Phillips 66
Form 10-Q
August 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

For the quarterly period ended **June 30, 2012**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ **to** ______________

Commission file number: **001-35349**

Phillips 66

(Exact name of registrant as specified in its charter)

Delaware	**45-3779385**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

600 North Dairy Ashford, Houston, TX 77079

(Address of principal executive offices) (Zip Code)

281-293-6600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The registrant had 626,922,698 shares of common stock, $.01 par value, outstanding as of June 30, 2012.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income **Phillips 66**

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Revenues and Other Income				
Sales and other operating revenues*	**$ 46,747**	52,594	**92,530**	97,373
Equity in earnings of affiliates	**815**	784	**1,549**	1,474
Net gain on dispositions	**188**	43	**190**	46
Other income	**77**	9	**78**	10
Total Revenues and Other Income	**47,827**	53,430	**94,347**	98,903
Costs and Expenses				
Purchased crude oil and products	**40,398**	46,600	**80,726**	85,948
Operating expenses	**984**	1,018	**2,076**	2,060
Selling, general and administrative expenses	**480**	347	**829**	670
Depreciation and amortization	**224**	226	**440**	445
Impairments	**275**	2	**318**	2
Taxes other than income taxes*	**3,475**	3,631	**6,895**	7,111
Accretion on discounted liabilities	**6**	6	**11**	11
Interest and debt expense	**83**	3	**96**	7
Foreign currency transaction (gains) losses	**8**	(31)	**(7)**	(74)
Total Costs and Expenses	**45,933**	51,802	**91,384**	96,180
Income before income taxes	**1,894**	1,628	**2,963**	2,723
Provision for income taxes	**712**	588	**1,143**	1,006
Net income	**1,182**	1,040	**1,820**	1,717
Less: net income attributable to noncontrolling interests	**1**	1	**3**	2
Net Income Attributable to Phillips 66	**$ 1,181**	1,039	**1,817**	1,715
Net Income Attributable to Phillips 66 Per Share of Common Stock *(dollars)***				
Basic	**$ 1.88**	1.66	**2.89**	2.73
Diluted	**1.86**	1.64	**2.86**	2.70
Average Common Shares Outstanding *(in thousands)***				
Basic	**628,510**	627,628	**628,069**	627,628
Diluted	**635,157**	634,645	**635,051**	634,645

** Includes excise taxes on petroleum products sales:*	***$ 3,389***	*3,554*	***6,710***	*6,937*

***See Note 10 Earnings Per Share.*
See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income **Phillips 66**

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Net Income	$ **1,182**	1,040	**1,820**	1,717
Other comprehensive income (loss)				
Defined benefit plans				
Prior service cost:				
Amortization to net income of prior service cost	**1**		**1**	
Actuarial gain/loss:				
Amortization to net income of net actuarial loss	**13**	1	**15**	2
Actuarial gain arising during the period	**90**		**90**	
Other plans*	**5**	4	**8**	10
Income taxes on defined benefit plans	**(40)**	(2)	**(42)**	(5)
Defined benefit plans, net of tax	**69**	3	**72**	7
Foreign currency translation adjustments	**(113)**	(7)	**(59)**	17
Income taxes on foreign currency translation adjustments	**68**	(12)	**48**	(60)
Foreign currency translation adjustments, net of tax	**(45)**	(19)	**(11)**	(43)
Hedging activities	**(1)**	1		2
Income taxes on hedging activities		(1)		(1)
Hedging activities, net of tax	**(1)**			1
Other Comprehensive Income (Loss), Net of Tax	**23**	(16)	**61**	(35)
Comprehensive Income	**1,205**	1,024	**1,881**	1,682
Less: comprehensive income attributable to noncontrolling interests	**1**	1	**3**	2
Comprehensive Income Attributable to Phillips 66	$ **1,204**	1,023	**1,878**	1,680

**Plans for which Phillips 66 is not the primary obligor primarily those administered by equity affiliates.*

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet **Phillips 66**

	Millions of Dollars	
	June 30 2012	December 31 2011
Assets		
Cash and cash equivalents	**$ 3,104**	
Accounts and notes receivable (net of allowance of $49 million in 2012 and $13 million in 2011)	**7,876**	8,354
Accounts and notes receivable related parties	**1,337**	1,671
Inventories	**5,496**	3,466
Prepaid expenses and other current assets	**713**	457
Total Current Assets	**18,526**	13,948
Investments and long-term receivables	**10,640**	10,306
Net properties, plants and equipment	**15,169**	14,771
Goodwill	**3,344**	3,332
Intangibles	**728**	732
Other assets	**168**	122
Total Assets	**$ 48,575**	43,211
Liabilities		
Accounts payable	**$ 10,462**	10,007
Accounts payable related parties	**1,012**	785
Short-term debt	**590**	30
Accrued income and other taxes	**1,091**	1,087
Employee benefit obligations	**275**	64
Other accruals	**941**	411
Total Current Liabilities	**14,371**	12,384
Long-term debt	**7,396**	361
Asset retirement obligations and accrued environmental costs	**770**	787
Deferred income taxes	**5,497**	5,803
Employee benefit obligations	**1,057**	117
Other liabilities and deferred credits	**505**	466
Total Liabilities	**29,596**	19,918
Equity		
Common stock (2,500,000,000 shares authorized at $.01 par value)		
Issued (2012 626,922,698 shares)		
Par value	**6**	
Capital in excess of par	**18,608**	
Retained earnings	**692**	
Net parent company investment		23,142
Accumulated other comprehensive income (loss)	**(358)**	122
Total Stockholders Equity	**18,948**	23,264
Noncontrolling interests	**31**	29
Total Equity	**18,979**	23,293

