

# [***Phillips 66 Reports Fourth-Quarter Earnings of $1.1 Billion or $2.05 Per Share; Adjusted earnings of $913 million or $1.63 per share; Highlights; Fourth Quarter; Full-Year 2014;***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5F62-9J71-JBG1-84P2-00000-00&context=1516831)

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**Body**

Phillips 66 (NYSE: PSX), an energy manufacturing and logistics company, announces fourth-quarter earnings of $1.1 billion, compared with earnings of $1.2 billion in the third quarter of 2014. Adjusted earnings, excluding special items of $234 million, were $913 million in the fourth quarter, compared with adjusted earnings of $1.1 billion in the third quarter of 2014.

"Our solid fourth quarter was the result of our diversified asset portfolio and operational excellence, even as commodity prices declined," said Greg Garland, chairman and CEO of Phillips 66. "During the quarter, we generated more than $1 billion in cash flow and returned over $800 million of capital to shareholders, while continuing to fund value-enhancing growth projects."

"We are making prudent capital allocation decisions to drive Phillips 66's continued success, and the recently announced 2015 capital budget underscores our commitment to value creation. Investments in Midstream and Chemicals should result in more consistent earnings and a higher valuation. Our strong balance sheet and financial flexibility allow us to maintain a disciplined approach to reinvestment and distributions throughout the commodity price cycle," said Garland.

Midstream

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|  |  |  |  |  |  | Millions of Dollars | | | | | | | | | | |  |
|  |  |  |  |  |  | 2014 Earnings | | | | |  |  | 2014 Adjusted Earnings | | | |  |
|  |  |  |  |  |  | Third Quarter | |  | Fourth Quarter | |  |  | Third Quarter |  | Fourth Quarter | |  |
|  |  |  | Transportation |  |  | $ | 58 |  | 53 |  |  |  | 58 |  | 53 |  |  |
|  |  |  | DCP Midstream |  |  |  | 31 |  | (12 | ) |  |  | 31 |  | (11 | ) |  |
|  |  |  | NGL |  |  |  | 26 |  | 55 |  |  |  | 26 |  | 55 |  |  |
|  |  |  | Midstream |  |  | $ | 115 |  | 96 |  |  |  | 115 |  | 97 |  |  |

Midstream adjusted earnings were $97 million in the fourth quarter, compared with earnings of $115 million in the third quarter of 2014.

Phillips 66's Transportation business generated earnings of $53 million during the fourth quarter. The $5 million decrease was primarily due to the write-off of a deferred tax asset, partially offset by improved throughput volumes in the fourth quarter. Phillips 66 Partners LP contributed $26 million to Transportation's fourth-quarter earnings, an increase of $4 million mainly due to increased throughput volumes and new fees from the recently acquired Bayway and Ferndale rail racks.

During the fourth quarter, the company's equity investment in DCP Midstream, LLC had an adjusted loss of $11 million. The $42 million decrease was largely driven by a decline in natural gas liquids and crude prices.

Earnings from the NGL business were $55 million during the quarter. The $29 million increase was related to improved margins on seasonal propane and butane storage activities, partially offset by Midstream project development costs.

Chemicals

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|  |  |  |  |  |  | Millions of Dollars | | | | | | | | | | | | |  |
|  |  |  |  |  |  | 2014 Earnings | | | | | |  |  | 2014 Adjusted Earnings | | | | |  |
|  |  |  |  |  |  | Third Quarter | | |  | Fourth Quarter | |  |  | Third Quarter | |  | Fourth Quarter | |  |
|  |  |  | Olefins and Polyolefins (O&P) |  |  | $ | 254 |  |  | 247 |  |  |  | 259 |  |  | 248 |  |  |
|  |  |  | Specialties, Aromatics and Styrenics (SA&S) |  |  |  | (18 | ) |  | 25 |  |  |  | 46 |  |  | 27 |  |  |
|  |  |  | Other |  |  |  | (6 | ) |  | (5 | ) |  |  | (6 | ) |  | (5 | ) |  |
|  |  |  | Chemicals |  |  | $ | 230 |  |  | 267 |  |  |  | 299 |  |  | 270 |  |  |

The Chemicals segment reflects Phillips 66's equity investment in Chevron Phillips Chemical Company LLC (CPChem). Fourth-quarter Chemicals adjusted earnings were $270 million, compared with $299 million in the third quarter of 2014.

