Phillips 66
Form PRE 14A
March 09, 2015

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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 ý

Filed by a Party other than the Registrant o

Check the appropriate box:
ý Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o 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):
ý No fee required.
o 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:

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o 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:

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In accordance with Rule 14a-6(d) under Regulation 14A of the Securities Exchange Act of 1934, please be advised that Phillips 66 intends to release definitive copies of the proxy statement to security holders on or about March 25, 2015.

March , 2015

To My Fellow Shareholders:

On behalf of your Board of Directors and management, you are cordially invited to attend the Annual Meeting of Shareholders to be held at the Marriott Houston Westchase, 2900 Briarpark Drive, Houston, Texas 77042, on Wednesday, May 6, 2015, 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.

We are Phillips 66 a diversified energy manufacturing and logistics company with a portfolio of midstream, chemicals, refining, and marketing and specialties businesses. Our diverse portfolio uniquely positions us to capture opportunities of the rapidly changing energy landscape. We are committed to operating excellence, and that guides everything we do. It always will. I look forward to sharing more about your company when we gather for our annual meeting.

A commitment to shareholder engagement. We value the perspectives our shareholders provide through participation at our annual meeting and through direct conversations that we have throughout the year. In response, we have redesigned our proxy statement to be easier to follow and with clearer and fuller disclosure. In addition, you will notice that, based on your comments, we are asking shareholders to vote on a proposal that will result in the annual election of all members of your board of directors. We look forward to continuing our dialogue with you in the coming year.

Growing shareholder distributions. We emphasize growing shareholder distributions in the form of share repurchases and dividends. In 2014, we increased the dividend by 28 percent and returned $4.7 billion of capital to shareholders through dividends, share repurchases, and the exchange of Phillips Specialty Products shares for Phillips 66 shares.

Your vote is important. Whether or not you plan to attend the annual meeting in person, and no matter how many shares you own, please vote by telephone or on the Internet or mark your vote on the enclosed proxy card, sign it, date it, and return it by mail. For additional information on voting your shares, please see the instructions in the proxy statement on page 63.

Safety. Honor. Commitment. These are the guiding principles for how the 14,000 employees of Phillips 66 conduct business day in and day out. It is with the spirit of those values that we look forward to greeting you on May 6.

Sincerely,

Greg C. Garland
Chairman of the Board and
Chief Executive Officer

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NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

May 6, 2015

9:00 A.M. Central Daylight Time

Marriott Houston Westchase
2900 Briarpark Drive
Houston, Texas 77042

ITEMS OF BUSINESS

1. To elect the three Directors named in this proxy statement

2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2015

3. To consider and vote on a management proposal to approve, on an advisory (non-binding) basis, the compensation of our Named Executive Officers

4. To consider and vote on a management proposal regarding the annual election of Directors

5. To consider and vote on a shareholder proposal

6. To transact other business properly coming before the meeting

RECORD DATE

You can vote if you were a shareholder of record on March 13, 2015.

ANNUAL REPORT

Our 2014 Annual Report to Shareholders accompanies, but is not part of, these proxy materials.

PROXY VOTING

Shareholders as of the Record Date are invited to attend the annual meeting. Whether or not you plan to attend in person, please vote in advance of the meeting by using one of the methods described in this proxy statement.

By Order of the Board of Directors

Paula A. Johnson
Corporate Secretary

March , 2015

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PROXY SUMMARY

This proxy summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. Page references are supplied to help you find further information in this proxy statement. For more complete information regarding the Company's 2014 performance, please review the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Your vote is very important to us and to our business. Please cast your vote right away on all of the proposals to ensure your shares are represented.

If you are a beneficial owner and do not give your broker instructions on how to vote your shares, the broker will return the proxy card to us without voting on proposals not considered "routine." This is known as a broker non-vote. Only the ratification of Ernst & Young LLP as our independent registered public accounting firm for 2015 is considered to be a routine matter. Your broker may not vote on any non-routine matters without instructions from you.

PROPOSALS REQUIRING YOUR VOTE

		MORE INFORMATION	BOARD RECOMMENDATION	VOTES REQUIRED FOR APPROVAL
PROPOSAL 1	Election of Directors	Page 13	FOR each Nominee	Majority of votes cast
PROPOSAL 2	Ratification of the Appointment of Ernst & Young LLP	Page 19	FOR	Majority of votes present
PROPOSAL 3	Advisory Approval of Executive Compensation	Page 21	FOR	Majority of votes present
PROPOSAL 4	Management Proposal Regarding the Annual Election of Directors	Page 59	FOR	80% of Voting Stock
PROPOSAL 5	Shareholder Proposal	Page 60	AGAINST	Majority of votes present

VOTE RIGHT AWAY

Even if you plan to attend our Annual Meeting in person, please read this proxy statement carefully and vote right away using any of the following methods. In all cases, have your proxy card or voting instruction card in hand and follow the instructions.

BY INTERNET USING YOUR COMPUTER	BY TELEPHONE	BY MAILING YOUR PROXY CARD
Visit 24/7 **www.proxyvote.com**	Dial toll-free 24/7 **(800) 690-6903**	**Cast your ballot, sign your proxy card** and send by mail in the enclosed postage-paid

envelope

If you hold your Phillips 66 stock in a brokerage account (that is, in "street name"), your ability to vote by telephone or over the Internet depends on your broker's voting process. Please follow the directions on your proxy card or voting instruction card carefully. If you plan to vote in person at the Annual Meeting and you hold your Phillips 66 stock in street name, you must obtain a proxy from your broker and bring that proxy to the meeting.

If you hold your stock through a Phillips 66 employee benefit plan, please see page 64 for information about voting.

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PROXY SUMMARY

VISIT OUR WEBSITE

Visit 24/7
www.phillips66.com

Review and download this proxy statement and our Annual Report.

Sign up for electronic delivery of future Annual Meeting materials to save money and reduce our impact on the environment at www.proxyvote.com.

WE ARE PHILLIPS 66

Phillips 66 is a diversified energy manufacturing and logistics company with a portfolio of midstream, chemicals, refining, and marketing and specialties businesses. Our strategic priorities are to:

- Maintain Strong Operating Excellence
- Deliver Profitable Growth
- Enhance Returns on Capital
- Grow Shareholder Distributions
- Build a High-Performing Organization

2014 PERFORMANCE HIGHLIGHTS

In a challenging environment in 2014, earnings were $4.8 billion, or $8.33 per share, compared with $3.7 billion, or $6.02 per share, in 2013. Adjusted earnings for the year were $3.8 billion, and adjusted earnings per share were $6.62. We reinvested $3.8 billion in our business, increased the dividend by 28 percent, and returned $4.7 billion of capital to shareholders through dividends, share repurchases, and the exchange of Phillips Specialty Products shares for Phillips 66 shares. The Company generated approximately $3.5 billion of cash from operations, maintained a strong balance sheet, and ended the year with a debt-to-capital ratio of 28 percent, within our 20 to 30 percent target range. You will find more information regarding the Company's performance in 2014 beginning on page 22.

Although the Company performed well against rigorous financial and operational targets in the annual bonus program, market conditions and stock performance at the end of 2014 did not, in the view of our Human Resources and Compensation Committee, which we may refer to as our Compensation Committee, justify a full payout. As explained in more detail in the Compensation Discussion and Analysis, the Compensation Committee exercised negative discretion by reducing the bonus plan payouts for the NEOs. The Committee based this decision on the Company's relative TSR for the year. The Compensation Committee concluded that this adjustment served to more closely align executive's 2014 bonus with shareholders and strengthened the Company's overall link between pay and performance.

OUR COMPENSATION PHILOSOPHY

Our compensation programs support our corporate vision of providing energy and improving lives. Our programs are aligned with key elements of our corporate strategy. Important tenets of our approach include:

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

We believe our compensation programs play an important role in our employee value proposition. They provide a competitive advantage, helping the Company attract, retain, motivate, and reward high-performing executive talent, as well as support succession planning.

We pay for performance. Executives have a significant portion of compensation tied to the achievement of annual and long-term goals that promote shareholder value creation.

We target and award reasonable and competitive compensation levels, aligned with market median levels, and allow for differentiation based on performance.

We emphasize Phillips 66 stock ownership by establishing stock ownership guidelines for our executives that are set at a multiple of their annual base salary.

We provide executives the same group benefit programs as we provide other employees, on substantially the same terms.

We limit executive perquisites to items that serve a reasonable business purpose.

GOVERNANCE HIGHLIGHTS

This year, we are asking shareholders to vote on a management proposal to move to the annual election of all Directors. See page 59 for details of that proposal. In addition, we already follow these other corporate governance best practices:

Majority voting for Directors	YES
Active shareholder engagement	YES
Substantial majority of independent Directors	YES
Independent Lead Director	YES
Independent Board Committees	YES
Executive sessions of independent Directors	YES
Stock ownership guidelines	YES
Prohibition on pledging and hedging of our stock	YES
Clawback policy	YES
Poison pill	NO

DIRECTOR NOMINEES

NAME	AGE	OCCUPATION	COMMITTEES	OTHER PUBLIC COMPANY BOARDS
J. Brian Ferguson	60	Retired Chairman of Eastman Chemical	HRCC NGC Exec	Owens Corning
Harold W. McGraw III	66	Chairman of the Board of McGraw Hill Financial	HRCC NGC Exec	United Technologies
Victoria J. Tschinkel	67	Vice-Chairwoman, 1000 Friends of Florida	AFC PPC Exec	

AFC	=	Audit and Finance Committee
Exec	=	Executive Committee
HRCC	=	Human Resources and Compensation Committee
NGC	=	Nominating and Governance Committee
PPC	=	Public Policy Committee

BOARD DIVERSITY AND INDEPENDENCE

Our business requires that we bring together a leadership team with a diversity of backgrounds, experience and thought. The make-up of our executives and Board members reflects the commitment to diversity that we strive for throughout the organization. The charts below highlight the diversity and independence of our Directors.

2014 SHAREHOLDER ENGAGEMENT

At our 2014 Annual Meeting of Shareholders, approximately 85% of shareholders who cast an advisory vote on the Company's Say-on-Pay proposal voted in favor of the Company's executive compensation programs. Throughout the past year, we have engaged in dialogue with our largest shareholders about various corporate governance topics, including executive compensation, and have received strong, positive feedback. The Compensation Committee values these discussions and encourages shareholders to provide feedback about our executive compensation programs.

Based on the results of the 2014 vote and our ongoing dialogue with shareholders, as well as a consideration of evolving best practices, the Compensation Committee continues to examine our compensation programs to ensure alignment with shareholders remains strong, as discussed in the "*Compensation Discussion and Analysis*" beginning on page 21.

ATTEND OUR 2015 ANNUAL MEETING OF SHAREHOLDERS

Date and Time:	9:00 a.m. (CDT) on Wednesday, May 6, 2015
Location:	Marriott Houston Westchase 2900 Briarpark Drive Houston, Texas 77042 (281) 558-8338
Record Date:	March 13, 2015

PROXY STATEMENT

This proxy statement and accompanying proxy are being provided to shareholders on or about March 25, 2015, in connection with the solicitation by the Board of Directors of Phillips 66 of proxies to be voted at the 2015 Annual Meeting of Shareholders on May 6, 2015.