Total Liabilities and Equity	**$ 48,575**	43,211

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows **Phillips 66**

	Millions of Dollars Six Months Ended June 30	
	2012	2011
Cash Flows From Operating Activities		
Net income	$ **1,820**	1,717
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**440**	445
Impairments	**318**	2
Accretion on discounted liabilities	**11**	11
Deferred taxes	**178**	385
Undistributed equity earnings	**(561)**	(808)
Net gain on dispositions	**(190)**	(46)
Other	**(14)**	78
Working capital adjustments		
Decrease (increase) in accounts and notes receivable	**664**	(173)
Decrease (increase) in inventories	**(2,046)**	(1,831)
Decrease (increase) in prepaid expenses and other current assets	**(161)**	(241)
Increase (decrease) in accounts payable	**(33)**	1,840
Increase (decrease) in taxes and other accruals	**647**	159
Net Cash Provided by Operating Activities	**1,073**	1,538
Cash Flows From Investing Activities		
Capital expenditures and investments	**(488)**	(393)
Proceeds from asset dispositions	**240**	87
Collection of advances/loans related parties		400
Other		49
Net Cash Provided by (Used in) Investing Activities	**(248)**	143
Cash Flows From Financing Activities		
Distributions to ConocoPhillips	**(5,255)**	(1,667)
Issuance of debt	**7,794**	
Repayment of debt	**(198)**	(13)
Issuance of common stock	**2**	
Other	**(67)**	(1)
Net Cash Provided by (Used in) Financing Activities	**2,276**	(1,681)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**3**	
Net Change in Cash and Cash Equivalents	**3,104**	
Cash and cash equivalents at beginning of period		
Cash and Cash Equivalents at End of Period	$ **3,104**	

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity **Phillips 66**

		Millions of Dollars						
		Attributable to Phillips 66						
		Common Stock						
		Par Value	Capital in Excess of Par	Retained Earnings	Net Parent Company Investment	Accum. Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
December 31, 2010	$				25,787	214	25	26,026
Net income					1,715		2	1,717
Net transfers to ConocoPhillips					(1,532)			(1,532)
Other comprehensive loss						(35)		(35)
Distributions to noncontrolling interests and other								
June 30, 2011	$				25,970	179	27	26,176
December 31, 2011	**$**				**23,142**	**122**	**29**	**23,293**
Net income				**692**	**1,125**		**3**	**1,820**
Net transfers to/from ConocoPhillips					**(5,707)**	**(541)**		**(6,248)**
Other comprehensive income						**61**		**61**
Reclassification of net parent company investment to capital in excess of par			**18,560**		**(18,560)**			
Issuance of common stock at the separation		**6**	**(6)**					
Distributed under benefit plans			**54**					**54**
Distributions to noncontrolling interests and other							**(1)**	**(1)**
June 30, 2012	**$**	**6**	**18,608**	**692**		**(358)**	**31**	**18,979**

	Shares in Thousands Common Stock
December 31, 2011	
Issuance of common stock at the separation	625,272
Shares issued stock-based compensation	1,651
June 30, 2012	**626,923**

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements **Phillips 66**

Note 1 Separation and Basis of Presentation

The Separation

On April 4, 2012, the ConocoPhillips Board of Directors approved the separation of its downstream businesses into an independent, publicly traded company named Phillips 66. In accordance with a separation and distribution agreement, the two companies were separated by ConocoPhillips distributing to its stockholders all 625,272,302 shares of common stock of Phillips 66 after the market closed on April 30, 2012. Each ConocoPhillips shareholder received one share of Phillips 66 stock for every two shares of ConocoPhillips stock held at the close of business on the record date of April 16, 2012. Fractional shares of Phillips 66 common stock were not distributed and any fractional shares of Phillips 66 common stock otherwise issuable to a ConocoPhillips shareholder were sold in the open market on such shareholder s behalf, and such shareholder received a cash payment with respect to that fractional share. In conjunction with the separation, ConocoPhillips received a private letter ruling from the Internal Revenue Service to the effect that, based on certain facts, assumptions, representations and undertakings set forth in the ruling, for U.S. federal income tax purposes, the distribution of Phillips 66 stock was not taxable to ConocoPhillips or U.S. holders of ConocoPhillips common stock, except in respect to cash received in lieu of fractional share interests. Following the separation, ConocoPhillips retained no ownership interest in Phillips 66, and each company now has separate public ownership, boards of directors and management. A registration statement on Form 10, as amended through the time of its effectiveness, describing the separation was filed by Phillips 66 with the U.S. Securities and Exchange Commission (SEC) and was declared effective on April 12, 2012 (the Form 10).

On May 1, 2012, Phillips 66 stock began trading the regular-way on the New York Stock Exchange under the PSX stock symbol. Pursuant to the separation and distribution agreement with ConocoPhillips, on April 30, 2012, we made a special cash distribution to ConocoPhillips of $5.95 billion. After subsequent working capital and inventory determinations, an additional cash distribution of $1.87 billion was made to ConocoPhillips in June 2012. After consideration of the cash retained by Phillips 66 at separation, as well as cash flow impacts of the four months ended April 30, 2012, the net distribution to ConocoPhillips was $5.3 billion.