During the fourth quarter, CPChem's O&P business contributed $248 million to Phillips 66's Chemicals adjusted earnings, a decrease of $11 million from the prior quarter. Domestic O&P chain margins were in line with the third quarter, despite the lower commodity price ***environment***. The decrease in adjusted earnings was mainly due to higher planned maintenance costs, as the operational impacts related to CPChem's Port Arthur ethylene plant outage were offset by business interruption insurance recoveries. CPChem's Port Arthur plant resumed normal operations in November. O&P's global utilization for the quarter and year was 83 percent and 88 percent, respectively.

CPChem's SA&S business contributed $27 million to fourth-quarter adjusted earnings. The $19 million decrease was primarily due to lower realized margins and volumes from CPChem's Middle East joint ventures.

Refining

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  | Millions of Dollars | | | | | | | | |  |
|  |  |  |  |  |  | 2014 Earnings | | | |  |  | 2014 Adjusted Earnings | | |  |
|  |  |  |  |  |  | Third Quarter | |  | Fourth Quarter |  |  | Third Quarter |  | Fourth Quarter |  |
|  |  |  | Refining |  |  | $ | 558 |  | 517 |  |  | 558 |  | 322 |  |

Refining recorded fourth-quarter adjusted earnings of $322 million, excluding the impacts of an asset sale and impairments. The $236 million decrease was driven by lower realized margins, partially offset by improved volumes. Margins were lower due to weaker gasoline crack spreads and narrowing crude differentials, partially offset by improved secondary product margins and higher distillate crack spreads.

During the quarter, 95 percent of the company's U.S. crude slate was advantaged, in line with the third quarter of 2014. Refining processed a record 375,000 barrels per day (BPD) of tight oil, 39,000 BPD more than the previous high. Phillips 66's refining utilization and clean product yield were 95 percent and 84 percent, respectively, in the fourth quarter of 2014.

Marketing and Specialties

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | Millions of Dollars | | | | | | | |  |
|  |  |  |  |  |  | 2014 Earnings | | |  |  | 2014 Adjusted Earnings | | |  |
|  |  |  |  |  |  | Third Quarter |  | Fourth Quarter |  |  | Third Quarter |  | Fourth Quarter |  |
|  |  |  | Marketing and Other |  |  | $325 |  | 299 |  |  | 216 |  | 256 |  |
|  |  |  | Specialties |  |  | 43 |  | 68 |  |  | 43 |  | 68 |  |
|  |  |  | Marketing and Specialties |  |  | $368 |  | 367 |  |  | 259 |  | 324 |  |

Fourth-quarter adjusted earnings for M&S were $324 million, compared with $259 million in the third quarter of 2014.

Marketing and Other adjusted earnings were $256 million in the fourth quarter, an increase of $40 million from the prior quarter. While the increase was mostly related to the reinstatement of biodiesel blending tax credits, the business continued to benefit from strong margins. Fourth-quarter refined product exports were 143,000 BPD, an increase of 14,000 BPD from the third quarter of 2014.

Phillips 66's Specialties businesses reported earnings of $68 million during the fourth quarter. The $25 million increase was primarily due to improved lubricant and base oil margins.

Corporate and Other

Corporate and Other costs were $100 million after-tax in the fourth quarter, compared with $91 million in the third quarter of 2014. The increased costs were mostly due to higher interest expense related to debt issued during the quarter.

Financial Position, Liquidity and Return of Capital

During the quarter, Phillips 66 generated $872 million of cash from operations. Excluding working capital changes, operating cash flow was $1.1 billion. The company received $581 million in proceeds from asset dispositions and funded $1.1 billion in capital expenditures and investments.

Phillips 66 issued $2.5 billion of notes to support growth initiatives and repay debt maturing in 2015. The company returned $807 million of capital to shareholders, paying dividends of $275 million and repurchasing seven million shares of common stock totaling $532 million.

Full-Year Financial Results

Phillips 66's full-year 2014 earnings were $4.8 billion or $8.33 per share. This compares with $3.7 billion or $6.02 per share in 2013. Full-year adjusted earnings were $3.8 billion or $6.62 per share in 2014, compared with $3.6 billion or $5.89 per share in 2013.

The company generated $3.5 billion in cash from operations during 2014. Excluding changes in working capital, operating cash flow was $4.5 billion. In addition, the company received $1.2 billion in proceeds from asset dispositions, primarily reflecting the sale of the company's interest in the Malaysian Refining Company and a special distribution from WRB Refining. Phillips 66 funded $3.8 billion in capital expenditures and investments.