CORPORATE GOVERNANCE OF THE COMPANY

The Nominating and Governance Committee, which we may also refer to as the Nominating Committee, and the Board of Directors annually review the Company's governance structure to take into account changes in Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) rules, as well as current best practices. Our Corporate Governance Guidelines, posted on the "*Investors*" section of the Company's website under the "*Governance*" caption and available in print upon request (see "*Available Information*" on page 67), address the following matters, among others:

- director qualifications
- director responsibilities
- committees of the board
- director access to officers, employees and independent advisors
- performance evaluations of the board
- director orientation and continuing education
- director compensation
- Chief Executive Officer (CEO) evaluation and succession planning

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, is best suited at this time to serve as Chairman and perform this unified role.

The Board of Directors believes there is no single organizational model that is the best and most effective in all circumstances. As a consequence, the Board of Directors periodically considers whether the offices of Chairman and CEO should continue to be combined and who should serve in such capacities. The Board of Directors also periodically reexamines its corporate governance policies and leadership structure to ensure that they continue to meet the Company's needs.

Independent Director Leadership

The Board of Directors has adopted strong governance practices to ensure that an appropriate balance of power exists between the non-employee Directors and management, including:

- appointing a Lead Director

- requiring a substantial majority of independent directors

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- having only independent directors serve on the Audit and Finance Committee, which we may also refer to as the Audit Committee; the Compensation Committee; and the Nominating Committee
- holding executive sessions of the non-employee Directors at each Board meeting
- having only independent directors evaluate the CEO's performance annually and approve the CEO's pay

Mr. McGraw currently serves as our Lead Director. In appointing him, the Board of Directors considered it to be 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. Specifically, those duties include:

- advising the Chairman as to an appropriate schedule of Board meetings, seeking to ensure that the non-employee Directors can perform their duties responsibly while not interfering with operations
- providing the Chairman with input as to the preparation of the agendas for the Board meetings and assuring that there is sufficient time for discussion of all agenda items
- advising the Chairman as to the quality, quantity and timeliness of the flow of information from management to the non-employee Directors in order that they may perform their duties effectively and responsibly, including specifically requesting certain materials be provided to the Board
- recommending to the Chairman the retention of consultants who report directly to the Board of Directors
- interviewing all board candidates and making nomination recommendations to the Nominating Committee and the Board of Directors
- assisting the Board of Directors and Company officers in assuring compliance with and implementation of the Corporate Governance Guidelines
- having the authority to call meetings of the non-employee Directors, as well as to develop the agenda for and moderate any such meetings and executive sessions of the non-employee Directors
- acting as principal liaison between the non-employee Directors and the Chairman on sensitive issues
- participating in the periodic discussion of CEO performance with the Compensation Committee
- ensuring the Board of Directors conducts an annual self-assessment and meeting with the CEO to discuss the results of the annual self-assessment

working 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 the work of the Board. The chairs of the Board's committees review their agendas and committee materials in advance, communicating directly with other Directors and members of management as each deems appropriate. Moreover, each Director is free to suggest agenda items and to raise matters at Board and committee meetings that are not on the agenda.

Our Corporate Governance Guidelines require that the non-employee Directors meet in executive session at every meeting and that the independent Directors meet in executive session at least annually. As Lead Director, Mr. McGraw presides at such executive sessions. Each executive session may include discussions of, among other things, (1) the performance of the Chairman and the Chief Executive Officer, (2) matters concerning the relationship of the Board of Directors with the members of senior management, and (3) such other matters as the non-employee Directors deem appropriate. No formal action of the Board of Directors is taken at these meetings, although the non-employee Directors may subsequently recommend matters for consideration by the full Board. The Board of Directors may invite guest attendees for the purpose of making presentations, responding to questions, or providing counsel on specific matters within their areas of expertise.

SUMMARY OF BOARD COMMITTEES

	Mr. FERGUSON	Mr. GARLAND	Mr. LOOMIS	Mr. LOWE	Mr. MCGRAW	Mr. TILTON	Ms. TSCHINKEL	Dr. WHITTINGTON
Audit and Finance			X*				X	X
Executive	X	X*	X		X		X	
Human Resources and Compensation	X*				X	X		
Nominating and Governance	X				X*	X		
Public Policy			X	X			X*	X

* Committee Chair

The charters for our Audit Committee, Executive Committee, Compensation Committee, Nominating Committee, and Public Policy Committee can be found in the "*Investors*" section on the Phillips 66 website under the "*Governance*" caption. Shareholders may also request printed copies of these charters by following the instructions located under the caption "*Available Information*" on page 67.

DIRECTOR INDEPENDENCE

The Corporate Governance Guidelines also contain director independence standards, which are consistent with the standards set forth in the NYSE listing standards, to assist the Board of Directors in determining the independence of the Company's Directors. The Board of Directors has determined that each Director, except Messrs. Garland and Lowe, meets the standards regarding independence set forth in the Corporate Governance Guidelines and is free of any material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Mr. Garland is not considered independent because he is an executive officer of the Company. Mr. Lowe is not considered independent because of his affiliation with ConocoPhillips prior to our 2012 spin-off from ConocoPhillips. It is expected that Mr. Lowe will meet the criteria to be considered independent beginning in May 2015, the third anniversary of the spin-off. In making independence determinations, the Board of Directors specifically considered the fact that many of our Directors are directors, retired officers or shareholders of companies with which we conduct business. In addition, some of our Directors serve as employees of, or consultants to, companies that do business with Phillips 66 and its affiliates (as further described in "*Related Party Transactions*" on page 11). Finally, 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 such Director.

COMMUNICATIONS WITH THE BOARD

The Board of Directors maintains a process for shareholders and interested parties to communicate with the Board of Directors. Shareholders and interested parties may communicate with the Board of Directors by contacting our Corporate Secretary, Paula A. Johnson, as provided below:

Mailing Address:	Corporate Secretary Phillips 66 P.O. Box 4428 Houston, TX 77210
Phone Number:	(281) 293-6600

Internet: "*Investors*" section of the Company's website under the "*Governance*" caption

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 that are 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. Any communication that is filtered out is made available to any non-employee Director upon request.

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CORPORATE GOVERNANCE OF THE COMPANY

DIRECTOR MEETING ATTENDANCE

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 our Directors to attend the Annual Meeting of Shareholders. All of our Directors attended the 2014 Annual Meeting of Shareholders, except for Mr. Lowe, who was unable to attend due to attendance at another company's board meeting.

The Board of Directors met six times in 2014. Each Director attended at least 75 percent of the aggregate of:

- the total number of meetings of the Board in 2014, and
- the total number of full-committee meetings held in 2014 by all committees of the Board on which she or he served.

BOARD'S 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. In furtherance of this responsibility, our management has established an enterprise risk management program designed to identify and facilitate management of the significant and diverse risks facing the Company and the approaches to mitigate such risks. The Board of Directors has broad oversight responsibility over the Company's enterprise risk management program and is updated by management 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.

In carrying out its oversight responsibility, the Board of Directors has delegated to individual committees certain elements of this oversight function, while retaining oversight responsibility for strategic risks. In this context, the Board of Directors delegated authority to the Audit Committee to facilitate coordination among the Board's committees with respect to oversight of the Company's risk management programs. As part of this authority, the Audit Committee regularly receives updates on the enterprise risk management program and discusses the Company's risk assessment and risk management policies to ensure that our risk management programs are functioning properly.

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The Board of Directors exercises its oversight function with respect to all material risks to the Company, which are identified and discussed in the Company's public filings with the SEC. The Board of Directors receives regular updates from its committees on individual areas of risk falling within each committee's area of oversight responsibility and expertise, as outlined below:

CODE OF BUSINESS ETHICS AND CONDUCT

Phillips 66 has adopted a Code of Business Ethics and Conduct for Directors and Employees designed to help directors and employees resolve ethical issues in an increasingly complex global business environment. Our Code of Business Ethics and Conduct applies to all directors and employees, including the CEO and the Chief Financial Officer. 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. Our Code of Business Ethics and Conduct is posted on the "*Investors*" section of our website under the "*Governance*" caption. Shareholders may also request printed copies of our Code of Business Ethics and Conduct by following the instructions located under the caption "*Available Information*" on page 67.

RELATED PARTY TRANSACTIONS

Our Code of Business Ethics and Conduct requires that all directors and executive officers promptly bring to the attention of the General Counsel and, in the case of Directors, the Chair of the Nominating Committee or, in the case of executive officers, the Chair of the Audit Committee, any transaction or relationship that arises and of which she or he becomes aware that reasonably could be expected to constitute a related party transaction. Any such transaction or relationship is reviewed by the Company's management and the appropriate Board Committee to ensure that it does not constitute a conflict of interest and is reported appropriately. Additionally, the Nominating Committee conducts an annual review of related party transactions between each of our directors and the Company (and its subsidiaries) and makes recommendations to the Board regarding the continued independence of each Board member. In 2014, there were no related party transactions in which the Company (or a subsidiary) was a participant and in which any director or executive officer (or 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 JPMorgan Chase & Co., of which Mr. Tilton served as Chairman of the Midwest for part of 2014. The Nominating Committee determined that there were no transactions impairing the independence of any member of the Board.

BOARD AND COMMITTEE EVALUATIONS

Each committee performs an annual self-assessment, and the Nominating Committee and Lead Director oversee an annual self-assessment of the Board, which 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.

NOMINATING PROCESSES OF THE NOMINATING AND GOVERNANCE COMMITTEE

The Nominating Committee consists of three non-employee Directors, all of whom are independent under NYSE listing standards and our Corporate Governance Guidelines. The Nominating Committee identifies, investigates 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 the directors and management. Our By-Laws permit shareholders to nominate candidates for director election at a shareholders meeting whether or not such nominee is submitted to and evaluated by the Nominating Committee. Shareholders who wish to submit nominees for election at an annual or special meeting of shareholders should follow the procedures described under "*Submission of Future Shareholder Proposals*" on page 66. The Nominating Committee will consider director candidates recommended by shareholders. If a shareholder wishes to recommend a candidate for nomination by the Nominating Committee, he or she should follow the same procedures referred to above for nominations to be made directly by the 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, CEO, other executive officers, third-party search firms or other sources.

PROPOSAL 1: Election of Directors

Our By-Laws provide that the Directors are divided into three classes, which are to be as nearly equal in size as possible, with one class being elected each year. The Board of Directors has set the current number of Directors at eight, with two classes of three Directors each and one class of two Directors. 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 resulted from an action of our shareholders, only our shareholders would be entitled to elect a successor.

We expect each nominee will be able to serve if elected. If, however, a nominee is unable to serve and the Board of Directors does not elect to reduce the size of the Board, shares represented by proxies will be voted for a substitute nominated by the Board of Directors.

The names, principal occupations and certain other information about the nominees for director, as well as key experiences, qualifications, attributes and skills that led the Nominating Committee to conclude that such person is currently qualified to serve as a director, are set forth on the following pages.

NOMINEES FOR DIRECTORS TO BE ELECTED AT THE 2015 ANNUAL MEETING
for a three-year term ending at the 2018 Annual Meeting

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 INDEPENDENT DIRECTOR NOMINEES.

J. Brian Ferguson, 60

Director since April 2012

Mr. Ferguson retired as Chairman of Eastman Chemical Company (Eastman) in 2010 and as CEO of Eastman in 2009. He became the Chairman and CEO of Eastman in 2002. He currently serves on the board of Owens Corning, as well as on the Board of Trustees for The University of Tennessee.

Skills and qualifications:

Mr. Ferguson has over 30 years of leadership experience in international business, industrial operations, strategic planning and capital raising strategies, as well as in executive compensation.

