Phillips 66
Form DEF 14A
March 29, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant   Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

Phillips 66

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

March 29, 2019

To My Fellow Shareholders:

The Board of Directors and executive leadership team cordially invite you to attend the 2019 Annual Meeting of Shareholders to be held at the Houston Marriott Westchase, 2900 Briarpark Drive, Houston, Texas 77042, on Wednesday, May 8 at 9:00 a.m. Central Daylight Time. You will find information regarding the matters to be voted on at the meeting in the attached proxy statement.

Executing on strategy. Phillips 66 had a record-setting year in 2018. We generated earnings of $5.6 billion and earnings per share of $11.80. We also increased our dividend payment by 14 percent and returned over $6 billion to shareholders through dividends and share repurchases.

Our integrated supply network enabled us to source advantaged crude feedstocks, yielding strong margins in Refining. Our Midstream business saw the benefit of value-enhancing capital projects completed over the past two years. In Marketing and Specialties, we captured solid margins through efficient off-take of our refining production. We also continued to enhance our U.S. fuel brands through the re-imaging of sites. And in Chemicals, 2018 results reflect the completion of Chevron Phillips Chemical Company s $6 billion U.S. Gulf Coast Petrochemical Project and the successful start-up of its world scale ethane cracker.

Our corporate strategy remains unchanged and clear we aim to deliver profitable growth, enhance returns on capital, and grow shareholder distributions, while focusing on strong operating excellence and continuing as a high-performing organization. We believe our results in 2018 reflect our success in executing this strategy. Our progress was achieved through the efforts of our 14,200 employees and with continued industry-leading safety performance.

Corporate Responsibility and Sustainability. We are committed to safely and responsibly carrying out our vision of providing energy and improving lives. We continue to invest in our communities through matching gifts and volunteer grants, as well as programs that encourage STEM curriculum and scholarship opportunities. We also provide technical and managerial training to develop our employees. In 2018, we invested over $900 million to fund reliability, safety and environmental projects.

Engaging with shareholders. We continued our investor outreach in 2018, meeting with shareholders representing over one-third of our shares outstanding to discuss our strategy, governance practices, executive compensation and sustainability. The input we received continues to be incorporated into our Board s deliberations and decision making. In response to investor feedback, our Board formalized its commitment to seeking diverse candidates when searching for new directors within our Corporate Governance Guidelines.

Your vote is very important. Whether or not you plan to attend the annual meeting, and no matter how many shares you own, we encourage you to vote promptly. You may vote by telephone or over the Internet, or by completing, signing, dating and returning the enclosed proxy card or voting instruction form if you requested to receive printed proxy materials.

I look forward to sharing more about your company when we gather for our annual meeting on May 8.

In safety, honor and commitment,

Greg C. Garland

Chairman of the Board and

Chief Executive Officer

Supporting Literacy in the Communities Where We Work and Live

For nearly six years, Phillips 66 and the Barbara Bush Houston Literacy Foundation have shared a vision:

Improve lives through the power of literacy.

Weeks before her passing, the former first lady challenged her foundation to find a way to transform a local library into a place where children and their families could bond through reading.

In partnership with Phillips 66, the foundation presented the Harris County Public Library system with a $200,000 donation in June 2018 to fund Family Place Libraries at eight Houston-area branches.

Phillips 66 is truly a point of light for other businesses to follow, said Julie Baker Finck, president of the Barbara Bush Houston Literacy Foundation. It has been a critical partner since the foundation was formed by the Bush family, and its support has led to the creation of several signature literacy programs that have already increased literacy rates among children in our city.

Family Place Libraries are part of a nationwide initiative to transform spaces within libraries into community centers for literacy, with special focus on early-childhood development. In addition to a dedicated physical space, the libraries and staff benefit from specialized training and programs geared toward toddlers and their parents.

We are delighted to honor the legacy of Barbara Bush and pay tribute to her in such a special way, said Phillips 66 Chairman and CEO Greg Garland, who also serves on the foundation s board of directors.

Phillips 66 has donated nearly $3.5 million since the foundation s inception in 2013, and employee volunteers have contributed many hours reading to area schoolchildren.

Bush believed literacy could empower people to succeed. The Barbara Bush Houston Literacy Foundation was established by Neil and Maria Bush, the former first couple s son and daughter-in-law, to advance her literacy legacy in the nation s fourth-largest city.

Houston ranked 70^{th} in literacy among more than 80 of the most populous U.S. cities in a recent survey, and the foundation estimates that 60 percent of area children entering kindergarten each year lack requisite reading skills.

Bush did not live to see the Family Place Libraries realized, dying April 17, 2018, at home in Houston at 92. Her husband of 73 years, former President George H. W. Bush, died November 30.

Her vision, however, lives on.

Barbara Bush provided clear vision and strong leadership for literacy, Garland said. We must be sure to uphold her vision across Houston and the United States.

NOTICE OF 2019 ANNUAL MEETING

OF SHAREHOLDERS

Meeting Date and Time: May 8, 2019 at 9:00 a.m. Central Daylight Time

Meeting Place: The Houston Marriott Westchase, 2900 Briarpark Drive, Houston, Texas 77042

To Phillips 66 Shareholders: Phillips 66 will hold its 2019 Annual Meeting of Shareholders on Wednesday, May 8, 2019, at 9:00 a.m. Central Daylight Time at the Houston Marriott Westchase at 2900 Briarpark Drive, Houston, Texas, 77042. At the meeting, shareholders will be asked to consider and vote upon the following proposals:

	Items to be voted on	*Board voting recommendation*
Proposal 1	Election of four directors to serve a term expiring in 2022	FOR each nominee
Proposal 2	Advisory vote to ratify the appointment of Ernst & Young LLP as independent auditor for 2019	FOR
Proposal 3	Advisory vote to approve executive compensation	FOR
Proposal 4	Advisory vote to approve frequency of future votes on executive compensation	ANNUALLY
Proposal 5	One shareholder proposal, if properly presented	AGAINST

In addition, we will transact any other business properly presented at the meeting, including any adjournment or postponement thereof, by or at the direction of the Board of Directors.

Who can vote: Shareholders at the close of business on March 11, 2019 (the record date). Each share of common stock is entitled to one vote for each director and one vote for each other proposal.

Your vote is important. Even if you plan to attend our Annual Meeting in person, please consider the issues presented in this Proxy Statement and vote your shares as promptly as possible. We encourage you to submit your proxy as soon as possible by Internet, by telephone, or by signing, dating and returning all proxy cards or instruction forms provided to you.

Please see **ABOUT THE ANNUAL MEETING** for information about voting.

By Order of the Board of Directors

Paula A. Johnson

Corporate Secretary

March 29, 2019

The Company will provide the Notice of Internet Availability, electronic delivery of the proxy materials or mailing of the 2019 Proxy Statement, the 2018 Annual Report on Form 10-K and a proxy card to shareholders beginning on March 29, 2019.

TABLE OF CONTENTS

TABLE OF CONTENTS

PROXY SUMMARY

This summary contains highlights about Phillips 66 and the upcoming 2019 Annual Meeting of Shareholders. This summary does not contain all of the information that you should consider in advance of the meeting and we encourage you to read the proxy statement before voting.

Your Company

Phillips 66 is a diversified energy manufacturing and logistics company. With a unique portfolio of assets in the midstream, chemicals, refining, and marketing and specialties businesses, the Company processes, transports, stores and markets fuels and products globally. Our industry is vitally important to the world-wide economy. Fossil fuels, particularly oil and natural gas, are the world s primary energy source and are expected to remain so for decades to come. These sources are abundant and reliable, affordable and efficient. Phillips 66 s vision is to provide energy and improve lives through operating excellence, delivering energy safely, efficiently and sustainably. We improve lives by responsibly providing energy products that are essential for a high standard of living and health throughout the world.

2018 Performance Highlights

* TRR is total recordable rate.

** Export expansion increase is since January 1, 2017.

Board Nominees

A top priority of the Board and the Nominating and Governance Committee is to ensure that the Board consists of directors who bring diverse viewpoints and perspectives, exhibit a variety of skills, professional experience, and backgrounds, and effectively represent the long-term interests of shareholders. The Nominating Committee regularly reviews the composition of the Board and the evolving needs of the Company s businesses to ensure the Board reflects a range of talents, ages, skills, experiences, diversity, and expertise sufficient to provide sound and prudent guidance with respect to the Company s strategic and operational objectives.

PROXY SUMMARY

The following table provides summary information about each director nominee. For more information about our directors, see **PROPOSAL 1: ELECTION OF DIRECTORS**.

Name	Age	Director Since	Principal Occupation	Independent	Committee Memberships
Greg C. Garland	61	2012	Chairman and Chief Executive Officer, Phillips 66		Executive (Chair)
Gary K. Adams	68	2016	Retired Chief Advisor of Chemicals for IHSMarkit		Human Resources and Compensation Public Policy
John E. Lowe	60	2012	Non-Executive Chairman, Apache Corporation		Executive, Audit and Finance, Public Policy (Chair)
Denise L. Ramos	62	2016	Retired Chief Executive Officer and President, ITT Inc.		Audit and Finance, Nominating and Governance, Public Policy

Governance and Board Highlights

We recognize that strong corporate governance contributes to long-term shareholder value. We are committed to sound governance practices, including those described below. Our Board regularly reviews evolving corporate governance best practices, changing regulatory requirements, and feedback from shareholders, and makes changes it believes are in the best interest of the Company and its shareholders. For example, in 2018 our Board amended the Company s Corporate Governance Guidelines to include the Board s commitment to ensuring a diverse slate of candidates in any searches for new Board members.