Phillips 66 returned $4.7 billion of capital to shareholders in 2014. The company paid $1.1 billion in dividends and repurchased 29.1 million shares of common stock totaling $2.3 billion. The exchange of the company's flow improver business for 17.4 million shares returned $1.35 billion of capital. Since August 2012, the company has repurchased 73.2 million shares for $4.9 billion, as part of $7 billion in share repurchase authorizations. At the end of 2014, Phillips 66 had 546 million shares outstanding.

Phillips 66 ended the year with $8.7 billion of debt and $5.2 billion of cash and cash equivalents. The company's debt-to-capital ratio was 28 percent and net-debt-to-capital ratio was 14 percent.

Strategic Update

In Midstream, the 100,000 BPD Sweeny Fractionator One is more than 50 percent complete, with startup planned in the second half of 2015. Construction is also progressing on the 4.4 million-barrel-per-month Freeport LPG Export Terminal, with completion expected in the second half of 2016. Both projects remain on budget and on schedule.

Phillips 66 is investing in transportation infrastructure to move crude oil from the Bakken/Three Forks production area of North Dakota to market centers throughout the United States. During 2014, the company received 1,200 additional rail cars and expects to have 3,700 cars dedicated to crude oil service in early 2015. The company also announced two pipeline joint ventures, the Dakota Access Pipeline and Energy Transfer Crude Oil Pipeline.

In addition, Phillips 66 Partners formed two joint ventures to develop the Palermo Rail Terminal and the Sacagawea Pipeline in North Dakota. The Palermo Rail Terminal is a crude oil rail-loading facility currently under construction. The terminal is anticipated to include a pipeline connection to the Sacagawea Pipeline, allowing increased outbound capacity and market access for oil producers and marketers in the Bakken region.

In Chemicals, CPChem is investing in domestic growth projects to capture the benefits of low-cost petrochemical feedstocks on the U.S. Gulf Coast (USGC). During the quarter, CPChem completed the expansion of ethylene production at its Sweeny facility with the addition of a tenth furnace, which is expected to increase its annual production by 200 million pounds. An expansion project is underway to increase CPChem's normal alpha olefin capacity by 220 million pounds per year at its Cedar Bayou facility, with estimated completion in mid-2015. Lastly, construction continued on its world-scale USGC Petrochemicals Project with startup anticipated in mid-2017.

Later today, Phillips 66 Chairman and Chief Executive Officer Greg Garland, President Tim Taylor, and Executive Vice President and Chief Financial Officer Greg Maxwell will host a webcast at 11 a.m. EST to discuss the company's fourth-quarter and full-year performance and provide an update on strategic growth projects. To listen to the conference call and view related presentation materials, go to [*www.phillips66.com/investors*](http://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww.phillips66.com%2Finvestors&esheet=51028748&newsitemid=20150129005240&lan=en-US&anchor=www.phillips66.com%2Finvestors&index=1&md5=715f41c465dd5b4443006dbb6755d81d) and click on "Events & Presentations." For detailed supplemental information, go to   [*www.phillips66.com/supplemental*](http://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww.phillips66.com%2Fsupplemental&esheet=51028748&newsitemid=20150129005240&lan=en-US&anchor=www.phillips66.com%2Fsupplemental&index=2&md5=e96a1e58f8951a5a411b1b7b1e1ec7ff) .