Harold W. McGraw III, 66

Director since April 2012

Mr. McGraw has been Chairman of the Board of McGraw Hill Financial since 1999, where he also served as CEO from 1998 to November 2013 and as President and Chief Operating Officer from 1993 to November 2013. Mr. McGraw became the Chairman of the International Chamber of Commerce in July 2013. In addition to the board of McGraw Hill Financial, he currently serves on the board of United Technologies Corporation. Mr. McGraw has announced he will retire from the board of McGraw Hill Financial in April 2015.

Skills and qualifications:

As a former CEO and current Chairman of the Board of a large, global public company with a significant role in the financial reporting industry, Mr. McGraw's experience allows him to provide Phillips 66 with valuable global financial, corporate governance and operational expertise.

Victoria J. Tschinkel, 67

Director since April 2012

Ms. Tschinkel currently serves as the Vice-Chairwoman of 1000 Friends of Florida and previously was its Chairwoman. In addition, Ms. Tschinkel is a director of the National Fish and Wildlife Foundation, serving on the Gulf Benefits Committee. She served as State Director of the Florida Nature Conservancy from 2003 to 2006, was senior environmental consultant to Landers & Parsons, a Tallahassee, Florida law firm, from 1987 to 2002, and was the Secretary of the Florida Department of Environmental Regulation from 1981 to 1987.

Skills and 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.

The following Directors will continue in office until the end of their respective terms. Included below is a listing of each continuing Director's name, age, tenure and qualifications.

DIRECTORS WHOSE TERMS EXPIRE AT THE 2016 ANNUAL MEETING

Greg C. Garland, 57

Director since April 2012

Mr. Garland serves as Chairman and CEO of Phillips 66. He was appointed Senior Vice President, Exploration and Production-Americas for ConocoPhillips in 2010. He was previously President and CEO of Chevron Phillips Chemical Company LLC (CPChem) from 2008 to 2010, having served as Senior Vice President, Planning and Specialty Products, CPChem, from 2000 to 2008. Mr. Garland also serves on the boards of Amgen Inc. and Phillips 66 Partners GP LLC, the general partner of Phillips 66 Partners LP.

Skills and qualifications:

Mr. Garland's more than 30-year career with Phillips Petroleum Company, CPChem and ConocoPhillips, and as CEO of Phillips 66, makes him well qualified to serve both as a Director and as Chairman of the Board. Mr. Garland's extensive experience in the energy industry makes his service as a Director invaluable to the Company. In addition to his other skills and qualifications, Mr. Garland's role as both Chairman and CEO of Phillips 66 serves as a vital link between management and the Board of Directors, allowing the Board to perform its oversight role with the benefit of management's perspective on business and strategy.

John E. Lowe, 56

Director since April 2012

Mr. Lowe served as assistant to the CEO of ConocoPhillips, a position he held from 2008 until May 2012. He previously held a series of executive positions with ConocoPhillips, including Executive Vice President, Exploration and Production, from 2007 to 2008, and Executive Vice President, Commercial, from 2006 to 2007. Mr. Lowe is a Senior Executive Advisor to Tudor, Pickering, Holt & Co. and serves on the boards of Agrium Inc. and Apache Corporation, where he will serve as non-executive Chairman beginning May 1, 2015.

Skills and qualifications:

Mr. Lowe has served on the boards of DCP Midstream, LLC and CPChem, two of the Company's significant joint ventures. He has extensive experience and knowledge of our industry through his service on these boards and his 30-year career with Phillips Petroleum Company and ConocoPhillips.

DIRECTORS WHOSE TERMS EXPIRE AT THE 2017 ANNUAL MEETING

William R. Loomis, Jr., 66

Director since April 2012

Mr. Loomis has been an independent financial advisor since 2009. He was a general partner and managing director of Lazard Freres & Co. from 1984 to 2002, the CEO of Lazard LLC from 2000 to 2001 and a limited managing director of Lazard LLC from 2002 to 2004. He currently serves on the board of L Brands, Inc., and is also a senior advisor to Lazard LLC.

Skills and qualifications:

Mr. Loomis has extensive executive experience, financial expertise and substantial history as a senior strategic advisor to complex businesses and multiple executives.

Glenn F. Tilton, 66

Director since April 2012

Mr. Tilton served as Chairman of the Midwest of JPMorgan Chase & Co. from 2011 to June 2014. From September 2002 to October 2010, he served as 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. UAL Corporation filed a voluntary bankruptcy petition under the federal bankruptcy laws in December 2002 and exited bankruptcy in February 2006. Mr. Tilton previously spent more than 30 years in increasingly senior roles with Texaco Inc., including Chairman and CEO in 2001. He currently serves on the boards of Abbott Laboratories and AbbVie Inc. (as lead director).

Skills and qualifications:

Mr. Tilton has strong management experience overseeing complex multinational businesses operating in highly regulated industries, as well as 30-years experience in the energy industry and expertise in finance and capital markets matters.

Marna C. Whittington, 67

Director since May 2012

Dr. Whittington was CEO of Allianz Global Investors Capital, a diversified global investment firm, from 2002 until her retirement in January 2012. She was Chief Operating Officer of Allianz Global Investors, the parent company of Allianz Global Investors Capital, from 2001 to 2011. Prior to that, she was Managing Director and Chief Operating Officer of Morgan Stanley Asset Management. Dr. Whittington started in the investment management industry in 1992, joining Philadelphia-based Miller Anderson & Sherrerd. Previously, she was Executive Vice President and CFO of the University of Pennsylvania, from 1984 to 1992. Earlier, she served as Budget Director and, subsequently, Secretary of Finance for the State of Delaware. Dr. Whittington served on the board of Rohm & Haas Company from 1989 to 2009 and currently serves on the boards of Macy's, Inc. and Oaktree Capital Group, LLC.

Skills and qualifications:

Dr. Whittington has extensive knowledge of and substantial experience in financial, investment, and banking matters. She also provides valuable insight from her previous experience serving on the board of a chemicals company and as a statewide cabinet officer.

Our By-Laws require directors to be elected by the majority of the votes cast with respect to such director (i.e., the number of votes cast "for" a director must exceed the number of votes cast "against" that director). If a nominee who is serving as a Director is not elected at the Annual Meeting and no one else is elected in place of that Director, then, under Delaware law, the Director would continue to serve on the Board of Directors as a "holdover director." However, under our By-Laws, the holdover director would be required to tender his or her resignation to the Board. The Nominating Committee then would consider and recommend to the Board whether to accept or reject the tendered resignation, or whether some other action should be taken. The Board of Directors would then make a decision whether to accept the resignation taking into account the recommendation of the Nominating Committee. The Director who tenders his or her resignation would not participate in the Board's decision. The Board is required to publicly disclose (by a press release, a filing with the SEC or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors.

For information on the compensation of our non-employee Directors, please see the the discussion beginning on page 54.

NOMINATIONS

In selecting the 2015 nominees for Director, the Nominating Committee sought candidates who possess the highest personal and professional ethics, integrity and values, and are committed to representing the long-term interests of the Company's shareholders. In addition to reviewing a candidate's background and accomplishments, the Nominating Committee reviewed candidates in the context of the current composition of the Board and the evolving needs of the Company's businesses. The Nominating Committee also considered the number of boards on which the candidate already serves. It is the Board's policy that at all times at least a substantial majority of its members meets the standards of independence promulgated by the NYSE and the SEC, and as set forth in the Company's Corporate Governance Guidelines. The Nominating Committee also seeks to ensure that the Board reflects a range of talents, ages, skills, experiences, diversity, and expertise, particularly in the areas of accounting and finance, management, domestic and international markets, leadership, and energy related industries, sufficient to provide sound and prudent guidance with respect to the Company's operations and interests. The Board seeks to maintain a diverse membership, but does not have a separate policy on diversity. The Board also requires that its members be able to dedicate the time and resources necessary to ensure the diligent performance of their duties on the Company's behalf, including attending Board and applicable committee meetings.

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The following are some of the key qualifications and skills the Nominating Committee considered in evaluating the director nominees. The individual biographies above provide additional information about each nominee's specific experiences, qualifications and skills.

CEO experience. Directors with experience as CEOs of public corporations provide the Company with valuable insights. These individuals have a demonstrated record of leadership qualities and a practical understanding of organizations, processes, strategy, risk and risk management and the methods to drive change and growth. Through their service as top leaders at other organizations, they also bring valued perspectives on common issues affecting other companies and Phillips 66.

Financial reporting experience. An understanding of finance and financial reporting processes is important. The Company measures its operating and strategic performance by reference to financial targets. In addition, accurate financial reporting and robust auditing are critical to the Company's success. We seek to have multiple directors who qualify as audit committee financial experts, and we expect all of our directors to be financially knowledgeable.

Industry experience. Directors with experience as executives or directors or in other leadership positions in the energy industry bring pertinent background and knowledge to the Board. These directors have valuable perspective on issues specific to the Company's business.

Global experience. As a global company, directors with global business or international experience provide valued perspective on our operations.

Environmental experience. The perspective of directors who have experience within the environmental regulatory field is valued as we implement policies and conduct operations in order to ensure that our actions today will not only provide the energy needed to drive economic growth and social well-being, but also secure a stable and healthy environment for tomorrow.

Risk management experience. Directors with experience as executives managing risk provide insight and guidance that enhance the Board's capabilities in performing its risk oversight responsibilities.

	MR. FERGUSON	**MR. GARLAND**	**MR. LOOMIS**	**MR. LOWE**	**MR. MCGRAW**	**MR. TILTON**	**MS. TSCHINKEL**	**DR. WHITTINGTON**
CEO Experience	ü	ü	ü		ü	ü		ü
Financial Reporting Experience	ü	ü	ü	ü	ü	ü	ü	ü
Industry Experience	ü	ü		ü		ü		ü
Global Experience	ü	ü	ü	ü	ü	ü	ü	ü
Environmental Experience	ü	ü	ü	ü		ü	ü	ü
Risk Management Experience	ü	ü	ü	ü	ü	ü	ü	ü

The lack of a "ü" for a particular item does not mean that the director does not possess that qualification, characteristic, skill or experience. We look to each director to be knowledgeable in these areas; however, the "ü" indicates that the item is a specific qualification, characteristic, skill or experience that the director brings to the Board.

COMMITTEES OF THE BOARD

COMMITTEE	MEMBERS	PRINCIPAL FUNCTIONS	NUMBER OF MEETINGS IN 2014
Audit and Finance	William R. Loomis, Jr.*(1) Victoria J. Tschinkel Marna C. Whittington	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, and select financial matters, covering the Company's capital structure, complex financial transactions, financial risk management, retirement plans and tax planning. 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.	12
Executive	Greg C. Garland* J. Brian Ferguson William R. Loomis, Jr. Harold W. McGraw III Victoria J. Tschinkel	Exercises the authority of the full Board between Board meetings on all matters other than (1) those expressly delegated to another committee of the Board, (2) the adoption, amendment or repeal of any of our By-Laws and (3) those that cannot be delegated to a committee under statute or our Certificate of Incorporation or By-Laws.	0
Human Resources and Compensation	J. Brian Ferguson* Harold W. McGraw III Glenn F. Tilton	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	6

		other key employees. Reviews at least annually the performance (together with the Lead Director) and sets the compensation of the CEO.	
Nominating and Governance	Harold W. McGraw III* J. Brian Ferguson Glenn F. Tilton	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.	5
Public Policy	Victoria J. Tschinkel* William R. Loomis, Jr. John E. Lowe Marna C. Whittington	Advises the Board on current and emerging domestic and international public policy issues. Assists the Board on the development, review and approval of policies and budgets for charitable and political contributions. Advises the Board on compliance with policies, programs and practices regarding health, safety and environmental protection.	6

* Committee Chairperson

(1) Audit committee financial expert

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 2015. Ernst & Young has been retained as the Company's independent registered public accounting firm continuously since 2012. 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.