Independence	*Best Practices*
Eight out of nine directors are independent	Active shareholder engagement process
Strong independent Lead Director with clearly delineated duties	Diverse Board in terms of gender, skills and qualifications

All standing committees other than Executive Committee composed entirely of independent directors

Regular executive sessions of independent directors

Board and committees may hire outside advisors independent of management

Commitment to diverse candidate pools

Risk oversight by the full Board and committees

Commitment to sustainability and social responsibility

Stock ownership guidelines for executives and directors

Prohibition on pledging and hedging of Company stock

Accountability

Majority voting with director resignation policy (plurality voting in contested elections)

Annual Board and committee self-evaluations

Annual evaluation of CEO by independent directors

Clawback policy that applies to short and long-term incentive plans

Shareholder Rights

3% 3 year 20% proxy access for shareholders

No poison pill

One-share, one-vote standard

Board Composition Highlights

33% of Directors are Women	**Tenure**	**8 of 9 Directors Independent**	**5 Directors with Public Company CEO Experience**

Executive Compensation Highlights

Our compensation philosophy remains unchanged. The Company s ability to provide sustainable value is driven by superior individual performance, and employees are motivated to perform at their highest levels when performance-based pay represents a significant portion of their compensation. Our programs have also remained consistent. We continue to link compensation to Company performance and use metrics that we believe will provide long-term shareholder value. Additionally, we align the interests of our executives with our shareholders. Below is a summary of the compensation best practices we follow:

- Target the majority of named executive officer (NEO) compensation to be performance-based
- Link NEO compensation to shareholder value creation by having a significant portion of compensation at risk
- Apply multiple performance metrics aligned with our corporate strategy to measure our performance
- Cap maximum payouts under our Variable Cash Incentive Program (VCIP) and equity programs
- Employ a double trigger for severance benefits and equity awards under our Key Employee Change in Control Severance Plan
- Include absolute and relative metrics in our Long-Term Incentives (LTI) programs
- Maintain stock ownership guidelines for executives CEO 6x base salary; other NEOs 3-5x base salary
- Balance, monitor and manage compensation risk through regular assessments and robust clawback provisions
- Have extended vesting periods on stock awards, with a minimum one-year vesting period required for stock and stock option awards
- Maintain a fully independent Compensation Committee
- Retain an independent compensation consultant
- Hold a Say-on-Pay vote annually

In 2018, a significant portion of our named executive officers target compensation continued to be performance-based. The charts below give an overview of the components of 2018 target compensation for our CEO and all other named executive officers. The amounts that the executives ultimately earn or are paid out for each component, other than the base salaries, are tied to achievement of specific performance metrics or to the Company s share price, as more fully described in the **COMPENSATION DISCUSSION AND ANALYSIS**.

CEO Target Mix

-

Other NEO Target Mix

Corporate Responsibility and Sustainability

Our vision is to provide energy in ways that improve lives, and we back that up with our core Company values of safety, honor and commitment. Operational, economic, social and environmental sustainability is at the heart of how we deliver on our vision. By maintaining strong operating excellence, we are committed to safety, reliability and environmental stewardship while protecting shareholder value. We also are committed to achieving a high-performing organization that is focused on inclusion and diversity as well as building community through volunteerism, financial support, and engagement, including community awareness and education. More information about our areas of focus: Investing in our People, Health and Safety, Environmental Performance, and Strengthening Communities, can be found in the **CORPORATE RESPONSIBILITY AND SUSTAINABILITY** section of this proxy statement.

PROPOSAL 1: ELECTION OF DIRECTORS

Our governing documents provide that directors are divided into three classes, with one class being elected each year for a three-year term. Based on the recommendation of the Nominating and Governance Committee, the Board has nominated each of the director nominees set forth below to stand for re-election. The term for the directors to be elected this year will expire at the annual meeting of shareholders held in 2022.

Each nominee requires the affirmative vote of a majority of the votes cast in person or by proxy at the meeting.

THE BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE FOLLOWING DIRECTOR NOMINEES:

Greg C. Garland

Gary K. Adams

John E. Lowe

Denise L. Ramos

Our Board of Directors

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a nominee is unavailable for election, proxy holders may vote for another nominee proposed by the Board of Directors or, as an alternative, the Board of Directors may reduce the number of directors to be elected at the annual meeting.

Any director vacancies created between annual shareholder meetings (such as by a current director s death, resignation or removal for cause or an increase in the number of directors) may be filled by a majority vote of the remaining directors then in office. Any director appointed in this manner would hold office for a term expiring at the annual meeting of shareholders at which the term of office of the class to which he or she has been appointed expires. If a vacancy results from an action of our shareholders, only our shareholders would be entitled to elect a successor.

Director Biographies

Set forth below is information as of March 11, 2019, regarding the nominees for election. We have provided the most significant experiences, qualifications, attributes, or skills that led to the conclusion that each director or director nominee should serve as one of our directors in light of our business and structure. No family relationship exists among any of our directors, director nominees, or executive officers. There is no arrangement between any director or director nominee and any other person pursuant to which he or she was or is to be selected as a director or director nominee.

Director Nominees

The following four directors will seek election at this year s annual meeting for a term expiring in 2022.

Greg C. Garland

Age 61

Director since 2012

Board Committees:

Executive (Chair)

- Chairman and CEO of Phillips 66 since 2012
- Senior Vice President, Exploration and Production-Americas for ConocoPhillips from 2010 to 2012
- President and CEO of Chevron Phillips Chemical Company LLC (CPChem) from 2008 to 2010
- Senior Vice President, Planning and Specialty Products, CPChem, from 2000 to 2008
- Director of Amgen Inc. since 2013
- Director of Phillips 66 Partners GP LLC, the general partner of Phillips 66 Partners LP, since 2013

Qualifications: Mr. Garland has extensive knowledge of all aspects of our business. Through his years of service with the Company and more than 35 years of experience in the energy industry, Mr. Garland is well qualified to serve both as a director and Chairman of the Board.

PROPOSAL 1: ELECTION OF DIRECTORS

Gary K. Adams

Age 68

Director since 2016

Board Committees: Human Resources and Compensation, Public Policy

Chief Advisor Chemicals for IHSMarkit from 2011 to 2017

President, CEO and Chairman of the Board of Chemical Market Associates Inc. (CMAI) from 1997 until 2011

Director of Trecora Resources since 2012

Director of Westlake Chemical Partners LP from 2014 to 2016

Director of Phillips 66 Partners LP from 2013 to 2016

Qualifications: Mr. Adams has a lengthy tenure and extensive experience in the energy industry, including leadership experience with operating responsibilities as well as in-depth knowledge of the global chemicals market, including 15 years at Union Carbide in various positions.

John E. Lowe

Age 60

Director since 2012

Board Committees: Audit and Finance, Public Policy (Chair), Executive

Assistant to the CEO of ConocoPhillips from 2008 until 2012

Executive Vice President, Exploration and Production of ConocoPhillips from 2007 to 2008

Executive Vice President, Commercial of ConocoPhillips from 2006 to 2007

Senior Executive Advisor to Tudor, Pickering, Holt & Co. since 2012

Director of TransCanada Corporation since 2015

Director of Apache Corporation since 2013 (Non-Executive Chairman since 2015)

Director of Agrium Inc. from 2010 to 2015

Qualifications: Mr. Lowe has over 30 years of experience in the oil and gas industry. In addition to relevant industry financial expertise, he has extensive experience identifying, assessing and minimizing risks faced by companies in the energy industry.

Denise L. Ramos

Age 62

Director since 2016

Board Committees: Audit and Finance, Nominating and Governance, Public Policy

Chief Executive Officer, President and a director of ITT Inc., a diversified manufacturer of critical components and customized technology solutions, from 2011 to 2018

Senior Vice President and Chief Financial Officer of ITT from 2007 to 2011

Chief Financial Officer for Furniture Brands International from 2005 to 2007

Director of United Technologies Corporation since 2018

Director of Praxair, Inc. from 2014 to 2016

Qualifications: Ms. Ramos has extensive experience in the oil and gas industry through her more than 20 years in various finance positions at Atlantic Richfield Company (ARCO), as well as experience in retail and customer-centric industries. In addition to her financial expertise, she has extensive operational and manufacturing experience with industrial companies.

Directors Whose Terms Expire at the 2020 Annual Meeting

Glenn F. Tilton

Lead Director

Age 70

Director since 2012

Board Committees: Human Resources and Compensation, Nominating and Governance (Chair), Public Policy, Executive

Chairman of the Midwest of JPMorgan Chase & Co. from 2011 to 2014

Chairman, President and CEO of UAL Corporation, a holding company, and United Air Lines, Inc., an air transportation company and wholly-owned subsidiary of UAL Corporation, from 2002 to 2010

Director of Abbott Laboratories since 2017

Lead Director of AbbVie Inc. since 2013

Non-Executive Chairman of the Board of United Continental Holdings Inc. from 2010 to 2013

Qualifications: Mr. Tilton has strong management experience overseeing complex multinational businesses operating in highly regulated industries. He also has extensive experience in the energy industry through his more than 30 years in increasingly senior roles with Texaco Inc., including Chairman and CEO in 2001, as well as expertise in finance and capital markets matters.

Marna C.Whittington

Age 71

Director since 2012

CEO of Allianz Global Investors Capital, a diversified global investment firm, from 2002 until 2012

Chief Operating Officer of Allianz Global Investors, the parent company of Allianz Global Investors Capital, from 2001 to 2011

Board Committees: Human Resources and Compensation (Chair), Nominating and Governance, Public Policy, Executive

Director of Macy s, Inc. since 1993 and Lead Independent Director since 2015

Director of Oaktree Capital Group, LLC. since 2012

Director of Rohm & Haas Company from 1989 to 2009

Qualifications: Dr. Whittington has many years of leadership experience and expertise as a former senior executive in the investment management industry. She has extensive knowledge of and substantial experience in management, and in financial, investment and banking matters and provides valuable insight from her previous experience serving as a public company board member.

PROPOSAL 1: ELECTION OF DIRECTORS

Directors Whose Terms Expire at the 2021 Annual Meeting

J. Brian Ferguson

Age 64

Director since 2012

Board Committees: Audit and Finance (Chair), Nominating and Governance, Public Policy, Executive

Chairman of Eastman Chemical Company, a global chemical company engaged in the manufacture and sale of a broad portfolio of chemicals, plastics and fibers, from 2002 to 2010

CEO of Eastman from 2002 to 2009

Director of Owens Corning since 2011

Director of NextEra Energy, Inc. from 2005 to 2013

Qualifications: Mr. Ferguson joined Eastman in 1977 and led several of its businesses in the U.S. and Asia, which, in addition to his Chairman and CEO roles, provides him with over 30 years of leadership experience in international business, industrial operations, strategic planning and capital raising strategies.

Harold W.McGraw III

Age 70

Director since 2012

Board Committees: Human Resources and Compensation, Public Policy

Chairman Emeritus of S&P Global Inc. (previously McGraw Hill Financial) since 2015

Chairman of the Board of S&P Global from 1999 until 2015

President and Chief Executive Officer of S&P Global from 1998 to 2013

Honorary Chairman of the International Chamber of Commerce (ICC) since 2016

- Chairman of the ICC from 2013 to 2016
- Director of United Technologies Corporation since 2003

Qualifications: Mr. McGraw s experience leading a large, global public company with a significant role in the financial reporting industry provides him with valuable global financial, corporate governance and operational expertise.

Victoria J. Tschinkel

Age 71

Director since 2012

Board Committees: Audit and Finance, Public Policy

- Chair of 1000 Friends of Florida, a non-profit to promote a sustainable Florida by building better communities and supporting preservation and restoration activities
- State Director of the Florida Nature Conservancy from 2003 to 2006
- Senior environmental consultant to Landers & Parsons, a Tallahassee, Florida law firm, from 1987 to 2002
- Secretary of the Florida Department of Environmental Regulation from 1981 to 1987
- Director of the National Fish and Wildlife Foundation, serving on the Gulf Benefits Committee

Qualifications: Ms. Tschinkel s extensive environmental regulatory experience makes her well qualified to serve as a member of the Board. In addition, her relationships and experience working within the environmental community position her to advise the Board on the impact of our operations in sensitive areas.