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|  |  |  | Earnings |  |  |  | | |  |  | |  |  | |  |  |  | |  |  | |  |
|  |  |  |  |  |  | Millions of Dollars | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  | 2014 | | | | | | | | |  |  | 2013 | | | | |  |
|  |  |  |  |  |  | Third Quarter | | |  | Fourth Quarter | |  | Twelve Months | |  |  | Fourth Quarter | |  | Twelve Months | |  |
|  |  |  | Midstream |  |  | $ | 115 |  |  | 96 |  |  | 507 |  |  |  | 121 |  |  | 469 |  |  |
|  |  |  | Chemicals |  |  |  | 230 |  |  | 267 |  |  | 1,137 |  |  |  | 261 |  |  | 986 |  |  |
|  |  |  | Refining |  |  |  | 558 |  |  | 517 |  |  | 1,771 |  |  |  | 418 |  |  | 1,747 |  |  |
|  |  |  | Marketing and Specialties |  |  |  | 368 |  |  | 367 |  |  | 1,034 |  |  |  | 105 |  |  | 894 |  |  |
|  |  |  | Corporate and Other |  |  |  | (91 | ) |  | (100 | ) |  | (393 | ) |  |  | (97 | ) |  | (431 | ) |  |
|  |  |  | Discontinued Operations |  |  |  | - |  |  | - |  |  | 706 |  |  |  | 18 |  |  | 61 |  |  |
|  |  |  | Phillips 66 |  |  | $ | 1,180 |  |  | 1,147 |  |  | 4,762 |  |  |  | 826 |  |  | 3,726 |  |  |
|  |  |  | Adjusted Earnings |  |  |  | | |  |  | |  |  | |  |  |  | |  |  | |  |
|  |  |  |  |  |  | Millions of Dollars | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  | 2014 | | | | | | | | |  |  | 2013 | | | | |  |
|  |  |  |  |  |  | Third Quarter | | |  | Fourth Quarter | |  | Twelve Months | |  |  | Fourth Quarter | |  | Twelve Months | |  |
|  |  |  | Midstream |  |  | $ | 115 |  |  | 97 |  |  | 508 |  |  |  | 121 |  |  | 469 |  |  |
|  |  |  | Chemicals |  |  |  | 299 |  |  | 270 |  |  | 1,209 |  |  |  | 261 |  |  | 986 |  |  |
|  |  |  | Refining |  |  |  | 558 |  |  | 322 |  |  | 1,576 |  |  |  | 418 |  |  | 1,734 |  |  |
|  |  |  | Marketing and Specialties |  |  |  | 259 |  |  | 324 |  |  | 882 |  |  |  | 105 |  |  | 885 |  |  |
|  |  |  | Corporate and Other |  |  |  | (91 | ) |  | (100 | ) |  | (393 | ) |  |  | (97 | ) |  | (431 | ) |  |
|  |  |  | Phillips 66 |  |  | $ | 1,140 |  |  | 913 |  |  | 3,782 |  |  |  | 808 |  |  | 3,643 |  |  |

About Phillips 66

Phillips 66 is a diversified energy manufacturing and logistics company. With a portfolio of Midstream, Chemicals, Refining, and Marketing and Specialties businesses, the company processes, transports, stores and markets fuels and products globally. Phillips 66 Partners, the company's master limited partnership, is an integral asset in the portfolio. Headquartered in Houston, the company has 14,000 employees committed to safety and operating excellence. Phillips 66 had $49 billion in assets as of Dec. 31, 2014. For more information, visit [*www.phillips66.com*](http://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww.phillips66.com&esheet=51028748&newsitemid=20150129005240&lan=en-US&anchor=www.phillips66.com&index=3&md5=02d69c5c8f88170cbca459fbf0360d6b) or follow us on Twitter   [*@Phillips66Co*](http://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Ftwitter.com%2FPhillips66Co&esheet=51028748&newsitemid=20150129005240&lan=en-US&anchor=%40Phillips66Co&index=4&md5=388bfce1ba62c950784b10f02e8e1594) .

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE "SAFE HARBOR" PROVISIONS

OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This news release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Words and phrases such as "is anticipated," "is estimated," "is expected," "is planned," "is scheduled," "is targeted," "believes," "intends," "objectives," "projects," "strategies" and similar expressions are used to identify such forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements relating to Phillips 66's operations (including joint venture operations) are based on management's expectations, estimates and projections about the company, its interests and the energy industry in general on the date this news release was prepared. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. Factors that could cause actual results or events to differ materially from those described in the forward-looking statements include fluctuations in crude oil, NGL, and natural gas prices, and refining and petrochemical margins; unexpected changes in costs for constructing, modifying or operating our facilities; unexpected difficulties in manufacturing, refining or transporting our products; lack of, or disruptions in, adequate and reliable transportation for our crude oil, natural gas, NGL, and refined products; potential liability from litigation or for remedial actions, including removal and reclamation obligations under environmental regulations; limited access to capital or significantly higher cost of capital related to illiquidity or uncertainty in the domestic or international financial markets; and other economic, business, competitive and/or regulatory factors affecting Phillips 66's businesses generally as set forth in our filings with the Securities and Exchange Commission. Phillips 66 is under no obligation (and expressly disclaims any such obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Non-GAAP Financial Information -- This news release includes the terms adjusted earnings, adjusted earnings per share, operating cash flow excluding working capital, and adjusted ROCE. These are non-GAAP financial measures that are included to help facilitate comparisons of company operating performance across periods.

References in the release to earnings refer to net income attributable to Phillips 66.