Basis of Presentation

Prior to the separation on April 30, 2012, our results of operations, financial position and cash flows consisted of ConocoPhillips refining, marketing and transportation operations; its natural gas gathering, processing, transmission and marketing operations, primarily conducted through its equity investment in DCP Midstream, LLC (DCP Midstream); its petrochemical operations, conducted through its equity investment in Chevron Phillips Chemical Company LLC (CPChem); its power generation operations; and an allocable portion of its corporate costs (together, the downstream businesses). These financial statements have been presented as if the downstream businesses had been combined for all periods presented. All intercompany transactions and accounts within the downstream businesses were eliminated. The assets and liabilities have been reflected on a historical cost basis, as all of the assets and liabilities presented were wholly owned by ConocoPhillips and were transferred within the ConocoPhillips consolidated group. The statement of income for periods prior to the separation includes expense allocations for certain corporate functions historically performed by ConocoPhillips and not allocated to its operating segments, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, procurement and information technology. These allocations were based primarily on specific identification of time and/or activities associated with the downstream businesses, employee headcount or capital expenditures. The combined financial statements may not necessarily reflect all of the actual expenses that would have been incurred had we been a stand-alone company during the periods presented prior to the separation.

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All financial information presented after the separation represents the consolidated results of operations, financial position and cash flows of Phillips 66. Accordingly:

Our consolidated statements of income and comprehensive income for the three months ended June 30, 2012, consist of the consolidated results of Phillips 66 for the two months ended June 30, 2012, and the combined results of the downstream businesses for the one month ended April 30, 2012. Our consolidated statements of income and comprehensive income for the six months ended June 30, 2012, consist of the consolidated results of Phillips 66 for the two months ended June 30, 2012, and of the combined results of the downstream businesses for the four months ended April 30, 2012. Our consolidated statements of income and comprehensive income for the three and six months ended June 30, 2011, consist entirely of the combined results of the downstream businesses.

Our consolidated balance sheet at June 30, 2012, consists of the consolidated balances of Phillips 66, while at December 31, 2011, it consists of the combined balances of the downstream businesses.

Our consolidated statement of cash flows for the six months ended June 30, 2012, consists of the consolidated results of Phillips 66 for the two months ended June 30, 2012, and the combined results of the downstream businesses for the four months ended April 30, 2012. Our consolidated statement of cash flows for the six months ended June 30, 2011, consists entirely of the combined results of the downstream businesses.

Our consolidated statement of changes in equity for the six months ended June 30, 2012, consists of both the combined activity for the downstream businesses prior to April 30, 2012, and the consolidated activity for Phillips 66 completed at and subsequent to the separation on April 30, 2012. Our consolidated statement of changes in equity for the six months ended June 30, 2011, consists entirely of the combined activity of the downstream businesses.

Note 2 Interim Financial Information

The interim-period financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments necessary, in the opinion of management, for a fair presentation of the consolidated financial position of Phillips 66 and its results of operations and cash flows for the periods presented. Unless otherwise specified, all such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these interim financial statements should be read in conjunction with the audited combined financial statements and notes thereto for the year ended December 31, 2011, included in our Form 10. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results to be expected for the full year.

Note 3 Variable Interest Entities (VIEs)

We hold significant variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. Information on these VIEs follows:

Merey Sweeny, L.P. (MSLP) is a limited partnership that owns a delayed coker and related facilities at the Sweeny Refinery. As discussed more fully in Note 6 Investments and Long-Term Receivables, in August 2009 we exercised our call right to acquire the 50 percent ownership interest in MSLP of our co-venturer, Petróleos de Venezuela S.A. (PDVSA). That exercise has been challenged, and the dispute is being arbitrated. Because our exercise has been challenged by PDVSA, we continue to use the equity method of accounting for MSLP, and the VIE analysis below is based on the ownership and governance structure in place prior to the exercise of our call right. MSLP is now a VIE because, in securing lender consents in connection with the separation, we provided a 100 percent debt guarantee to the lender of the 8.85% senior notes issued by MSLP. PDVSA did not participate in the debt guarantee. In our VIE assessment, this disproportionate debt guarantee,

plus other liquidity support provided jointly by us and PDVSA independently of equity ownership, results in MSLP not being exposed to all potential losses. We have determined we are not the primary beneficiary while our call exercise is in dispute because under the partnership agreement the co-venturers could jointly direct the activities of MSLP that most significantly impact economic performance. At June 30, 2012, our maximum exposure represented the outstanding principal balance on the debt of $242 million. Our book value in MSLP at June 30, 2012, was $88 million.

We have a 50 percent ownership interest with a 50 percent governance interest in Excel Paralubes, L.P. (Excel). Excel is now a VIE because, in securing lender consents in connection with the separation, ConocoPhillips provided a 50 percent debt guarantee to the lender of the 7.43% senior secured bonds issued by Excel. We provided a full indemnity to ConocoPhillips for this debt guarantee. Our co-venturer did not participate in the debt guarantee. In our assessment of the VIE, this debt guarantee, plus other liquidity support up to $60 million provided jointly by us and our co-venturer independently of equity ownership, results in Excel not being exposed to all potential losses. We have determined we are not the primary beneficiary because we and our co-venturer jointly direct the activities of Excel that most significantly impact economic performance. We continue to use equity method accounting for this investment. At June 30, 2012, our maximum exposure represented 50 percent of the outstanding principal debt balance of $187 million, or $94 million, plus half of the $60 million liquidity support, or $30 million. Our book value in Excel at June 30, 2012, was $139 million.

Note 4 Inventories

Inventories consisted of the following:

	Millions of Dollars	
	June 30 2012	December 31 2011
Crude oil and petroleum products	$ **5,208**	3,193
Materials and supplies	**288**	273
	$ **5,496**	3,466

Inventories valued on the last-in, first-out (LIFO) basis totaled $5,061 million and $3,046 million at June 30, 2012, and December 31, 2011, respectively. The estimated excess of current replacement cost over LIFO cost of inventories amounted to approximately $6,900 million and $8,600 million at June 30, 2012, and December 31, 2011, respectively.

