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PHILLIPS 66

FORM 10-Q

(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023**

or

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

For the transition period from ____________ to ____________

Commission file number: **001-35349**

Phillips 66

(Exact name of registrant as specified in its charter)

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

2331 CityWest Blvd., Houston, Texas 77042
(Address of principal executive offices) (Zip Code)

832-765-3010
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 Par Value	PSX	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant had 439,955,575 shares of common stock, $0.01 par value, outstanding as of September 30, 2023.

PHILLIPS 66

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income — Phillips 66

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Revenues and Other Income				
Sales and other operating revenues	$ **39,643**	44,955	**109,129**	129,711
Equity in earnings of affiliates	**562**	782	**1,736**	2,384
Net gain on dispositions	**102**	1	**124**	2
Other income	**15**	3,026	**162**	2,698
Total Revenues and Other Income	**40,322**	48,764	**111,151**	134,795
Costs and Expenses				
Purchased crude oil and products	**34,330**	38,646	**94,242**	114,786
Operating expenses	**1,633**	1,612	**4,595**	4,383
Selling, general and administrative expenses	**669**	617	**1,867**	1,538
Depreciation and amortization	**488**	430	**1,459**	1,127
Impairments	**3**	—	**15**	2
Taxes other than income taxes	**171**	133	**552**	400
Accretion on discounted liabilities	**6**	5	**19**	17
Interest and debt expense	**221**	158	**679**	426
Foreign currency transaction (gains) losses	**(12)**	5	**15**	24
Total Costs and Expenses	**37,509**	41,606	**103,443**	122,703
Income before income taxes	**2,813**	7,158	**7,708**	12,092
Income tax expense	**670**	1,618	**1,754**	2,713
Net Income	**2,143**	5,540	**5,954**	9,379
Less: net income attributable to noncontrolling interests	**46**	149	**199**	239
Net Income Attributable to Phillips 66	$ **2,097**	5,391	**5,755**	9,140
Net Income Attributable to Phillips 66 Per Share of Common Stock *(dollars)*				
Basic	$ **4.72**	11.19	**12.65**	19.37
Diluted	**4.69**	11.16	**12.59**	19.31
Weighted-Average Common Shares Outstanding *(thousands)*				
Basic	**444,283**	481,388	**454,440**	471,375
Diluted	**447,258**	483,036	**457,205**	473,452

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income **Phillips 66**

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Net Income	**$ 2,143**	5,540	**5,954**	9,379
Other comprehensive income (loss)				
Defined benefit plans				
Net actuarial loss arising during the period	**—**	(4)	**—**	(17)
Amortization of net actuarial loss, prior service credit and settlements	**2**	42	**17**	93
Plans sponsored by equity affiliates	**—**	9	**3**	15
Income taxes on defined benefit plans	**(1)**	(7)	**(5)**	(15)
Defined benefit plans, net of income taxes	**1**	40	**15**	76
Foreign currency translation adjustments	**(112)**	(305)	**62**	(632)
Income taxes on foreign currency translation adjustments	**(2)**	4	**(2)**	7
Foreign currency translation adjustments, net of income taxes	**(114)**	(301)	**60**	(625)
Other Comprehensive Income (Loss), Net of Income Taxes	**(113)**	(261)	**75**	(549)
Comprehensive Income	**2,030**	5,279	**6,029**	8,830
Less: comprehensive income attributable to noncontrolling interests	**46**	149	**199**	239
Comprehensive Income Attributable to Phillips 66	**$ 1,984**	5,130	**5,830**	8,591

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet | **Phillips 66**

	Millions of Dollars	
	September 30 2023	December 31 2022
Assets		
Cash and cash equivalents	**$ 3,539**	6,133
Accounts and notes receivable (net of allowances of $71 million in 2023 and $67 million in 2022)	**10,530**	9,497
Accounts and notes receivable—related parties	**1,446**	1,488
Inventories	**5,732**	3,276
Prepaid expenses and other current assets	**1,249**	1,528
Total Current Assets	**22,496**	21,922
Investments and long-term receivables	**15,316**	14,950
Net properties, plants and equipment	**35,533**	35,163
Goodwill	**1,555**	1,486
Intangibles	**926**	831
Other assets	**1,960**	2,090
Total Assets	**$ 77,786**	76,442
Liabilities		
Accounts payable	**$ 12,043**	10,748
Accounts payable—related parties	**667**	575
Short-term debt	**913**	529
Accrued income and other taxes	**1,345**	1,397
Employee benefit obligations	**777**	764
Other accruals	**1,671**	1,876
Total Current Liabilities	**17,416**	15,889
Long-term debt	**18,531**	16,661
Asset retirement obligations and accrued environmental costs	**869**	879
Deferred income taxes	**7,234**	6,671
Employee benefit obligations	**581**	937
Other liabilities and deferred credits	**1,166**	1,299
Total Liabilities	**45,797**	42,336
Equity		
Common stock (2,500,000,000 shares authorized at $0.01 par value) Issued (2023—654,552,047 shares; 2022—652,373,645 shares)		
Par value	**7**	7
Capital in excess of par	**19,603**	19,791
Treasury stock (at cost: 2023—214,596,472 shares; 2022—186,529,667 shares)	**(18,155)**	(15,276)
Retained earnings	**29,751**	25,432
Accumulated other comprehensive loss	**(385)**	(460)
Total Stockholders' Equity	**30,821**	29,494
Noncontrolling interests	**1,168**	4,612
Total Equity	**31,989**	34,106
Total Liabilities and Equity	**$ 77,786**	76,442

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows **Phillips 66**

	Millions of Dollars	
	Nine Months Ended September 30	
	2023	2022
Cash Flows From Operating Activities		
Net income	$ **5,954**	9,379
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,459**	1,127
Impairments	**15**	2
Accretion on discounted liabilities	**19**	17
Deferred income taxes	**673**	1,146
Undistributed equity earnings	**(767)**	(985)
Loss on early redemption of debt	**53**	—
Net gain on dispositions	**(124)**	(2)
Gain related to merger of businesses	**—**	(3,013)
Unrealized investment loss	**34**	418
Other	**(455)**	15
Working capital adjustments		
Accounts and notes receivable	**(1,025)**	(4,430)
Inventories	**(2,262)**	(970)
Prepaid expenses and other current assets	**162**	(462)
Accounts payable	**1,344**	2,656
Taxes and other accruals	**(241)**	1,165
Net Cash Provided by Operating Activities	**4,839**	6,063
Cash Flows From Investing Activities		
Capital expenditures and investments	**(1,784)**	(1,481)
Return of investments in equity affiliates	**159**	78
Proceeds from asset dispositions	**370**	3
Advances/loans—related parties	**—**	(75)
Collection of advances/loans—related parties	**1**	236
Other	**72**	(17)
Net Cash Used in Investing Activities	**(1,182)**	(1,256)
Cash Flows From Financing Activities		
Issuance of debt	**5,725**	—
Repayment of debt	**(3,625)**	(1,957)
Issuance of common stock	**103**	67
Repurchase of common stock	**(2,861)**	(760)
Dividends paid on common stock	**(1,425)**	(1,337)
Distributions to noncontrolling interests	**(140)**	(104)
Repurchase of noncontrolling interests	**(3,957)**	—
Other	**(87)**	(55)
Net Cash Used in Financing Activities	**(6,267)**	(4,146)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**16**	(64)
Net Change in Cash and Cash Equivalents	**(2,594)**	597
Cash and cash equivalents at beginning of period	**6,133**	3,147
Cash and Cash Equivalents at End of Period	$ **3,539**	3,744

See Notes to Consolidated Financial Statements.

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

	Millions of Dollars							
	Three Months Ended September 30							
	Attributable to Phillips 66							
	Common Stock							
		Par Value	Capital in Excess of Par	Treasury Stock	Retained Earnings	Accum. Other Comprehensive Loss	Noncontrolling Interests	Total
June 30, 2023	$	7	19,463	(17,422)	28,122	(272)	1,162	31,060
Net income		—	—	—	**2,097**	—	**46**	2,143
Other comprehensive loss		—	—	—	—	**(113)**	—	(113)
Dividends paid on common stock ($1.05 per share)		—	—	—	**(465)**	—	—	(465)
Repurchase of common stock		—	—	**(733)**	—	—	—	(733)
Benefit plan activity		—	**123**	—	**(3)**	—	—	120
Distributions to noncontrolling interests		—	—	—	—	—	**(15)**	(15)
Acquisition of noncontrolling interests in DCP Midstream, LP		—	**17**	—	—	—	**(25)**	(8)
September 30, 2023	**$**	**7**	**19,603**	**(18,155)**	**29,751**	**(385)**	**1,168**	**31,989**
June 30, 2022	$	7	19,717	(13,802)	19,087	(733)	297	24,573
Net income		—	—	—	5,391	—	149	5,540
Other comprehensive loss		—	—	—	—	(261)	—	(261)
Dividends paid on common stock ($0.97 per share)		—	—	—	(466)	—	—	(466)
Repurchase of common stock		—	—	(724)	—	—	—	(724)
Benefit plan activity		—	21	—	(4)	—	—	17
Distributions to noncontrolling interests		—	—	—	—	—	(3)	(3)
Merger of DCP Midstream, LLC and Gray Oak Holdings LLC		—	—	—	—	—	4,633	4,633
September 30, 2022	$	7	19,738	(14,526)	24,008	(994)	5,076	33,309

	Shares	
	Three Months Ended September 30	
	Common Stock Issued	Treasury Stock
June 30, 2023	653,361,255	208,073,327
Repurchase of common stock	—	**6,523,145**
Shares issued—share-based compensation	**1,190,792**	—
September 30, 2023	**654,552,047**	**214,596,472**
June 30, 2022	651,697,833	170,646,736
Repurchase of common stock	—	8,565,824
Shares issued—share-based compensation	146,940	—
September 30, 2022	651,844,773	179,212,560

See Notes to Consolidated Financial Statements.