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. If the appointment of Ernst & Young is not ratified, the Audit Committee will reconsider the appointment.

SERVICES PROVIDED BY THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit services of Ernst & Young for fiscal year 2014 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 2014 consolidated financial statements, we entered into an engagement agreement with Ernst & Young that sets forth the terms by which Ernst & Young will perform 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 totaled $12.9 million for 2014 and $12.1 million for 2013, which consisted of the following:

Fees (in millions)	**2014**	**2013**
Audit Fees(1)	$ 11.6	$ 11.0
Audit-Related Fees(2)	0.8	0.7
Tax Fees(3)	0.5	0.4
Other Fees		
Total	**$ 12.9**	**$ 12.1**

(1) Fees for audit services related to the fiscal year consolidated audit, the audit of the effectiveness of internal controls, quarterly reviews, registration statements, comfort letters, statutory and regulatory audits and accounting consultations. Includes audit fees of Phillips 66 Partners LP of $1.5 million and $0.8 million for 2014 and 2013, respectively.

(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 may be provided by Ernst & Young 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 must be considered by the Audit Committee 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.

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

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PROPOSAL 2: Ratification of the Appointment of Ernst & Young LLP

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 three 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 determined that at least one member, William R. Loomis, Jr., 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 "*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 2014.

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, 2014, and management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, 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 standards of 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, 2014.

THE PHILLIPS 66 AUDIT AND FINANCE COMMITTEE
William R. Loomis, Jr., Chairman
Victoria J. Tschinkel
Marna C. Whittington

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 Section 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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, has overseen the development of a compensation program 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 program aligns the interests of our executives with those of our shareholders. Our compensation program is 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. However, the Compensation Committee and the Board will take the outcome of the vote into account when considering future executive compensation arrangements.

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (CD&A) discusses our executive compensation program for 2014, the decisions the Compensation Committee has made regarding 2014 compensation, and updates to the program for 2015. This CD&A focuses on the compensation of our NEOs, who are:

Greg Garland	Chairman and Chief Executive Officer
Paula Johnson	Executive Vice President and General Counsel
Greg Maxwell	Executive Vice President and Chief Financial Officer
Tim Taylor	President
Larry Ziemba	Executive Vice President, Refining

OUR CORPORATE STRATEGY AND BUSINESS PERFORMANCE

We are an energy manufacturing and logistics company with a unique portfolio of assets in the Midstream, Chemicals, Refining, and Marketing and Specialties businesses. Our high-performing workforce allows us to have the right people, in the right place, at the right time to execute our plan and capture opportunities in the marketplace. Our focused attention to safety and operational excellence ensures our ability to operate our core assets in an optimal manner. There are three keys central to Phillips 66's long-term strategy: growing our higher-valued businesses by leveraging core infrastructure and capturing market opportunities; optimizing returns on our strategic assets; and distributing capital to our shareholders.

Phillips 66 Business Performance and Overview

In 2014, in a challenging environment, earnings were $4.8 billion, or $8.33 per share, compared with $3.7 billion, or $6.02 per share, in 2013. Adjusted earnings for the year were $3.8 billion, and adjusted earnings per share were $6.62. The Company generated approximately $3.5 billion of cash from operations, maintained a strong balance sheet, and ended the year with a debt-to-capital ratio of 28 percent, within our 20 to 30 percent target range. We focused our executive compensation-related goals and metrics on achieving these results through executing the strategic initiatives described below.

Growth

Midstream

Our Midstream business segment transports crude oil, refined products, natural gas and natural gas liquids (NGLs). It also gathers, processes and markets natural gas and NGLs. This segment includes Phillips 66 Partners LP ("PSXP"), our master limited partnership formed in 2013.

To capture opportunities in the marketplace and deliver differentiated results, we approved development of and capital funding for two projects that will grow our Midstream business by leveraging the capability and infrastructure of our core assets:

- The Sweeny Fractionator One will process 100,000 barrels-per-day of NGLs into feedstock for the petrochemical industry and Liquefied Petroleum Gas (LPG) products for domestic and international markets.

- The Freeport LPG Export Terminal will allow for delivery of up to 150,000 barrels-per-day of propane and butane exports to markets around the globe.

We acquired a 7.1 million barrel storage capacity terminal near Beaumont, Texas. This facility provides deep-water access and multiple interconnections with major crude oil and refined product pipelines serving 3.6 million barrels-per-day of refining capacity.

We increased our ownership in the Explorer Pipeline refined product pipeline that carries petroleum products from the U.S. Gulf Coast to key markets in the Chicago area.

In order to gain better access to lower cost feedstock and advantaged crudes, we took the following actions in 2014:

- We constructed and began operation of rail unloading racks with combined capacity of 105,000 barrels-per-day at our Bayway and Ferndale refineries to supply Bakken and other advantaged crude oils to those facilities.

- Through PSXP we formed joint ventures to develop a crude delivery point, crude oil pipeline and rail loading rack in the Bakken oil field. This will be a primary supply point to our rail unloading racks at Bayway and Ferndale.

- We formed a joint venture to build a pipeline system from the Bakken oil field to the Midwest, as well as conversion of an existing pipeline that will provide shippers with access to the Gulf Coast, including our own terminal near Beaumont, Texas.

- Additionally, in conjunction with our joint venture partner, we are evaluating a crude oil pipeline to connect our Beaumont Terminal with our refineries, as well as other third-party refineries, in Louisiana.

- We increased the number of crude oil railcars ordered to a total of 3,700. This represents approximately 185,000 barrels-per-day of capacity to deliver advantaged Bakken crude to either the East or West Coast.

We continued aggressive growth of our master limited partnership, PSXP:

- We are developing a cross-channel connector pipeline that expands our capacity to transport refined products across the Houston Ship Channel. This is key to leveraging our core infrastructure.

- PSXP completed over $1 billion in acquisitions from Phillips 66 in 2014, resulting in distribution growth of 51 percent when comparing the fourth quarter of 2014 with the fourth quarter of 2013. Since its initial public offering in July 2013, PSXP has created over $4.5 billion in enterprise value and doubled its Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Additionally, PSXP assets are key connectors to seven Phillips 66 core operating refineries.

The following table illustrates the additional value created by using the MLP structure. If the assets now owned by PSXP were still embedded in Phillips 66 (PSX), their value would translate to approximately $1 billion based on market valuations for PSX. Those same assets within PSXP are given a value of approximately $5.7 billion based on market valuations for PSXP. Phillips 66's equity ownership in PSXP had a market value of approximately $4.3 billion as of December 31, 2014.

(1) Enterprise Value based on pro forma EBITDA estimates and current Phillips 66 multiple

Chemicals

Our chemicals joint venture, ChevronPhillips Chemical Company ("CPChem"), is focusing investment in domestic growth projects to realize the benefits of low-cost petrochemical feedstocks along the Gulf Coast. CPChem took the following actions in 2014:

- Began construction of a world-scale 3.3 billion pound-per-year ethane cracker.
- Progressed development of two 1.1 billion pound-per-year polyethylene facilities.
- Completed and began operation of a 550 million pound-per-year 1-hexene facility that utilizes CPChem proprietary technology.
- Completed and began operation of a tenth ethane cracking furnace at Sweeny resulting in an additional 200 million pounds-per-year of ethylene production.

Marketing and Specialties

We acquired a specialty lubricants company that complements our existing business, significantly expands our offering of specialty lubricants and extends our international reach in the lubricant markets.

Optimizing Returns

We increased our ownership in the Sweeny Cogeneration power plant to 100 percent in 2014. Both the Sweeny Refinery and CPChem's Sweeny facility use steam and power generated by the plant.

We sold our 47% ownership interest in the Melaka Refinery in 2014. This divestiture, along with our sale of the Bantry Bay terminal in early 2015, allows us to redeploy resources to more strategic areas of our business.

Our U.S. advantaged crude slate averaged 94 percent in 2014, an increase over prior years. We accomplished this through multiple agreements with logistics companies to deliver Canadian crudes to our refineries, pipeline agreements to deliver Eagle Ford Shale crude to our Gulf Coast refineries, and charters with Jones Act ships to deliver Eagle Ford Shale crude to our Gulf Coast and East Coast refineries.

U.S. Advantaged Feedstock/Crude Slate
(percent)

Distributions

We increased quarterly dividends 28% in 2014 to $0.50 per share. Since our spin-off in 2012, the Board has increased our dividend by 150%. Our dividends demonstrate our disciplined approach to allocating capital resources while maintaining our growth strategy.

Quarterly Dividends
(dollars per share)

Our Board of Directors has authorized share repurchases of $7 billion since the third quarter of 2012, of which $4.9 billion had been executed through 2014. The majority of these repurchases are funded through cash generated by operations. Total common shares outstanding at year-end 2014 were 546 million, down 13 percent since spin-off.

We completed the disposition of Phillips Specialty Products Inc. ("PSPI") in 2014. This share exchange returned $1.35 billion in capital to shareholders, including $450 million in cash. When combined with share repurchases and dividends, total capital returned to shareholders in 2014 was $4.7 billion.

OUR COMPENSATION PHILOSOPHY

Our compensation programs support our corporate vision of providing energy and improving lives. Our programs are aligned with key elements of our corporate strategy. Important tenets of our approach include:

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

- We believe our compensation programs play an important role in our employee value proposition. They provide a competitive advantage, helping the Company attract, retain, motivate, and reward high-performing executive talent, as well as support succession planning.

- We pay for performance. Executives have a significant portion of compensation tied to the achievement of annual and long-term goals that promote shareholder value creation.

- We target and award reasonable and competitive compensation levels, aligned with market median levels, and allow for differentiation based on performance.

- We emphasize Phillips 66 stock ownership by establishing stock ownership guidelines for our executives that are set at a multiple of their annual base salary.

- We provide executives the same group benefit programs as we provide other employees, on substantially the same terms.

- We limit executive perquisites to items that serve a reasonable business purpose.

OUR 2014 SAY-ON-PAY VOTE RESULT AND SHAREHOLDER ENGAGEMENT EFFORT

Our shareholders' views are important to us. We regularly engage with shareholders to discuss strategy and business performance. During 2014, members of management continued this practice by engaging with shareholders on a variety of topics, including executive compensation and corporate governance matters. Understanding investors' views on these topics is critical and particularly relevant given our 2014 Say-on-Pay result. Eighty-five percent of votes cast in 2014 approved our executive compensation, reflecting strong support for how we executed our executive compensation program in past years. That said, we constantly strive to improve our policies and program consistent with evolving best practices in corporate governance. In order to ensure a more comprehensive understanding of shareholders' views of our executive compensation program, we reached out to investors representing approximately 40 percent of outstanding shares. While there were no prescriptive suggestions given in these meetings, there were consistent themes that we identified and reported to the Compensation Committee:

- Program payouts must be tightly linked to Company performance.

Disclosures should clearly frame the link between corporate strategy, Company execution and individual compensation decisions.

We value these conversations with shareholders and continue to examine our compensation programs and disclosures in light of those conversations. We will continue the dialogue, using the feedback we receive as a way to ensure our alignment with shareholders remains strong.