During the second quarter of 2012, certain inventory reductions caused a liquidation of LIFO inventory values. This liquidation increased net income $67 million, all of which was attributable to the Refining and Marketing (R&M) segment.

Note 5 Assets Held for Sale or Sold

On June 22, 2012, we sold our refinery located on the Delaware River in Trainer, Pennsylvania, for $229 million. The refinery and associated terminal and pipeline assets were included in our R&M segment and at the time of the disposition had a net carrying value of $38 million, which included $37 million of properties, plants and equipment (PP&E), $25 million of allocated goodwill and a $53 million asset retirement obligation. The $189 million before-tax gain on this disposition was included in the Net gain on dispositions line in the consolidated income statement.

In the first quarter of 2012, equipment formerly associated with the cancelled Wilhelmshaven Refinery upgrade project was classified as held for sale. At June 30, 2012, the equipment had a net carrying value of $30 million, primarily PP&E. See Note 8 Impairments for additional information.

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Note 6 Investments and Long-Term Receivables

Equity Investments

Summarized 100 percent financial information for WRB Refining LP (WRB) and CPChem combined was as follows:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Revenues	$ **8,544**	8,581	**17,091**	15,708
Income before income taxes	**1,474**	1,060	**2,573**	1,938
Net income	**1,451**	1,039	**2,533**	1,902

Other

MSLP is a limited partnership that owns a delayed coker and related facilities at the Sweeny Refinery. Prior to August 28, 2009, MSLP was owned 50/50 by ConocoPhillips and PDVSA. Under the agreements that govern the relationships between the partners, certain defaults by PDVSA with respect to supply of crude oil to the Sweeny Refinery gave ConocoPhillips the right to acquire PDVSA s 50 percent ownership interest in MSLP, which was exercised on August 28, 2009. PDVSA has initiated arbitration with the International Chamber of Commerce challenging the exercise of the call right and claiming it was invalid. The arbitral tribunal is scheduled to hold hearings on the merits of the dispute in December 2012. We continue to use the equity method of accounting for our investment in MSLP.

Note 7 Properties, Plants and Equipment

Our investment in PP&E, with the associated accumulated depreciation and amortization (Accum. D&A), was:

	Millions of Dollars					
	June 30, 2012			December 31, 2011*		
	Gross PP&E	Accum. D&A	Net PP&E	Gross PP&E	Accum. D&A	Net PP&E
R&M						
Refining	$ **18,522**	**5,801**	**12,721**	19,333	6,630	12,703
Transportation	**2,400**	**956**	**1,444**	2,359	931	1,428
Marketing and other	**1,374**	**785**	**589**	1,386	766	620
Total R&M	**22,296**	**7,542**	**14,754**	23,078	8,327	14,751
Midstream	**62**	**49**	**13**	64	51	13
Chemicals						
Corporate and Other	**786**	**384**	**402**	14	7	7
	$ **23,144**	**7,975**	**15,169**	23,156	8,385	14,771

** Certain PP&E within the R&M segment have been reclassified between Refining and Marketing and other.*

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Note 8 Impairments

During the three- and six-month periods ended June 30, 2012 and 2011, we recognized the following before-tax impairment charges:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
R&M				
United States	$	1	**1**	1
International		1	**42**	1
		2	**43**	2
Midstream	**275**		**275**	
	$ **275**	2	**318**	2

During the second quarter of 2012, we recorded a $275 million impairment of our investment in Rockies Express Pipeline LLC (REX). See the Fair Value Remeasurements section below for additional information on this impairment.

The six-month period of 2012 also included a held-for-sale impairment of $42 million in our R&M segment related to equipment formerly associated with the canceled Wilhelmshaven Refinery upgrade project.

Fair Value Remeasurements

There were no material fair value impairments for the six-month period ended June 30, 2011. The following table shows the values of assets at June 30, 2012, by major category, measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Millions of Dollars			
		Fair Value Measurements Using		
	Fair Value*	Level 1 Inputs	Level 3 Inputs	Before-Tax Loss
June 30, 2012				
Net properties, plants and equipment (held for sale)	$ 32	32		42
Equity method investment	495		495	275

**Represents the fair value at the time of the impairment.*

During the six-month period ended June 30, 2012, net PP&E held for sale with a carrying amount of $74 million was written down to its fair value of $32 million, resulting in a before-tax loss of $42 million. The fair value was primarily determined by negotiated selling prices with third parties.

During this same period, our investment in REX was written down to a fair value of $495 million, resulting in a before-tax loss of $275 million. During the second quarter of 2012, our co-venturer recognized a fair value adjustment of a disposal group that included REX, based on

information gathered from its marketing process. After identifying this impairment indicator, we performed our own assessment of the carrying amount of our investment, considering expected future cash flows and the discount rate. Based on this updated information, our internal assessment concluded our investment in REX was impaired, and the decline in fair value was other than temporary.