CORPORATE GOVERNANCE AT PHILLIPS 66

Phillips 66 is committed to effective corporate governance and high ethical standards. We believe that corporate governance, including our values of safety, honor and commitment, is the foundation for financial integrity, investor confidence and sustainable performance. Our values guide how our 14,200 employees conduct business every day and how the Board of Directors oversees and counsels management in the long-term interest of the Company and our shareholders. We continuously strive to meet our vision of providing energy and improving lives, guided by our four pillars of sustainability:

Operational Excellence

Environmental Commitment

Social Responsibility

Economic Performance

Our Board of Directors has adopted Corporate Governance Guidelines that establish a common set of expectations to assist the Board and its committees in performing their duties. The Board reviews the Guidelines at least annually and updates them as necessary to reflect changing regulatory requirements, evolving best practices and input from shareholders and other stakeholders. In 2018, the Board amended the Guidelines to formalize its commitment to seeking diverse candidates in director searches. Our key corporate governance documents, including our Corporate Governance Guidelines, Charters of our Board s committees, our By-Laws, and our Code of Business Ethics and Conduct, can be found on the Company s website (www.phillips66.com) in the *Investors* section, under the *Corporate Governance* caption. We also disclose information about our environmental, social and governance (ESG) efforts on our website under the *Sustainability* caption. There, interested parties can find data and information on programs and projects that demonstrate how we fulfill our vision of providing energy and improving lives, including our Sustainability Report, our Inclusion and Diversity Brochure, and our report on managing risk and scenario planning for energy policy in the document entitled Energy: Policy Risks and Disclosures.

DIRECTOR QUALIFICATIONS AND NOMINATION PROCESS

Skills and Qualifications We Seek in Directors

In evaluating potential candidates for nomination to the Board, as well as evaluating the Board s overall composition, the Nominating Committee and the Board consider several factors. All directors are expected to possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company s shareholders. Directors also are expected to devote sufficient time and effort to their duties as a director.

The Nominating Committee believes that the Board should reflect a range of talents, ages, skills, experiences, diversity, and expertise sufficient to provide sound and prudent guidance with respect to the Company s strategic and operational objectives. The Board has committed to seeking women and minority candidates, as well as candidates with diverse backgrounds, skills and experiences, as part of the search process for new directors.

Board Composition Highlights

33% of Directors are Women	Tenure	8 of 9 Directors Independent	5 Directors with Public Company CEO Experience

The following are key skills and qualifications considered in evaluating director nominees and Board composition as a whole. The Board determined that a mix of these skills and qualifications provides the composition necessary to effectively oversee the Company s execution of its strategy.

Board Refreshment

The Board strives to maintain an appropriate balance of tenure, turnover, diversity, skills and experience.

The Board does not maintain term limits, but our Governance Guidelines include a mandatory director retirement age of 75. As a relatively new company, the Board does not believe that term limits currently are necessary. Additionally, the Board believes that continuity of service can provide stability and valuable insight, based on experience and understanding of the Company. The average tenure of all of our directors is 6 years and the average age of all of our directors is 66 years.

The Board ensures refreshment and continued effectiveness through evaluation, nomination, and other policies, processes and practices. For example:

- The Nominating Committee annually reviews with the Board the qualifications for Board members and the composition of the Board as a whole.

The Nominating Committee reviews each director nominee s continuation on the Board and makes recommendations to the full Board.

The Company s Corporate Governance Guidelines provide that any director whose principal outside responsibilities have changed since election to the Board should volunteer to resign to give the Board the opportunity to review the appropriateness of continued Board membership under the circumstances.

Additionally, each committee of the Board performs an annual self-assessment, and the Nominating Committee and Lead Director oversee an annual self-assessment of the full Board. The self-assessment includes an evaluation survey and individual discussions between the Lead Director and each other director. A summary of the results of each committee s self-assessment is presented to the committee and discussed in executive session. The Lead Director presents a summary of the results of the Board evaluation to the Board in executive session. Any matters requiring further action are identified and action plans developed to address the matter.

To further ensure continued Board effectiveness, the Nominating Committee will periodically consider Board committee rotations in the event of a change in the composition of the Board. Additionally, the Nominating Committee s charter provides that in all cases, committee rotations will be considered every three years for all committees other than Audit and Finance, the rotation of which will be considered every three to six years.

How We Select our Director Nominees

The Board is responsible for nominating directors and filling vacancies that may occur between annual meetings, based upon the recommendation of the Nominating and Governance Committee. The Nominating Committee considers the Company s current needs and long-term and strategic plans to determine the skills, experience and characteristics needed by our Board. The Nominating Committee identifies, considers and recommends director candidates to the Board of Directors with the goal of creating a balance of knowledge, experience and diversity. Generally, the Nominating Committee identifies candidates through the use of a search firm or the business and organizational contacts of directors and management. In 2018, the Board formalized its commitment to seeking women and minority candidates, as well as candidates with diverse backgrounds, skills and experiences, as part of the search process for new directors.

When evaluating candidates, the Nominating Committee takes into consideration the key qualifications and skills described above. The Nominating Committee also considers whether potential candidates will likely satisfy independence standards for service on the Board and its committees.

Shareholder Recommendation of Candidates and Nomination of Candidates

The Nominating Committee will consider director candidates recommended by shareholders. A shareholder wishing to recommend a candidate for nomination by the Nominating Committee should follow the same procedures referred to below for nominations to be made directly by a shareholder. In addition, the shareholder should provide such other information deemed relevant to the Nominating Committee s evaluation. Candidates recommended by the Company s shareholders are evaluated on the same basis as candidates recommended by the Company s directors, management, third-party search firms or other sources.

Our By-Laws permit proxy access for shareholders. Shareholders who wish to nominate directors for inclusion in our proxy statement or directly at an annual meeting in accordance with our By-Laws should follow the procedures described under **SUBMISSION OF FUTURE SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS**.

Majority Voting

To be elected, a director must receive a majority of the votes cast with respect to that director at the meeting. Our By-Laws provide that if the number of shares voted for a nominee who is serving as a director (an incumbent) does not exceed 50% of the votes cast with respect to that director, he or she will tender his or her resignation to the Board of Directors. The Nominating and Governance Committee will then make a recommendation to the Board on whether to accept or reject the resignation, or whether other action should be taken. Within 90 days of the certification of the shareholder vote, the Board is required to decide whether to accept the resignation and publicly disclose its decision-making process.

In a contested election, where the number of nominees exceeds the number of directors to be elected, the required vote would be a plurality of votes cast.

Director Independence

Our Corporate Governance Guidelines contain director independence standards, which are consistent with the standards set forth in the NYSE listing standards. These standards assist the Board of Directors in determining the independence of the Company s directors. The Board of Directors determined that each of Mr. Adams, Mr. Ferguson, Mr. Loomis (who retired in May 2018), Mr. Lowe, Mr. McGraw, Ms. Ramos, Ms. Tschinkel and Dr. Whittington are independent. Mr. Garland is not considered independent because he is an executive officer of the Company.

In making independence determinations, the Board specifically considered the fact that many of our directors are directors or otherwise affiliated with companies with which we conduct business. Some of our directors are employees of, or consultants to, companies that do business with Phillips 66 and its affiliates (as further described in **RELATED PARTY TRANSACTIONS**). Additionally, some of our directors may purchase retail products (such as gasoline, fuel additives or lubricants) from the Company. In all cases, it was determined that the nature of the business conducted and the interest of the director by virtue of such position were immaterial both to the Company and to the director.

Executive Sessions of Independent Directors

The independent directors hold regularly scheduled executive sessions of the Board and its committees without Company management present. These executive sessions are chaired by the Lead Director at Board meetings or by the Committee Chairs at Committee meetings.

BOARD LEADERSHIP STRUCTURE

Chairman and CEO Roles

Although the Board of Directors has the authority to separate the positions of Chairman and CEO if it deems appropriate, the Board believes it is in the best interest of the Company s shareholders to combine them. Doing so enables one person to guide the Board in setting priorities for the Company and in addressing the risks and challenges the Company faces. The Board of Directors believes that, while its non-employee directors bring a diversity of skills and perspectives to the Board, the Company s CEO, by virtue of his day-to-day involvement in managing the Company, currently is best suited to serve as Chairman and perform this unified role.

The Board of Directors believes that no single organizational model is the most effective in all circumstances. As a consequence, the Board periodically considers whether the offices of Chairman and CEO should continue to be combined and who should serve in such capacities.

Independent Director Leadership

Glenn Tilton has served as our Lead Director since February 2016. In appointing a Lead Director, the Board of Directors considered it useful and appropriate to designate an independent director to serve in a lead capacity to coordinate the activities of the non-employee directors and to perform such other duties and responsibilities as the

Board of Directors may determine. In his role as Lead Director, Mr. Tilton:

- advises the Chairman on an appropriate schedule of Board meetings, seeking to ensure that the non-employee directors can perform their duties responsibly without interfering with operations;

- provides the Chairman with input on the preparation of the agenda for each Board meeting and ensures that there is sufficient time for discussion of all agenda items;

- advises the Chairman on the quality, quantity and timeliness of the flow of information from management to the non-employee directors so that they may perform their duties effectively and responsibly, including specifically requesting certain materials be provided to the Board;

- recommends to the Chairman the retention of consultants who report directly to the Board of Directors;
- interviews all board candidates and makes nomination recommendations to the Nominating Committee and the Board of Directors;
- assists the Board of Directors and Company officers in assuring compliance with and implementation of the Corporate Governance Guidelines;
- ensures that he, or another appropriate director, is available for engagement with shareholders when warranted;
- calls meetings of the non-employee directors as needed, develops the agenda for and moderates any such meetings and executive sessions of the non-employee directors;
- acts as principal liaison between the non-employee directors and the Chairman on sensitive issues;
- participates with the Human Resources and Compensation Committee (Compensation Committee) in the periodic discussion of CEO performance;
- ensures the Board of Directors conducts an annual self-assessment and meeting with the CEO to discuss the results of the annual self-assessment; and
- works with the Nominating Committee to recommend the membership of the various Board committees, as well as selection of the committee chairs.

The Board of Directors believes that its current structure and processes encourage its non-employee directors to be actively involved in guiding its work. The chairs of the Board s committees review their respective agendas and committee materials in advance of each meeting, communicating directly with other directors and members of management as each deems appropriate. Moreover, each director may suggest agenda items and raise matters that are not on the agenda at Board and committee meetings.