	Millions of Dollars							
	Nine Months Ended September 30							
	Attributable to Phillips 66							
	Common Stock							
	Par Value		Capital in Excess of Par	Treasury Stock	Retained Earnings	Accum. Other Comprehensive Loss	Noncontrolling Interests	Total
December 31, 2022	$	7	19,791	(15,276)	25,432	(460)	4,612	34,106
Net income		—	—	—	**5,755**	—	**199**	**5,954**
Other comprehensive income		—	—	—	—	**75**	—	**75**
Dividends paid on common stock ($3.15 per share)		—	—	—	**(1,425)**	—	—	**(1,425)**
Repurchase of common stock		—	—	**(2,879)**	—	—	—	**(2,879)**
Benefit plan activity		—	**173**	—	**(11)**	—	**1**	**163**
Distributions to noncontrolling interests		—	—	—	—	—	**(140)**	**(140)**
Acquisition of noncontrolling interests in DCP Midstream, LP		—	**(361)**	—	—	—	**(3,504)**	**(3,865)**
September 30, 2023	**$**	**7**	**19,603**	**(18,155)**	**29,751**	**(385)**	**1,168**	**31,989**
December 31, 2021	$	7	20,504	(17,116)	16,216	(445)	2,471	21,637
Net income		—	—	—	9,140	—	239	9,379
Other comprehensive loss		—	—	—	—	(549)	—	(549)
Dividends paid on common stock ($2.86 per share)		—	—	—	(1,337)	—	—	(1,337)
Repurchase of common stock		—	—	(790)	—	—	—	(790)
Benefit plan activity		—	135	—	(11)	—	—	124
Distributions to noncontrolling interests		—	—	—	—	—	(104)	(104)
Acquisition of noncontrolling interest in Phillips 66 Partners LP		—	(901)	3,380	—	—	(2,163)	316
Merger of DCP Midstream, LLC and Gray Oak Holdings LLC		—	—	—	—	—	4,633	4,633
September 30, 2022	$	7	19,738	(14,526)	24,008	(994)	5,076	33,309

	Shares	
	Nine Months Ended September 30	
	Common Stock Issued	Treasury Stock
December 31, 2022	652,373,645	186,529,667
Repurchase of common stock	—	**28,066,805**
Shares issued—share-based compensation	**2,178,402**	—
September 30, 2023	**654,552,047**	**214,596,472**
December 31, 2021	650,026,318	211,771,827
Repurchase of common stock	—	9,265,969
Shares issued—share-based compensation	1,818,455	—
Shares issued—acquisition of noncontrolling interest in Phillips 66 Partners LP	—	(41,825,236)
September 30, 2022	651,844,773	179,212,560

See Notes to Consolidated Financial Statements.

Note 1—Interim Financial Information

The unaudited interim financial information presented in the financial statements included in this report is prepared in accordance with generally accepted accounting principles in the United States (GAAP) and includes all known accruals and adjustments necessary, in the opinion of management, for a fair presentation of the consolidated financial position of Phillips 66 and its results of operations and cash flows for the periods presented. Unless otherwise specified, all such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these interim financial statements should be read in conjunction with the consolidated financial statements and notes included in our 2022 Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results expected for the full year.

Note 2—Change in Accounting Principle

Effective January 1, 2023, we adopted ASU 2022-04, “Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations.” This ASU requires the buyer in a supplier finance program to disclose qualitative and quantitative information about the program. At the time of adoption, this ASU did not have a material impact on our consolidated financial statements.

Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers

DCP Midstream, LLC and Gray Oak Holdings LLC Merger (DCP Midstream Merger)
On August 17, 2022, we and our co-venturer, Enbridge Inc. (Enbridge), agreed to merge DCP Midstream, LLC (DCP Midstream) and Gray Oak Holdings LLC (Gray Oak Holdings), with DCP Midstream as the surviving entity.

Prior to the DCP Midstream Merger, we and Enbridge each held a50% interest and jointly governed DCP Midstream, whose primary assets are its general partner and limited partner interests in DCP Midstream, LP (DCP LP), and we each held indirect economic interests in DCP LP of 28.26%. DCP LP is a variable interest entity (VIE) because its limited partners do not have the ability to remove its general partner with a simple majority vote, nor do its limited partners have substantive participating rights in the significant decisions made in the ordinary course of business. DCP Midstream ultimately consolidates DCP LP because one of its wholly owned subsidiaries is the primary beneficiary of DCP LP.

We and Enbridge also held 65% and 35% interests, respectively, in Gray Oak Holdings, whose primary asset was a65% noncontrolling interest in Gray Oak Pipeline, LLC (Gray Oak Pipeline). Our and Enbridge’s indirect economic interests in Gray Oak Pipeline were 42.25% and 22.75%, respectively. We had voting control over and consolidated Gray Oak Holdings and reported Gray Oak Holdings’ 65% interest in Gray Oak Pipeline as an equity investment and Enbridge’s interest in Gray Oak Holdings as a noncontrolling interest.

In connection with the DCP Midstream Merger, we and Enbridge entered into a Third Amended and Restated Limited Liability Company Agreement of DCP Midstream (Amended and Restated LLC Agreement), which realigned the members’ economic interests and governance responsibilities. Under the Amended and Restated LLC Agreement, two classes of membership interests in DCP Midstream were created, Class A and Class B, that are intended to track the assets, liabilities, revenues and expenses of the following operating segments of DCP Midstream:

- Class A Segment comprised of the businesses, activities, assets and liabilities of DCP LP and its subsidiaries and its general partner entities (DCP Midstream Class A Segment).
- Class B Segment comprised of the business, activities, assets and liabilities of Gray Oak Pipeline (DCP Midstream Class B Segment).

We hold a 76.64% Class A membership interest, which represents an indirect economic interest in DCP LP of 43.3%, and a 10% Class B membership interest, which represents an indirect economic interest in Gray Oak Pipeline of 6.5%. Enbridge holds the remaining Class A and Class B membership interests. We have been designated as the managing member of DCP Midstream Class A Segment and are responsible for conducting, directing and managing all activities associated with this segment, except as limited in certain instances. Enbridge has been designated as the managing member of DCP Midstream Class B Segment. Earnings and distributions from each segment are allocated to the members based on their membership interest in each membership class, except as otherwise provided.

DCP Midstream Class A Segment and DCP Midstream Class B Segment were determined to be silos under the variable interest consolidation model. As a result, DCP Midstream was also determined to be a VIE. We determined that we are the primary beneficiary of DCP Midstream Class A Segment because of the governance rights granted to us under the Amended and Restated LLC Agreement as managing member of the segment.

We hold a 33.33% direct ownership interest in DCP Sand Hills Pipeline, LLC (DCP Sand Hills) and DCP Southern Hills Pipeline, LLC (DCP Southern Hills). DCP LP holds the remaining 66.67% ownership interest in these entities. As a result of the governance rights granted to us over DCP Midstream Class A Segment and the governance rights we hold through our direct ownership interests, we obtained controlling financial interests in these entities in connection with the DCP Midstream Merger. As a result of the DCP Midstream Merger, our aggregate direct and indirect economic interests in DCP Sand Hills and DCP Southern Hills increased from 52.2% to 62.2%.

Starting on August 18, 2022, we began consolidating the financial results of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills and reporting the direct and indirect economic interests held by others in these entities as noncontrolling interests on our financial statements.

We account for our remaining indirect economic interest in Gray Oak Pipeline, now held through DCP Midstream Class B Segment, using the equity method of accounting. As a result of the DCP Midstream Merger, we derecognized Enbridge’s noncontrolling interest in Gray Oak Holdings.

We accounted for our consolidation of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills as a business combination using the acquisition method of accounting. See Note 4—Business Combinations, for additional information regarding our accounting for this transaction. See Note 21—DCP Midstream Class A Segment, for additional information regarding our variable interest in DCP Midstream Class A Segment.

DCP Midstream, LP Merger (DCP LP Merger)
On June 15, 2023, we completed the acquisition of all publicly held common units of DCP LP pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2023 (DCP LP Merger Agreement). The DCP LP Merger Agreement was entered into with DCP LP, its subsidiaries and its general partner entities, pursuant to which one of our wholly owned subsidiaries merged with and into DCP LP, with DCP LP surviving as a Delaware limited partnership. Under the terms of the DCP LP Merger Agreement, at the effective time of the DCP LP Merger, each publicly held common unit representing a limited partner interest in DCP LP (other than the common units owned by DCP Midstream and its subsidiaries) issued and outstanding as of immediately prior to the effective time was converted into the right to receive $41.75 per common unit in cash, without interest. We accounted for the DCP LP Merger as an equity transaction. The DCP LP Merger increased our aggregate direct and indirect economic interest in DCP LP from 43.3% to 86.8% and our aggregate direct and indirect economic interests in DCP Sand Hills and DCP Southern Hills increased from 62.2% to 91.2%.

See Note 21—DCP Midstream Class A Segment, for additional information regarding the equity transaction.

Note 4—Business Combinations

Marketing and Specialties Acquisition
On August 1, 2023, our M&S segment acquired a marketing business on the U.S. West Coast for total consideration of $269 million. These operations were acquired to support the placement of renewable diesel that will be produced by our Rodeo renewable fuels facility. At September 30, 2023, we provisionally recorded $143 million of amortizable intangible assets, primarily customer relationships; $77 million of PP&E, including finance lease right of use assets; $42 million of net working capital; $63 million of finance lease liabilities and $70 million of goodwill for this acquisition. The fair values of the assets acquired and liabilities assumed are preliminary and subject to change until we finalize our accounting for this acquisition.

DCP Midstream Merger
On August 17, 2022, we realigned our economic interest in, and governance rights over, DCP Midstream and Gray Oak Holdings through the DCP Midstream Merger, with DCP Midstream as the surviving entity. As part of the DCP Midstream Merger, we transferred a 35.75% indirect economic interest in Gray Oak Pipeline and contributed $404 million of cash to DCP Midstream, which was then paid to Enbridge, in return for a 15.05% incremental indirect economic ownership interest in DCP LP. As noted above, the additional governance rights we were granted as part of this transaction resulted in us consolidating the DCP Midstream Class A Segment, as well as DCP Sand Hills and DCP Southern Hills. Given the nature of this transaction, we have accounted for the consolidation of these entities using the acquisition method of accounting.

The components of the fair value of the DCP Midstream Merger consideration are:

	Millions of Dollars
Cash contributed	$ 404
Fair value of transferred equity interest	634
Fair value of previously held equity interests	3,853
Total merger consideration	$ 4,891

The aggregate purchase consideration noted above was allocated to the assets acquired and liabilities assumed of the entities consolidated based upon their estimated fair values as of the DCP Midstream Merger on August 17, 2022. We finalized the valuation of the assets acquired and liabilities assumed during the three months ended September 30, 2023, prior to the end of the one-year measurement period on August 16, 2023.