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Note 9 Debt

Debt

Long-term debt at June 30, 2012, and December 31, 2011, was:

	Millions of Dollars	
	June 30 2012	December 31 2011
1.95% Senior Notes due 2015	$ **800**	
2.95% Senior Notes due 2017	**1,500**	
4.30% Senior Notes due 2022	**2,000**	
5.875% Senior Notes due 2042	**1,500**	
Industrial Development Bonds due 2018 through 2022 at 0.15% 0.38% at June 30, 2012 and 0.08% 5.75% at December 31, 2011	**50**	234
Term loan due 2013 through 2015 at 1.716% at June 30, 2012	**2,000**	
Note payable to MSLP due 2020 at 7% (related party)	**128**	134
Other	**3**	8
Debt at face value	**7,981**	376
Capitalized leases	**11**	14
Net unamortized premiums and discounts	**(6)**	1
Total debt	**7,986**	391
Short-term debt	**(590)**	(30)
Long-term debt	$ **7,396**	361

During March 2012, we issued, through a private placement, $5.8 billion of Senior Notes. The notes are guaranteed by Phillips 66 Company, a wholly owned subsidiary. In connection with the private placement, we and Phillips 66 Company granted the holders of the notes certain registration rights under a Registration Rights Agreement. We have agreed for the benefit of the holders of the notes to use our commercially reasonable efforts to file and cause to be effective a registration statement with the SEC on an appropriate form with respect to a registered offer to exchange each series of notes for new notes that are guaranteed by Phillips 66 Company with terms substantially identical in all material respects to such series of notes. Generally, we have one year from the issuance of the Senior Notes to complete the exchange offer.

In the second quarter of 2012, we retired approximately $185 million of previously existing debt and closed the financing of $2.0 billion of new debt as a three-year amortizing term loan. The term loan incurs interest at a variable rate based on referenced rates plus a margin dependent upon the credit rating of our senior unsecured long-term debt as determined from time to time by Standard & Poor s Ratings Services (S&P) and Moody s Investors Service (Moody s).

Credit Facilities

In February 2012, we entered into a five-year revolving credit agreement with a syndicate of financial institutions. Under the terms of the revolving credit agreement, we have a borrowing capacity of up to $4.0 billion. No amount has been drawn under this facility. However, as of June 30, 2012, $50 million in letters of credit had been issued that were supported by this facility.

The revolving credit agreement contains covenants that we consider usual and customary for an agreement of this type for comparable commercial borrowers, including a maximum consolidated net debt-to-capitalization ratio of 60 percent. The agreement has customary events of default, such as nonpayment of principal when due; nonpayment of interest, fees or other amounts; violation of covenants; cross-payment default and cross-acceleration (in each case, to indebtedness in excess of a threshold amount); and a change of control.

Borrowings under the credit agreement will incur interest at LIBOR plus a margin based on the credit rating of our senior unsecured long-term debt as determined from time to time by S&P and Moody s. The revolving credit agreement also provides for customary fees, including administrative agent fees and commitment fees.

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Trade Receivables Securitization Facility

In the second quarter of 2012, we established a wholly owned subsidiary to hold trade receivables that will be used as collateral for the subsidiary s new borrowing facility with an aggregate capacity of $1.2 billion, which has a term of three years. As of June 30, 2012, no cash had been borrowed under the facility, but we had obtained $279 million in letters of credit under the facility that were collateralized by $279 million of the trade receivables held by the subsidiary.

Note 10 Earnings Per Share

Basic earnings per share (EPS) is based on net income attributable to Phillips 66 (earnings) and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock and unit awards that have not yet been issued as common stock. Diluted EPS includes the above, plus unvested stock, unit or option awards granted under our compensation plans and vested unexercised stock options, but only to the extent these instruments dilute earnings per share.

On April 30, 2012, 625,272,302 shares of our common stock were distributed to ConocoPhillips stockholders in conjunction with the separation. For comparative purposes, and to provide a more meaningful calculation of weighted-average shares outstanding, we have assumed this amount to be outstanding as of the beginning of each period prior to the separation presented in the calculation of weighted-average shares. In addition, we have assumed the dilutive securities outstanding at April 30, 2012, were also outstanding for each of the periods prior to the separation presented.

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Basic EPS Calculation				
Net income attributable to Phillips 66 *(millions)*	$ **1,181**	1,039	**1,817**	1,715
Weighted-average common shares outstanding basic *(thousands)*	**628,510**	627,628	**628,069**	627,628
Earnings per share basic	$ **1.88**	1.66	**2.89**	2.73
Diluted EPS Calculation				
Net income attributable to Phillips 66 *(millions)*	$ **1,181**	1,039	**1,817**	1,715
Weighted-average common shares outstanding basic *(thousands)*	**628,510**	627,628	**628,069**	627,628
Dilutive effect of stock-based compensation *(thousands)*	**6,647**	7,017	**6,982**	7,017
Weighted-average common shares outstanding diluted *(thousands)*	**635,157**	634,645	**635,051**	634,645
Earnings per share diluted	$ **1.86**	1.64	**2.86**	2.70

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Note 11 Guarantees

At June 30, 2012, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantee and expect future performance to be either immaterial or have only a remote chance of occurrence.

Guarantees of Joint Venture Debt

In April 2012, in connection with the separation, we issued a guarantee for 100 percent of the 8.85% senior notes issued by MSLP in July 1999. At June 30, 2012, the maximum potential amount of future payments to third parties under the guarantee is estimated to be $242 million, which could become payable if MSLP fails to meet its obligations under the senior note agreement.