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COMPENSATION DISCUSSION AND ANALYSIS

SUMMARY OF BEST PRACTICES

In conjunction with our corporate strategy, executive compensation philosophy and shareholder feedback, Phillips 66 includes the following best practices in our executive compensation programs:

WE DO ...	WE DO NOT ...
ü Target the majority of NEO compensation to be performance based	X Provide tax gross-ups to our NEOs under the CICSP
ü Link NEO compensation to shareholder value creation by having a significant portion of compensation at risk	X Reprice stock options without shareholder approval
ü Apply multiple performance metrics aligned with our corporate strategy to measure our performance	X Price stock options below grant date fair market value
ü Cap maximum payouts (number of shares) under our equity programs	X Allow share recycling for stock options
ü Employ a "double trigger" for severance benefits and equity awards under our Key Employee Change in Control Severance Plan (CICSP)	X Have evergreen provisions in our active equity plans
ü Include absolute and relative metrics in our Long-Term Incentive programs	X Allow hedging or pledging of Phillips 66 stock or trading Company stock outside of approved windows
ü Maintain stock ownership guidelines for executives	X Pay dividends during the performance period on PSP targets
ü Balance, monitor and manage compensation risk through regular assessments and robust clawback provisions	X Allow transfer of equity awards (except in the case of death)
ü Have extended vesting periods on stock awards. Minimum one-year vesting period required for stock and stock option awards	X Provide separate supplemental executive retirement benefits for individual NEOs
ü Intend to qualify payments under our Variable Cash Incentive Program (VCIP), Restricted Stock Unit (RSU) program and Performance Share Program (PSP) for	X Maintain individual change in control agreements

deductions under IRC Section 162(m)

ü Maintain a fully independent Compensation Committee	X Have an employment agreement with the CEO
ü Retain an independent compensation consultant	X Have excessive perquisites
ü Hold a Say-on-Pay vote annually	

ELEMENTS OF COMPENSATION

Significant Pay at Risk

Consistent with our compensation 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 value of the awards at the time of grant will be realized. The Compensation Committee has complete authority to limit and even award nothing for the performance-based payouts and individual performance adjustments under the VCIP and PSP based on the Compensation Committee's evaluation of performance. Stock options can expire with zero value if the Company stock price does not appreciate above the grant date price over the 10-year life 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.

Principal Elements of the Executive Compensation Program

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

KEY ELEMENTS OF PAY	DELIVERED VIA	TARGET AMOUNT	PERFORMANCE DRIVERS (AND WEIGHTING)
Base Salary	Cash	Benchmarked to peer median; adjusted for experience, responsibility, performance	Annual fixed cash compensation to attract and retain NEOs
Annual Incentives	VCIP (Cash)	100% of Annual Performance-Based Compensation Target	Safety and Operating Excellence (25%) Cost Management (25%) Adjusted Earnings(1) (25%) 1-Year Return on Capital Employed (ROCE) (25%) Individual Modifier (+/- 50% of target)
Long-Term Incentives	PSP (Performance Shares)	50% of Long-Term Grant	3-Year ROCE (50%) Relative Total Shareholder

		Return (TSR) (50%)
Stock Options(2)	25% of Long-Term Grant	Long-term stock price appreciation for RSUs and stock options
RSUs	25% of Long-Term Grant	

(1) See Appendix B for a complete explanation of earnings adjustments.

(2) 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 following the date of grant. This practice aligns the interests of our NEOs and shareholders.

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The Compensation Committee believes this mix is aligned with our compensation philosophy, reflects the cyclical nature of our business and supports executive retention.

Target Mix

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 targeted compensation.

CEO Target Mix

OTHER NEO Target Mix

CEO target compensation mix is 90 percent at risk and 73 percent performance-based. The target mix for the other NEOs is 79 percent at risk and 64 percent performance-based. Both the CEO and other NEO target mix percentages are commensurate with their levels of responsibility.

TARGETS AND PAYOUTS FOR COMPENSATION ELEMENTS

Peer Group Comparisons

Phillips 66 is uniquely positioned in the energy industry with our integrated downstream portfolio, which includes our midstream business, production of chemicals through CPChem, operations for refining oil and processing natural gas and the distribution and marketing of fuels and specialty products. In order to reflect the portfolio of our integrated businesses, the Compensation Committee considers three types of peer companies when evaluating whether our executive compensation program offers competitive total compensation opportunities and reflects best practices in plan design.

Primary Peer Group The Primary Peer Group consists of integrated oil companies with significant downstream operations, independent downstream companies with similar scope and scale (mainly in refining) and a company from the chemicals industry. We continue to evaluate potential peers regularly in light of changes in market conditions, business restructuring within the industry and changes in our business portfolio from the execution of our corporate strategy to grow our Midstream and Chemicals segments.

Importantly, the Primary Peer Group does not consist of companies that are heavily reliant on exploration and production of oil and gas. A comparison to Exploration and Production ("E&P") companies would be inappropriate for Phillips 66 because of our extensive midstream and downstream operations and the very different types of entities, markets and performance among E&P companies.

The Primary Peer Group is evaluated on four criteria assets, market capitalization, revenue and business operations reasonably comparable to those of Phillips 66. The Compensation Committee believes reviewing each of these criteria is necessary in order to fully reflect the complex nature of our business and determine the optimal group of companies with which to compare Phillips 66. At the time the Primary Peer Group was last reviewed in 2014, we were, in comparison to this group, in the:

43rd percentile in assets

56th percentile in market capitalization

69th percentile in revenue

Our Primary Peer Group consists of the following companies:

PRIMARY PEER GROUP

BP plc	Marathon Petroleum Corporation
Chevron Corporation	Tesoro Corporation
Dow Chemical Company	Valero Energy Corporation

Supplemental Broad Industry Peer Group Because the Primary Peer Group is somewhat small in number for comparison purposes, it is supplemented by a Broad Industry Peer Group representing large industrial companies with significant capital investments and complex international operations. These include companies against which we compete for talent. In 2014, we amended this peer group to reflect changes in the broader market.

The manufacturing and logistics companies reviewed for the Supplemental Broad Industry Peer Group are evaluated mainly on assets and market capitalization and exposure to complex global industrial markets. Due to the nature of our business, revenue is not as important a factor for this group as it is with the Primary Peer Group. As with the Primary Peer Group, the Compensation Committee believes it is important to exclude oil and gas companies that are significantly exposed to the E&P elements of the business. Phillips 66 is meaningfully different from E&P companies because of our exposure to the chemicals, midstream and downstream operations and markets. At the time this Supplemental Broad Industry Peer Group was last reviewed in 2014, we were, in comparison to this group, in the:

- 45th percentile in assets
- 41st percentile in market capitalization
- 100th percentile in revenue

The Supplemental Broad Industry Peer Group consists of the following twenty companies:

BROAD INDUSTRY PEER GROUP

Archer Daniels Midland	Johnson Controls, Inc.
The Boeing Company	Lockheed Martin
Caterpillar Inc	Mondelez International
Deere & Company	Procter & Gamble Company
E.I. du Pont de Nemours and Company	Sprint Nextel Corporation
FedEx Corporation	Sysco Corporation
Ford Motor Company	Tyson Foods, Inc.
General Dynamics Corporation	United Parcel Service, Inc.
Honeywell International Inc	United Technologies Corp.
Johnson & Johnson	Verizon Communications Inc.

S&P 100 Peer Comparison We evaluate our TSR performance against the S&P 100 index and our Primary Peer Group. The Compensation Committee believes that the S&P 100 and Primary Peer Group provide an appropriate group for TSR comparison purposes because these are the companies with which we compete for capital in the broader market. The Compensation Committee considered comparing TSR of the Company with only other oil and gas companies but found: (1) the business mixes within these companies to be sufficiently different so as to make such comparisons inadequate and (2) the Company is a large-cap industrial company with a diverse business, making comparison to the diverse, large-cap businesses of the S&P 100 more appropriate for TSR purposes.

How We Use the Peer Groups The Compensation Committee considers the median levels of compensation among these peer group companies in developing targeted levels of compensation for the NEOs, and references the compensation governance practices and plan structures of each company. The following chart summarizes how we used each of these three groups for our compensation programs in 2014:

	PEER GROUP TYPES		
COMPENSATION PROGRAMS	**PRIMARY**	**BROAD INDUSTRY**	**S&P 100**
VCIP	Performance Comparison Benchmarking Pay Levels and Practices	N/A	N/A
PSP	Performance Comparison Benchmarking Pay Levels and Practices	N/A	Performance Comparison
Total Target Compensation	Performance Comparison Benchmarking Pay Levels and Practices	Benchmarking Pay Levels and Practices	N/A

Base Salary

Base salary is designed to provide a competitive and set 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 relevant peer groups for comparable roles, experience and expertise, individual performance and business results.

Below is a summary of the annualized base salary for each NEO for 2014. 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**" on page 43, which reflects actual base salary earnings in 2014, including the effect of salary changes during the year.

NAME	POSITION	BASE SALARY AS OF DECEMBER 31, 2013 ($)	BASE SALARY AS OF DECEMBER 31, 2014 ($)(1)
Mr. Garland	Chairman and Chief Executive Officer	1,450,000	1,522,512
Ms. Johnson	Executive Vice President and General Counsel	530,016	610,008
Mr. Maxwell	Executive Vice President and Chief Financial Officer	650,016	775,008
Mr. Taylor	President	735,000	985,008
Mr. Ziemba	Executive Vice President, Refining	650,016	679,272

(1) The respective December 31, 2014 base salaries for Messrs. Maxwell and Taylor reflect an increase for promotions received during the year. Their salaries after merit increases on March 1, 2014 were $679,272 and $764,400, respectively. Ms. Johnson received a salary increase for promotion on March 1, 2014 that increased

her salary to $610,008.

Mr. Garland, Ms. Johnson and Messrs. Maxwell, Taylor and Ziemba received base salary increases effective March 1, 2014, as part of the peer company review and annual merit cycle for all employees. Ms. Johnson and Messrs. Maxwell and Taylor received grade promotions, effective March 1, August 1 and June 1, 2014, respectively. These additional increases in base salary brought each applicable NEO's base salary in line with respective peer group levels and reflect that each NEO met established performance requirements for their respective roles. The Compensation Committee determined these adjustments were appropriate to maintain our competitiveness in the market. The promotions prompted other actions, including target VCIP increases and supplemental prospective performance plan awards.

Variable Cash Incentive Program

The VCIP, which is our annual incentive program, is designed to:

- Reward annual performance achievements.
- Align corporate, business and individual goals with shareholder interests and Company strategy.
- Drive behaviors and actions consistent with shareholder interests.
- Provide variability and differentiation based on corporate, business and individual performance.

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COMPENSATION DISCUSSION AND ANALYSIS

Each NEO's base VCIP award is tied solely to corporate performance rather than the performance of any individual business unit. We believe this is in the best interests of shareholders as it promotes collaboration across the organization.

The annual payout for NEOs is delivered as a cash bonus and is calculated as follows:

Eligible Earnings generally include base salary and other base salary related payments.	Target Percentage is expressed as a percentage of base salary and is based on the NEO's salary grade level. The compensation structure, including VCIP targets, is reviewed and approved by the Compensation Committee and is targeted at the average of the median of our Primary and Supplemental Broad Industry peers.	After the end of the performance period, the Compensation Committee reviews the Company's performance versus established targets to determine the Corporate Payout Percentage. The Corporate Payout Percentage is based on a mix of operational and financial metrics carefully selected to drive the right behaviors to create shareholder value. Metrics, weightings and targets are outlined in the tables below. Using the Company performance versus targets and benchmarks as a foundation, the	The Compensation Committee takes into account the individual accomplishments of each NEO when determining any individual performance adjustments. Adjustments can range from +/ 50% of target. The Compensation Committee approves individual adjustments for NEOs based on specific, measurable performance of the individual NEO that drives shareholder value.

