Management proposal regarding the annual election of Directors did not pass because it failed to receive the vote required in the Company's Certificate of Incorporation.

Mr. Chairman, this concludes the report of preliminary voting. Details of the voting results will be available for all shareholders within four business days in a filing with the SEC. Shareholders may also obtain the voting results by calling or writing the office of the Corporate Secretary.

Greg C. Garland:

Thank you, Paula. This concludes the business of the Shareholders Meeting today.