At June 30, 2012, we had other guarantees outstanding for our portion of certain joint venture debt obligations, which have remaining terms of up to 14 years. The maximum potential amount of future payments under these other guarantees is approximately $116 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

We have other guarantees with maximum future potential payment amounts totaling $268 million, which consist primarily of guarantees to fund the short-term cash liquidity deficits of certain joint ventures and guarantees of the lease payment obligations of a joint venture. These guarantees generally have remaining terms of up to 13 years or life of the venture.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to qualifying indemnifications. Agreements associated with these sales include indemnifications for taxes, environmental liabilities, permits and licenses, employee claims, real estate indemnity against tenant defaults, and litigation. The terms of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, relative to which the term is generally indefinite and the maximum amount of future payments is generally unlimited. The carrying amount recorded for indemnifications at June 30, 2012, was $362 million. We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information the liability is essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. Included in the recorded carrying amount were $147 million of environmental accruals for known contamination that are included in asset retirement obligations and accrued environmental costs at June 30, 2012. For additional information about environmental liabilities, see Note 12 Contingencies and Commitments.

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Indemnification and Release Agreement

In conjunction with, and effective as of, the separation, we entered into an Indemnification and Release Agreement with ConocoPhillips. This agreement governs the treatment between ConocoPhillips and us of all aspects relating to indemnification, insurance, litigation responsibility and management, and litigation document sharing and cooperation arising in connection with the separation. Generally, the agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of ConocoPhillips business with ConocoPhillips. The agreement also establishes procedures for handling claims subject to indemnification and related matters.

Note 12 Contingencies and Commitments

A number of lawsuits involving a variety of claims have been made against Phillips 66 that arose in the ordinary course of business. We also may be required to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various active and inactive sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we record receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include contingent liabilities recorded for environmental remediation, tax and legal matters.

Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Environmental

We are subject to international, federal, state and local environmental laws and regulations. When we prepare our consolidated financial statements, we record accruals for environmental liabilities based on management s best estimates, using all information available at the time. We measure estimates and base liabilities on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies cleanup experience, and data released by the U.S. Environmental Protection Agency (EPA) or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable.

Although liability of those potentially responsible for environmental remediation costs is generally joint and several for federal sites and frequently so for state sites, we are usually only one of many companies cited at a particular site. Due to the joint and several liabilities, we could be responsible for all cleanup costs related to any site at which we have been designated as a potentially responsible party. We have been successful to date in sharing cleanup costs with other financially sound companies. Many of the sites at which we are potentially responsible are still under investigation by the EPA or the state agencies concerned. Prior to actual cleanup, those potentially responsible normally assess the site conditions, apportion responsibility and determine the appropriate remediation. In some instances, we may have no liability or may attain a settlement of liability. Where it appears that other potentially responsible parties may be financially unable to bear their proportional share, we consider this inability in estimating our potential liability, and we adjust our accruals accordingly. As a result of various acquisitions in the past, we assumed certain environmental obligations. Some of these environmental obligations are mitigated by indemnifications made by others for our benefit and some of the indemnifications are subject to dollar and time limits.

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except those acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. At June 30, 2012, our consolidated balance sheet included a total environmental accrual of $538 million, compared with $542 million at December 31, 2011. We expect to incur a substantial amount of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings

Our legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. Our process facilitates the early evaluation and quantification of potential exposures in individual cases. This process also enables us to track those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, our legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, are required.

Other Contingencies

We have contingent liabilities resulting from throughput agreements with pipeline and processing companies not associated with financing arrangements. Under these agreements, we may be required to provide any such company with additional funds through advances and penalties for fees related to throughput capacity not utilized.

At June 30, 2012, we had performance obligations secured by letters of credit of $1,961 million (of which $279 million were issued under the trade receivables securitization facility, $50 million were issued under the provisions of our revolving credit facility, and the remainder were issued as direct bank letters of credit) related to various purchase commitments incident to the ordinary conduct of business.

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Note 13 Financial Instruments and Derivative Contracts

Derivative Instruments

We use financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates and commodity prices or to capture market opportunities. Since we are not currently using cash-flow hedge accounting, all gains and losses, realized or unrealized, from derivative contracts have been recognized in the consolidated statement of income. Gains and losses from derivative contracts held for trading not directly related to our physical business, whether realized or unrealized, have been reported net in Other income on our consolidated statement of income. Cash flows from all our derivative activity for the periods presented appear in the operating section of the cash flow statement.

Purchase and sales contracts with fixed minimum notional volumes for commodities that are readily convertible to cash (e.g., crude oil and gasoline) are recorded on the balance sheet as derivatives unless the contracts are eligible for, and we elect, the normal purchases and normal sales exception (i.e., contracts to purchase or sell quantities we expect to use or sell over a reasonable period in the normal course of business). We generally apply this normal purchases and normal sales exception to eligible crude oil, refined product, natural gas and power commodity purchase and sales contracts; however, we may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of the purchase or sales contract but hedge accounting will not be applied, in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

We value our exchange-traded derivatives using closing prices provided by the exchange as of the balance sheet date, and these are classified as Level 1 in the fair value hierarchy. Where exchange-provided prices are adjusted, non-exchange quotes are used or when the instrument lacks sufficient liquidity, we generally classify those exchange-cleared contracts as Level 2. Over-the-counter (OTC) financial swaps and physical commodity forward purchase and sales contracts are generally valued using quotations provided by brokers and price index developers such as Platts and Oil Price Information Service. These quotes are corroborated with market data and are classified as Level 2. In certain less liquid markets or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC swaps and physical commodity purchase and sales contracts are valued using internally developed methodologies that consider historical relationships among various commodities that result in management s best estimate of fair value. These contracts are classified as Level 3. A contract that is initially classified as Level 3 due to absence or insufficient corroboration of broker quotes over a material portion of the contract will transfer to Level 2 when the portion of the trade having no quotes or insufficient corroboration becomes an insignificant portion of the contract. A contract would also transfer to Level 2 if we began using a corroborated broker quote that has become available. Conversely, if a corroborated broker quote ceases to be available or used by us, the contract would transfer from Level 2 to Level 3. There were no transfers in or out of Level 1 during the periods presented.

