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PRESENTATION

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Good morning, everyone. Our next discussion is with Mark Lashier, CEO of Phillips 66. We're really excited to Mark join us here today, let me appreciate. Mark, let me come to the chase. Since -- I always forget about the modern technology.

Mark, let me cut with the chase. As the new CEO, you've been at the helm for less than a year. So what do you think is your value proposition to your investor? And how you differentiate yourself comparing to your peers or the S&P 500?

QUESTIONS AND ANSWERS

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

Yes. Absolutely, Paul. First of all, thanks for having us here today. It's a great conference. It's a little tough to have all these great views, but we can still focus on the matters at hand.

At Phillips 66, our value proposition is all around our ability to provide the energy that improves lives to meet the world's growing demand for the products that we produce. And as that demand evolves over time, to be able to meet that need in whatever form of energy we needed to provide.

And I think that we differentiate ourselves from our peers because of our differentiated integrated portfolio of businesses, and that provides us the opportunity to generate pretty stable cash flow. And we can take that cash flow and have this combination of strong cash return to shareholders, but also the ability to invest in the best opportunities we have across that portfolio to continue to build a stable future ability to generate cash flow, to have that secure competitive growing dividend as well as continue to repurchase our shares as we see our shares below intrinsic value, so we can have a robust return to shareholders.

And if you come back to our Investor Day last November, we laid out 6 priorities. And it really is at a high level about how do we perpetuate that model of being able to return cash to shareholders today, invest in our future so we can continue to perpetuate our ability to provide robust return to shareholders over the long term. So the number one of those 6 priorities is to deliver cash returns to shareholders now in the form of dividends and share repurchases from July of 2022 to the end of 2024. We've committed to return to $10 billion to $12 billion of cash to shareholders. About $5 billion of that will come in the form of dividends. We recently increased our dividends 8% to $1.05 per share. And then the balance will come in the form of share repurchases. So $5 billion to $7 billion additional in share repurchases.

And we had a hiatus from share repurchases during COVID. We consistently grew our dividend throughout COVID, so we didn't back off our dividend. We -- that's the promise we make. And we tend to view our dividend as an irrevocable promise. And so we're cautious about increasing that dividend. But at the pace of share repurchases we're making today, we see that incremental dividend cash being fairly consistent. So we'll increase the dividend per share over time. But as we repurchase shares, take those off the table. That will be a consistent amount at about right at $2 billion a year. And so that's the near-term shareholder return commitment that we made.

Next commitment was to enhance our refining performance. Frankly, we've been underperforming our peers. And we've -- we selectively elected to invest in Midstream over the last several years. And now we're taking a hard look at refining, not to grow refining, but to be the best we can be

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in refining because we, like a lot of the world, has concluded that we're going to need refined products for a very long time. And how do we do that in the most responsible way and the most return-enhancing way and the most agile way that we can to make sure that we've got the lowest cost position that we can to compete in that business, but we also have the flexibility to capture anything the market throws our way and to operate those at maximum utilization.

We also are -- the third party is around our Midstream NGL business. Our strategy there is to capture the growth that's going to be available in NGLs. We believe NGLs, coming out of places like the Permian and the DJ, are going to continue to grow at a rate higher than crude. And that's driven by growth in petrochemical demand globally. And we wanted to ensure that we had full access to the value chain from the wellhead all the way out to the marketplace. And before we did the DCP acquisition and integration, we were a bit disjointed. We couldn't provide full service to producers out in the Permian Basin. So now we're executing that so we can have that full-service one-stop shopping for producers in the Permian. And then we can capture value all the way along that value chain, whether it's in the gas gathering and processing or the transportation assets or the NGL fractionating assets all the way to our export terminal at Freeport, we can participate in global markets where we can feed those molecules into the domestic petrochemical businesses. So we're executing that.

We believe that we have line of sight as we integrate DCP of increasing our earnings from DCP by $1 billion, by acquiring the outstanding interest and then add an additional $300 million plus to those earnings through synergy capture, both cost synergies and commercial synergies. So that's the third item on that priority list.

Fourth item is our business transformation. We initiated a business transformation, cost reduction, business restructuring, really a modernization of our systems to take full advantage of digital opportunities, lowering our cost across the Board. It's not just about refining, but refining is a big part of that. So leverage digital opportunities to become more efficient.