BOARD MEETINGS, COMMITTEES AND MEMBERSHIP

The Board of Directors met six times in 2018. All of our directors attended at least 75 percent of the meetings of the Board and committees on which they served.

Recognizing that director attendance at the Company s Annual Meeting can provide the Company s shareholders with an opportunity to communicate with the directors about issues affecting the Company, the Company actively encourages directors to attend the Annual Meeting of Shareholders. All of our directors attended the 2018 Annual Meeting of Shareholders.

CORPORATE GOVERNANCE AT PHILLIPS 66

BOARD COMMITTEE MEMBERSHIP

The table below shows the membership of each of the Board s committees, as well as information about each committee s primary responsibilities.

Audit and Finance	**Primary Responsibilities:**
Met 12 times in 2018	Discusses with management, the independent auditors, and the internal auditors the integrity of the Company s accounting policies, internal controls, financial statements, and financial reporting practices, as well as select financial matters, covering the Company s capital structure, complex financial transactions, financial risk management, retirement plans and tax planning.
Current Members:	
J. Brian Ferguson (Chair) John E. Lowe Denise L. Ramos Victoria J. Tschinkel	Reviews significant corporate risk exposures and steps management has taken to monitor, control and report such exposures.
	Monitors the qualifications, independence and performance of our independent auditors and internal auditors.
	Monitors our compliance with legal and regulatory requirements and corporate governance guidelines, including our Code of Business Ethics and Conduct.
	Maintains open and direct lines of communication with the Board and our management, internal auditors and independent auditors.
	Financial Expertise, Financial Literacy and Independence:

The Board has determined that Messrs. Ferguson, Lowe and Ms. Ramos satisfy the SEC s criteria for audit committee financial experts. Additionally, the Board has determined that each member of the Audit and Finance Committee is independent pursuant to SEC and NYSE requirements and is financially literate within the meaning of the NYSE listing standards.

Executive

Did not meet in 2018

Current Members:

Greg C. Garland (Chair)

J. Brian Ferguson

John E. Lowe

Glenn F. Tilton

Marna C. Whittington

Primary Responsibilities:

Exercises the authority of the full Board between Board meetings on all matters other than (1) those matters expressly delegated to another committee of the Board, (2) the adoption, amendment or repeal of any of our By-Laws and (3) those matters that cannot be delegated to a committee under statute or our Certificate of Incorporation or By-Laws.

Human Resources and Compensation

Met 6 times in 2018

Current Members:

Marna C. Whittington (Chair)

Gary K. Adams

Harold W. McGraw III

Glenn F. Tilton

Primary Responsibilities:

Oversees our executive compensation policies, plans, programs and practices.

Assists the Board in discharging its responsibilities relating to the fair and competitive compensation of our executives and other key employees.

Reviews at least annually the performance (together with the Lead Director) and sets the compensation of the CEO.

Independence:

The Board has determined that each member of the Compensation Committee is independent under the Company s Corporate Governance Guidelines and the NYSE listing standards for directors and compensation committee members.

Additional information about the Compensation Committee can be found in the **COMPENSATION DISCUSSION AND ANALYSIS**.

Nominating and Governance

Met 4 times in 2018

Current Members:

Glenn F. Tilton (Chair)

J. Brian Ferguson

Denise L. Ramos

Marna C. Whittington

Primary Responsibilities:

Selects and recommends director candidates to the Board to be submitted for election at annual meetings and to fill any vacancies on the Board.

Recommends committee assignments to the Board.

Reviews and recommends to the Board compensation and benefits policies for our non-employee directors.

Reviews and recommends to the Board appropriate corporate governance policies and procedures for our Company.

Conducts an annual assessment of the qualifications and performance of the Board.

Reviews and reports to the Board annually on succession planning for the CEO.

Independence:

The Board has determined that each member of the Nominating and Governance Committee is independent under the Company s Corporate Governance Guidelines and the NYSE listing standards for directors.

Public Policy

Primary Responsibilities:

Met 4 times in 2018

Current Members:

John E. Lowe (Chair)

Gary K. Adams

J. Brian Ferguson

Harold W. McGraw III

Denise L. Ramos

Glenn F. Tilton

Victoria J. Tschinkel

Marna C. Whittington

Advises the Board on current and emerging domestic and international public policy issues.

Assists the Board with the development, review and approval of policies and budgets for charitable and political contributions and activity.

Advises the Board on compliance with policies, programs and practices regarding social risks and health, safety and environmental protection.

Independence:

The Board has determined that each member of the Public Policy Committee is independent under the Company s Corporate Governance Guidelines and the NYSE listing standards for directors.

The charters for our Audit and Finance Committee, Executive Committee, Human Resources and Compensation Committee, Nominating and Governing Committee, and Public Policy Committee can be found in the *Investors* section on the Phillips 66 website (www.phillips66.com) under the Corporate *Governance* caption. Shareholders may also request printed copies of these charters by following the instructions located under **AVAILABLE INFORMATION**.

BOARD S ROLE IN RISK OVERSIGHT

The Company s management is responsible for the day-to-day conduct of our businesses and operations, including management of risks the Company faces. To fulfill this responsibility, our management has established an enterprise risk management (ERM) program designed to identify and facilitate management of the significant and diverse risks facing the Company and the approaches to addressing risks.

The Board of Directors has broad oversight responsibility over the Company s ERM program and receives management updates on its development and implementation. In this oversight role, the Board of Directors is responsible for satisfying itself that the risk management processes designed and implemented by the Company s management are functioning as intended, and that necessary steps are taken to foster a culture of risk-adjusted decision making throughout the organization.

The Board of Directors exercises its oversight responsibility for risk assessment and risk management directly and through its committees. However, the full Board maintains responsibility for oversight of strategic risks. Setting the strategic course of the Company and providing oversight of strategic risks involves a high level of constructive engagement between management and

CORPORATE GOVERNANCE AT PHILLIPS 66

the Board. The Board regularly discusses the strategic priorities of the Company and the risks to the Company s successful execution of its strategy, including global economic and other significant trends, as well as changes in the energy industry and regulatory initiatives.

The Board of Directors receives regular updates from its committees on individual areas of risk falling within each committee s area of oversight and expertise, as outlined below.

Committee Risk Oversight Responsibilities

Audit and Finance Committee

The Audit Committee discusses the guidelines and policies to govern the process by which ERM is handled and has been delegated responsibility to facilitate coordination among the Board s committees with respect to the Company s risk management programs.

The Audit Committee is responsible for the integrity of the Company s financial statements; the independent auditors qualifications and independence; the performance of the Company s internal audit function; and its system of internal control over financial reporting. The Audit Committee also reviews and receives briefings concerning information technology (including cybersecurity), compliance with laws and regulatory requirements, and major financial exposures.

Human Resources and Compensation Committee

The Compensation Committee oversees the Company s compensation programs and the Company s talent management program. The Compensation Committee evaluates whether our compensation programs and practices create excessive risks and determines whether any changes to those programs and practices are warranted. The Compensation Committee also ensures that our compensation programs align with long-term interests of shareholders and are effective in retaining top talent. Finally, the Compensation Committee ensures the development of a diverse talent pool with respect to CEO and senior management succession planning.

Nominating and Governance Committee

The Nominating and Governance Committee reviews policies and practices in the areas of corporate governance and is responsible for overseeing Board composition and director qualifications through the nomination process. Additionally, the Committee is responsible for CEO succession planning.

Public Policy Committee

The Public Policy Committee assists the Board in identifying, evaluating and reviewing social, political and environmental trends and related risks. It also reviews management s proposed actions to anticipate and adjust to such trends and manage risks to achieve the Company s long-term business goals. The Public Policy Committee reviews and makes recommendations to the full Board on the Company s policies, programs and practices relating to health, safety and environmental protection, government relations and political contributions, corporate philanthropy, and corporate responsibility.

RELATED PARTY TRANSACTIONS

Our Code of Business Ethics and Conduct requires all directors and executive officers to promptly report any transactions or relationships that reasonably could be expected to constitute a related party transaction. The transaction or relationship is reviewed by the Company s management and the appropriate committee of the Board to ensure that it does not constitute a conflict of interest and is appropriately disclosed.

Additionally, the Nominating Committee conducts an annual review of related party transactions between each director and the Company and its subsidiaries in making recommendations to the Board regarding the continued independence of each director. Since January 1, 2018, there have been no related party transactions in which the Company or a subsidiary was a participant and in which any director, executive officer, or any of their immediate family members had a direct or indirect material interest.

The Nominating Committee also considered relationships that, while not constituting related party transactions where a director had a direct or indirect material interest, nonetheless involved transactions between the Company and an organization with which a director is affiliated, either directly or as a partner, shareholder or officer. Included in its review were ordinary course of business transactions with companies employing a director, such as ordinary course of business transactions with ITT Inc., of which Ms. Ramos served as CEO and President during 2018. The Nominating Committee determined that there were no transactions impairing the independence of any member of the Board.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Human Resources and Compensation Committee consists of Marna C. Whittington, Gary K. Adams, Harold W. McGraw III and Glenn F. Tilton, each of whom is an independent director. None of the members of the Human Resources and Compensation Committee during fiscal year 2018 or as of the date of this proxy statement is or has been an officer or employee of Phillips 66 and no executive officer of Phillips 66 served on the compensation committee or board of any company that employed any member of Phillips 66 s Human Resources and Compensation Committee or Phillips 66 s Board.

SHAREHOLDER AND COMMUNITY ENGAGEMENT

At Phillips 66, we believe that we succeed together as a team, leveraging our diverse experiences and thoughts in an environment that thrives on collaboration. We embrace engagement as an important tenet of good governance and value the views of our shareholders and other stakeholders. We believe that positive dialogue builds informed relationships that promote transparency and accountability. Although the Lead Director or other members of the Board are available to participate in meetings with shareholders as appropriate, management has the principal responsibility for shareholder communication.

We also believe that engagement and good governance involve participating in political or public policy activities that advance the Company s goals, are consistent with Company values, and improve the communities where we work and live. A number of federal, state and local laws govern corporate involvement in such activities, and we maintain policies, procedures and programs to comply with these laws. Additional information about our involvement in political or public policy activities is available on our website.

What We Do

For several years, Phillips 66 has conducted a formal shareholder outreach program to listen to investor perspectives on our business strategy, corporate governance, our executive compensation program, and other matters. Twice yearly, we formally solicit feedback from institutional investors including asset managers, public and labor union pension funds, and socially responsible investors. In 2018, we met with shareholders representing in the aggregate over one-third of our shares outstanding, and with proxy advisory firms.

Information and feedback received through our engagement activities is shared with our executive leadership team and the Board of Directors, which helps inform their decisions. The feedback we received in 2018 was supportive, and the conversations provided us an opportunity to further discuss Board composition and risk oversight, environmental and social business practices, and other governance and compensation matters.