The following table shows the purchase price allocation as of the date of the DCP Midstream Merger, and cumulative adjustments we have made through the end of the measurement period:

	Millions of Dollars		
	As Originally Reported	Adjustments	As Adjusted
Fair value of assets acquired:			
Cash and cash equivalents	$ 98	—	98
Accounts and notes receivable	1,003	—	1,003
Inventories	74	238	312
Prepaid expenses and other current assets	439	13	452
Investments and long-term receivables	2,192	(125)	2,067
Properties, plants and equipment	12,837	193	13,030
Intangibles	36	(36)	—
Other assets	343	(158)	185
Total assets acquired	17,022	125	17,147
Fair value of liabilities assumed:			
Accounts payable	912	3	915
Short-term debt	625	(2)	623
Accrued income and other taxes	107	13	120
Employee benefit obligation—current	50	22	72
Other accruals	497	(6)	491
Long-term debt	4,541	40	4,581
Asset retirement obligations and accrued environmental costs	168	16	184
Deferred income taxes	40	14	54
Employee benefit obligations	54	—	54
Other liabilities and deferred credits	227	36	263
Total liabilities assumed	7,221	136	7,357
Fair value of net assets	9,801	(11)	**9,790**
Less: Fair value of noncontrolling interests	4,910	(11)	4,899
Total merger consideration	$ 4,891	—	**4,891**

The adjustments reflected in the table above include reclassification adjustments we made to the purchase price allocation to conform with our historical presentation and adjustments we have made to the estimated fair value of certain assets acquired and liabilities assumed during the measurement period. The adjustments to our purchase price allocation recorded in the nine months ended September 30, 2023, were not material. See Note 15—Fair Value Measurements, for additional information on the determination of the fair value of the DCP Midstream Merger.

In connection with the DCP Midstream Merger, we recognized before-tax gains totaling $2,831 million from remeasuring our previously held equity investments in DCP Midstream, DCP Sand Hills and DCP Southern Hills to their fair values and a before-tax gain of $182 million related to the transfer of a 35.75% indirect economic interest in Gray Oak Pipeline to our co-venturer. These before-tax gains are included in the “Other income” line item on our consolidated statement of income for the three and nine months ended September 30, 2022, and are reported in the Midstream segment. See Note 15—Fair Value Measurements, for additional information on the determination of the fair value of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills.

Pro Forma Financial Information

The following unaudited pro forma financial information presents consolidated results for the three and nine months ended September 30, 2022, as if assuming the DCP Midstream Merger occurred on January 1, 2021. The unaudited pro forma information includes adjustments based on available information, and we believe the estimates and assumptions used are reasonable and that the significant effects of the transactions are properly reflected in the unaudited pro forma information. An aggregate before-tax gain of $2,831 million was included in the pro forma financial information for the nine months ended September 30, 2021, which is related to the remeasurement of the previously held equity investments in DCP Midstream, DCP Sand Hills and DCP Southern Hills to their fair values in connection with the DCP Midstream Merger. Adjustments related to the economic interest change in our equity investment in Gray Oak Pipeline were excluded from the pro forma financial information.

The unaudited pro forma financial information presented is for comparative purposes only and does not give effect to any potential synergies that could be achieved and is not necessarily indicative of the results of future operations.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Sales and other operating revenues (*millions*)	$ 46,892	136,848
Net Income Attributable to Phillips 66 (*millions*)	3,129	6,963
Net Income Attributable to Phillips 66 per share—basic (*dollars*)	6.50	14.76
Net Income Attributable to Phillips 66 per share—diluted (*dollars*)	6.48	14.71

Note 5—Sales and Other Operating Revenues

Disaggregated Revenues
The following tables present our disaggregated sales and other operating revenues:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Product Line and Services				
Refined petroleum products	$ **29,974**	33,690	**81,209**	102,482
Crude oil resales	**5,391**	6,146	**14,606**	15,694
Natural gas liquids (NGL) and natural gas	**3,886**	4,217	**11,564**	10,702
Services and other*	**392**	902	**1,750**	833
Consolidated sales and other operating revenues	$ **39,643**	44,955	**109,129**	129,711
Geographic Location**				
United States	$ **32,468**	36,126	**87,523**	103,910
United Kingdom	**3,708**	4,485	**10,889**	13,168
Germany	**1,477**	1,769	**4,155**	4,944
Other countries	**1,990**	2,575	**6,562**	7,689
Consolidated sales and other operating revenues	$ **39,643**	44,955	**109,129**	129,711

** Includes derivatives-related activities. See Note 14—Derivatives and Financial Instruments, for additional information.*
*** Sales and other operating revenues are attributable to countries based on the location of the operations generating the revenues.*

Contract-Related Assets and Liabilities
At September 30, 2023, and December 31, 2022, receivables from contracts with customers were $10,137 million and $8,749 million, respectively. Significant noncustomer balances, such as buy/sell receivables and excise tax receivables, were excluded from these amounts.

Our contract-related assets also include payments we make to our marketing customers related to incentive programs. An incentive payment is initially recognized as an asset and subsequently amortized as a reduction to revenue over the contract term, which generally ranges from 5 to 15 years. At September 30, 2023, and December 31, 2022, our asset balances related to such payments were $527 million and $505 million, respectively.

Our contract liabilities represent advances from our customers prior to product or service delivery. At September 30, 2023, and December 31, 2022, contract liabilities were $228 million and $156 million, respectively.

Remaining Performance Obligations
Most of our contracts with customers are spot contracts or term contracts with only variable consideration. We do not disclose remaining performance obligations for these contracts as the expected duration is one year or less or because the variable consideration has been allocated entirely to an unsatisfied performance obligation. We also have certain contracts in our Midstream segment that include minimum volume commitments with fixed pricing. At September 30, 2023, the remaining performance obligations related to these minimum volume commitment contracts amounted to $391 million. This amount excludes variable consideration and estimates of variable rate escalation clauses in our contracts with customers, and is expected to be recognized through 2031 with a weighted average remaining life of three years as of September 30, 2023.

Note 6—Credit Losses

We are exposed to credit losses primarily through our sales of refined petroleum products, crude oil, NGL and natural gas. We assess each counterparty's ability to pay for the products we sell by conducting a credit review. The credit review considers our expected billing exposure and timing for payment and the counterparty's established credit rating or our assessment of the counterparty's creditworthiness based on our analysis of their financial statements when a credit rating is not available. We also consider contract terms and conditions, country and political risk, and business strategy in our evaluation. A credit limit is established for each counterparty based on the outcome of this review. We may require collateralized asset support or a prepayment to mitigate credit risk.

We monitor our ongoing credit exposure through active review of counterparty balances against contract terms and due dates. Our activities include timely account reconciliations, dispute resolution and payment confirmations. We may employ collection agencies and legal counsel to pursue recovery of defaulted receivables. In addition, when events and circumstances arise that may affect certain counterparties' abilities to fulfill their obligations, we enhance our credit monitoring, and we may seek collateral to support some transactions or require prepayments from higher-risk counterparties.

At September 30, 2023, and December 31, 2022, we reported $11,976 million and $10,985 million of accounts and notes receivable, respectively, net of allowances of $71 million and $67 million, respectively. Based on an aging analysis at September 30, 2023, more than 95% of our accounts receivable were outstanding less than 60 days.

We are also exposed to credit losses from off-balance sheet exposures, such as guarantees of joint venture debt and standby letters of credit. See Note 12—Guarantees, and Note 13—Contingencies and Commitments, for more information regarding these off-balance sheet exposures.

Note 7—Inventories

Inventories consisted of the following:

		Millions of Dollars	
		September 30 2023	December 31 2022
Crude oil and petroleum products	**$**	**5,326**	2,914
Materials and supplies		**406**	362
	$	**5,732**	3,276

Inventories valued on the last-in, first-out (LIFO) basis totaled $5,140 million and $2,635 million at September 30, 2023, and December 31, 2022, respectively. The estimated excess of current replacement cost over LIFO cost of inventories amounted to approximately $7.7 billion and $6.3 billion at September 30, 2023, and December 31, 2022, respectively.

Certain planned reductions in inventory that are not expected to be replaced by the end of the year cause liquidations of LIFO inventory values. LIFO inventory liquidations increased our net income by $11 million and $16 million in the three and nine months ended September 30, 2023, respectively. The impact of LIFO inventory liquidations was immaterial for the three months ended September 30, 2022 and increased our net income by $43 million in the nine months ended September 30, 2022.

Note 8—Investments, Loans and Long-Term Receivables

Equity Investments

Dakota Access, LLC (Dakota Access) and Energy Transfer Crude Oil Company, LLC (ETCO)
In 2020, the trial court presiding over litigation brought by the Standing Rock Sioux Tribe (the Tribe) ordered the U.S. Army Corps of Engineers (USACE) to prepare an Environmental Impact Statement (EIS) addressing an easement under Lake Oahe in North Dakota. The trial court later vacated the easement. Although the easement is vacated, the USACE has no plans to stop pipeline operations while it proceeds with the EIS, and the Tribe's request for a shutdown was denied in May 2021. In June 2021, the trial court dismissed the litigation entirely. Once the EIS is completed, new litigation or challenges may be filed.

In February 2022, the U.S. Supreme Court (the Court) denied Dakota Access' writ of certiorari requesting the Court to review the trial court's decision to order the EIS and vacate the easement. Therefore, the requirement to prepare the EIS stood. Also in February 2022, the Tribe withdrew as a cooperating agency, causing the USACE to halt the EIS process while the USACE engaged with the Tribe on their reasons for withdrawing.

The draft EIS process resumed in August 2022, and in September 2023 the USACE published its draft EIS for public comment. The USACE identified five potential outcomes, but did not indicate which one it preferred. The options comprise two "no action" alternatives where the USACE would deny an easement to Dakota Access and require it to shut down the pipeline and either remove the pipe from under Lake Oahe, or allow the pipeline to be abandoned-in-place under the lake. The USACE also identified three "action" alternatives; two of them contemplate that the USACE would reissue the easement to Dakota Access under essentially the same terms as 2017 with either the same or a larger volume of oil allowed through the pipeline, while the third option would decommission the current pipeline and require construction of a new line 39 miles upstream from the current location. Although the USACE has not indicated when it will issue its final decision, no decision is expected until 2024.

Dakota Access and ETCO have guaranteed repayment of senior unsecured notes issued by a wholly owned subsidiary of Dakota Access in March 2019. On April 1, 2022, Dakota Access' wholly owned subsidiary repaid $650 million aggregate principal amount of its outstanding senior notes upon maturity. We funded our 25% share, or $163 million, with a capital contribution of $89 million in March 2022 and $74 million of distributions we elected not to receive from Dakota Access in the first quarter of 2022. At September 30, 2023, the aggregate principal amount outstanding of Dakota Access' senior unsecured notes was $1.85 billion.

In conjunction with the notes offering, Phillips 66 Partners LP (Phillips 66 Partners), now a wholly owned subsidiary of Phillips 66, and its co-venturers in Dakota Access also provided a Contingent Equity Contribution Undertaking (CECU). Under the CECU, the co-venturers may be severally required to make proportionate equity contributions to Dakota Access if there is an unfavorable final judgment in the above-mentioned ongoing litigation. At September 30, 2023, our 25% share of the maximum potential equity contributions under the CECU was approximately $467 million.

If the pipeline is required to cease operations, it may have a material adverse effect on our results of operations and cash flows. Should operations cease and Dakota Access and ETCO not have sufficient funds to pay its expenses, we also could be required to support our 25% share of the ongoing expenses, including scheduled interest payments on the notes of approximately $20 million annually, in addition to the potential obligations under the CECU at September 30, 2023.