Basically, we told the organization we want to understand what we need to be world-class in and invest in that. We want to understand what things that we just need to be, just have the right level of service, not overpay, not underpay, and then what things do we need to stop doing, what things do we -- what work do we need to eliminate. And so we've gone very aggressively after those things, restructure the business.

And beyond the cost elements, it's had a profound impact on our ways of working. It's had a profound impact on the mentality of our employees. They're thinking more like investors. They're looking at ways to innovate every day, to get better every day, to be more efficient, to stop doing things just because we've always done them in a certain way and challenge the status quo and do them better. And I think that's the key to making this long-term sustainable. And that's our commitment that by the end of this year, we will have captured over $1 billion in value that's sustainable and recurring over and over again. So that's a big portion of what we're focused on and a big part of the commitment that we're making.

And if you look at the fifth item, we want to have a strong, sustainable, agile financial position. We've repaired our balance sheet post COVID. We've lowered our debt. We brought in the debt from DCP under our balance sheet, and it's really not impaired us in any way, shape or form. And our target is to have 25% to 30% net debt-to-capital ratio, and we're there. And it gives us a lot of strength. And we're carrying more cash than we typically have in the past on our balance sheet because we want that flexibility and agility during volatile times. No one knows if and when we go into a recession. We want to be able to not just survive that, but to thrive through it and to make sure that we're able to continue to deliver the returns to our shareholders as we maintain our ability to invest very selectively and very responsibly.

And that's the final item in those 6 priorities that we want to make sure that we are investing for the future, but not just growth for growth's sake. The growth has to be supported by returns, whether it's investments in renewable energies. We don't invest in renewables just to invest in renewables. We invest in renewables because we see that we can capture competitive advantage and get a return.

And all of these things sit on our foundation of operational excellence. And we believe that we can differentiate ourselves based on our commitment to safe, reliable operations. We are one of the safest operators in the industry, and we're going to continue to do that, continue to build on that. And we're -- as we modernize our operations through these digital opportunities, putting WiFi in our plants, putting sensors on our equipment that allow us to only maintain those pieces of equipment when they need maintenance versus doing it on time-based thing, and all these thousands of small things that we're doing out there are going to save us millions of dollars. It's going to shorten the length of our turnarounds and put more distance between our turnarounds.

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We're only going to open up the equipment that we need to open up to do maintenance on this. We're going to be making better decisions. We're going to be able to optimize across our fleet of refineries, across our fleet of Midstream assets, Marketing and Specialties assets. In real time, we're going to be able to make better decisions quicker to capture more value from the marketplace because of the investments that we're making today. And we're also making investments to reduce our Scope 1, Scope 2 and Scope 3 emissions. And we've got goals all the way out 2030 to 2050. We're not net zero by 2050 company because we're only going to make commitments that we know how to realize, but we do have line of sight on commitments that we can make, and we're executing projects today that are going to return value and lower our greenhouse emissions.

And I think from a long-term cash return to shareholders, Paul, I think that you should look at our track record. Since inception in 2012, we've returned over $33 billion in cash to shareholders through dividends, through share repurchases and exchanges. And so we, again, like a lot of the world that fell off a bit during COVID, but we're coming back in a very robust and a very constructive way.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Mark, last year that you guys did a pretty substantial and actually have to say [well done] and very creative deal with DCP. So just curious that how important is M&A for your overall strategy over the next 2 or 3 years? And what kind of criteria that you guys use to determine whether you want to do a deal or not?

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

That's a great question, Paul. I think that M&A is always something that's lurking out there, that you need to keep track of, every company needs to keep track of. But I think right now, based on what we did with DCP, and prior to that, our internal MLP, we rolled up PSXP, to create that Midstream backbone, our focus is intensely on integrating that today.

If you think about the priorities that we laid out, we didn't explicitly say M&A in any of those 6 priorities. And so M&A has kind of taken a back seat to those priorities in the short term. But if you drill in across our portfolio, start with Midstream, we -- it was a substantial acquisition to roll up DCP. It's something we've been working on for a very long time. We finally found the magic combination to make it work, and we're quite happy with it. And it's going to be a good strong growth platform for us, both organically, but there could be inorganic opportunities around that as well.

