

Phillips 66

Form 10-K

February 17, 2017

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2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year  
ended December 31, 2016

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

2331 CityWest Blvd., Houston, Texas 77042

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 281-293-6600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, \$.01 Par Value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 ☐ 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 ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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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 ☒ 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 Act). ☐ Yes ☒ No

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant’s most recently completed second fiscal quarter, based on the closing price on that date of \$79.34, was \$41.5 billion. The registrant, solely for the purpose of this required presentation, had deemed its Board of Directors and executive officers to be affiliates, and deducted their stockholdings in determining the aggregate market value.

The registrant had 517,816,429 shares of common stock outstanding at January 31, 2017.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 2017 (Part III).

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Unless otherwise indicated, “the company,” “we,” “our,” “us” and “Phillips 66” are used in this report to refer to the businesses of Phillips 66 and its consolidated subsidiaries. Unless the context requires otherwise, references to “DCP Midstream” include the consolidated operations of DCP Midstream, LLC, including DCP Midstream, LP (formerly named DCP Midstream Partners, LP), the master limited partnership formed by DCP Midstream, LLC.

This Annual Report on Form 10-K contains forward-looking statements including, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “should,” “will,” “would,” “expect,” “objective,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar expressions identify forward-looking statements. The company does not undertake to update, revise or correct any forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the company’s disclosures under the heading “CAUTIONARY STATEMENT FOR THE PURPOSES OF THE ‘SAFE HARBOR’ PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.”

## PART I

### Items 1 and 2. BUSINESS AND PROPERTIES

#### CORPORATE STRUCTURE

Phillips 66, headquartered in Houston, Texas, was incorporated in Delaware in 2011 in connection with, and in anticipation of, a restructuring of ConocoPhillips that separated its downstream businesses into an independent, publicly traded company named Phillips 66. The two companies were separated by ConocoPhillips distributing to its stockholders all the shares of common stock of Phillips 66 after the market closed on April 30, 2012 (the Separation). On May 1, 2012, Phillips 66 stock began trading “regular-way” on the New York Stock Exchange under the “PSX” stock symbol.

Our business is organized into four operating segments:

- Midstream—Gathers, processes, transports and markets natural gas; and transports, stores, fractionates and markets natural gas liquids (NGL) in the United States. In addition, this segment transports crude oil and other feedstocks to our refineries and other locations, delivers refined and specialty products to market, and provides terminaling and storage services for crude oil and petroleum products. The segment also stores, refrigerates and exports liquefied petroleum gas (LPG) primarily to Asia and Europe. The Midstream segment includes our master limited partnership, Phillips 66 Partners LP, as well as our 50 percent equity investment in DCP Midstream, LLC (DCP Midstream).
- Chemicals—Consists of our 50 percent equity investment in Chevron Phillips Chemical Company LLC (CPChem), which manufactures and markets petrochemicals and plastics on a worldwide basis.
- Refining—Buys, sells and refines crude oil and other feedstocks at 13 refineries, mainly in the United States and Europe.
-

Marketing and Specialties (M&S)—Purchases for resale and markets refined petroleum products (such as gasolines, distillates and aviation fuels), mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of specialty products, as well as power generation operations.

Corporate and Other includes general corporate overhead, interest expense, our investment in new technologies and various other corporate items. Corporate assets include all cash and cash equivalents.

At December 31, 2016, Phillips 66 had approximately 14,800 employees.

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SEGMENT AND GEOGRAPHIC INFORMATION

For operating segment and geographic information, see Note 26—Segment Disclosures and Related Information, in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

MIDSTREAM

The Midstream segment consists of three business lines:

• **Transportation**—Transports crude oil and other feedstocks to our refineries and other locations, delivers refined and specialty products to market, and provides terminaling and storage services for crude oil and petroleum products.

• **DCP Midstream**—Gathers, processes, transports and markets natural gas and transports, fractionates and markets NGL.

• **NGL**—Transports, fractionates and markets natural gas liquids, as well as exports LPG at our Freeport terminal.