Topics Discussed and Actions Taken

Board Composition and Refreshment

Some of our discussions with shareholders addressed the subject of Board composition and director skills and qualifications. Certain of our shareholders had a particular desire to understand how the Board considers refreshment and its composition in connection with current and future business needs. Additionally, investors inquired about the specific roles of the Board and its committees in the risk oversight process. In general, investors expressed minimal concerns about the current Board composition, individual directors, Board policies or our overall approach to shareholder engagement. As a result of our discussions with investors, in 2018 the Board formalized its commitment to including diverse candidates in future director searches by amending our Corporate Governance Guidelines.

Environmental, Social and Governance (ESG)

Investor interest in how companies view sustainability and how they integrate sustainability into their business objectives and corporate cultures has been increasing. During our engagements, investors inquired about Phillips 66 s practices, our views on different reporting methodologies, and the types of non-financial ESG issues that may impact our business or create reputational risks. We shared with investors the ESG factors that are included in our incentive compensation programs for measuring our performance, as disclosed in the **COMPENSATION DISCUSSION AND ANALYSIS**. To help inform investors about our risk management, scenario planning and assumptions on energy policy risks, in 2018 we published on our website a report entitled Energy: Policy Risks and Disclosures. We also published on our website a new Inclusion and Diversity Brochure to help investors better understand our efforts relating to human capital management.

Executive Compensation

During our discussions, investors continued to show support for our overall executive compensation program and viewed it as well-structured and aligned with our Company strategy and performance. In our 2018 proxy statement, in response to conversations with our investors, we provided more detailed disclosure around the long-term components of our program. This information is included in the **COMPENSATION DISCUSSION AND ANALYSIS**.

Board Declassification

We recognize that many of our shareholders would prefer a declassified board structure. We encouraged shareholders at the annual meetings held in 2015, 2016 and 2018 to approve a charter amendment that would eliminate our classified board structure and allow all directors to be elected annually. The amendment did not receive the required vote to pass in any of the years it was submitted. We were advised that, based on an analysis of our shareholder base, the proposal would likely not be successful this year. We discussed this topic with our largest investors and they conveyed understanding of this conclusion. We are not resubmitting the proposal at this year s Annual Meeting, but will continue to assess the potential for its adoption at a future annual meeting.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Phillips 66 is dedicated to meeting the world s energy needs responsibly, efficiently and sustainably. For us, sustainability means manufacturing and delivering affordable, clean products in a safe and environmentally sound manner. Our sustainability efforts are built on four pillars: operational excellence, environmental commitment, social responsibility and economic performance. Our Board of Directors oversees these efforts through its regular work and through its committees. For more information, see **BOARD S ROLE IN RISK OVERSIGHT**.

We are focused on implementing best-in-class sustainability practices today and into the future. For example, we are conducting research to manage water consumption, improve energy efficiency and provide technology options for future power generation. We also are seeking solutions for tomorrow s energy needs, from opportunities to blend biofuels into clean products to co-founding forward-looking think tanks, such as the Fuels Institute. Phillips 66 is one of the few energy companies with a state-of-the-art Research Center. We employ scientists and engineers in Bartlesville, Oklahoma, to conduct research to enhance the safety and reliability of our operations and to develop future air, water and energy solutions.

Our Sustainability Report, available on our website, is intended to provide a comprehensive resource for interested parties to learn about our sustainability policies and programs, with links to a suite of Company information, including policies, positions, educational information, and other reports. Additionally, we recently published a report on policy risks and disclosures to provide stakeholders with additional information on our risk management, scenario planning, and assumptions on energy policy risks. The report, entitled Energy: Policy Risks and Disclosures, also can be found on our website under the *Sustainability* section.

Areas of Focus

Investing in our People

We are committed to an inclusive and diverse workforce. We seek continual growth and development of our capabilities through technical and managerial training. We challenge ourselves to maximize and reward the performance of our people. In 2018, over 30% of our university and professional hires were females or people of color. Additionally, we continue to focus on employee development, technical training, managerial training and leadership development in support of our succession planning.

Health and Safety

We believe sustainability starts with a focus on safety and reliability. We work together to get as close as we can to zero incidents and zero accidents. In 2018, we achieved a TRR of 0.14 for the second year in a row, which is an industry-leading safety result. Also, the American Fuel and Petrochemical Manufacturers recognized four of our refineries for exemplary safety performance, while 27 of our sites have received Voluntary Protection Program certification from the Occupational Safety & Health Administration for strong safety records and health management programs.

Environmental Performance

We strive to deliver affordable energy while protecting air, water and land resources. In 2018, environmental reportable events for the year were the second lowest in Company history and we invested over $900 million to fund reliability, safety and environmental projects. Additionally, 45% of our U.S. refineries have earned the EPA s ENERGY STAR® award for top-quartile energy efficiency performance.

Strengthening Communities

We strengthen community relations through financial support, engagement with stakeholders and education. We believe in giving back and investing in the communities in which we live and work. In 2018, our employees volunteered 78,000 hours, supporting over 850 organizations, and we matched nearly $5 million in employee gifts to over 2,000 organizations. We maintain community advisory panels or councils at 12 of our refineries to conduct community awareness and outreach and establish a dialogue with our neighbors.

CODE OF BUSINESS ETHICS AND CONDUCT

Our values are our foundation our guiding principles for how we conduct our business day in and day out. We also recognize that questions arise in today s increasingly complex global business environment. We have adopted a Code of Business Ethics and Conduct designed to provide guidance on how to act legally and ethically while performing work for Phillips 66. Our Code of Business Ethics and Conduct covers topics including, but not limited to, conflicts of interest, insider trading, competition and fair dealing, discrimination and harassment, confidentiality, payments to government personnel, anti-boycott laws, U.S. embargoes and sanctions, compliance procedures and employee complaint procedures. All of our directors and employees are required to comply with the Code of Business Ethics and Conduct. We also have adopted an additional Code of Ethics that applies to senior financial officers. Both Codes can be found on our website and are available in print to any shareholder upon request. We intend to disclose any amendment to, or waiver from, either of the Codes by posting such information on our website.

COMMUNICATIONS WITH THE BOARD

To support shareholder engagement, the Company maintains a process for shareholders and interested parties to communicate with the Board of Directors. Shareholders and interested parties may communicate with the non-employee directors or with the entire Board of Directors, as indicated by such shareholder or interested party, by contacting our Corporate Secretary, Paula A. Johnson, as provided below:

Mailing Address:	Corporate Secretary Phillips 66 P.O. Box 421959 Houston, TX 77242-1959
Phone Number:	(281) 293-6600
Internet:	*Investors* section of the Company s website (www.phillips66.com) under the *Corporate Governance* caption

Communications to the non-employee directors should be addressed to Board of Directors (independent members) in care of our Corporate Secretary as provided above.

Relevant communications are distributed to the Board of Directors or to any individual director or directors, as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Board has requested that certain items unrelated to its duties and responsibilities not be distributed, such as: business solicitations or advertisements; junk mail and mass mailings; new product suggestions; product complaints; product inquiries; résumés and other forms of job inquiries; spam; and surveys. In addition, material that is considered hostile, threatening, illegal or similarly unsuitable will be excluded.

PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm retained to audit the Company s financial statements. The Audit Committee has appointed Ernst & Young LLP to serve as the Company s independent registered public accounting firm for fiscal year 2019. Ernst & Young has acted as the Company s independent registered public accounting firm continuously since 2011.

The Audit Committee annually considers the independence of the Company s independent auditors prior to the firm s engagement, and periodically considers whether a regular rotation of the independent auditors is necessary to assure continuing independence. The Audit Committee and its Chairman are directly involved in the selection of Ernst & Young s lead engagement partner.

The Audit Committee and the Board of Directors believe that the continued retention of Ernst & Young is in the best interests of the Company and its shareholders. We are asking you to vote on a proposal to ratify the appointment of Ernst & Young.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP.

The submission of this matter for approval by shareholders is not legally required, but the Board and the Audit Committee believe it provides an opportunity for shareholders to vote on an important aspect of corporate governance. If the shareholders do not ratify the selection of Ernst & Young, the Audit Committee will reconsider the selection of that firm as the Company s independent registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Services Provided by the Independent Registered Public Accounting Firm

Audit services of Ernst & Young for fiscal year 2018 included an audit of our consolidated financial statements, an audit of the effectiveness of the Company s internal control over financial reporting, and services related to periodic filings made with the SEC. Additionally, Ernst & Young provided certain other services as described below. In connection with the audit of the 2018 consolidated financial statements, we entered into an engagement agreement with Ernst & Young that set forth the terms by which Ernst & Young performed audit services for us.

The Audit Committee is responsible for negotiating the audit fee associated with its retention of Ernst & Young. Ernst & Young s fees for professional services, which totaled $13.2 million for 2018 and $12.8 million for 2017, consisted of the following:

Fees (in millions)	2018	2017
Audit Fees(1)	$ 12.1	$ 11.8
Audit-Related Fees(2)	0.8	0.6
Tax Fees(3)	0.1	0.2
All Other Fees	0.2	0.2

Total	$13.2	$12.8

(1) Fees for audit services related to the fiscal year consolidated audit, the audit of the effectiveness of internal control over financial reporting, quarterly reviews, registration statements, comfort letters, statutory and regulatory audits and accounting consultations. Includes audit fees of Phillips 66 Partners LP of $1.3 million and $1.7 million for 2018 and 2017, respectively, which were approved by the Audit Committee of the General Partner of Phillips 66 Partners LP.

(2) Fees for audit-related services related to audits in connection with proposed or consummated dispositions, benefit plan audits, other subsidiary audits, special reports, and accounting consultations.

(3) Fees for tax services related to tax compliance services and tax planning and advisory services.

The Audit Committee has considered whether the non-audit services provided to Phillips 66 by Ernst & Young impaired the independence of Ernst & Young and concluded they did not.

The Audit Committee has adopted a pre-approval policy that provides guidelines for the audit, audit-related, tax and other non-audit services that Ernst & Young may provide to the Company. All of the fees in the table above were approved in accordance with this policy. The policy (a) identifies the guiding principles that the Audit Committee must consider in approving services to ensure that Ernst & Young s independence is not impaired; (b) describes the audit, audit-related, tax and other services that may be provided and the non-audit services that are prohibited; and (c) sets forth pre-approval requirements for all permitted services. Under the policy, the Audit Committee must pre-approve all services to be provided by Ernst & Young. The Audit Committee has delegated authority to approve permitted services to its Chair. Such approval must be reported to the entire Audit Committee at its next scheduled meeting.

PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP

One or more representatives of Ernst & Young are expected to be present at the Annual Meeting. The representatives will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions from shareholders.