At September 30, 2023, the aggregate book value of our investments in Dakota Access and ETCO was $644 million.

CF United LLC (CF United)
We own a 50% voting interest and a 48% economic interest in CF United, a retail marketing joint venture with operations primarily on the U.S. West Coast. CF United is considered a VIE because our co-venturer has an option to require us to purchase its interest based on a fixed multiple. The put option became effective July 1, 2023, and expires on March 31, 2024. Based on current conditions, we do not believe the put option will be exercised during the option period. However, the put option is viewed as a variable interest as the purchase price on the exercise date may not represent the then-current fair value of CF United. We have determined that we are not the primary beneficiary because we and our co-venturer jointly direct the activities of CF United that most significantly impact economic performance. At September 30, 2023, our maximum exposure to loss was comprised of our $282 million investment in CF United, and any potential future loss resulting from the put option should the purchase price based on a fixed multiple exceed the then-current fair value of CF United.

OnCue Holdings, LLC (OnCue)
We hold a 50% interest in OnCue, a joint venture that owns and operates retail convenience stores. We fully guaranteed various debt agreements of OnCue and our co-venturer did not participate in the guarantees. This entity is considered a VIE because our debt guarantees resulted in OnCue not being exposed to all potential losses. We have determined we are not the primary beneficiary because we do not have the power to direct the activities that most significantly impact economic performance. At September 30, 2023, our maximum exposure to loss was $228 million, which represented the book value of our investment in OnCue of $162 million and guaranteed debt obligations of $66 million.

DCP Midstream, DCP Sand Hills, DCP Southern Hills, and Gray Oak Pipeline—Prior to the DCP Midstream Merger on August 17, 2022, we held:

- A 50% interest in DCP Midstream a joint venture that owns and operates NGL and gas pipelines, gas plants, gathering systems, storage facilities and fractionation plants, through its subsidiary DCP LP.
- A 33.33% direct ownership interest in DCP Sand Hills a joint venture that owns a NGL pipeline system that extends from the Permian Basin and Eagle Ford to facilities on the Texas Gulf Coast and to the Mont Belvieu, Texas, market hub.
- A 33.33% direct ownership interest in DCP Southern Hills a joint venture that owns a NGL pipeline system that extends from the Midcontinent region to the Mont Belvieu, Texas, market hub.
- A 65% interest in Gray Oak Pipeline, which was held through a consolidated holding company, Gray Oak Holdings. Our indirect interest in Gray Oak Pipeline was 42.25%, after considering a co-venturer's 35% interest in Gray Oak Holdings. Gray Oak Pipeline is a crude oil pipeline that extends from the Permian and Eagle Ford to Texas Gulf Coast destinations that include Corpus Christi, Texas, and the Sweeny area, including our Sweeny Refinery.

See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information about the DCP Midstream Merger.

Midstream Investment Disposition
On August 1, 2023, we sold our 25% ownership interest in the South Texas Gateway Terminal for $275 million and recognized a before-tax gain of $101 million. The before-tax gain is included in the "Net gain on dispositions" line item on our consolidated statement of income for the three and nine months ended September 30, 2023, and is reported in the Midstream segment.

Other Investments
In September 2021, we acquired 78 million ordinary shares, representing a 16% ownership interest, in NOVONIX Limited (NOVONIX), which are traded on the Australian Securities Exchange. NOVONIX is a Brisbane, Australia-based company that develops technology and supplies materials for lithium-ion batteries. Since we do not have significant influence over the operating and financial policies of NOVONIX and the shares we own have a readily determinable fair value, our investment is recorded at fair value at the end of each reporting period. The fair value of our investment is recorded in the “Investments and long-term receivables” line item on our consolidated balance sheet. The change in the fair value of our investment due to fluctuations in NOVONIX’s stock price, or unrealized investment losses, is recorded in the “Other income” line item of our consolidated statement of income, while changes due to foreign currency fluctuations are recorded in the “Foreign currency transaction (gains) losses” line item on our consolidated statement of income. The fair value of our investment in NOVONIX was $42 million at September 30, 2023. The fair value of our investment in NOVONIX declined by $9 million and $36 million during the three and nine months ended September 30, 2023, respectively, reflecting unrealized investment losses of $8 million and $34 million and immaterial unrealized foreign currency losses in both periods. The fair value of our investment in NOVONIX declined by $33 million and $431 million during the three and nine months ended September 30, 2022, respectively, reflecting unrealized investment losses of $28 million and $418 million and unrealized foreign currency losses of $5 million and $13 million, respectively. See Note 15—Fair Value Measurements, for additional information regarding the recurring fair value measurement of our investment in NOVONIX.

Note 9—Properties, Plants and Equipment

Our gross investment in PP&E and the associated accumulated depreciation and amortization (Accum. D&A) balances were as follows:

	Millions of Dollars					
	September 30, 2023			December 31, 2022		
	Gross PP&E	Accum. D&A	Net PP&E	Gross PP&E	Accum. D&A	Net PP&E
Midstream	**$ 26,016**	**4,169**	**21,847**	25,422	3,524	21,898
Chemicals	**—**	**—**	**—**	—	—	—
Refining	**24,944**	**12,888**	**12,056**	24,200	12,523	11,677
Marketing and Specialties	**1,902**	**1,113**	**789**	1,800	1,058	742
Corporate and Other	**1,629**	**788**	**841**	1,568	722	846
	$ 54,491	**18,958**	**35,533**	52,990	17,827	35,163

Note 10—Earnings Per Share

The numerator of basic earnings per share (EPS) is net income attributable to Phillips 66, adjusted for noncancelable dividends paid on unvested share-based employee awards during the vesting period (participating securities). The denominator of basic EPS is the sum of the daily weighted-average number of common shares outstanding during the periods presented and fully vested stock and unit awards that have not yet been issued as common stock. The numerator of diluted EPS is also based on net income attributable to Phillips 66, which is reduced by dividend equivalents paid on participating securities for which the dividends are more dilutive than the participation of the awards in the earnings of the periods presented. To the extent unvested stock, unit or option awards and vested unexercised stock options are dilutive, they are included with the weighted-average common shares outstanding in the denominator. Treasury stock is excluded from the denominator in both basic and diluted EPS.

	Three Months Ended September 30				Nine Months Ended September 30			
	2023		2022		**2023**		2022	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Amounts Attributed to Phillips 66 Common Stockholders *(millions)*:								
Net Income Attributable to Phillips 66	**$ 2,097**	**2,097**	5,391	5,391	**5,755**	**5,755**	9,140	9,140
Income allocated to participating securities	**(2)**	**—**	(3)	—	**(8)**	**—**	(8)	—
Net income available to common stockholders	**$ 2,095**	**2,097**	5,388	5,391	**5,747**	**5,755**	9,132	9,140
Weighted-average common shares outstanding *(thousands)*:	**442,599**	**444,283**	479,355	481,388	**452,666**	**454,440**	469,339	471,375
Effect of share-based compensation	**1,684**	**2,975**	2,033	1,648	**1,774**	**2,765**	2,036	2,077
Weighted-average common shares outstanding—EPS	**444,283**	**447,258**	481,388	483,036	**454,440**	**457,205**	471,375	473,452
Earnings Per Share of Common Stock *(dollars)*	**$ 4.72**	**4.69**	11.19	11.16	**12.65**	**12.59**	19.37	19.31

Note 11—Debt

Debt Issuances and Repayments
On May 19, 2023, DCP LP redeemed its 5.850% junior subordinated notes due May 2043 with an aggregate principal amount outstanding of $550 million using borrowings under its revolving credit and accounts receivable securitization facilities. On the date of redemption, our carrying value of DCP LP's junior subordinated notes was $497 million, which resulted in a $53 million before-tax loss. DCP LP's junior subordinated notes were adjusted to fair value on August 17, 2022, in connection with the consolidation of DCP LP. See Note 15—Fair Value Measurements, for additional information regarding the fair value of DCP LP's junior subordinated notes.

On March 29, 2023, Phillips 66 Company, a wholly owned subsidiary of Phillips 66, issued $1.25 billion aggregate principal amount of senior unsecured notes consisting of:

- $750 million aggregate principal amount of 4.950% Senior Notes due December 2027 (2027 Notes).
- $500 million aggregate principal amount of 5.300% Senior Notes due June 2033 (2033 Notes).

The 2027 Notes and 2033 Notes (collectively, the Notes) are fully and unconditionally guaranteed by Phillips 66. Interest on the 2027 Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2023. Interest on the 2033 Notes is payable semi-annually on June 30 and December 30 of each year, commencing on December 30, 2023.

On March 15, 2023, DCP LP repaid its 3.875% senior unsecured notes due March 2023 with an aggregate principal amount of $500 million using borrowings under its revolving credit and accounts receivable securitization facilities.

In April 2022, upon maturity, Phillips 66 repaid its 4.300% senior notes with an aggregate principal amount of $1.0 billion and Phillips 66 Partners repaid its $450 million term loan.

Related Party Advance Term Loan Agreements
At September 30, 2023, and December 31, 2022, borrowings outstanding under Advance Term Loan agreements with WRB Refining LP (WRB) totaled $290 million and $25 million, respectively. Borrowings under these agreements are due between 2035 and 2038 and bear interest at a floating rate based on Adjusted Term SOFR plus an applicable margin, payable on the last day of each month.

Term Loan Agreement
On March 27, 2023, Phillips 66 Company, a wholly owned subsidiary of Phillips 66, entered into a $1.5 billion delayed draw term loan agreement guaranteed by Phillips 66 (the Term Loan Agreement). The Term Loan Agreement provides for a single borrowing during a 90-day period commencing on the closing date, which borrowing was contingent upon the completion of the DCP LP Merger. The Term Loan Agreement contains customary covenants similar to those contained in our revolving credit agreement, including a maximum consolidated net debt-to-capitalization ratio of 65% as of the last day of each fiscal quarter. The Term Loan Agreement has customary events of default, such as nonpayment of principal when due; nonpayment of interest, fees or other amounts after grace periods; and violation of covenants. We may at any time prepay outstanding borrowings under the Term Loan Agreement, in whole or in part, without premium or penalty. Outstanding borrowings under the Term Loan Agreement bear interest at either: (a) Adjusted Term SOFR in effect from time to time plus the applicable margin; or (b) the reference rate plus the applicable margin, as defined in the Term Loan Agreement. At September 30, 2023, $1.25 billion was borrowed under the Term Loan Agreement, which matures in June 2026.

See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information regarding the DCP LP Merger.