As many of you know, it's been a pretty robust season over the last several years of investment in Midstream to support the offtake of liquids production in places like Permian and the DJ Basin. And now that we've got this strong backbone, this wellhead-to-water platform, we will attract other assets that are stranded out there that perhaps people made investments. They had a quick path on those investments, but they don't benefit from being part of a more integrated system. And so we see those as maybe opportunistic bolt-ons. So those are kind of small digestible kind of M&A things that we might look at.

You could see us -- certainly, CPChem is making organic growth investments. Now, we -- and that's traditionally the way we've approached growth in petrochemicals because there are plenty of organic opportunities there. And we like to spread the risks. So we do things quite often in partnerships, for instance, recently with QatarEnergy.

Marketing and Specialties, we've had a strategy to -- in a very focused way to reenter direct exposure to retail marketing margins through joint ventures. We bring our expertise, but we've combined forces with others that are very good and operating convenience stores. And so we can have very attractive returns at very low capital investment that helps pull through our production of products, both traditional refined products as well as our renewable products in California. We've converted 600 retail stations to sell directly to consumers renewable diesel, for instance. So that's all part of a strategy that's pulled through this low capital, but does afford us the opportunity to do small capital investments along the way to enhance that strategy. So it really -- the whole M&A space is -- we view it as not programmatic, but more opportunistic and typically small and scale and very accretive.

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Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Great. One area of the M&A that I want to ask is on the Marketing. Over the past several years, I mean, that you guys have formed some JV and start using a wholesale model actually get back into more of the company or kind of direct model. Is that a platform that you want to grow substantially? Or that -- given the evolution on the market and also that you want to have dynamic channel serving your (inaudible) or that you are happy with your existing system, I mean, how the evolution in that business for you going to employ?

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

Yes, it really has been a beneficial strategy to employ. We've seen since 2019 a strong step-up in our performance in Marketing. I think exactly what you just mentioned, our increased wholesale exposure as well as our increased exposure to retail through these marketing JVs, and that's been a very focused strategy. We don't -- we're not taking a shotgun approach. It's not we -- oh, there's some retail outlets that are for sale in Miami, while we don't have any ability to pull through our refined products in Miami. So we wouldn't look at that market, but there are markets where you see assets coming up for sale. Perhaps third-generation families have had these assets for a long time. And now the next generation isn't interested in. They've acquired a number of retail outlets, and it happens to be in a market that we can lock in, pull through from our refineries. And so it has to be very specific, very accretive, very targeted investments. We've done that on the West Coast. We've done it in the Mid-Continent where it makes sense for us, and it's been very beneficial to us. We're able to capture a lot of value.

And the key is to have a partner that really understands how to make money from convenience stores. That's not our strength, but we've been able to align with partners that is a strength. And so it's been a great combination and been a lot of value creation. Even in Europe, it's been very beneficial for us in Europe. And often, it's more about what is being sold in the convenience store than the energy that is being provided out there. So many times, we're asked, why would you continue to have investments in retail outlets in Europe?

Well, because we can evolve with what the European energy demand is. And we're innovating there with things like EV charging stations with hydrogen as a transportation, if you will, there in small ways, but very meaningful ways. So as that market evolves away from gasoline and diesel towards these things, and a lot of the value is in the location that you have and the other things that you're selling there, it's a value creation model, and you're still delivering energy at that location, but people come and spend a lot of money on other things while you're there. And so that's part of that model to be able -- never lose sight of the fact that it's more than just the energy you're delivering. It's a great outlet for energy, but you can capture a lot of value selling other things while people spend time there, getting whatever energy it is that they need.

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

That's excellent. Well, let me pause a moment and see if there's any question on the floor. Well, if not, let me continue. Mark, one of the hallmark is that the company has been extremely disciplined. And I think from day 1 since the spin-off, you guys is one of the first ones come out and say, okay, I'm going to -- we invest 60% of the cash flow back in the business and 40% distribute to the shareholders. And that has been extremely well received by the investor.