AUDIT AND FINANCE COMMITTEE REPORT

The Audit Committee assists the Board of Directors in fulfilling its responsibility to provide independent, objective oversight of the financial reporting functions and internal control systems of Phillips 66. The Audit Committee currently consists of four non-employee directors. The Board has determined that each member of the Audit Committee satisfies the requirements of the NYSE as to independence, financial literacy and expertise. The Board has further determined that each of J. Brian Ferguson, John E. Lowe, and Denise L. Ramos is an audit committee financial expert as defined by the SEC. The responsibilities of the Audit Committee are set forth in the written charter adopted by the Board of Directors, which is available in the *Investors* section of the Company s website under the caption *Corporate Governance*. One of the Audit Committee s primary responsibilities is to assist the Board in its oversight of the integrity of the Company s financial statements. The following report summarizes certain of the Audit Committee s activities in this regard for 2018.

Review with Management. The Audit Committee has reviewed and discussed with management the audited consolidated financial statements of Phillips 66 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2018, and management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2018, included therein.

Discussions with Independent Registered Public Accounting Firm. The Audit Committee has discussed with Ernst & Young LLP, independent registered public accounting firm for Phillips 66, the matters required to be discussed by Auditing Standard (AS) No.1301 as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written disclosures and the letter from Ernst & Young required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the Audit Committee concerning independence, and has discussed with that firm its independence from Phillips 66.

Recommendation to the Phillips 66 Board of Directors. Based on its review and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of Phillips 66 be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2018.

AUDIT AND FINANCE COMMITTEE

J. Brian Ferguson, Chairman

John E. Lowe

Denise L. Ramos

Victoria J. Tschinkel

PROPOSAL 3: ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

Shareholders are being asked to vote on the following advisory (non-binding) resolution:

RESOLVED, that the shareholders approve the compensation of Phillips 66 s Named Executive Officers (NEOs) as described in this proxy statement in the **COMPENSATION DISCUSSION AND ANALYSIS** section and in the **EXECUTIVE COMPENSATION TABLES** (together with the accompanying narrative disclosures).

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ADVISORY APPROVAL OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS.

Approval of this proposal requires the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal.

As required by SEC rules, Phillips 66 is providing shareholders with the opportunity to vote on an advisory resolution, commonly known as Say-on-Pay, considering approval of the compensation of its NEOs.

The Compensation Committee, which is responsible for the compensation of our CEO and Senior Officers (as defined in **ROLE OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE**), has overseen the development of compensation programs designed to attract, retain and motivate executives who enable us to achieve our strategic and financial goals. The **COMPENSATION DISCUSSION AND ANALYSIS** and the **EXECUTIVE COMPENSATION TABLES**, together with the accompanying narrative disclosures, allow you to view the trends in compensation and application of our compensation philosophies and practices for the years presented.

The Board of Directors believes that the Phillips 66 executive compensation programs align the interests of our executives with those of our shareholders. Our compensation programs are guided by the philosophy that the Company s ability to provide sustainable value is driven by superior individual performance. The Board believes that a company must offer competitive compensation to attract and retain experienced, talented and motivated employees. In addition, the Board believes employees in leadership roles within the organization are motivated to perform at their highest levels when performance-based pay represents a significant portion of their compensation. The Board believes that our philosophy and practices have resulted in executive compensation decisions that are aligned with Company and individual performance, are appropriate in value, and have benefited the Company and its shareholders.

Because your vote is advisory, it will not be binding upon the Board of Directors. Nevertheless, the Compensation Committee and the Board will consider the outcome of the vote when evaluating future executive compensation arrangements. However, votes for or against our compensation programs will not necessarily inform the Compensation Committee and the Board about which elements of those programs shareholders approve or disapprove. For this reason, the Board encourages shareholders to engage with us to allow the Compensation Committee to understand shareholders views and consider that feedback when making decisions.

PROPOSAL 4: ADVISORY APPROVAL OF FREQUENCY OF FUTURE ADVISORY APPROVALS OF EXECUTIVE COMPENSATION

In connection with the advisory vote on our executive compensation, shareholders are being asked to vote on the frequency of future shareholder advisory votes to approve executive compensation, as required by SEC rules. Shareholders may vote whether an advisory vote to approve our executive compensation should be held every year, every two years or every three years. Our current practice is to provide advisory votes on executive compensation every year.

THE BOARD RECOMMENDS THAT YOU VOTE FOR AN ANNUAL FREQUENCY OF THE ADVISORY APPROVAL OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS.

We believe that it is important to give our shareholders the opportunity to provide input on our executive compensation in a consistent and meaningful manner. As such, the Board believes that our shareholders should have the opportunity to voice their approval or disapproval of our executive compensation each year. The Board believes that annual votes will facilitate the highest level of accountability to, and communication with, our shareholders. Further, an annual vote clearly ties the advisory vote on executive compensation to the current year s compensation disclosure and avoids the potential for confusion as to which year shareholders are being asked to evaluate and vote on that might exist with a biennial or triennial vote.

This vote is advisory and is not binding. However, the Board values the opinions expressed by our shareholders and will consider the outcome of the vote when determining the frequency with which advisory votes on executive compensation should be held. Shareholders are not being asked to approve or disapprove of the Board s recommendation of an advisory vote on executive compensation every year, but rather to indicate their own choice among the frequency options for an advisory vote on executive compensation of every one year, every two years or every three years.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis details our executive compensation programs and describes the decisions the Compensation Committee made regarding our named executive officers   compensation for 2018.

COMPANY PERFORMANCE SUMMARY

Our performance results and strategic highlights are presented below. Some of these results are not measures of financial performance under U.S. generally accepted accounting principles (GAAP), for which more information is available in **Appendix A.**

0.14 TRR	Our record low combined Total Recordable Rate (TRR) was maintained for the second year in a row.
97.5%	An availability rate of 97.5% for the year enabled us to capitalize on favorable market conditions.
7 years	Since our inception 7 years ago, we have continually had improved environmental compliance performance.
	Four refineries were recognized in 2018 as 2017 American Fuel & Petrochemical Manufacturers Safety Award winners, with one receiving the Distinguished Safety Award our industry s highest level of safety recognition.
$1.5 billion	Growth projects executed in 2017 and 2018 will deliver run-rate EBITDA of $1.5 billion. See **Appendix A** for information on run-rate EBITDA.
900,000 BPD	In 2018, we progressed development of new midstream projects underpinned by customer volume commitments to drive our future growth. These projects include the 900,000 barrels- per-day (BPD) Gray Oak Pipeline, investment in the South Texas Gateway export terminal, 300,000 BPD of new NGL fractionation at our Sweeny Hub, and increased crude oil storage capacity at the Beaumont Terminal.
$5.6 billion	With strong performances in Refining, Marketing and Midstream, we achieved record earnings of $5.6 billion and a Return on Capital Employed of 17%.
2,000 stores	Through our multi-year campaign to re-brand our retail sites we have proudly re-imaged over 2,000 sites building market share. In 2018, sites that have been re-imaged have experienced a 2% uplift in sales volumes.
14%	We increased our quarterly dividend by 14% our eighth increase in six years. The 3-year compound annual growth rate of our dividend is 13%, and since inception is 27%.

$22.5 billion	Distributions to shareholders through dividends and share repurchases is a continued priority, and these totaled $6.1 billion in 2018. Over the past three years we have returned $11.4 billion, and since inception over $22.5 billion, including share exchanges.
214%	Our cumulative Total Shareholder Return (TSR) since inception is 214% outperforming both our peer group and the S&P 100. For 2018, our TSR was -10%. Our three-year TSR, for the period of 2016-2018, was 14%.
	We made significant progress on AdvantEdge66 initiatives in 2018. AdvantEdge66 is an enterprise-wide program to create additional shareholder value by leveraging technology, process improvements, and data analytics.
78,000 hours	Last year, our employees volunteered 78,000 hours to organizations in their local communities. Additionally, Phillips 66 provided $27 million in financial support to organizations promoting education, environmental sustainability, and community safety and preparedness.
13 awards	Through our annual Golden Shield Awards program, employees can nominate other employees and teams for outstanding performance. Almost 300 nominations were received and 13 nominations, recognizing 85 employees, were selected for this prestigious award. Employees were recognized in the categories of Strategy, Values and Achievement.

COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE COMPENSATION PROGRAM SUMMARY

We operate in a volatile industry; however, our diversified portfolio enables us to be resilient through industry cycles. Through our disciplined capital allocation model, we increase our enterprise value by strategically investing capital in our higher-valued businesses while returning a significant portion of capital to shareholders through dividends and share repurchases.

Since our inception in 2012, we have operated with clear overriding objectives enable our high-performing workforce to execute our corporate strategy efficiently and effectively, while remaining vigilant and focused on safety and operating excellence, in order to deliver profitable growth, optimize returns, and grow secure and competitive dividends.

Our NEOs for 2018 were:

Name	Title
Greg Garland	Chairman and Chief Executive Officer
Kevin Mitchell	Executive Vice President, Finance and Chief Financial Officer
Robert Herman	Executive Vice President, Refining
Paula Johnson	Executive Vice President, Legal and Government Affairs, General Counsel and Corporate Secretary
Tim Roberts	Executive Vice President, Midstream

Philosophy and Overriding Principles

Our compensation philosophy remains unchanged and supports our vision of providing energy and improving lives.

Ensure executive compensation drives behaviors and actions consistent with shareholder interests, prudent risk-taking and a long-term perspective.

Ensure executive compensation allows us to attract, retain, motivate, and reward high-performing executive talent, as well as support succession planning. We target reasonable and competitive compensation, aligned with market median levels.

Differentiate based on performance relative to targets, peers and market conditions. Executives have a significant portion of compensation tied to the achievement of annual and long-term goals that promote shareholder value creation.

Emphasize Phillips 66 stock ownership by requiring stock ownership levels for our executives.

Limit executive perquisites to items that serve a reasonable business purpose and are common in our peer group.

Regularly engage with shareholders on corporate governance topics, including executive compensation. Additionally, we provide executives the same group benefit programs as we provide other employees, on substantially the same terms.

Compensation Programs

The following table summarizes the principal elements of executive compensation and the performance drivers of each element.

EMENTS OF PAY	DELIVERED VIA	TARGET AMOUNT	PERFORMANCE D (AND WEIG
ary	Cash	Benchmarked to compensation peer group median; adjusted for experience, responsibility, performance and potential	Annual fixed cash compensation and reta
ncentive	Variable Cash Incentive Program (VCIP)	Percentage of base salary benchmarked to peer group	Adjusted EBITD Operating Excellen Adjusted Controllable Co High-Performing Organizati Individual Modifier (+/- 50%
rm Incentives	Performance Share Program (PSP) (3-year performance period) 50% of LTI Target Stock Option Program (1) 25% of LTI Target Restricted Stock Unit (RSU) Program 25% of LTI Target	Percentage of base salary benchmarked to peer group	Absolute ROC Relative ROC Relative TS Long-term stock price app Long-term stock price app

(1) The Compensation Committee believes that stock options are inherently performance-based, as options have no initial value and grantees only realize benefits if the value of our stock increases above the option price following the date of grant. This practice is intended to ensure that the interests of our NEOs are aligned with those of our shareholders.