Phillips 66 Partners LP

In 2013, we formed Phillips 66 Partners LP, a master limited partnership (MLP), to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and NGL pipelines and terminals, as well as other midstream assets. At December 31, 2016, we owned a 59 percent limited partner interest and a 2 percent general partner interest in Phillips 66 Partners, while the public owned a 39 percent limited partner interest.

Headquartered in Houston, Texas, Phillips 66 Partners' assets and equity investments consist of crude oil, NGL and refined petroleum product pipelines, terminals, rail racks and storage systems, as well as an NGL fractionator, that are geographically dispersed throughout the United States. The majority of Phillips 66 Partners' assets are integral to Phillips 66-operated refineries.

During 2016, Phillips 66 Partners expanded its business by acquiring from us:

A 25 percent interest in our then wholly owned subsidiary, Phillips 66 Sweeny Frac LLC, which owns both the Sweeny Fractionator, an NGL fractionator located within our Sweeny Refinery complex in Old Ocean, Texas, and the Clemens Caverns, an NGL salt dome storage facility located near Brazoria, Texas. This acquisition closed in March 2016.

The remaining 75 percent interest in Phillips 66 Sweeny Frac LLC and a 100 percent interest in our then wholly owned subsidiary, Phillips 66 Plymouth LLC, which owned Standish Pipeline, a refined petroleum product pipeline system extending from Phillips 66's Ponca City Refinery in Ponca City, Oklahoma, and terminating at Phillips 66 Partners' North Wichita Terminal in Wichita, Kansas. This acquisition closed in May 2016.

• A large number of crude oil, refined product and NGL pipeline and terminal assets supporting the Billings, Ponca City, Bayway and Borger refineries. This acquisition, Phillips 66 Partners' largest to date, closed in October 2016.

During 2016, Phillips 66 Partners expanded its business through the following transactions with third parties:

• During the third quarter of 2016, Phillips 66 Partners acquired an additional 2.5 percent equity interest in the Explorer Pipeline Company (Explorer), resulting in total ownership of approximately 22 percent. Explorer is a 1,830-mile

pipeline that transports gasoline, diesel, fuel oil, and jet fuel to more than 70 major cities in 16 states.

During the third quarter of 2016, Phillips 66 Partners and Plains All American Pipeline, L.P. (Plains) formed STACK Pipeline LLC (STACK JV), a 50/50 limited liability company that owns and operates a common carrier pipeline that transports crude oil from the Sooner Trend, Anadarko Basin, Canadian and Kingfisher counties play in northwestern Oklahoma to Cushing, Oklahoma. The crude oil pipeline is approximately 54 miles long with a



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current capacity of approximately 100,000 barrels per day, with plans to expand the pipeline through a variety of growth opportunities.

During the fourth quarter of 2016, Phillips 66 Partners acquired an NGL logistics system (River Parish) in southeast Louisiana. The acquisition included 1.5 million barrels of storage and an approximate 300-mile, bidirectional NGL pipeline system connected to third-party fractionators, refineries and a petrochemical plant, as well as our Alliance Refinery. The acquisition also included approximately 200 miles of regulated pipelines that transport raw NGL from third-party natural gas processing plants to pipeline and fractionation infrastructure.

The operations and financial results of Phillips 66 Partners are included in Midstream's Transportation and NGL business lines, based on the nature of the activity within the partnership.

### Transportation

We own or lease various assets to provide terminaling and storage of crude oil, refined products, natural gas and NGL. These assets include pipeline systems; petroleum product, crude oil and LPG terminals; a petroleum coke handling facility; marine vessels; railcars and trucks.

### Pipelines and Terminals

At December 31, 2016, our Transportation business managed over 18,000 miles of crude oil, natural gas, NGL and petroleum products pipeline systems in the United States, including those partially owned or operated by affiliates. We owned or operated 40 finished product terminals, 38 storage locations, 5 LPG terminals, 17 crude oil terminals and 1 petroleum coke exporting facility.