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

For 2014, the Compensation Committee used the following metrics, which are aligned with our corporate strategy, to evaluate corporate performance under the VCIP. This mix of financial and operational metrics was designed to ensure a balanced view of Company performance.

METRIC	CORPORATE WEIGHTING	RATIONALE
Safety, Process Safety and Operating Excellence	25%	Aligns payout with strategic focus on operating excellence
Cost Management	25%	Effective cost management maintains a focus on operating excellence as well as enhancing returns
ROCE	25%	Aligns payout with strategic focus on enhancing returns and growth initiatives
Adjusted Earnings	25%	Measures the effectiveness of strategic growth initiatives, operating excellence and quality of returns

Generally, target performance results in 100 percent payout of target bonus opportunity. Less-than-target performance will normally result in a payout between zero and 99 percent of target. Greater-than-target performance generally results in a payout between 100 percent of target and the maximum 200 percent, before individual adjustment.

Use of Relative Metrics to Evaluate Performance

The VCIP is a key component of our compensation program and is designed to drive behaviors and actions that are aligned with shareholder interests. The core measurement of each metric is based on an absolute corporate target. This alignment with our corporate strategy provides a clear line-of-sight for employees to understand how their actions and decisions drive Company success. The payout percentage for each metric is based on Company results compared to the absolute target.

It is also necessary to view these results from a shareholder perspective and evaluate them relative to peer companies to ensure the validity and rigor of our internal metrics. This relative perspective is used to determine additional actions, if any, taken by the Compensation Committee.

Safety, Process Safety and Operating Excellence Metrics

Safety, process safety and operating excellence are extremely important to meeting our corporate strategy for growth, returns and distributions. We measure ourselves compared to industry averages for safety and process safety measures and target a 10 percent improvement in environmental events compared to prior years. Utilization targets are based on prior year industry averages.

In 2014, Phillips 66 had first quartile performance for both Combined Total Recordable Rate (TRR) and Lost Workday Case Rate (LWCR). Although our Process Safety Rate was improved compared to target, our performance relative to peers was second quartile. Environmental events were down 26 percent from 2013, marking 10 years of sustained reductions. Capacity utilization was 7 percent higher than industry average and improved over 2013 rates. These results were used to determine a 185 percent payout for safety, process safety and operating excellence performance.

ROCESS SAFETY G EXCELLENCE	**COMPANY RESULTS**		**PAYOUT LEVELS BASED ON PERFORMANCE**						**CO**
	TARGET	**ACTUAL**	**175-200%**	**100-175%**	**50-100%**	**0-50%**	**PAYOUT %**	**WEIGHT**	
RR	0.48	0.19	**1st Quartile**	2nd Quartile	3rd Quartile	4th Quartile	190%	5%	
WCR	0.10	0.03	**1st Quartile**	2nd Quartile	3rd Quartile	4th Quartile	190%	5%	
ty Rate	0.10	0.07	1st Quartile	**2nd Quartile**	3rd Quartile	4th Quartile	165%	5%	
al Events	150	123	**<125**	125-150	150-175	>175	180%	5%	
lization	88%	94%	**>92%**	88%-92%	84%-88%	<84%	200%	5%	
, Process Safety and Operating							**185%**	**25%**	

Cost Management

Cost management maintains focus on operating excellence and our ability to deliver differentiated returns to shareholders. Our targets are based on our budget for the current year. We measure our costs per barrel relative to our peer group to ensure alignment with industry trends and to reflect operating decisions made in response to changing market conditions that vary from budget assumptions.

In 2014, we were slightly improved from our cost management target and were second in our peer group on costs per barrel. These results were used to determine a 145 percent payout for Cost Management.

COMPANY RESULTS		**PAYOUT LEVELS BASED ON PERFORMANCE**								**COR**
TARGET	**ACTUAL**	**175-200%**	**125-175%**	**100-150%**	**100%**	**95-100%**	**90-95%**	**PAYOUT %**	**WEIGHT**	
		Met or Exceeded Target & Operating Cost $/BBL Ranking Relative to								

				Peers							
ent*	$5,954	$5,875	1st	**2nd**	3rd	Target	Target+5%	Target+10%	**145%**	**25%**

* See Appendix B for a discussion of non-GAAP financial measures.

Return on Capital Employed

Return on Capital Employed is key to delivering returns to shareholders and achieving our growth initiatives. ROCE is a key metric for shareholders to determine the quality of our earnings relative to peers. The Compensation Committee, therefore, weighs the relative ROCE more heavily than the absolute results to ensure we effectively compete for capital in the broader market. Our absolute targets are based on our budgeted Weighted Average Cost of Capital (WACC).

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COMPENSATION DISCUSSION AND ANALYSIS

In 2014, our VCIP ROCE was 4.9 percentage points above our target and we were third in our peer group in VCIP ROCE. Additionally, share repurchases, which also increase shareholder returns, totaled $2.3 billion, more than 63 percent over budget. These results were used to determine a 140% payout for Return on Capital Employed.

D	COMPANY RESULTS		PAYOUT LEVELS BASED ON PERFORMANCE									PAYOUT	
	TARGET	**ACTUAL**	**200%**	**175%**	**150%**	**125%**	**100%**	**75%**	**50%**	**25%**	**0%**	**%**	**WI**
	9.7%	14.6%	**>12.1%**	11.5%	10.9%	10.3%	9.7%	9.5%	9.2%	9.0%	8.7%	200%	

		PAYOUT LEVELS BASED ON PERFORMANCE							
		200%	**170-199%**	**125-169%**	**100-124%**	**70-99%**	**30-69%**	**0%**	
Relative Ranking	3rd	1st	2nd	**3rd**	4th	5th	6th	7th	125%

l Employed	**140%**

* See Appendix B for a discussion of non-GAAP financial measures.

The following chart shows our VCIP ROCE performance relative to our peers.

Relative VCIP ROCE (Percent)

Adjusted Earnings

Adjusted earnings measure how effectively we are delivering on our growth, returns and distribution strategies. We measure our adjusted earnings compared to budgeted targets.

In 2014, adjusted earnings were 9.9 percent below our aggressive target, despite Earnings per Share growth of 12 percent over 2013 and EBITDA growth of over 5 percent. Additionally, we generated $4.5 billion in cash from operations, excluding working capital. These results somewhat mitigated the lower adjusted earnings, resulting in a 90 percent payout for adjusted earnings.

	COMPANY RESULTS		**PAYOUT LEVELS BASED ON PERFORMANCE**									
GS										**PAYOUT**		**COR**
	TARGET	**ACTUAL**	**200%**	**170-199%**	**125-169%**	**100-124%**	**70-99%**	**30-69%**	**0-25%**	**%**	**WEIGHT**	
*	$4,197	$3,782	$5,800	$5,500	$5,000	$4,600	**$3,700**	$3,000	$2,300	**90%**	**25%**	

*

See Appendix B for a discussion of non-GAAP financial measures.

Total Corporate Payout

The formulaic result of our individual metrics resulted in a Total Corporate Payout of 140 percent.

METRIC	**PAYOUT PERCENTAGE**	**WEIGHT**	**CORPORATE PAYOUT**
Safety, Process Safety and Operating Excellence	185%	25%	46.25%
Cost Management	145%	25%	36.25%
Return on Capital Employed	140%	25%	35.00%
Adjusted Earnings	90%	25%	22.50%
Total Corporate Payout			**140.00%**

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Applying Project-Based and Shareholder Metrics to the Annual VCIP Payout

The VCIP provides the Compensation Committee with authority to adjust the VCIP payout +/ 50 percent of the formula-based target payout amount to reflect (1) project-based performance highlights that drive (or detract from) shareholder value and (2) market-based adjustments to more closely align the VCIP payout with shareholder returns for the period. If we were to use a strict formula-based incentive compensation program as measured by various financial and operational metrics, we could not adequately differentiate individual executive performance or properly align executive compensation with overall Company performance. The Compensation Committee takes into consideration individual contributions to achieving corporate strategic priorities when determining the appropriateness of adjustments to individual overall compensation levels.

Applying Negative Discretion to the 2014 VCIP Payout

For the 2014 VCIP payout, the Compensation Committee exercised negative discretion by reducing the formula-based amount by 30 percent for Mr. Garland and 20 percent for each of the remaining NEOs. The Committee based this decision on the Company's absolute and relative TSR for the year. Although the Company performed well against rigorous VCIP financial and operational targets, market conditions and stock performance at the end of 2014 did not, in the Compensation Committee's view, justify a full payout. The Compensation Committee concluded that this adjustment more closely aligned each executive's 2014 VCIP payout with shareholders and strengthened the Company's overall link between pay and performance.

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

IE	ELIGIBLE EARNINGS ($)	TARGET VCIP PERCENTAGE(1)	CORPORATE PAYOUT PERCENTAGE	INDIVIDUAL PERFORMANCE ADJUSTMENT PERCENTAGE(2)	TO PAY
Garland	1,510,427	160.00%	140%	(30)%	2,658
ohnson	596,676	82.50%	140%	(20)%	590
Maxwell	714,286	90.08%	140%	(20)%	772
Taylor	888,188	98.75%	140%	(20)%	1,052
Ziemba	674,396	83.00%	140%	(20)%	67

(1) Target percentages are weighted to reflect promotions and / or merit increases during 2014.

(2) Individual performance adjustments are attributable to the Compensation Committee's assessment of the Company's absolute and relative TSR performance.

Long-Term Incentive (LTI) Programs

Our LTI programs are designed to:

- Align corporate, business and individual goals with shareholder interests and corporate strategy and vision.
- Drive behaviors and actions consistent with shareholder interests.

- Encourage prudent risk taking and long-term perspective.

- Support retention of high-performing talent and succession planning.

Our programs deliver 50 percent of long-term target value in the form of Performance Share Units (PSUs) through the PSP, 25 percent in the form of stock options and 25 percent in the form of RSUs.

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COMPENSATION DISCUSSION AND ANALYSIS

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 and supports succession planning.

There are three PSP programs in progress at any time. The table below summarizes the PSP programs in effect during 2014:

PROGRAM	METRICS	PROGRAM TERMS
PSP 2012-2014		Payouts restricted for 5 years following performance period
PSP 2013-2015	50% 3-Year ROCE 50% TSR	Paid in cash at the end of the performance period
PSP 2014-2016		

PSP 2012-2014 Payout

For 2014, the Compensation Committee considered the following results when approving the payout for PSP 2012-2014.

Relative PSP ROCE 2012-2014

Total Shareholder Return 2012-2014

Return on Capital Employed

ROCE is an important measure of both the Company's short- and long-term performance. As such, the Compensation Committee uses a ROCE measure as a metric in both the PSP program as well as the VCIP program; however, each applies ROCE to a different time period.

The target for absolute performance is based on our WACC for the performance period.

During the PSP 2012-2014 performance period, our relative PSP ROCE was second in our peer group and 43 percent higher than peer average. Our absolute PSP ROCE was 7.5 percentage points above target.

These results were used to determine a 180% payout for Return on Capital Employed.