Prior period results have been recast to reflect realignment of certain businesses between segments and business lines. Within the Midstream segment, certain NGL pipelines were moved from the Transportation business to the NGL business. Sales commissions for specialty coke, polypropylene and solvents businesses are recorded in the M&S segment. Certain joint ventures, such as a base oil business, were moved from the Refining segment to the M&S segment.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Millions of Dollars | | | | | | | | | | | | | | | | | | |
|  |  |  | Except as Indicated | | | | | | | | | | | | | | | | | | |
|  |  |  | 2014 | | | | | | | | |  | 2013 | | | | | | | | |
|  |  |  | 3Q | | |  | 4Q | |  | Year | |  | 4Q | | | | | |  | Year | |
| Reconciliation of Earnings to Adjusted Earnings |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Consolidated |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 1,180 |  |  | 1,147 |  |  | 4,762 |  |  | 826 | | | | |  |  | 3,726 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Asset dispositions |  |  |  | (109 | ) |  | (385 | ) |  | (494 | ) |  | - | | | | |  |  | (23 | ) |
| Impairments |  |  |  | 69 |  |  | 131 |  |  | 200 |  |  | - | | | | |  |  | - |  |
| Pending claims and settlements |  |  |  | - |  |  | (10 | ) |  | (10 | ) |  | - | | | | |  |  | (16 | ) |
| Exit of business line |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | 34 |  |
| Tax law impacts |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | (17 | ) |
| Lower-of-cost-or-market inventory adjustments |  |  |  | - |  |  | 30 |  |  | 30 |  |  | - | | | | |  |  | - |  |
| Discontinued operations |  |  |  | - |  |  | - |  |  | (706 | ) |  | (18 | | | | | ) |  | (61 | ) |
| Adjusted earnings |  |  | $ | 1,140 |  |  | 913 |  |  | 3,782 |  |  | 808 | | | | |  |  | 3,643 |  |
| Earnings per share of common stock (dollars) |  |  | $ | 2.09 |  |  | 2.05 |  |  | 8.33 |  |  | 1.37 | | | | |  |  | 6.02 |  |
| Adjusted earnings per share of common stock (dollars) |  |  | $ | 2.02 |  |  | 1.63 |  |  | 6.62 |  |  | 1.34 | | | | |  |  | 5.89 |  |
| Midstream |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 115 |  |  | 96 |  |  | 507 |  |  | 121 | | | | |  |  | 469 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Lower-of-cost-or-market inventory adjustments |  |  |  | - |  |  | 1 |  |  | 1 |  |  | - | | | | |  |  | - |  |
| Adjusted earnings |  |  | $ | 115 |  |  | 97 |  |  | 508 |  |  | 121 | | | | |  |  | 469 |  |
| Chemicals |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 230 |  |  | 267 |  |  | 1,137 |  |  | 261 | | | | |  |  | 986 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Impairments |  |  |  | 69 |  |  | - |  |  | 69 |  |  | - | | | | |  |  | - |  |
| Lower-of-cost-or-market inventory adjustments |  |  |  | - |  |  | 3 |  |  | 3 |  |  | - | | | | |  |  | - |  |
| Adjusted earnings |  |  | $ | 299 |  |  | 270 |  |  | 1,209 |  |  | 261 | | | | |  |  | 986 |  |
| Refining |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 558 |  |  | 517 |  |  | 1,771 |  |  | 418 | | | | |  |  | 1,747 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Asset dispositions |  |  |  | - |  |  | (369 | ) |  | (369 | ) |  | - | | | | |  |  | - |  |
| Impairments |  |  |  | - |  |  | 131 |  |  | 131 |  |  | - | | | | |  |  | - |  |
| Pending claims and settlements |  |  |  | - |  |  | 17 |  |  | 17 |  |  | - | | | | |  |  | - |  |
| Tax law impacts |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | (13 | ) |
| Lower-of-cost-or-market inventory adjustments |  |  |  | - |  |  | 26 |  |  | 26 |  |  | - | | | | |  |  | - |  |
| Adjusted earnings |  |  | $ | 558 |  |  | 322 |  |  | 1,576 |  |  | 418 | | | | |  |  | 1,734 |  |
| Marketing and Specialties |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 368 |  |  | 367 |  |  | 1,034 |  |  | 105 | | | | |  |  | 894 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Asset dispositions |  |  |  | (109 | ) |  | (16 | ) |  | (125 | ) |  | - | | | | |  |  | (23 | ) |