Credit Facilities and Commercial Paper

Phillips 66 and Phillips 66 Company

We have a $5 billion revolving credit facility with Phillips 66 Company as the borrower and Phillips 66 as the guarantor and a $5 billion commercial paper program with Phillips 66 as the borrower that is supported by the revolving credit facility. At both September 30, 2023, and December 31, 2022, no amount had been drawn under the $5 billion revolving credit facility or $5 billion uncommitted commercial paper program.

DCP Midstream Class A Segment

At September 30, 2023, DCP LP had $110 million of borrowings outstanding under its $1.4 billion credit facility and $2 million of letters of credit had been issued that are supported by the credit facility. At December 31, 2022, DCP LP had no borrowings outstanding under its $1.4 billion credit facility, and $10 million in letters of credit had been issued that are supported by the credit facility.

At September 30, 2023, and December 31, 2022, $350 million and $40 million of borrowings, respectively, were outstanding under DCP LP’s accounts receivable securitization facility, which are secured by its accounts receivable at DCP Receivables LLC.

Note 12—Guarantees

At September 30, 2023, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation is immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantees and expect future performance to be either immaterial or have only a remote chance of occurrence.

Lease Residual Value Guarantees

Under the operating lease agreement for our headquarters facility in Houston, Texas, we have the option, at the end of the lease term in September 2025, to request to renew the lease, purchase the facility or assist the lessor in marketing it for resale. We have a residual value guarantee associated with the operating lease agreement with a maximum potential future exposure of $514 million at September 30, 2023. We also have residual value guarantees associated with railcar, airplane and truck leases with maximum potential future exposures totaling $164 million. These leases have remaining terms of one to ten years.

Guarantees of Joint Venture Obligations

In March 2019, Phillips 66 Partners and its co-venturers in Dakota Access provided a CECU in conjunction with a senior unsecured notes offering. See Note 8—Investments, Loans and Long-Term Receivables, for additional information regarding Dakota Access and the CECU.

At September 30, 2023, we also had other guarantees outstanding primarily for our portion of certain joint venture debt, which have remaining terms of up to two years. The maximum potential future exposures under these guarantees were approximately $90 million. Payment would be required if a joint venture defaults on its obligations.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to indemnifications. Agreements associated with these sales include indemnifications for taxes, litigation, environmental liabilities, permits and licenses, employee claims, and real estate tenant defaults. The provisions of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, which generally have indefinite terms and potentially unlimited exposure. At September 30, 2023, and December 31, 2022, the carrying amount of recorded indemnifications was $143 million and $137 million, respectively.

We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information to support the reversal. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. At September 30, 2023, and December 31, 2022, environmental accruals for known contamination of $115 million and $108 million, respectively, were included in the carrying amount of the recorded indemnifications noted above. These environmental accruals were primarily included in the “Asset retirement obligations and accrued environmental costs” line item on our consolidated balance sheet. For additional information about environmental liabilities, see Note 13—Contingencies and Commitments.

Indemnification and Release Agreement
In 2012, in connection with our separation from ConocoPhillips, we entered into an Indemnification and Release Agreement. This agreement governs the treatment between ConocoPhillips and us of matters relating to indemnification, insurance, litigation responsibility and management, and litigation document sharing and cooperation arising in connection with the separation. Generally, the agreement provides for cross indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of ConocoPhillips’ business with ConocoPhillips. The agreement also establishes procedures for handling claims subject to indemnification and related matters.

Note 13—Contingencies and Commitments

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

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other potentially responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Environmental

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

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

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except those pertaining to sites acquired in a business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and these costs can be reasonably estimated. At September 30, 2023, our total environmental accruals were $453 million, compared with $434 million at December 31, 2022. We expect to incur a substantial amount of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

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

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

At September 30, 2023, we had performance obligations secured by letters of credit and bank guarantees of $1.1 billion related to various purchase and other commitments incident to the ordinary conduct of business.

Note 14—Derivatives and Financial Instruments

Derivative Instruments
We use financial and commodity-based derivative contracts to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange rates, or to capture market opportunities. Because we do not apply hedge accounting for commodity derivative contracts, all realized and unrealized gains and losses from commodity derivative contracts are recognized in our consolidated statement of income. Gains and losses from derivative contracts held for trading not directly related to our physical business are reported net in the “Other income (loss)” line item on our consolidated statement of income. Cash flows from all our derivative activity for the periods presented appear in the operating section on our consolidated statement of cash flows.

Purchase and sales contracts with firm minimum notional volumes for commodities that are readily convertible to cash are recorded on our consolidated balance sheet as derivatives unless the contracts are eligible for, and we elect, the normal purchases and normal sales exception, whereby the contracts are recorded on an accrual basis. We generally apply the normal purchases and normal sales exception to eligible crude oil, refined petroleum product, NGL, natural gas, renewable feedstock, and power commodity contracts to purchase or sell quantities we expect to use or sell in the normal course of business. All other derivative instruments are recorded at fair value on our consolidated balance sheet. For further information regarding the fair value of derivatives, see Note 15—Fair Value Measurements.

Commodity Derivative Contracts—We sell into or receive supply from the worldwide crude oil, refined petroleum product, NGL, natural gas, renewable feedstock, and electric power markets, exposing our revenues, purchases, cost of operating activities and cash flows to fluctuations in the prices for these commodities. Generally, our policy is to remain exposed to the market prices of commodities; however, we use futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited amount of trading not directly related to our physical business, all of which may reduce our exposure to fluctuations in market prices. We also use the market knowledge gained from these activities to capture market opportunities such as moving physical commodities to more profitable locations, storing commodities to capture seasonal or time premiums, and blending commodities to capture quality upgrades.

DCP Midstream Class A Segment
Through DCP LP's operations, DCP Midstream Class A Segment is exposed to a variety of risks including but not limited to changes in the prices of commodities that DCP LP buys or sells. Effective from the date of the DCP Midstream Merger, we include DCP LP's financial instruments in our financial statements. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information regarding the DCP Midstream Merger and the associated accounting treatment.

The following table indicates the consolidated balance sheet line items that include the fair values of commodity derivative assets and liabilities. The balances in the following table are presented on a gross basis, before the effects of counterparty and collateral netting. However, we have elected to present our commodity derivative assets and liabilities with the same counterparty on a net basis on our consolidated balance sheet when the legal right of offset exists.

	Millions of Dollars							
	September 30, 2023				December 31, 2022			
	Commodity Derivatives		Effect of Collateral Netting	Net Carrying Value Presented on the Balance Sheet	Commodity Derivatives		Effect of Collateral Netting	Net Carrying Value Presented on the Balance Sheet
	Assets	Liabilities			Assets	Liabilities		
Assets								
Prepaid expenses and other current assets	**$ 4,722**	**(4,418)**	**(25)**	**279**	1,331	(1,110)	—	221
Other assets	**49**	**(25)**	**—**	**24**	46	(1)	—	45
Liabilities								
Other accruals	**1,773**	**(1,959)**	**85**	**(101)**	471	(750)	90	(189)
Other liabilities and deferred credits	**—**	**(13)**	**1**	**(12)**	12	(35)	—	(23)
Total	**$ 6,544**	**(6,415)**	**61**	**190**	1,860	(1,896)	90	54

At September 30, 2023, and December 31, 2022, there was $2 million and $93 million, respectively, of cash collateral paid that was not offset on our consolidated balance sheet.

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

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Sales and other operating revenues	**$ (339)**	432	**(79)**	(123)
Other income	**(38)**	22	**(28)**	84
Purchased crude oil and products	**(495)**	166	**(392)**	(315)
Net gain (loss) from commodity derivative activity	**$ (872)**	620	**(499)**	(354)

The following table summarizes our material net exposures resulting from outstanding commodity derivative contracts. These financial and physical derivative contracts are primarily used to manage price exposure on our underlying operations. The underlying exposures may be from nonderivative positions such as inventory volumes. Financial derivative contracts may also offset physical derivative contracts, such as forward purchase and sales contracts. The percentage of our derivative contract volumes expiring within the next 12 months was more than 90% at September 30, 2023, and December 31, 2022.

Commodity	Open Position Long / (Short) September 30 2023	December 31 2022
Crude oil, refined petroleum products, NGL and renewable feedstocks *(millions of barrels)*	**(36)**	(25)
Natural gas *(billions of cubic feet)*	**(29)**	(77)

Credit Risk from Derivative and Financial Instruments
Financial instruments potentially exposed to concentrations of credit risk consist primarily of trade receivables and derivative contracts.

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

The credit risk from our derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant nonperformance. We also use futures, swaps and option contracts that have a negligible credit risk because these trades are cleared with an exchange clearinghouse and subject to mandatory margin requirements, typically on a daily basis, until settled.

Certain of our derivative instruments contain provisions that require us to post collateral if the derivative exposure exceeds a threshold amount. We have contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on our credit ratings. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if our credit ratings fall below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit us to post letters of credit as collateral.

The aggregate fair values of all derivative instruments with such credit-risk-related contingent features that were in a liability position were immaterial at September 30, 2023, and December 31, 2022.

Note 15—Fair Value Measurements

Recurring Fair Value Measurements

We carry certain assets and liabilities at fair value, which we measure at the reporting date using the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price), and disclose the quality of these fair values based on the valuation inputs used in these measurements under the following hierarchy:

- Level 1: Fair value measured with unadjusted quoted prices from an active market for identical assets or liabilities.
- Level 2: Fair value measured either with: (1) adjusted quoted prices from an active market for similar assets or liabilities; or (2) other valuation inputs that are directly or indirectly observable.
- Level 3: Fair value measured with unobservable inputs that are significant to the measurement.

We classify the fair value of an asset or liability based on the significance of its observable or unobservable inputs to the measurement. However, the fair value of an asset or liability initially reported as Level 3 will be subsequently reported as Level 2 if the unobservable inputs become inconsequential to its measurement or corroborating market data becomes available. Conversely, an asset or liability initially reported as Level 2 will be subsequently reported as Level 3 if corroborating market data becomes unavailable.

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

- *Cash and cash equivalents*—The carrying amount reported on our consolidated balance sheet approximates fair value.
- *Accounts and notes receivable*—The carrying amount reported on our consolidated balance sheet approximates fair value.
- *Derivative instruments*—The fair value of our exchange-traded contracts is based on quoted market prices obtained from the New York Mercantile Exchange, the Intercontinental Exchange or other exchanges, and is reported as Level 1 in the fair value hierarchy. When exchange-cleared contracts lack sufficient liquidity, or are valued using either adjusted exchange-provided prices or nonexchange quotes, we classify those contracts as Level 2 or Level 3 based on the degree to which inputs are observable.