Compensation Mix Puts Significant Pay at Risk

Consistent with our philosophy that executive compensation should be linked to Company performance and directly aligned with shareholder value creation, a significant portion of NEO compensation is at risk and based on performance metrics tied to our corporate strategy. At risk means there is no guarantee that the target value of the awards will be realized. Based on its evaluation of performance, the Compensation Committee has authority to reduce, and even award nothing for, the performance-based payouts and individual performance adjustments under each of the VCIP and PSP. Stock options can expire with zero value if the Company stock price does not appreciate above the grant date price over the 10-year term of the options. RSUs may lose value depending on stock price performance. Therefore, for NEOs to earn and sustain competitive compensation, the Company must meet its strategic objectives, perform well relative to peers, and deliver market-competitive returns to shareholders.

CEO target compensation mix is 90 percent at risk and 72 percent performance-based. The target mix for the other NEOs is 83 percent at risk and 66 percent performance-based. Further, LTI awards make up 74 percent of the CEO and 67 percent of other NEOs target compensation mix. For both the CEO and other NEOs, target mix percentages are commensurate with their levels of responsibility. Further detail on all of these programs is provided in **EXECUTIVE COMPENSATION PROGRAM DETAILS**.

COMPENSATION DISCUSSION AND ANALYSIS

The target mix of the compensation program elements for the CEO and other NEOs is shown below. The charts outline the relative size, in percentage terms, of each element of target compensation.

CEO Target Mix

Other NEO Target Mix

Aligned with Best Practices

The following best practices are reflected in our executive compensation programs:

WE DO
Target the majority of NEO compensation to be performance-based
Link NEO compensation to shareholder value creation by having a significant portion of compensation at risk
Apply multiple performance metrics aligned with our corporate strategy to measure our performance
Cap maximum payouts under our VCIP and equity programs
Employ a double trigger for severance benefits and equity awards under our Key Employee Change in Control Severance Plan (CICSP)
Include absolute and relative metrics in our LTI programs
Maintain stock ownership guidelines for executives CEO 6x base salary; other NEOs 3-5x base salary
Balance, monitor and manage compensation risk through regular assessments and robust clawback provisions
Have extended vesting periods on stock awards, with a minimum one-year vesting period required for stock and stock option awards
Maintain a fully independent Compensation Committee
Retain an independent compensation consultant
Hold a Say-on-Pay vote annually

WE DO NOT
× Provide excise tax gross-ups to our NEOs under our CICSP
× Reprice stock options without shareholder approval
× Price stock options below grant date fair market value
× Allow share recycling for stock options

× Have evergreen provisions in our active equity plans
× Allow hedging or pledging of Phillips 66 stock, or trading Phillips 66 stock outside of approved windows
× Pay dividends during the performance period on PSP targets
× Allow transfer of equity awards (except in the case of death)
× Provide separate supplemental executive retirement benefits for individual NEOs
× Maintain individual change-in-control agreements
× Have an employment agreement with the CEO
× Have excessive perquisites

EXECUTIVE COMPENSATION PROGRAM DETAILS

The following provides a more detailed look at our executive compensation programs.

Base Salary

Base salary is designed to provide a competitive and fixed rate of pay recognizing employees different levels of responsibility and performance. As the majority of our NEO compensation is performance-based and tied to long-term programs, base salary represents a less significant component of total compensation. In setting each NEO s base salary, the Compensation Committee considers factors including, but not limited to, the responsibility level for the position held, market data from the compensation peer group for comparable roles, experience and expertise, individual performance and business results.

Below is a summary of the annualized base salary for each NEO for 2018. Because these amounts reflect each NEO s annualized salary as of the dates indicated, this information may vary from the information provided in the **SUMMARY COMPENSATION TABLE,** which reflects actual base salary earnings in 2018, including the effect of salary changes during the year.

Name	Salary as of 1/1/2018 ($)	Salary as of 12/31/2018 ($)
Greg Garland	1,675,008	1,675,008
Kevin Mitchell (1)	800,016	832,032
Robert Herman	693,480	714,288
Paula Johnson	749,664	775,920
Tim Roberts	690,120	714,288

(1) Mr. Mitchell received a base salary increase from $712,920 to $800,016 effective January 1, 2018 to reflect his experience and performance and to align his base salary with the market.

Annual base salary increases were effective March 1, 2018, as part of the annual merit cycle for all employees. Base salary increases realign the NEO with the respective compensation peer group levels and reflect each NEO s achievement of established performance objectives corresponding to his or her role. The Compensation Committee determined the adjustments that were made were appropriate to maintain our competitiveness in the market.

Variable Cash Incentive Program

The VCIP, which is our annual incentive program, is designed to provide variability and differentiation based on corporate and individual performance. Through our metrics, we designed our VCIP program to align annual awards with shareholder interests and execution of our corporate strategy. We do not tie NEO VCIP awards to the performance of any individual business unit. We believe this structure serves the best interests of shareholders as it promotes collaboration across the organization.

To derive each NEO s target award, eligible earnings, which is base salary earned during the year, are multiplied by a percentage that is based on the NEO s salary grade level. At the end of the performance period, the Compensation Committee reviews the Company s performance to determine the Corporate Payout Percentage. This percentage is based on a mix of operational and financial metrics, the details and weighting of which are described below. The

Compensation Committee can award a Corporate Payout Percentage of zero up to the maximum of 200 percent.

The target award is multiplied by the Corporate Payout Percentage, after which the Compensation Committee takes into account the individual accomplishments of each NEO when determining applicable Individual Performance Adjustments. Individual Performance Adjustments can range from +/ 50 percent of the target award. Adjustments are based on measurable performance of the individual NEO that drives shareholder value.

The Compensation Committee used the same metrics as it has in prior years, as it believes these metrics are the most appropriate to align compensation with our corporate strategy. This mix of financial and operational metrics was designed to ensure a balanced view of Company performance and drive results over the near term.

2018 VCIP METRICS

Adjusted EBITDA

We believe Adjusted EBITDA is useful in evaluating our annual core operating performance and is how we determine enterprise value. Our threshold represents the Adjusted EBITDA required to cover our sustaining capital and shareholder dividend commitments. To ensure we continue to deliver on our growth strategy, the target and maximum for Adjusted EBITDA represent returns that are 1.5 percent and 3.0 percent above our Weighted Average Cost of Capital (WACC), respectively.

Based on actual Company performance being 54% above target, the Compensation Committee determined that a payout of 200 percent of target was earned for this metric. Adjusted EBITDA, as used for VCIP, is a non-GAAP financial measure. See **Appendix A** for additional information.

Operating Excellence

Operating excellence, including personal and process safety, environmental stewardship and asset availability, is critical to meeting our corporate strategy of growth, returns and distributions. We measure ourselves against others in our industry for safety metrics and target sustained performance in environmental stewardship and effective management of unplanned downtime.

For metrics for which comparative data was available, like Total Recordable Rate (TRR), Lost Workday Case Rate (LWCR), and Process Safety Event (PSE) Rate, we benchmarked ourselves against companies with the strongest safety records in our industry. Generally, these companies fall within the top 2 quartiles of all companies reported. We then established our threshold, target, and maximum goals based on the 25th, 50th, and 75th percentiles of this group of companies.

For metrics for which comparative data was not available, like asset availability and environmental events, we established our threshold, target, and maximum goals based on our own historical performance, with a goal of continuous improvement. For asset availability, we incorporate all of the lines of our business, and then weight them by EBITDA.

In 2018, we exceeded our target for LWCR and achieved the maximum level of performance for TRR, asset availability and environmental events. For PSE Rate, our performance was below target but above the threshold level of performance. Taking these factors into consideration, as well as the recommendation from the CEO to reduce combined TRR for a serious incident that occurred in 2018, the Compensation Committee approved an overall payout for Operating Excellence of 171 percent of target.

Combined TRR and LWCR: Our performance in LWCR was 17 percent improved versus target, achieving a payout of 150 percent of target. While 200 percent of target was earned for Combined TRR, the Compensation Committee reduced the payout by 30 percent as noted above, resulting in a payout of 170 percent of target.

PSE Rate: Our PSE Rate was 25 percent impaired versus our target. The Compensation Committee determined that a payout of 75 percent of target was earned.

Environmental Events: The Compensation Committee considered that in the industries in which we operate there is increasingly stringent regulation and scrutiny on environmental performance. We not only beat our stretch goal, but the Committee also acknowledged that this is our fourteenth consecutive year of improved environmental compliance. As a result, 200 percent of target was earned related to this metric.

Asset Availability: The Compensation Committee confirmed that our availability of 97.5 percent across all of our lines of business resulted in a payout of 200 percent of target.

	Payout Levels Based on Performance				2018	Payout
	0%	50%	100%	200%	Results	%
Combined TRR	> 0.31	0.31	0.25	0.21	0.14	170%
Combined LWCR	> 0.08	0.08	0.06	0.04	0.05	150%
Process Safety Event Rate	> 0.06	0.06	0.04	0.03	0.05	75%
Environmental Events	> 160	160	133	122	110	200%
Asset Availability	< 93.2%	93.2%	94.9%	96.6%	97.5%	200%
Combined Operating Excellence						171%

Adjusted Controllable Costs

Adjusted Controllable Costs focuses on operating excellence and our ability to deliver differentiated returns to shareholders. Our targets for threshold, target, and maximum are based on our budget for the current year. For threshold performance, Adjusted Controllable Costs could not exceed budget by more than 3 percent, target performance was based on achieving budget, and maximum performance required being at least 3 percent under budget.

In 2018, we were 3 percent improved versus our budget, resulting in a payout of 193 percent. Our lower costs relative to budget were related to lower staff costs, ongoing efficiencies, and lower refinery utilities. Adjusted Controllable Costs is a non-GAAP financial measure. See **Appendix A** for additional information.

COMPENSATION DISCUSSION AND ANALYSIS

High-Performing Organization

We believe maintaining and enhancing a high-performing organization is critical to our success. Our employees promote our culture and are integral to achieving our strategic goals and maximizing long-term shareholder value. We measure our High-Performing Organization (HPO) performance relative to the following:

Culture *foster behaviors that promote our unique culture*	Capability *build depth and breadth in our skills*	Performance *deliver exceptional, sustainable results*
maintained high employee engagement during a year of organizational change	drove employee development through technical training and rotational moves	realized strong retention or top talent
	sharpened managerial skills through targeted development programs and promotional moves	evaluated all managers on improving team capabilities
grew an inclusive and diverse workforce; strong diversity hires	demonstrated robust succession planning through leadership development and international assignments	modernized the performance management process

Progressed execution of 13 initiatives that underpin AdvantEdge 66, an enterprise-wide program to create additional shareholder value by transforming Phillips 66 into a smarter, more agile and efficient organization by leveraging technology, process improvements and data analytics.