| Pending claims and settlements |  |  |  | - |  |  | (27 | ) |  | (27 | ) |  | - | | | | |  |  | (16 | ) |
| Exit of business line |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | 34 |  |
| Tax law impacts |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | (4 | ) |
| Adjusted earnings |  |  | $ | 259 |  |  | 324 |  |  | 882 |  |  | 105 | | | | |  |  | 885 |  |
|  |  |  | Millions of Dollars | | | | | | | | | | | | | | | | | | |
|  |  |  | 2014 | | | | | | | | |  | 2013 | | | | | | | | |
|  |  |  | 3Q | | |  | 4Q | |  | Year | |  | 4Q | | | | | |  | Year | |
| Reconciliation of Earnings to Adjusted Earnings |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Marketing and Other |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 325 |  |  | 299 |  |  | 836 |  |  | 54 | | | | |  |  | 688 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Asset dispositions |  |  |  | (109 | ) |  | (16 | ) |  | (125 | ) |  | - | | | | |  |  | - |  |
| Pending claims and settlements |  |  |  | - |  |  | (27 | ) |  | (27 | ) |  | - | | | | |  |  | (16 | ) |
| Tax law impacts |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | (4 | ) |
| Adjusted earnings |  |  | $ | 216 |  |  | 256 |  |  | 684 |  |  | 54 | | | | |  |  | 668 |  |
| Specialties |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Earnings |  |  | $ | 43 |  |  | 68 |  |  | 198 |  |  | 51 | | | | |  |  | 206 |  |
| Adjustments: |  |  |  | | |  |  | |  |  | |  |  | | | | | |  |  | |
| Asset dispositions |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | (23 | ) |
| Exit of business line |  |  |  | - |  |  | - |  |  | - |  |  | - | | | | |  |  | 34 |  |
| Adjusted earnings |  |  | $ | 43 |  |  | 68 |  |  | 198 |  |  | 51 | | | | |  |  | 217 |  |
|  |  |  |  | | |  |  | |  |  | |  | Millions of Dollars | | | | | | | | |
|  |  |  |  | | |  |  | |  |  | |  | 2014 | | | | | | | | |
|  |  |  |  | | |  |  | |  |  | |  | 4Q | | |  | Year | | | | |
| Cash Flows from Operating Activities |  |  |  | | |  |  | |  |  | |  |  | | |  |  | | | | |
| Net Cash Provided by Operating Activities, excluding working capital |  |  |  | | |  |  | |  |  | |  | $ | 1,080 |  |  | 4,549 | | | |  |
| Changes in working capital |  |  |  | | |  |  | |  |  | |  |  | (208 | ) |  | (1,020 | | | | ) |
| Net Cash Provided by Operating Activities |  |  |  | | |  |  | |  |  | |  | $ | 872 |  |  | 3,529 | | | |  |
|  |  |  |  | | |  |  | |  |  | |  |  | | |  | Millions of Dollars | | | | |
|  |  |  |  | | |  |  | |  |  | |  |  | | |  | 2014 | | | | |
| Phillips 66 - ROCE |  |  |  | | |  |  | |  |  | |  |  | | |  |  | | | | |
| Numerator |  |  |  | | |  |  | |  |  | |  |  | | |  |  | | | | |
| Net Income |  |  |  | | |  |  | |  |  | |  |  | | |  | $ |  |  | 4,797 |  |
| After-tax interest expense |  |  |  | | |  |  | |  |  | |  |  | | |  | 173 | | | |  |
| GAAP ROCE earnings |  |  |  | | |  |  | |  |  | |  |  | | |  | 4,970 | | | |  |
| Special items |  |  |  | | |  |  | |  |  | |  |  | | |  | (980 | | | | ) |
| Adjusted ROCE earnings |  |  |  | | |  |  | |  |  | |  |  | | |  | $ |  |  | 3,990 |  |
| Denominator |  |  |  | | |  |  | |  |  | |  |  | | |  |  | | | | |
| GAAP average capital employed\* |  |  |  | | |  |  | |  |  | |  |  | | |  | $ |  |  | 29,634 |  |
| Discontinued operations |  |  |  | | |  |  | |  |  | |  |  | | |  | (96 | | | | ) |
| Adjusted average capital employed |  |  |  | | |  |  | |  |  | |  |  | | |  | $ |  |  | 29,538 |  |
| Adjusted ROCE (percent) |  |  |  | | |  |  | |  |  | |  |  | | |  | 14 | | | | % |
| GAAP ROCE (percent) |  |  |  | | |  |  | |  |  | |  |  | | |  | 17 | | | | % |
| \* Total equity plus total debt. | | | | | | | | | | | | | | | | | | | | | |

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**End of Document**