  Physical commodity forward purchase and sales contracts and over-the-counter (OTC) financial swaps are generally valued using forward quotes provided by brokers and price index developers, such as Platts and Oil Price Information Service. We corroborate these quotes with market data and classify the resulting fair values as Level 2. When forward market prices are not available, we estimate fair value using the forward price of a similar commodity, adjusted for the difference in quality or location. In certain less liquid markets or for longer-term contracts, forward prices are not as readily available. In these circumstances, physical commodity purchase and sales contracts and OTC swaps are valued using internally developed methodologies that consider historical relationships among various commodities that result in management's best estimate of fair value. We classify these contracts as Level 3. Physical and OTC commodity options are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and contractual prices for the underlying instruments, as well as other relevant economic measures. The degree to which these inputs are observable in the forward markets determines whether the options are classified as Level 2 or 3. We use a midmarket pricing convention (the midpoint between bid and ask prices). When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

  When applicable, we determine the fair value of interest rate swaps based on observable market valuations for interest rate swaps that have notional amounts, terms and pay and reset frequencies similar to ours.

- *Rabbi trust assets*—These deferred compensation investments are measured at fair value using unadjusted quoted prices available from national securities exchanges and are therefore categorized as Level 1 in the fair value hierarchy.
- *Investment in NOVONIX*—Our investment in NOVONIX is measured at fair value using unadjusted quoted prices available from the Australian Securities Exchange and is therefore categorized as Level 1 in the fair value hierarchy.
- *Other investments*—Includes other marketable securities with observable market prices.
- *Debt*—The carrying amount of our floating-rate debt approximates fair value. The fair value of our fixed-rate debt is estimated primarily based on observable market prices.

The following tables display the fair value hierarchy for our financial assets and liabilities either accounted for or disclosed at fair value on a recurring basis. These values are determined by treating each contract as the fundamental unit of account; therefore, derivative assets and liabilities with the same counterparty are shown on a gross basis in the hierarchy sections of these tables, before the effects of counterparty and collateral netting. The following tables also reflect the effect of netting derivative assets and liabilities with the same counterparty for which we have the legal right of offset and collateral netting.

The carrying values and fair values by hierarchy of our financial assets and liabilities, either carried or disclosed at fair value, including any effects of counterparty and collateral netting, were:

	Millions of Dollars							
	September 30, 2023							
	Fair Value Hierarchy							
	Level 1	Level 2	Level 3	Total Fair Value of Gross Assets & Liabilities	Effect of Counterparty Netting	Effect of Collateral Netting	Difference in Carrying Value and Fair Value	Net Carrying Value Presented on the Balance Sheet
Commodity Derivative Assets								
Exchange-cleared instruments	**$ 6,381**	**44**	**1**	**6,426**	**(6,216)**	**(25)**	**—**	**185**
Physical forward contracts	**—**	**117**	**1**	**118**	**—**	**—**	**—**	**118**
Rabbi trust assets	**144**	**—**	**—**	**144**	**N/A**	**N/A**	**—**	**144**
Investment in NOVONIX	**42**	**—**	**—**	**42**	**N/A**	**N/A**	**—**	**42**
	$ 6,567	**161**	**2**	**6,730**	**(6,216)**	**(25)**	**—**	**489**
Commodity Derivative Liabilities								
Exchange-cleared instruments	**$ 6,303**	**39**	**1**	**6,343**	**(6,216)**	**(86)**	**—**	**41**
Physical forward contracts	**—**	**72**	**—**	**72**	**—**	**—**	**—**	**72**
Floating-rate debt	**—**	**2,000**	**—**	**2,000**	**N/A**	**N/A**	**—**	**2,000**
Fixed-rate debt, excluding finance leases and software obligations	**—**	**15,635**	**—**	**15,635**	**N/A**	**N/A**	**1,489**	**17,124**
	$ 6,303	**17,746**	**1**	**24,050**	**(6,216)**	**(86)**	**1,489**	**19,237**

	Millions of Dollars							
	December 31, 2022							
	Fair Value Hierarchy			Total Fair Value of Gross Assets & Liabilities	Effect of Counterparty Netting	Effect of Collateral Netting	Difference in Carrying Value and Fair Value	Net Carrying Value Presented on the Balance Sheet
	Level 1	Level 2	Level 3					
Commodity Derivative Assets								
Exchange-cleared instruments	$ 1,615	130	3	1,748	(1,582)	—	—	166
OTC instruments	—	7	16	23	—	—	—	23
Physical forward contracts	—	86	3	89	(12)	—	—	77
Rabbi trust assets	126	—	—	126	N/A	N/A	—	126
Investment in NOVONIX	78	—	—	78	N/A	N/A	—	78
Other investments	42	1	—	43	N/A	N/A	—	43
	$ 1,861	224	22	2,107	(1,594)	—	—	513
Commodity Derivative Liabilities								
Exchange-cleared instruments	$ 1,676	164	5	1,845	(1,582)	(90)	—	173
OTC instruments	—	9	—	9	—	—	—	9
Physical forward contracts	—	42	—	42	(12)	—	—	30
Floating-rate debt	—	65	—	65	N/A	N/A	—	65
Fixed-rate debt, excluding finance leases and software obligations	—	15,871	—	15,871	N/A	N/A	977	16,848
	$ 1,676	16,151	5	17,832	(1,594)	(90)	977	17,125

The rabbi trust assets and investment in NOVONIX are recorded in the "Investments and long-term receivables" line item, and floating-rate and fixed-rate debt are recorded in the "Short-term debt" and "Long-term debt" line items on our consolidated balance sheet. See Note 14—Derivatives and Financial Instruments, for information regarding where the assets and liabilities related to our commodity derivatives are recorded on our consolidated balance sheet.

Nonrecurring Fair Value Measurements

DCP Midstream Merger
On August 17, 2022, we and Enbridge agreed to merge DCP Midstream and Gray Oak Holdings with DCP Midstream as the surviving entity. As a result, we began consolidating the financial results of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills, and accordingly, accounted for the business combination using the acquisition method of accounting, which requires DCP Midstream Class A Segment's, DCP Sand Hills' and DCP Southern Hills', assets and liabilities to be recorded at fair value as of the acquisition date on our consolidated balance sheet. See Note 4—Business Combinations, for additional information regarding the DCP Midstream Merger.

Equity Method Investments
The fair value of the investments we acquired that are accounted for under the equity method was $3,034 million. The fair value of these assets was determined using the income approach. The income approach used discounted cash flow models that require various observable and non-observable inputs, such as margins, tariffs and rates, utilization, volumes, product costs, operating expenses, capital expenditures, terminal-year values and risk-adjusted discount rates. These valuations resulted in Level 3 nonrecurring fair value measurements.

PP&E
The fair value of PP&E was $13,030 million. The fair value of these assets was determined primarily using the cost approach. The cost approach used assumptions for the current replacement costs of similar plant and equipment assets adjusted for estimated physical deterioration, functional obsolescence and economic obsolescence. The fair value of properties was determined using a sales comparison approach. These valuations resulted in Level 3 nonrecurring fair value measurements.

Debt
The fair value of DCP LP's senior and junior subordinated notes was measured using a market approach, based on the average of quotes for the acquired debt from major financial institutions. These valuations resulted in Level 2 nonrecurring fair value measurements.

Noncontrolling Interests
As a result of our consolidation of the DCP Midstream Class A Segment, the noncontrolling interests held in the DCP Midstream Class A Segment were recorded at their fair values on the DCP Midstream Merger date. These noncontrolling interests on the DCP Midstream Merger date primarily included Enbridge's indirect economic interest in DCP LP, the public holders of DCP LP's common units and the public holders of DCP LP's preferred units. The fair value of the noncontrolling interests in DCP LP's common units was based on their unit market price as of the date of the DCP Midstream Merger, August 17, 2022. The fair value of the noncontrolling interests in DCP LP's publicly traded preferred units was based on their respective market price as of the date of the DCP Midstream Merger, August 17, 2022. These valuations resulted in Level 1 nonrecurring fair value measurements. The fair value of the noncontrolling interests in DCP LP's other preferred units was based on an income approach that used projected distributions that were discounted using an average implied yield of DCP LP's publicly traded preferred units and expected redemption dates. This valuation resulted in a Level 2 nonrecurring fair value measurement.

Gains Related to DCP Midstream Merger
In connection with the DCP Midstream Merger, we recognized before-tax gains totaling $2,831 million from remeasuring our previously held equity investments to their fair values and a before-tax gain of $182 million related to the transfer of a 35.75% indirect economic interest in Gray Oak Pipeline to our co-venturer. The fair values of our previously held equity interest in DCP Midstream and the equity interest in Gray Oak Pipeline we transferred were primarily based on DCP LP's publicly traded common unit market price on the effective date of the merger, August 17, 2022, the cash consideration contributed and obligations that were deemed to be effectively settled. This valuation resulted in Level 1 nonrecurring fair value measurements. The fair values of our previously held equity interests in DCP Sand Hills and DCP Southern Hills were determined using the income approach. The income approach used discounted cash flow models that require various observable and non-observable inputs, such as tariffs, volumes, operating expenses, capital expenditures, terminal-year values and risk-adjusted discount rates. These valuations resulted in Level 3 nonrecurring fair value measurements.

Note 16—Pension and Postretirement Plans

The components of net periodic benefit (credit) cost for the three and nine months ended September 30, 2023 and 2022, were as follows:

	Millions of Dollars					
	Pension Benefits				Other Benefits	
	2023		2022		**2023**	2022
	U.S.	Int'l.	U.S.	Int'l.		
Components of Net Periodic Benefit Cost						
Three Months Ended September 30						
Service cost	**$ 27**	**3**	28	6	**1**	1
Interest cost	**29**	**8**	28	5	**2**	1
Expected return on plan assets	**(31)**	**(11)**	(31)	(13)	**—**	—
Amortization of prior service credit	**—**	**—**	—	—	**—**	—
Amortization of net actuarial loss (gain)	**3**	**—**	6	3	**(2)**	(1)
Settlements	**1**	**—**	20	9	**—**	—
Net periodic benefit cost*	**$ 29**	**—**	51	10	**1**	1
Nine Months Ended September 30						
Service cost	**$ 81**	**9**	98	21	**3**	3
Interest cost	**88**	**24**	70	16	**6**	4
Expected return on plan assets	**(94)**	**(32)**	(109)	(44)	**—**	—
Amortization of prior service credit	**—**	**—**	—	—	**—**	(1)
Amortization of net actuarial loss (gain)	**9**	**(2)**	18	9	**(5)**	(2)
Settlements	**15**	**—**	45	9	**—**	—
Net periodic benefit (credit) cost*	**$ 99**	**(1)**	122	11	**4**	4

** Included in the "Operating expenses" and "Selling, general and administrative expenses" line items on our consolidated statement of income.*

During the nine months ended September 30, 2023, we contributed $401 million to our U.S. pension and other postretirement benefit plans and $15 million to our international pension plans. We currently expect to make additional contributions of approximately $10 million to our U.S. pension and other postretirement benefit plans and approximately $5 million to our international pension plans during the remainder of 2023. Cash contributions are included in the "Other" line item of the "Cash Flows From Operating Activities" section of our consolidated statement of cash flows.