COMPANY RESULTS		PAYOUT LEVELS BASED ON PERFORMANCE										
TARGET	**ACTUAL**	**200%**	**175%**	**150%**	**125%**	**100%**	**75%**	**50%**	**25%**	**0%**	**PAYOUT %**	**WEIGHT**
9.7%	17.2%	**>12.1**	11.5%	10.9%	10.3%	9.7%	9.5%	9.2%	9.0%	8.7%	200%	10%

COMPANY RESULTS		PAYOUT LEVELS BASED ON PERFORMANCE								
TARGET	**ACTUAL**	**200%**	**170-199%**	**125-169%**	**100-124%**	**70-99%**	**30-69%**	**0%**	**PAYOUT %**	**WEIGHT**
Relative Ranking	2nd	1st	**2nd**	3rd	4th	5th	6th	7th	175%	40%

Capital Employed	**180%**	**50%**

* See Appendix B for a discussion of non-GAAP financial measures.

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Total Shareholder Return

Total Shareholder Return for the performance period is compared to our Primary Peer Group and the S&P 100. The time period measured for PSP 2012-2014 was from our spin-off in May 2012 to December 31, 2014. BP and Chevron are excluded from the analysis because of the effect of their upstream operations on their respective stock prices.

For the related time period, our stock price performance was in the 40th percentile of our peer group, resulting in a payout for TSR of 110 percent, recognizing our TSR was above the peer average.

L EHOLDER RN IC	**COMPANY RESULTS**		**PAYOUT LEVELS BASED ON PERFORMANCE**							
	TARGET	**ACTUAL**	**150-200%**	**125-175%**	**50-150%**	**25-100%**	**0-50%**	**PAYOUT %**	**WEIGHT**	**CORPO PA**
ve Total holder n	Relative Ranking	40th percentile	>74 percentile	60-74 percentile	**40-59 percentile**	25-39 percentile	0-24 percentile	**110%**	**50%**	

Total PSP 2012-2014 Payout

The formulaic result of our individual metrics resulted in a Total PSP 2012-2014 Payout of 145 percent.

METRIC	PAYOUT PERCENTAGE	WEIGHT	CORPORATE PAYOUT
PSP ROCE	180%	50%	90%
Relative TSR	110%	50%	55%
Total PSP 2012-2014 Payout			**145%**

In addition, for PSP 2012-2014 the Compensation Committee could apply performance adjustments to the payout of up to +/ 50 percent based on individual performance. The maximum payout inclusive of Company and individual performance adjustments is capped at 200 percent of target. Targets are prorated for changes in salary grade level during the remaining portion of the relevant performance period. The CEO provides input on individual adjustments for all NEOs (other than himself).

Accordingly, the Committee approved the following payouts for each NEO for the PSP 2012-2014 performance period:

NAME	TARGET SHARES (#)	CORPORATE PAYOUT PERCENTAGE	INDIVIDUAL PERFORMANCE ADJUSTMENT(1)	TOTAL SHARES (#)
Mr. Garland	136,897	145%		198,501
Ms. Johnson	19,513	145%		28,294
Mr. Maxwell	29,022	145%		42,082
Mr. Taylor	37,613	145%		54,539
Mr. Ziemba	29,172	145%		42,299

(1)
No individual performance adjustments were given to NEOs for the PSP 2012-2014 performance period.

2014 LTI Targets

The Company benchmarks compensation across the peer groups described above and establishes multiples of base salary tied to the median LTI opportunities for similar roles at peer organizations.

PSP 2014-2016 Targets

Through the PSP, a significant portion of NEO compensation is tied to Company and individual performance over a three-year period, which is evaluated by the Compensation Committee when determining payouts. Each year, the Compensation Committee establishes metrics that will be used to evaluate Company performance relative to internal performance goals as well as appropriate peer groups for the following three years.

The Compensation Committee uses corporate performance in relation to performance goals and benchmarks when determining award payouts. Payouts can range from 0-200 percent of target opportunity. Generally, target or peer median performance results in a payout equal to 100 percent of target opportunity. Performance below target or peer median performance normally results in a payout between 0 and 99 percent of target opportunity. Performance greater than target or peer median performance generally results in a payout between 100 percent and the maximum 200 percent of target opportunity.

For PSP performance periods beginning in 2014 and thereafter, the program has been changed to apply individual performance adjustments of up to +/ 50 percent to targets set at the beginning of the period. The Compensation

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COMPENSATION DISCUSSION AND ANALYSIS

Committee believes this change to the program further strengthens the link between executive pay and Company performance, drives the right behaviors and actions and promotes shareholder value creation by putting the corporate and individual performance target for NEOs "at risk" during the three-year performance period.

For PSP 2014-2016, the PSP is 50 percent of the LTI target. The total target units are based on each executive's base salary, the executive's target percentage, Phillips 66's stock price on December 31, 2013 (less anticipated ordinary cash dividends during the performance period) and individual performance.

Stock Option Program

In 2014, 25 percent of the LTI target value was delivered to executives in the form of stock options. These are inherently performance-based as the stock price must increase before the executive can realize any gain. We believe stock options drive behaviors and actions that enhance long-term shareholder value.

Generally, stock options are granted in February each year. The number of options awarded is 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 2014 vest ratably over a three-year period and have a ten-year term. These stock options do not have voting rights nor entitle the holder to receive dividends. Based on its assessment of the individual performance of each NEO, the Compensation Committee may adjust an award by up to +/ 30 percent of the target grant amount. The CEO provides input on the grant amounts and individual performance adjustments on all NEOs (other than himself). The Compensation Committee evaluates the individual performance of the CEO. The Compensation Committee did not make any individual performance adjustments on NEO stock option awards in 2014.

Restricted Stock Units

In 2014, 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
- Supporting executive retention

RSUs are typically granted in February each year. The number of units is determined based on the fair market value of Company stock on the date of grant. RSUs awarded to our NEOs in February 2014 cliff vest at the end of the three-year holding period and are delivered to the NEOs in the form of unrestricted Company stock. These RSUs do not carry voting rights but do generate dividend equivalents during the holding 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 grant amount. The CEO provides input regarding awards made to all NEOs (other than himself). The Compensation Committee evaluates the individual performance of the CEO.

Specific Project-Based Performance Highlights that Drive Future Shareholder Value

For 2014, growth, returns and distributions were central to the Company's long-term strategy. Driving these strategies were a range of key initiatives and goals that were successfully achieved due, in large part, to the strong management and oversight by key senior executives. Under each of the three core strategic priorities, the Compensation Committee determined the executives most responsible for contributing to the success of key growth projects aimed at leveraging core infrastructure to build capacity and capture opportunities; achieving or exceeding targeted returns by building and redeploying strategic resources; and making capital allocation decisions to return significant levels of capital to shareholders. This evaluation identified a range of initiatives in which senior executives played a significant role 11 supporting growth, 3 enhancing returns, and 3 emphasizing distributions that drove returns to shareholders and will continue to drive future shareholder value. The

Compensation Committee then made adjustments to individual compensation levels based on the projects and initiatives leading to success and the senior executives responsible for the success of these projects and initiatives.

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Project-Based Performance Highlights

GROWTH										RETURNS
BUILD CAPACITY AND CAPTURE OPPORTUNITIES IN THE MARKETPLACE										BUILDING AN REDEPLOYING STR RESOURCES
AY/ DALE ITIES	CRUDE DELIVERY POINT JV	PIPELINE SYSTEM JV	RAIL CAR ACQ	CROSS CHANNEL CONNECTOR	PSXP GROWTH	CPCHEM GROWTH PROJECTS	SPECIALTY LUBRICANT ACQ	SWEENY COGEN	MELAKA REFINERY DISPOSAL	AI CI SI
	•	•	•	•	•	•	•	•	•	
	•	•	•	•	•		•	•	•	
	•	•	•		•		•	•	•	
	•	•	•	•	•	•	•			
								•	•	

2014 LTI Target Compensation

The Compensation Committee approved the following targets for the NEOs for 2014. The Compensation Committee considered the individual performance of each NEO as outlined above when determining these targets. 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 on page 45.

Name	PSP 2014 - 2016(1) ($)	STOCK OPTIONS(2) ($)	RSUs(3) ($)	TOTAL TARGET ($)
Mr. Garland	6,220,562	2,392,500	2,512,125	11,125,187
Ms. Johnson	853,365	371,011	408,112	1,632,488
Mr. Maxwell	1,158,619	503,762	554,139	2,216,520
Mr. Taylor	1,424,016	569,625	712,031	2,705,672
Mr. Ziemba	1,158,619	503,762	554,139	2,216,520

(1) PSP 2014 - 2016 targets include individual adjustments for Mr. Garland, Ms. Johnson, and Mssrs. Maxwell, Taylor and Ziemba of 30, 15, 15, 25 and 15 percent, respectively.

(2) No individual adjustments were approved by the Compensation Committee for the stock option targets.

(3) RSU targets include individual adjustments for Mr. Garland, Ms. Johnson, and Mssrs. Maxwell, Taylor and Ziemba of 5, 10, 10, 25, and 10 percent, respectively.

OTHER BENEFITS AND PERQUISITES

Below is a summary of other compensation elements available to our NEOs in addition to the five main programs described above:

Broad-Based Employee Benefit Programs

NEOs participate in the same basic benefits package available to our other U.S. salaried employees. This package includes qualified pension; 401(k) plan; medical, dental, vision, life, and accident insurance plans, as well as flexible spending arrangements for health care and dependent care expenses; and our matching gift program.

Comprehensive Security Program

The Board has adopted a comprehensive security program to address the increased security risks for certain senior executives. Mr. Garland is the only NEO currently designated by the Board as requiring increased security under this program. This program allows for certain additional security measures in specific situations when the senior executive is traveling by car or airplane on Company business. An additional security review of the NEO's personal residence is also included. Any additional costs to the Company for these activities are imputed to the NEO as All Other Compensation and included in the "**Summary Compensation Table**" on page 43.

Executive Retirement Plans

We maintain the following supplemental retirement plans for our NEOs.

Voluntary Deferred Compensation Plan This plan (the Phillips 66 Key Employee Deferred Compensation Plan, which we refer to as the KEDCP) provides tax-efficient retirement savings by allowing executives to voluntarily defer both the receipt and taxation of a portion of their base salary and annual bonus until a specified date or when they leave the Company. Further information on the KEDCP is provided in the "**Nonqualified Deferred Compensation**" table beginning on page 49.

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COMPENSATION DISCUSSION AND ANALYSIS

Defined Contribution Restoration Plan This plan (the Phillips 66 Defined Contribution Make-Up Plan, which we refer to as the DCMP) restores benefits capped under our qualified defined contribution plan due to Internal Revenue Code limits. Further information on the DCMP is provided in the "**Nonqualified Deferred Compensation**" table beginning on page 49.

Defined Benefit Restoration Plan This plan (the Phillips 66 Key Employee Supplemental Retirement Plan, which we refer to as the KESRP) restores Company-sponsored benefits capped under the qualified defined benefit pension plan due to Internal Revenue Code limits. Further information on the KESRP is provided in the "**Pension Benefits as of December 31, 2014**" table beginning on page 48.

A Note About Change in Pension Values in 2014

The number reported in the "Change in Pension Value" column on the Summary Compensation Table reflects the change in each NEO's pension value in 2014. Changes in pension value are caused largely by three factors: (1) additional pension benefits accrued by NEOs under the pension plan if they receive higher compensation due to roles of increasing responsibility or through strong performance, (2) updated actuarial assumptions involving longer life expectancies and the use of these assumptions for financial reporting purposes, and (3) the effect of the time value of money on the pension value and the influence of market interest rates on that value.