Financial OTC and physical commodity options are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. The degree to which these inputs are observable in the forward markets determines whether the options are classified as Level 2 or 3.

We use a mid-market pricing convention (the mid-point between bid and ask prices). When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

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The fair value hierarchy for our derivative assets and liabilities accounted for at fair value on a recurring basis was:

	Millions of Dollars							
	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	$ **2,392**	**977**	**5**	**3,374**	389	270	6	665
Liabilities								
Commodity derivatives	**2,211**	**886**	**1**	**3,098**	428	267	4	699
Net assets (liabilities)	$ **181**	**91**	**4**	**276**	(39)	3	2	(34)

The derivative values above are based on analysis of each contract as the fundamental unit of account; therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of setoff exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

As reflected in the table above, Level 3 activity is not material.

Commodity Derivative Contracts We operate in the worldwide crude oil, refined products, natural gas liquids, natural gas and electric power markets and are exposed to fluctuations in the prices for these commodities. These fluctuations can affect our revenues, as well as the cost of operating, investing and financing activities. Generally, our policy is to remain exposed to the market prices of commodities; however, we use futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited, immaterial amount of trading not directly related to our physical business. We also use the market knowledge gained from these activities to capture market opportunities such as moving physical commodities to more profitable locations, storing commodities to capture seasonal or time premiums, and blending commodities to capture quality upgrades. Derivatives may be used to optimize these activities, which may move our risk profile away from market average prices.

The following table indicates the balance sheet line items that include the fair values of commodity derivative assets and liabilities presented net (i.e., commodity derivative assets and liabilities with the same counterparty are netted where the right of setoff exists); however, the balances in the following table are presented gross:

	Millions of Dollars	
	June 30 2012	December 31 2011
Assets		
Prepaid expenses and other current assets	$ **3,368**	665
Other assets	**17**	5
Liabilities		
Other accruals	**3,080**	703
Other liabilities and deferred credits	**29**	1

Hedge accounting has not been used for any items in the table.

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The gains (losses) from commodity derivatives incurred, and the line items where they appear on our consolidated statement of income, were:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Sales and other operating revenue	$ **380**	(36)	**214**	(646)
Other income	**45**	(2)	**52**	(13)
Purchased crude oil and products	**25**	255	**46**	161

Hedge accounting has not been used for any item in the table.

The table below summarizes our material net exposures resulting from outstanding commodity derivative contracts. These financial and physical derivative contracts are primarily used to manage price exposure on our underlying operations. The underlying exposures may be from non-derivative positions such as inventory volumes. Financial derivative contracts may also offset physical derivative contracts, such as forward sales contracts.

	Open Position Long/(Short)	
	June 30 2012	December 31 2011
Commodity		
Crude oil, refined products and natural gas liquids (*millions of barrels*)	**(27)**	(13)

Credit Risk

Financial instruments potentially exposed to concentrations of credit risk consist primarily of OTC derivative contracts and trade receivables.

The credit risk from our OTC derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant nonperformance. We also use futures, swaps and option contracts that have a negligible credit risk because these trades are cleared with an exchange clearinghouse and subject to mandatory margin requirements until settled; however, we are exposed to the credit risk of those exchange brokers for receivables arising from daily margin cash calls, as well as for cash deposited to meet initial margin requirements.

Our trade receivables result primarily from the sale of products from, or related to, our refinery operations and reflect a broad national and international customer base, which limits our exposure to concentrations of credit risk. The majority of these receivables have payment terms of 30 days or less. We continually monitor this exposure and the creditworthiness of the counterparties and recognize bad debt expense based on historical write-off experience or specific counterparty collectability. Generally, we do not require collateral to limit the exposure to loss; however, we will sometimes use letters of credit, prepayments, and master netting arrangements to mitigate credit risk with counterparties that both buy from and sell to us, as these agreements permit the amounts owed by us or owed to others to be offset against amounts due us.

Certain of our derivative instruments contain provisions that require us to post collateral if the derivative exposure exceeds a threshold amount. We have contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on our credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero

if our credit ratings fall below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit us to post letters of credit as collateral.

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The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that were in a liability position was not material at June 30, 2012.

Fair Values of Financial Instruments

We used the following methods and assumptions to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount reported on the balance sheet approximates fair value.

Accounts and notes receivable: The carrying amount reported on the balance sheet approximates fair value.

Debt: The carrying amount of our floating-rate debt approximates fair value. The fair value of the fixed-rate debt is estimated based on quoted market prices as a Level 2 fair value.

Commodity swaps: Fair value is estimated based on forward market prices and approximates the exit price at period end. When forward market prices are not available, fair value is estimated using the forward prices of a similar commodity with adjustments for differences in quality or location.

Futures: Fair values are based on quoted market prices obtained from the New York Mercantile Exchange, the InterContinental Exchange Futures, or other traded exchanges.

Forward-exchange contracts: Fair values are estimated by comparing the contract rate to the forward rate in effect at the end of the respective reporting periods and approximating the exit price at those dates.

Our commodity derivative and financial instruments were:

	Millions of Dollars			
	Carrying Amount		Fair Value	
	June 30 2012	December 31 2011	**June 30 2012**	December 31 2011
Financial Assets				
Commodity derivatives	$ **181**	73	**181**	73
Financial Liabilities				
Commodity derivatives	**138**	52	**138**	52
Total debt, excluding capital leases	**7,975**	377	**8,341**	406

The amounts shown for derivatives in the preceding table are presented net (i.e., assets and liabilities with the same counterparty are netted where the right of setoff exists). In addition, the June 30, 2012, commodity derivative assets and liabilities appear net of $245 million of obligations to return cash collateral and $12 million of rights to reclaim cash collateral, respectively. The December 31, 2011, commodity derivative liabilities appear net of $55 million of rights to reclaim cash collateral.