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Note 17—Accumulated Other Comprehensive Loss

Changes in the balances of each component of accumulated other comprehensive loss were as follows:

	Millions of Dollars			
	Defined Benefit Plans	Foreign Currency Translation	Hedging	Accumulated Other Comprehensive Loss
December 31, 2022	$ (122)	(336)	(2)	(460)
Other comprehensive income before reclassifications	**2**	**60**	**—**	**62**
Amounts reclassified from accumulated other comprehensive loss				
Defined benefit plans*				
Amortization of net actuarial loss and settlements	**13**	**—**	**—**	**13**
Foreign currency translation	**—**	**—**	**—**	**—**
Hedging	**—**	**—**	**—**	**—**
Net current period other comprehensive income	**15**	**60**	**—**	**75**
September 30, 2023	**$ (107)**	**(276)**	**(2)**	**(385)**
December 31, 2021	$ (398)	(45)	(2)	(445)
Other comprehensive loss before reclassifications	(1)	(625)	—	(626)
Amounts reclassified from accumulated other comprehensive loss				
Defined benefit plans*				
Amortization of net actuarial loss, prior service credit and settlements	77	—	—	77
Foreign currency translation	—	—	—	—
Hedging	—	—	—	—
Net current period other comprehensive income (loss)	76	(625)	—	(549)
September 30, 2022	$ (322)	(670)	(2)	(994)

** Included in the computation of net periodic benefit cost. See Note 16—Pension and Postretirement Plans, for additional information.*

Note 18—Related Party Transactions

Significant transactions with related parties were:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Operating revenues and other income (a)(d)	$ **1,126**	1,599	**3,489**	4,914
Purchases (b)(d)	**5,006**	5,705	**12,662**	16,589
Operating expenses and selling, general and administrative expenses (c)	**77**	69	**225**	209

(a) We sold NGL, other petrochemical feedstocks and solvents to Chevron Phillips Chemical Company LLC (CPChem), NGL and certain feedstocks to DCP Midstream, gas oil and hydrogen feedstocks to Excel Paralubes LLC (Excel Paralubes), and refined petroleum products to several of our equity affiliates in the Marketing and Specialties (M&S) segment, including OnCue and CF United. We also sold certain feedstocks and intermediate products to WRB and acted as an agent for WRB in supplying crude oil and other feedstocks for a fee. In addition, we charged several of our equity affiliates, including CPChem, for the use of common facilities, such as steam generators, waste and water treaters and warehouse facilities.

(b) We purchased crude oil, refined petroleum products, NGL and solvents from WRB. We also purchased natural gas and NGL from DCP Midstream and CPChem, as well as other feedstocks from various equity affiliates, for use in our refinery and fractionation processes. In addition, we purchased base oils and fuel products from Excel Paralubes for use in our specialty and refining businesses. We paid NGL fractionation fees to CPChem. We also paid fees to various pipeline equity affiliates for transporting crude oil, refined petroleum products and NGL.

(c) We paid consignment fees to CF United, and utility and processing fees to various equity affiliates.

(d) As a result of the DCP Midstream Merger, we began consolidating DCP Midstream Class A Segment, as well as DCP Sand Hills and DCP Southern Hills. Transactions with these parties after August 17, 2022, are not presented in the table above.

Note 19—Segment Disclosures and Related Information

Effective October 1, 2022, we changed the organizational structure of the internal financial information reviewed by our President and Chief Executive Officer, and determined this resulted in a change in the composition of our operating segments. As part of the realignment, we moved the results and net assets of our Merey Sweeny vacuum distillation and delayed coker units at our Sweeny Refinery and the isomerization unit at our Lake Charles Refinery from our Midstream segment to our Refining segment. Additionally, commissions charged to the Refining segment by the M&S segment related to sales of specialty products were eliminated and the costs of the sales organization were reclassified from the M&S segment to the Refining segment. The segment realignment is presented for the three and nine months ended September 30, 2023, with prior periods recast for comparability.

Our operating segments are:

1) **Midstream—**Provides natural gas and NGL transportation, storage, fractionation, gathering, processing and marketing services, as well as crude oil and refined petroleum product transportation, terminaling and processing services, mainly in the United States. As a result of the DCP Midstream Merger on August 17, 2022, we began consolidating DCP Midstream Class A Segment, as well as DCP Sand Hills and DCP Southern Hills. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers. This segment also includes our 16% investment in NOVONIX.

2) **Chemicals—**Consists of our 50% equity investment in CPChem, which manufactures and markets petrochemicals and plastics on a worldwide basis.

3) **Refining—**Refines crude oil and other feedstocks into petroleum products, such as gasoline, distillates and aviation fuels, as well as renewable fuels, at 12 refineries in the United States and Europe.

4) **Marketing and Specialties—**Purchases for resale and markets refined petroleum products and renewable fuels, mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of base oils and lubricants.

Corporate and Other includes general corporate overhead, interest expense, our investment in research of new technologies and various other corporate activities. Corporate assets include all cash, cash equivalents and income tax-related assets. Corporate and Other also includes restructuring costs related to our business transformation. See Note 23—Restructuring for additional information regarding restructuring costs.

Intersegment sales are at prices that we believe approximate market.

Analysis of Results by Operating Segment

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Sales and Other Operating Revenues*				
Midstream				
Total sales	$ **4,581**	4,966	**13,997**	12,743
Intersegment eliminations	**(645)**	(708)	**(2,016)**	(2,184)
Total Midstream	**3,936**	4,258	**11,981**	10,559
Chemicals	**—**	—	**—**	—
Refining				
Total sales	**25,743**	29,966	**71,090**	87,067
Intersegment eliminations	**(16,556)**	(18,230)	**(45,101)**	(54,684)
Total Refining	**9,187**	11,736	**25,989**	32,383
Marketing and Specialties				
Total sales	**27,347**	29,763	**73,719**	89,313
Intersegment eliminations	**(835)**	(816)	**(2,587)**	(2,570)
Total Marketing and Specialties	**26,512**	28,947	**71,132**	86,743
Corporate and Other	**8**	14	**27**	26
Consolidated sales and other operating revenues	$ **39,643**	44,955	**109,129**	129,711

** See Note 5—Sales and Other Operating Revenues, for further details on our disaggregated sales and other operating revenues.*

Income (Loss) Before Income Taxes				
Midstream	$ **712**	3,608	**2,018**	4,078
Chemicals	**104**	135	**494**	804
Refining	**1,710**	2,907	**4,452**	6,176
Marketing and Specialties	**633**	828	**1,703**	1,863
Corporate and Other	**(346)**	(320)	**(959)**	(829)
Consolidated income before income taxes	$ **2,813**	7,158	**7,708**	12,092

	Millions of Dollars	
	September 30 2023	December 31 2022
Total Assets		
Midstream	$ **29,514**	30,273
Chemicals	**7,260**	6,785
Refining	**23,322**	21,581
Marketing and Specialties	**12,467**	9,939
Corporate and Other	**5,223**	7,864
Consolidated total assets	$ **77,786**	76,442

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Note 20—Income Taxes

Our effective income tax rates for the three and nine months ended September 30, 2023 were 24% and 23%, compared to 23% and 22%, respectively, for the corresponding periods of 2022. The slight increase in our effective rate for the three and nine months ended September 30, 2023, was primarily attributable to non-taxable foreign earnings of our chemical joint venture and an increase in our foreign tax rate, partially offset by a decrease in our state tax rate. In the third quarter of 2022, the tax consequences of the DCP Midstream Merger were not included in our estimated annual effective tax rate but instead were reported as a discrete item. Refer to Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information.

The effective tax rate for the three and nine months ended September 30, 2023, varied from the U.S. federal statutory income tax rate primarily due to state income taxes and the impact of foreign operations, partially offset by the impact of noncontrolling interest.

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 (IRA) that includes, among other provisions, changes to the U.S. corporate income tax system, including 15% minimum tax based on adjusted financial statement income as defined in the IRA, which was effective after December 31, 2022. We do not anticipate owing 2023 corporate alternative minimum tax as the regular U.S. tax liability is forecasted to exceed the corporate alternative minimum tax.

Note 21—DCP Midstream Class A Segment

DCP Midstream Class A Segment is a VIE and we are the primary beneficiary. DCP Midstream Class A Segment is comprised of the businesses, activities, assets and liabilities of DCP LP and its subsidiaries and its general partner entities. Refer to Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers and Note 4—Business Combinations, for more details regarding the DCP Midstream Merger and related accounting.

DCP LP is a master limited partnership whose operations currently include producing and fractionating NGL, gathering, compressing, treating and processing natural gas; recovering condensate; and transporting, trading, marketing and storing natural gas and NGL.

As a result of the DCP Midstream Merger, we began consolidating the DCP Midstream Class A Segment from the merger date forward, and we reflected the interests held by DCP LP's public common and preferred unitholders' and Enbridge's indirect economic interest in DCP LP at the time of the merger as noncontrolling interests in our consolidated financial statements. On June 15, 2023, as part of the DCP LP Merger, we acquired all publicly held common units of DCP LP and eliminated the public common unit noncontrolling interest in our consolidated financial statements from the DCP LP Merger date, forward. The DCP LP Merger increased our aggregate direct and indirect economic interest in DCP LP from 43.3% to 86.8%. See below and Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information about the DCP Midstream and DCP LP Mergers, as well as information on preferred unit redemptions that also decreased the "Noncontrolling interests" balance on our consolidated balance sheet since December 31, 2022.

The most significant assets of DCP Midstream Class A Segment that are available to settle only its obligations, along with its most significant liabilities for which its creditors do not have recourse to Phillips 66's general credit, were:

	Millions of Dollars	
	September 30 2023	December 31 2022
Accounts receivable, trade*	**$ 643**	988
Net properties, plants and equipment	**9,385**	9,297
Investments in unconsolidated affiliates**	**1,923**	2,161
Accounts payable	**848**	1,239
Short-term debt	**86**	504
Long-term debt	**4,113**	4,248

** Included in the "Accounts and notes receivable" line item on the Phillips 66 consolidated balance sheet.*
*** Included in the "Investments and long-term receivables" line item on the Phillips 66 consolidated balance sheet.*

DCP LP Merger
On June 15, 2023, we completed the acquisition of approximately 91 million publicly held common units of DCP LP pursuant to the terms of the DCP LP Merger Agreement. The DCP LP Merger Agreement was entered into with DCP LP, its subsidiaries and its general partner entities, pursuant to which one of our wholly owned subsidiaries merged with and into DCP LP, with DCP LP surviving as a Delaware limited partnership. Under the terms of the DCP LP Merger Agreement, at the effective time of the DCP LP Merger, each publicly held common unit representing a limited partner interest in DCP LP (other than the common units owned by DCP Midstream and its subsidiaries) issued and outstanding as of immediately prior to the effective time was converted into the right to receive $41.75 per common unit in cash, without interest. We paid $3,796 million in cash consideration to common unitholders, funded through a combination of cash generated from operating activities and proceeds from the offering of the Notes and borrowings under the Term Loan Agreement. See Note 11—Debt, for additional information.