Underlying Compensation Levels

If an NEO's compensation increases through time because of a new role and/or through strong performance, a larger pension credit accumulates year over year pursuant to the formulas used to calculate pension accruals. This is particularly relevant to our CEO, who has now served as CEO for more than two full years and has been receiving full CEO pay for those periods. In prior years, pension values reflected our CEO's lower compensation while he served in other executive roles. This contributes in part to the higher change in pension value that we are reporting for 2014.

Actuarial Assumptions

Changes in mortality assumptions also affect the present value of pensions. The Society of Actuaries released new mortality tables in 2014 that reflect longer life expectancies. These new assumptions are reflected in the present value of each NEO's pension. An increase in life expectancy assumptions results in an increase in the present value of each NEO's pension.

Discount Rate

The discount rate is based on prevailing market interest rates, as required by Financial Accounting Standards Board rules. In 2014, interest rates declined and the discount rate used for the pension was reduced to reflect the change in market interest rates. A change in the discount rate does not reflect the actual payments that will be made to NEOs upon retirement. Rather, the decrease in the discount rate increases the present value of each NEO's pension reported in the CD&A. The discount rate used for 2014 was 3.9 percent and the discount rate used for 2013 was 4.55 percent.

Executive Life Insurance

We provide life insurance policies on all U.S.-based employees with a face value approximately equal to their annual base salary. For our NEOs, the face value of this coverage is approximately twice their annual base salary.

Executive Severance and Change in Control Plans

We do not maintain individual severance or change in control agreements with our executives. However, we maintain the Phillips 66 Executive Severance Plan (ESP) and the Phillips 66 CICSP to accomplish several specific objectives, including:

- Ensuring shareholder interests are protected during business transactions by providing benefits that promote senior management stability

Providing and preserving an economic motivation for participating executives to consider a business combination that might result in an executive's job loss

Competing effectively in attracting and retaining executives in an industry that features frequent acquisitions and divestitures

Executives may not participate in both plans as a result of the same severance event. Among other benefits, the Executive Severance Plan provides a payment equal to one and one-half or two times the executive's base salary, depending on salary grade level, if he or she is involuntarily terminated without cause. The CICSP provides a payment equal to two or three times the executive's base salary, depending on salary grade level, if the executive is involuntarily terminated without cause in connection with a change in control or the executive terminates employment for good reason within two years after a change in control. This "double trigger" requirement is in the best interest of shareholders and is considered a best practice.

Details of potential payments under these plans are outlined in the *"Potential Payments upon Termination or Change in Control"* section beginning on page 50. These plans do not provide any tax gross-up protections.

Personal Use of Company Aircraft

The primary purpose of our corporate aircraft is to facilitate Company business. In the course of conducting Company business, executives may occasionally invite a family member or other personal guest to travel with them to attend a meeting or function. When such travel is deemed taxable to the executive, we provide further payments to reimburse the costs of the inclusion of this item in his or her taxable income.

EXECUTIVE COMPENSATION GOVERNANCE

Clawback Provisions

Short- and long-term compensation, deferred compensation and nonqualified retirement benefits received by any executive are subject to clawback provisions if financial or other data is materially misstated due to negligence or misconduct on the part of the executive, as determined by the Compensation and Audit Committees.

Stock Ownership

The Compensation Committee believes stock ownership guidelines align executive performance with shareholder value creation and mitigate compensation risk. Each executive must own the following amounts of Phillips 66 common stock within five years from the date of program eligibility:

EXECUTIVE LEVEL	SALARY MULTIPLE
Chairman and CEO	6
President	5
Executive Vice President	4 / 5

RSUs, but not stock options or PSP targets, are included when determining the amount of stock owned by an executive. Compliance with the stock ownership guidelines is reviewed annually. All NEOs currently comply with these stock ownership guidelines or are on track to comply within the applicable five-year period.

Tax Considerations Internal Revenue Code (IRC) Section 162(m)

IRC Section 162(m) generally limits the deductibility of compensation paid to the CEO and the three other highest-paid executive officers (other than the CFO) in any taxable year to $1 million unless compensation is performance-based and the performance criteria are approved by shareholders. The Compensation Committee considers this when making decisions and generally attempts to structure elements of executive compensation to meet this exception. However, the Compensation Committee has the flexibility to design and maintain the executive compensation programs in a manner that is most beneficial overall to shareholders, including the payment of compensation that is subject to the deduction limits under IRC Section 162(m).

For 2014 the Compensation Committee believes it has taken the necessary steps intended to qualify payments made under the VCIP and awards made under the LTI programs (PSP and RSUs) as performance-based under IRC Section 162(m).

Trading Policies

Our insider trading policy prohibits all employees and directors from trading Company stock while in possession of material, non-publicly disclosed information. This policy requires executives and directors, as well as employees with regular access to insider information, to follow specific pre-clearance procedures before entering into transactions in our stock. Our policy prohibits hedging transactions related to our stock or pledging our stock, including any stock the executive or director may hold in excess of his or her stock ownership guideline requirements.

COMPENSATION DISCUSSION AND ANALYSIS

Independent Compensation Consultant

The Compensation Committee retains Meridian Compensation Partners, LLC as its independent executive compensation consultant. The Compensation Committee has evaluated whether Meridian's work raised any conflict of interest and determined that no such conflict exists.

The primary role of this consultant is to advise the Compensation Committee on:

- Our compensation programs and processes relative to external corporate governance standards
- The appropriateness of our executive compensation programs in comparison to those of our peers
- The efficacy of the compensation programs in accomplishing the objectives set by the Compensation Committee with respect to executives

Compensation Risk Assessment

The Compensation Committee oversees management's risk assessment of all elements of our compensation programs, policies and practices for all employees. Management has concluded that our compensation programs, policies and practices are not reasonably likely to have a material adverse effect on the Company. Relevant provisions of our programs include, but are not limited to:

- LTI metrics (TSR and ROCE) are aligned with the corporate strategy of growth, enhanced returns and shareholder distributions to ensure a continued focus on activities and outcomes that will drive shareholder value
- The performance-based component of executive compensation pay targets increases with each increase in executive pay grade, which emphasizes shareholder value creation over time
- Maintaining a level of discretion in the VCIP and LTI programs is a critical component that enables the Compensation Committee to award zero payouts to executives who perform poorly
- Clawback provisions are included in each program to allow for reduction in awards for executives found to have engaged in activities that pose an undue risk to the Company
- The LTI design consists of three vehicles performance shares, RSUs and stock options that provide incentives for strong Company and individual performance as well as retention for succession planning purposes
- Stock ownership guidelines are in place to align executive interests with those of shareholders

ROLE OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Authority and Responsibilities

The Compensation Committee is responsible for providing independent, objective oversight of our executive compensation programs and determining the compensation for our CEO and anyone who meets our definition of a Senior Officer. Currently, our internal guidelines define a Senior Officer as an officer of the Company who reports directly to the CEO or any other officer of the Company who is either a Senior Vice President or above or a reporting officer under Section 16(b) of the Exchange Act. As of December 31, 2014, we had 11 Senior Officers. The compensation tables that follow provide information about our CEO and certain of our Senior Officers. In addition, the Compensation Committee acts as plan administrator of the compensation programs and benefit plans for our CEO and Senior Officers and as an avenue of appeal for current and former Senior Officers regarding disputes over compensation and benefits.

The Compensation Committee oversees the Company's executive compensation philosophy, policies, plans and programs for our CEO and Senior Officers to ensure:

- Alignment of our executive compensation programs with the long-term economic interests of shareholders
- Competitiveness of compensation within the markets in which Phillips 66 competes for talent
- Retention of top talent and CEO and Senior Officer succession planning

One of the Compensation Committee's responsibilities is to assist the Board in its oversight of the integrity of the Company's "*Compensation Discussion and Analysis*" beginning on page 21. The report on page 41 summarizes certain of the

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Compensation Committee's activities concerning compensation earned during 2014 by our NEOs who are identified on page 22.

A complete listing of the authority and responsibilities of the Compensation Committee is set forth in its written charter adopted by the Board of Directors, which is available in the "*Investors*" section of our website under the caption "*Governance*."

Members

The Compensation Committee consists of three members who meet all requirements for "non-employee," "independent" and "outside" director status under the Exchange Act, NYSE listing standards, and the IRC, respectively. The members of the Compensation Committee and the member to be designated as Chair, like the members and Chairs of all the Board committees, are reviewed annually by the Nominating Committee, which recommends committee appointments to the full Board. The Board of Directors has final approval of the committee structure of the Board.

Meetings

The Compensation Committee holds regularly scheduled meetings in association with each regular Board meeting and meets by teleconference between such meetings as necessary to discharge its duties. The Compensation Committee reserves time at each regularly scheduled meeting to review matters in executive session without management present except as specifically requested by the Compensation Committee. Additionally, the Compensation Committee meets jointly with the Lead Director, who is currently a member of the Compensation Committee, at least annually to evaluate the performance of the CEO. In 2014, the Compensation Committee had six regularly scheduled meetings. More information regarding the Compensation Committee's activities at such meetings can be found in the "*Compensation Discussion and Analysis*" beginning on page 21.

Continuous Improvement

The Compensation Committee is committed to a process of continuous improvement in exercising its responsibilities. To that end, the Compensation Committee:

- Receives ongoing training regarding best practices for executive compensation
- Regularly reviews its responsibilities and governance practices in light of ongoing changes in the legal and regulatory arena and trends in corporate governance, which review is aided by the Company's management and consultants, the Compensation Committee's independent compensation consultant, and, when deemed appropriate, independent legal counsel
- Annually reviews its charter and proposes any desired changes to the Board of Directors
- Annually conducts a self-assessment of its performance that evaluates the effectiveness of the Compensation Committee's actions and seeks ideas to improve its processes and oversight
- Regularly reviews and assesses whether the Company's executive compensation programs are having the desired effects without encouraging an inappropriate level of risk
- Regularly reviews all its activities, including self-assessment and compensation risk assessment, with the full Board of Directors

HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT

Review with Management. The Compensation Committee has reviewed and discussed with management the "*Compensation Discussion and Analysis*" presented in this proxy statement beginning on page 21.

Discussions with Independent Executive Compensation Consultant. The Compensation Committee has discussed with Meridian Compensation Partners, LLC (Meridian), an independent executive compensation consulting firm, the executive compensation programs of the Company, as well as specific compensation decisions made by the Compensation Committee. Meridian was retained directly by the Compensation Committee, independent of the management of the Company. The Compensation Committee has received written disclosures from Meridian confirming no other work has been performed for the Company by Meridian, has discussed with Meridian its independence from Phillips 66, and believes Meridian to have been independent of management.

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Recommendation to the Phillips 66 Board of Directors. Based on its review and discussions noted above, the Compensation Committee recommended to the Board of Directors that the "*Compensation Discussion and Analysis*" be included in the Phillips 66 proxy statement on Schedule 14A and the Phillips 66 Annual Report on Form 10-K for the year ended December 31, 2014.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

J. Brian Ferguson, *Chairman*
Harold W. McGraw III
Glenn F. Tilton

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EXECUTIVE COMPENSATION TABLES

The following tables and accompanying narrative disclosures provide information concerning total compensation earned by our CEO and other NEOs as of December 31, 2014 for services to Phillips 66 or any of our subsidiaries during 2014, 2013 and 2012 (May 1-December 31).

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation for our NEOs for fiscal years 2014, 2013 and 2012 (since Company inception on May 1, 2012).

NAME AND POSITION	YEAR(1)	SALARY ($)(2)	BONUS ($)(3)	STOCK AWARDS ($)(4)	OPTION AWARDS ($)(5)	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)(6)	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($)(7)	ALL OTHER COMPENSATION ($)(8)	TOTAL ($)