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Note 14 Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) in the equity section of the balance sheet included:

	Millions of Dollars			
	Defined Benefit Plans	Foreign Currency Translation	Hedging	Accumulated Other Comprehensive Income (Loss)
December 31, 2011	$ (145)	270	(3)	122
Other comprehensive income (loss)	72	(11)		61
Net transfer from ConocoPhillips*	(541)			(541)
June 30, 2012	**$ (614)**	**259**	**(3)**	**(358)**

** See Consolidated Statement of Changes in Equity.*

Note 15 Employee Benefit Plans

Pension Plans

Prior to the separation, certain of our U.S. and U.K. employees participated in defined benefit pension plans and postretirement health and life insurance plans (Shared Plans) sponsored by ConocoPhillips, which included participants of other ConocoPhillips subsidiaries. Through the separation date, we accounted for such Shared Plans as multiemployer benefit plans. Accordingly, we did not record an asset or liability to recognize the funded status of the Shared Plans on our consolidated balance sheet until the separation date. We recorded expenses of $21 million and $84 million for the three months and six months ended June 30, 2012, respectively, and $63 million and $126 million for the three months and six months ended June 30, 2011, respectively, for our allocation of U.S. and U.K. pension costs prior to the separation date.

At the separation date, the assets and liabilities of certain defined benefit plans and postretirement benefit plans, allocable to Phillips 66 employees, were transferred to Phillips 66. Plan assets of $2,092 million, benefit obligations of $3,072 million and $870 million of accumulated other comprehensive loss ($541 million net of tax) were recorded for the plans transferred to us. The amount of plan assets transferred is expected to be adjusted based on final actuarial analyses in the third quarter of 2012.

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The following table provides a reconciliation of the projected benefit obligations and plan assets for our pension plans and accumulated benefit obligations for our other postretirement benefit plans for the six months ended June 30, 2012:

	Millions of Dollars		
	Pension Benefits		Other Benefits
	U.S.	Int l.	
Change in Benefit Obligation			
Benefit obligation at January 1, 2012	$	237	
Service cost	21	7	1
Interest cost	16	9	1
Plan participants contributions		1	
Actuarial gain	(74)	(8)	(8)
Benefits paid		(5)	
Liabilities assumed from separation	2,465	408	199
Foreign currency exchange rate changes		(13)	
Benefit obligation at June 30, 2012*	$ 2,428	636	193
**Accumulated benefit obligation portion of above at June 30:*	*$ 2,055*	*487*	
Change in Fair Value of Plan Assets			
Fair value of plan assets at January 1, 2012	$	120	
Return on plan assets	20	7	
Company contributions		12	
Plan participants contributions		1	
Benefits paid		(5)	
Assets received from separation	1,740	352	
Foreign currency exchange rate changes		(9)	
Fair value of plan assets at June 30, 2012	$ 1,760	478	
Funded Status at June 30, 2012	$ (668)	(158)	(193)

Amounts recognized on the balance sheet at June 30, 2012, for the Company s pension and other postretirement benefit plans include:

	Millions of Dollars		
	Pension Benefits		Other Benefits
	U.S.	Int l.	
Current liabilities	$ 4		2
Noncurrent liabilities	664	158	191
Total recognized	$ 668	158	193

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Certain plans in the U.S. and U.K. were remeasured after the separation. As of May 1, 2012, we selected a discount rate of 4.2 percent in the U.S. and 5.0 percent in the U.K. In determining the discount rates, we used yields on high-quality fixed income investments matched to the estimated benefit cash flows of our plans. Based on our long-term plans for compensation increases and expected economic conditions, including the effects of merit increases, promotions and general inflation, we selected an assumption rate for compensation increases of 3.75 percent in the U.S. and 4.2 percent in the U.K. We also selected an estimated long-term rate of return assumption of 7.0 percent in the U.S. and 5.9 percent in the U.K. These assumptions were used in the determination of net periodic benefit cost in the U.S. and U.K. for the period from May 1, 2012, through December 31, 2012.

Included in accumulated other comprehensive loss at June 30, 2012, were the following before-tax amounts that had not been recognized in net periodic benefit cost:

	Millions of Dollars			
	Pension Benefits			Other Benefits
		U.S.	Int l.	
Unrecognized net actuarial loss (gain)	$	724	83	(15)
Unrecognized prior service cost (credit)		16	(11)	3

Accumulated other comprehensive loss at June 30, 2012, included $40 million expected to be amortized into net periodic benefit cost from July 1, 2012, through December 31, 2012.

The components of net periodic benefit cost of all defined benefit plans are presented in the following table:

	Millions of Dollars						
	Pension Benefits					Other Benefits	
		2012			2011	**2012**	2011
		U.S.	**Int l.**	U.S.	Int l.		
Components of Net Periodic Benefit Cost							
Three Months Ended June 30							
Service cost	**$**	**21**	**6**		2	**1**	
Interest cost		**16**	**6**		3	**1**	
Expected return on plan assets		**(20)**	**(5)**		(2)		
Amortization of prior service cost		**1**					
Recognized net actuarial loss		**12**	**1**		1		
Subtotal net periodic benefit cost		**30**	**8**		4	**2**	
Allocated benefit cost from ConocoPhillips		**18**					