But since then, the company has grown. And that if you're looking at today comparing to 10 years ago when your first spin off, you become a much stronger and with a larger -- one would argue that whether it's mid-cycle or bottom-of-the-cycle cash flow. Mid-cycle, I think company is looking for $6 billion to $7 billion. And over the next several years, that probably will also grow with all the investment that you're making. So why that we are still at 60%, 40%? Some people will ask, is it just being how is that conservative or there's a real reason why that you think the next several years, your investment requirement may need to be much higher?

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

Yes. Paul, I think it is -- there is a conservative element to that. So we've come through very volatile times. And I think as we go through ongoing long-term energy transition, there's a lot of potential for volatility and opportunistic things that could come along. And so we want to maintain

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flexibility. But I would say that, that 40% return to shareholders, we've come to view that as a floor. And so there's only upside. So this is kind of long-term guidance.

Clearly, the priorities that we've laid out on Investor Day, we're going to be well above that 40%. And I think that -- so we make sure that we have that ability to deliver immediate returns to shareholders, but also have to reserve the capability to make the right investments at the right place at the right time with the right technologies to ensure that we can have that long-term ability to deliver cash returns to shareholders. And that's part and parcel of why we've got this diversified integrated portfolio that at different times, there's going to be different needs and different requirements in those businesses to maintain that stable cash flow that enables us to competitively grow our dividend and be that consistent deliver of cash value, a cash stream in forms of dividend and share repurchases. And so to do that, we need that financial flexibility that, that capital allocation allows.

But really, I think what the biggest thing -- and yes, from a capital allocation perspective, we are conservative and consistent. But I think what's evolved is that, that 40% really is a floor versus kind of a target. So...

Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Excellent. We just talked about that on the evolution of your business. And it seems like since you become the CEO, there's renewed focus in Refining. And you announced a pretty impressive restructuring and also an objective that to improve the reliability. So is there any update so far that you can give us on that?

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

Yes. Absolutely. Our business transformation is absolutely progressing. We recognize that we had to build on what we did with our AdvantEdge66 program that introduced a lot of digital innovations, and we need to capture the value, capture the promise of those digital innovations. And it's across the enterprise. But since Refining is such a big portion of who we are, what we are and what we're doing, that it is a major impact on our Refining business.

And we're removing any internal silos. We're recognizing that while healthy -- competition is healthy, the competition is on the outside, not the inside. And we now are unleashing the full potential of optimizing across our refining fleet and really unleashing the full potential of our employees, unleashing the full potential of our assets, eliminating unnecessary work, simplifying what we do, getting people focused on the right things and energizing every employee in the organization. So they know exactly what their role is in delivering on those 6 priorities we laid out in Investor Day to delivering on the strategy that we've reached consensus with our Board of Directors going forward. Everybody knows how to contribute to that. So the biggest impact of that restructuring and that transformation is the mentality, the psychology, the culture, however you want to place that, that every employee is buying into.

And so instead of our Refineries being in a kind of defensive mode, the world doesn't want us to exist, there's no hope for our future to, oh, wow, the world does need the products that we produce in refining. The world is going to need these products for a very long time. We have to get better at how we produce these materials. We have to lower our carbon footprint every day. And most importantly, there's a future for this business. There's no growth. There's no -- we're not out trying to acquire refineries or robustly grow our Refining business, but we are absolutely determined to be the best refiner on the planet. And I think that's the future of our Refining business, and that's the future of refining and really evolving those refining assets to be the refineries of the future.

As you think about gasoline demand in North America or globally, it's not going to grow as fast as distillate or is -- diesel jet fuel is globally. And certainly, we think it's peaked in North America. So how do we restructure where that -- where those molecules go. And we believe we've got line of sight on how to do that, which assets we can position to thrive in that environment. So the world is recognizing that the liquid hydrocarbons are important, and we're going to need them for a very long period of time. We want to be the best providers of those materials globally.

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Paul Cheng - *Scotiabank Global Banking and Markets, Research Division - Analyst*

That's an excellent way to wrap up the main session. And we will move to the breakout session, the Hong Kong A for another 20, 25 minutes for additional discussion. Thank you, everyone.

Mark E. Lashier - *Phillips 66 - President, CEO & Director*

Thanks.

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