During 2016, we continued to invest in our Beaumont Terminal in Nederland, Texas, the largest terminal in the Phillips 66 portfolio, which currently has 5.9 million barrels of crude oil storage capacity and 2.4 million barrels of refined product storage capacity. During 2016, we added 1.2 million barrels of crude storage capacity. Additionally, as of December 31, 2016, we had 800,000 barrels of incremental crude storage capacity under construction to be commissioned in the first quarter of 2017 and 1.2 million barrels of additional products storage expected to be available by mid-2017. In addition, we have initiated a variety of other projects aimed at increasing storage and throughput capabilities as we continue the expansion of the Beaumont terminal from its current 8.3 million barrels of storage capacity to 16 million barrels.

Construction progressed in 2016 on two crude oil pipeline systems being developed by our joint ventures, Dakota Access LLC (DAPL) and Energy Transfer Crude Oil Company, LLC (ETCOP). Phillips 66 owns a 25 percent interest in each joint venture, with Energy Transfer Partners, L.P. (ETP), one of our co-venturers, acting as the operator of both the DAPL and ETCOP pipeline systems. The DAPL pipeline is expected to deliver 470,000 barrels per day of crude oil from the Bakken/Three Forks production area in North Dakota to market centers in the Midwest. The DAPL pipeline will provide shippers with access to Midwestern refineries, unit-train rail loading facilities to facilitate deliveries to East Coast refineries, and the Gulf Coast market through an interconnection with the ETCOP pipeline in Patoka, Illinois. While DAPL awaited the issuance of an easement from the U.S. Army Corps of Engineers to complete work beneath the Missouri River, construction was completed on the remaining segments of the pipeline. The easement was granted on February 8, 2017, and construction of the pipeline under the river resumed. ETCOP, which is complete and ready for commissioning, will transport crude oil from the Midwest to the Sunoco Logistics Partners L.P. (Sunoco Logistics) and Phillips 66 storage terminals located in Nederland, Texas. The pipelines are expected to be operational in the first half of 2017.

In the second quarter of 2016, the Bayou Bridge Pipeline joint venture began delivering crude oil from Nederland, Texas, to Lake Charles, Louisiana. Phillips 66 Partners has a 40 percent equity interest in the joint venture, while ETP and Sunoco Logistics each hold a 30 percent interest, with Sunoco Logistics serving as the operator. The remaining section of the pipeline, which is being constructed by ETP, will deliver crude oil from Lake Charles to St. James, Louisiana, and is scheduled for completion in the second half of 2017.

In the fourth quarter of 2016, the 91-mile Sacagawea Pipeline was placed in service. The pipeline receives crude oil from areas in Dunn County and McKenzie County, North Dakota, and delivers crude oil to terminals and pipelines located in Stanley, North Dakota, including the 100,000 barrel per day Palermo Rail Terminal. The Palermo Rail Terminal is a

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Phillips 66 Partners joint venture crude terminal that started operations in the fourth quarter of 2015. The Sacagawea Pipeline is owned by the joint venture Sacagawea Pipeline Company, LLC, of which Paradigm Pipeline LLC holds a 99 percent interest. Phillips 66 Partners and Paradigm Energy Partners, LLC each own a 50 percent interest in Paradigm Pipeline LLC.

The following table depicts our ownership interest in major pipeline systems as of December 31, 2016:

Name	Origination/Terminus	Interest	Size	Length(Miles)	Gross Capacity (MBD)
<b>Crude and Feedstocks</b>					
Bayou Bridge	Nederland, TX/Lake Charles, LA	40	% 30"	49	480
Clifton Ridge †	Clifton Ridge, LA/Westlake, LA	100	20"	10	260
Cushing †	Cushing, OK/Ponca City, OK	100	18"	62	130
Eagle Ford Gathering †	Helena, TX	100	6"	6	20
Eagle Ford Gathering †	Tilden, TX/Whitsett, TX	100	6", 10"	22	34
Glacier †	Cut Bank, MT/Billings, MT	79	8"-12"	865	126
Line O †	Cushing, OK/Borger, TX	100	10"	276	37
Line 80 †	Gaines, TX/Borger, TX	100	8", 12"	237	28
Line 100	Taft, CA/Lost Hills, CA	100	8", 10", 12"	79	54
Line 200	Lost Hills, CA/Rodeo, CA	100	12", 16"	228	93
Line 300	Nipomo, CA/Arroyo Grande, CA	100	8", 10", 12"	69	48
Line 400	Arroyo Grande, CA/Lost Hills, CA	100	8", 10", 12"	147	40
Louisiana Crude Gathering	Rayne, LA/Westlake, LA	100	4"-8"	80	25
North Texas Crude †	Wichita Falls, TX	100	2"-16"	224	28
Oklahoma Mainline †	Wichita Falls, TX/Ponca City, OK	100	12"	217	100
Sacagawea †	Keene, ND/Stanley, ND	50	16"	91	115
STACK PL †	Cashion, OK/Cushing, OK	50	10", 12"	54	100
Sweeny Crude	Sweeny, TX/Freeport, TX	100	12", 24", 36"	366	265
WA Line †	Odessa, TX/Borger, TX	100	12", 14"	289	104
West Texas Gathering †	Permian Basin	100	4"-14"	757	115
<b>Petroleum Products</b>					
ATA Line †	Amarillo, TX/Albuquerque, NM	50	6", 10"	293	34
Borger to Amarillo †	Borger, TX/Amarillo, TX	100	8", 10"	93	76
Borger-Denver	McKee, TX/Denver, CO	70	6"-12"	405	38
Cherokee East †	Medford, OK/Mount Vernon, MO	100	10", 12"	287	55
Cherokee North †	Ponca City, OK/Arkansas City, KS	100	10"	29	57
Cherokee South †	Ponca City, OK/Oklahoma City, OK	100	8"	90	46
Cross Channel Connector †	Pasadena, TX/Galena Park, TX	100	20"	5	180
Explorer †	Texas Gulf Coast/Chicago, IL	22	24", 28"	1,830	660
Gold Line †	Borger, TX/East St. Louis, IL	100	8"-16"	681	120
Harbor	Woodbury, NJ/Linden, NJ	33	16"	80	171
Heartland*	McPherson, KS/Des Moines, IA	50	8", 6"	49	30
LAX Jet Line	Wilmington, CA/Los Angeles, CA	50	8"	19	50
Los Angeles Products	Torrance, CA/Los Angeles, CA	100	6", 12"	22	112
Paola Products †	Paola, KS/Kansas City, KS	100	8", 10"	106	96
Pioneer	Sinclair, WY/Salt Lake City, UT	50	8", 12"	562	63
Richmond	Rodeo, CA/Richmond, CA	100	6"	14	26

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SAAL †	Amarillo, TX/Abernathy, TX	33	6"	102	33
SAAL †	Abernathy, TX/Lubbock, TX	54	6"	19	30
Seminole †	Billings, MT/Sinclair, WY	100	6"-10"	342	33
Standish †	Marland Junction, OK/Wichita, KS	100	18"	92	72
Sweeny to Pasadena †	Sweeny, TX/Pasadena, TX	100	12", 18"	120	294
Torrance Products	Wilmington, CA/Torrance, CA	100	10", 12"	8	161
Watson Products Line	Wilmington, CA/Long Beach, CA	100	20"	9	238
Yellowstone	Billings, MT/Moses Lake, WA	46	6"-10"	710	66

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Name	Origination/Terminus	Interest	Size	Length (Miles)	Gross Capacity (MBD)
NGL					
Chisholm	Kingfisher, OK/Conway, KS	50	% 4"-10	202	42
Powder River	Sage Creek, WY/Borger, TX	100	6"-8"	705	14
River Parish NGL †	Southeast Louisiana	100	4"-20	510	117
Sand Hills**†	Permian Basin/Mont Belvieu, TX	33	20"	1,150	280
Skelly-Belvieu	Skellytown, TX/Mont Belvieu, TX	50	8"	571	45
Southern Hills**†	U.S. Midcontinent/Mont Belvieu, TX	33	20"	941	140
Sweeny NGL	Brazoria, TX/Sweeny, TX	100			