We strive for continuous improvement of our high-performing organization, as we believe it is our employees that differentiate us in the market place. Based on our performance, the Compensation Committee determined that 160 percent of target was earned for High-Performing Organization.

Total Corporate Payout

The formulaic result of our individual metrics was a Total Corporate Payout of 185 percent, as summarized in the following table.

Metric	Payout Percentage	Weight	Corporate Amount
Adjusted EBITDA	200%	40%	80%
Operating Excellence	171%	35%	60%
Adjusted Controllable Costs	193%	15%	29%
High-Performing Organization	160%	10%	16%
Total Corporate Payout			185%

Individual Performance Highlights

The Compensation Committee has the authority to adjust our NEOs individual VCIP payouts by +/ 50 percent of the formula-based target payout. The Compensation Committee may apply an individual performance adjustment to reflect project-based accomplishments that drove or detracted from shareholder value or for market-based considerations to more closely align the payout with shareholder returns. This flexibility allows us to reflect our unique business strategy and portfolio of assets as well as differentiate individual executive performance. The Compensation Committee made adjustments to individual VCIP payouts for NEOs based on their responsibility for the success of projects and initiatives that lead to the successful execution of our strategy. These projects and initiatives, as shown in the following table, significantly contributed to our overall success and produced the results as shown in our **Company Performance Summary**.

The Compensation Committee approved total payouts for each of our NEOs as shown in the table below.

	2018 Eligible Earnings ($)	Target VCIP Percentage (%)	Corporate Payout Percentage (%)	Individual Performance Adjustment (%)	Total Payout ($)
Greg Garland	1,675,008	160%	185%	%	4,958,024
Kevin Mitchell	826,696	100%	185%	30%	1,777,396
Robert Herman	710,820	85%	185%	30%	1,299,024
Paula Johnson	771,544	90%	185%	15%	1,388,779
Tim Roberts	710,260	85%	185%	30%	1,298,000

Long-Term Incentive Programs

We deliver 50 percent of long-term target value as awards from our Performance Share Program (PSP), 25 percent in the form of stock options, and 25 percent in the form of restricted stock units (RSUs).

We believe this mix of awards is aligned with our compensation philosophy, reflects the cyclical nature of our business, promotes retention of our high-performing talent, supports succession planning and is consistent with market practice.

2018 LTI PROGRAMS

Performance Share Program

Each PSP has a three-year performance period, and therefore three PSPs are in progress at any time. By delivering 50 percent of LTI through the PSP, a significant portion of NEO compensation is tied to Company and individual performance.

Target Shares at Beginning of Performance Period. The Compensation Committee uses the Compensation Peer Group to benchmark LTI and establish base salary multiples for similar roles at peer organizations. The number of target shares is determined by dividing the multiple by the average of the stock s fair market value for the 20 days prior to the start of the performance period, less anticipated dividends during the performance period.

The Compensation Committee assesses the individual performance of each NEO, and based on that assessment may adjust an award by up to +/ 30 percent of the target amount at grant. The CEO provides input regarding awards made to all NEOs (other than himself). The Compensation Committee evaluates the individual performance of the CEO. The Compensation Committee believes in applying performance adjustments to the number of target shares at the beginning of the performance period, rather than the end, so that performance-adjusted compensation is subject to company performance and market volatility throughout the performance period, aligning executive compensation with shareholder interests.

Target shares may be adjusted during the performance period for significant changes in responsibility that occur during the performance period.

NEOs hired after the start of the performance period may receive prorated target shares in ongoing PSP cycles, at the discretion of the Compensation Committee, so that their interests are immediately aligned with the Company long-term goals and shareholder interests.

Performance Metrics. The performance metrics used for all three current PSP programs are after-tax return on capital employed (ROCE) and total share-holder return (TSR). After-tax ROCE accounts for 50 percent and is equally weighted between absolute and relative. The remaining 50 percent is our TSR relative to peers.

The Compensation Committee considers ROCE an important measure of Company growth and overall performance. The Compensation Committee evaluates our results relative to our Performance Peer Group as well as absolute targets based on our WACC.

- The absolute ROCE threshold is a return percentage equivalent to the Adjusted EBITDA required to cover our sustaining capital and shareholder dividend commitments during the three-year performance period.

- The absolute ROCE target delivers 1.5 percent above our WACC over the performance period.

- The absolute ROCE maximum delivers 3.0 percent above WACC over the performance period.

The Compensation Committee also recognizes that relative TSR is the most common standard for relative comparisons to peers. Our performance is evaluated as compared to our Performance Peer Group and the S&P 100 Index. Further information regarding our Performance Peer Group is provided in **Peer Group Comparisons**.

These metrics translate into the following goals:

		Performance Share Program 2016-2018		
Metric	Weight	Threshold (1)	Target (2)	Maximum (3)
Absolute ROCE	25%	3.2% average of 2016 (4.4%), 2017 (2.8%), and 2018 (2.4%) delivers sustaining capital and shareholder dividend commitments over 3-year period	10.0% average of 2016 (10.8%), 2017 (9.9%), and 2018 (9.4%) delivers WACC +1.5% over 3-year period	11.5% average of 2016 (12.3%), 2017 (11.4%), and 2018 (10.9%) delivers WACC +3.0% over 3-year period
Relative ROCE	25%	above 10th percentile of Performance Peers	median of Performance Peers	above 90th percentile of Performance Peers
Relative TSR	50%	above 10th percentile of Performance Peers	median of Performance Peers	above 90th percentile of Performance Peers

(1) Threshold for PSP 2017-2019 will be an average of 2017 (2.8%), 2018 (2.4%), and the ROCE necessary to deliver sustaining capital and dividend commitments in 2019. This number will not be known until after 2019 year-end. Threshold for PSP 2018-2020 will be an average of 2018 (2.4%), and the ROCE necessary to deliver sustaining capital and dividend commitments in 2019 and 2020. The 2020 number will not be known until after 2020 year-end.

(2) Target for PSP 2017-2019 will be an average of 2017 (9.9%), 2018 (9.4%), and the ROCE necessary to deliver WACC plus 1.5% in 2019. This number will not be known until after 2019 year-end. Target for PSP 2018-2020 will be an average of 2018 (9.4%), and the ROCE necessary to deliver WACC plus 1.5% in 2019 and 2020. The 2020 number will not be known until after 2020 year-end.

(3) Maximum for PSP 2017-2019 will be an average of 2017 (11.4%), 2018 (10.9%), and the ROCE necessary to deliver WACC plus 3.0% in 2019. This number will not be known until after 2019 year-end. Maximum for PSP 2018-2020 will be an average of 2018 (10.9%), and the ROCE necessary to deliver WACC plus 3.0% in 2019 and 2020. The 2020 number will not be known until after 2020 year-end.

Settlement. Awards under all of the current PSP programs are denominated in shares, but are paid in cash at the end of their respective performance periods. Performance can range from 0-200 percent of target.

Active PSP Programs. The programs in effect during 2018 were the PSP 2016-2018, PSP 2017-2019, and PSP 2018-2020.

After the close of the PSP 2016-2018, the Compensation Committee considered the following results when approving the payout of 80 percent of target.

Absolute ROCE: Absolute ROCE for the three-year performance period was 10.4 percent, or 0.4 percentage points above target, resulting in a payout of 127 percent of target, which was weighted at 25 percent. ROCE, as used in our PSP program, is a non-GAAP financial measure. See **Appendix A** for additional information.

Relative ROCE: Relative ROCE performance for the three-year performance period was 6th out of 16, including 15 peer companies and Phillips 66. This performance resulted in a payout of 134 percent for relative ROCE, which was weighted at 25 percent.

COMPENSATION DISCUSSION AND ANALYSIS

Relative TSR: TSR for the three-year performance period was 14.1 percent, which placed 14th out of 16 on a relative basis, made up of 14 peer companies, the S&P 100 Index, and Phillips 66. This performance resulted in a payout of 25 percent of target for relative TSR, which was weighted at 50 percent.

Accordingly, the Compensation Committee approved payouts for all of our NEOs for PSP 2016-2018. The payment was made in February 2019 and is described further in the footnotes of the **SUMMARY COMPENSATION TABLE**.

Stock Option Program

In 2018, 25 percent of the LTI target value was delivered to executives in the form of stock options. These awards are inherently performance-based, as the stock price must increase before the executive can realize any value. We believe stock options drive behaviors and actions that enhance long-term shareholder value.

Stock options are typically granted in February each year. The number of options awarded is calculated based on the Black-Scholes-Merton model. The exercise price of stock options is set at 100 percent of the fair market value of our common stock on the date of grant. Stock options granted to our NEOs in February 2018 vest ratably over a three-year period and have a ten-year term. Stock options do not have voting rights and are not entitled to receive dividends.

Restricted Stock Units

In 2018, 25 percent of the LTI target value was delivered to executives in the form of RSUs. The Compensation Committee believes maintaining RSUs in our LTI program complements the overall compensation mix for our executives by:

driving the right behaviors and actions consistent with creating shareholder value;

providing diversification of compensation in recognition of the cyclical nature of our industry;

resulting in actual share ownership aligned with our stock ownership guidelines; and

supporting executive retention.

RSUs are typically granted in February each year. The number of RSUs is determined based on the fair market value of Company stock on the date of grant. RSUs awarded to our NEOs in February 2018 cliff vest at the end of the three-year holding period and will be delivered to the NEOs in the form of Company stock. These RSUs do not carry voting rights but do earn dividend equivalents during the vesting period. The Compensation Committee assesses the individual performance of each NEO, and based on that assessment may adjust an award by up to +/ 30 percent of the target amount at grant. The CEO provides input regarding awards made to all NEOs (other than himself). The Compensation Committee evaluates the individual performance of the CEO.

2018 LTI Compensation

The Compensation Committee approved the following LTI for the NEOs for 2018. The Compensation Committee considered the individual performance of each NEO as outlined above when determining the target values. These values do not reflect prospective promotional adjustments to PSP targets and may not match the accounting values presented in the **GRANTS OF PLAN-BASED AWARDS** table.

NAME	PSP 2018-2020 [(1)] ($)	STOCK OPTIONS [(2)] ($)	RSUs [(3)] ($)	TOTAL TARGET ($)
Greg Garland	6,080,279	3,040,140	3,040,140	12,160,559
Kevin Mitchell	1,980,040	900,018	990,020	3,870,078
Robert Herman	1,182,383	537,447	591,192	2,311,022
Paula Johnson	1,360,640	618,473		