The DCP LP Merger was accounted for as an equity transaction and resulted in decreases to “Cash and cash equivalents” of $3,814 million, which includes cash consideration paid to common unitholders of $3,796 million plus fees paid of $18 million, “Noncontrolling interests” of $3,343 million, “Capital in excess of par” of $361 million and “Deferred income taxes” of $110 million on our consolidated balance sheet.

Preferred Units
In June 2023, DCP LP redeemed its Series B preferred units at the aggregated liquidation preference of $161 million, which approximated the book value of the preferred units. At September 30, 2023, DCP LP had 4,400,000 Series C preferred units outstanding with an aggregate liquidation preference of $110 million.

On October 16, 2023, DCP LP redeemed its Series C preferred units at the aggregated liquidation preference of $110 million, which approximated the book value of the preferred units.

The New York Stock Exchange suspended trading of the Series B preferred units and Series C preferred units in connection with the redemptions described herein, and DCP LP filed with the Securities and Exchange Commission a certification and notice of termination on Form 15 deregistering each series of preferred units under the Exchange Act and suspending its reporting obligations under Sections 13 and 15(d) of the Exchange Act.

Distributions
During the three and nine months ended September 30, 2023, DCP LP made cash distributions of $2 million and $12 million, respectively, to preferred unitholders and cash distributions of $12 million and $113 million, respectively, to common unit holders other than Phillips 66 and its subsidiaries.

Note 22—Phillips 66 Partners LP

On March 9, 2022, we completed a merger between us and Phillips 66 Partners. The merger resulted in the acquisition of all limited partnership interests in Phillips 66 Partners not already owned by us in exchange for 41.8 million shares of Phillips 66 common stock issued from treasury stock. Phillips 66 Partners common unitholders received 0.50 shares of Phillips 66 common stock for each outstanding Phillips 66 Partners common unit. Phillips 66 Partners’ perpetual convertible preferred units were converted into common units at a premium to the original issuance price prior to being exchanged for Phillips 66 common stock. The merger was accounted for as an equity transaction. Upon closing, Phillips 66 Partners became a wholly owned subsidiary of Phillips 66 and its common units are no longer publicly traded.

Note 23—Restructuring

In April 2022, we announced that we are progressing a multi-year business transformation focused on enterprise-wide opportunities to improve our cost structure. For the three and nine months ended September 30, 2023, we recorded restructuring costs totaling $51 million and $127 million, respectively, primarily related to consulting fees and severance costs. For the three and nine months ended September 30, 2022, we recorded restructuring costs totaling $74 million and $99 million, respectively, primarily related to consulting fees and severance costs. These costs are primarily recorded in the “Selling, general and administrative expenses” line item on our consolidated statement of income and are reported in our Corporate segment.

In addition, in the three and nine months ended September 30, 2023, we recorded restructuring costs of $4 million and $38 million, respectively, associated with the integration of DCP Midstream Class A Segment primarily related to severance and contract exit costs. These costs are primarily recorded in the “Selling, general and administrative expenses” line item on our consolidated statement of income and are reported in our Midstream segment.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated, "the company," "we," "our," "us" and "Phillips 66" are used in this report to refer to the businesses of Phillips 66 and its consolidated subsidiaries.

Management's Discussion and Analysis is the company's analysis of its financial performance, financial condition, and significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. It contains forward-looking statements including, without limitation, statements relating to the company's plans, strategies, objectives, expectations and intentions that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions often identify forward-looking statements, but the absence of these words does not mean a statement is not forward-looking. The forward-looking statements made in this Quarterly Report on Form 10-Q are based on events or circumstances as of the date on which the statements are made. The company does not undertake to update, revise or correct any of the forward-looking information included in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events unless required to do so pursuant to applicable law. Readers are cautioned that such forward-looking statements should be read in conjunction with the company's disclosures under the heading: "CAUTIONARY STATEMENT FOR THE PURPOSES OF THE 'SAFE HARBOR' PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995."

The term "earnings" as used in Management's Discussion and Analysis refers to net income attributable to Phillips 66. The terms "results," "before-tax income" or "before-tax loss" as used in Management's Discussion and Analysis refer to income (loss) before income taxes.

EXECUTIVE OVERVIEW AND BUSINESS ENVIRONMENT

Phillips 66 is a diversified energy company with Midstream, Chemicals, Refining, and Marketing and Specialties (M&S) operating segments. At September 30, 2023, we had total assets of $77.8 billion. Our common stock trades on the New York Stock Exchange under the symbol PSX.

Executive Overview

In the third quarter of 2023, we reported earnings of $2.1 billion and generated cash from operating activities of $2.7 billion. We used available cash to fund capital expenditures and investments of $855 million, repurchase $752 million of common stock, and pay dividends on our common stock of $465 million. We ended the third quarter of 2023 with $3.5 billion of cash and cash equivalents.

Strategic Priorities Update

In November 2022, we announced financial and operational targets in furtherance of achieving the company's strategic priorities. On October 27, 2023, we announced updates to certain targets underpinning our strategic priorities that are intended to enhance long-term shareholder value:

- We increased our target for returns to shareholders through share repurchases and dividends from July 2022 through year-end 2024 to a range of $13 billion to $15 billion from a range of $10 billion to $12 billion. We plan to return at least 50% of net cash provided by operating activities to shareholders through share repurchases and dividends. In support of the increased target, our board of directors recently approved a $5 billion increase to our share repurchase authorization. The amount and timing of future dividend payments and the level and timing of future share repurchases will depend on various factors including our share price, results of operations, financial condition and cash required for future business plans.

- We plan to monetize certain assets that are no longer considered to be a long-term strategic fit. We expect to generate proceeds of over $3 billion from the disposition of these non-core assets, which we plan to use to further advance our strategic priorities, including returns to shareholders through share repurchases and dividends.

- We continue to progress our multi-year business transformation aimed at sustainably reducing our cost structure, and we are on track to exceed our targeted run-rate cost reduction of $800 million per year and sustaining capital reduction of $200 million per year by the end of 2023. As such, we are now targeting a run-rate cost reduction of $1.1 billion per year and a sustaining capital reduction of $300 million per year by the end of 2024.

- We intend to enhance our commercial supply and trading capabilities to further increase integrated value.

DCP Midstream, LLC and Gray Oak Holdings LLC Merger (DCP Midstream Merger)
As part of executing our natural gas liquids (NGL) growth strategy to build a wellhead-to-market value chain, on August 17, 2022, we announced a realignment of our economic and governance interests in DCP Midstream, LP (DCP LP) and Gray Oak Pipeline, LLC (Gray Oak Pipeline) resulting from the merger of DCP Midstream, LLC (DCP Midstream) and Gray Oak Holdings LLC (Gray Oak Holdings). In connection with the DCP Midstream Merger, we were delegated DCP Midstream's governance rights over DCP LP and its general partner entities, referred to as DCP Midstream Class A Segment, and acquired an indirect economic interest in DCP LP of 43.3%.

Starting on August 18, 2022, our financial results reflect the consolidation of DCP Midstream Class A Segment, as well as DCP Sand Hills Pipeline, LLC (DCP Sand Hills) and DCP Southern Hills Pipeline, LLC (DCP Southern Hills). Since the DCP Midstream Merger, we have taken steps to integrate the operations and personnel of DCP Midstream Class A Segment to enable the capture of commercial and operational synergies.

DCP Midstream, LP Merger (DCP LP Merger)
To further advance our NGL growth strategy on June 15, 2023, we completed the acquisition of all publicly held common units of DCP LP pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2023 (DCP LP Merger Agreement). The DCP LP Merger Agreement was entered into with DCP LP, its subsidiaries and its general partner entities, pursuant to which one of our wholly owned subsidiaries merged with and into DCP LP, with DCP LP surviving as a Delaware limited partnership. Under the terms of the DCP LP Merger Agreement, at the effective time of the DCP LP Merger, each publicly held common unit representing a limited partner interest in DCP LP (other than the common units owned by DCP Midstream and its subsidiaries) issued and outstanding as of immediately prior to the effective time was converted into the right to receive $41.75 per common unit in cash, without interest. The DCP LP Merger increased our aggregate direct and indirect economic interest in DCP LP from 43.3% to 86.8%.

See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, in the Notes to Consolidated Financial Statements, for additional information regarding these mergers.

Business Environment
The Midstream segment includes our Transportation and NGL businesses. Our Transportation business contains fee-based operations not directly exposed to commodity price risk. Our NGL business, including DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills from August 18, 2022, forward, contains both fee-based operations and operations directly impacted by NGL, natural gas and condensate prices. During the third quarter of 2023, NGL and natural gas prices decreased, compared with the third quarter of 2022, due to higher inventories from increased supply from production and slower demand growth for NGLs.

The Chemicals segment consists of our 50% equity investment in Chevron Phillips Chemical Company LLC (CPChem). The chemicals and plastics industry is mainly a commodity-based industry where the margins for key products are based on supply and demand, as well as cost factors. During the third quarter of 2023, the benchmark high-density polyethylene chain margin increased, compared with the third quarter of 2022, mainly due to lower feedstock prices during the quarter.

Our Refining segment results are driven by several factors, including market crack spreads, refinery throughput, feedstock costs, product yields, turnaround activity, and other operating costs. The price of U.S. benchmark crude oil, West Texas Intermediate (WTI) at Cushing, Oklahoma, decreased to an average of $82.49 per barrel during the third quarter of 2023, compared with an average of $91.76 per barrel in the third quarter of 2022. Market crack spreads are used as indicators of refining margins and measure the difference between market prices for refined petroleum products and crude oil. Worldwide market crack spreads averaged $36.06 per barrel during the third quarter of 2023, compared with an average of $36.29 per barrel in the third quarter of 2022. In the third quarter of 2023, compared with the third quarter of 2022, gasoline prices increased mainly due to lower inventories resulting from refinery maintenance, while diesel prices declined due to increased supply.

Results for our M&S segment depend largely on marketing fuel and lubricant margins and sales volumes of our refined petroleum products. While marketing fuel and lubricant margins are primarily driven by market factors, largely determined by the relationship between supply and demand, marketing fuel margins, in particular, are influenced by trends in spot prices, and where applicable, retail prices for refined petroleum products in the regions and countries where we operate.

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RESULTS OF OPERATIONS

Unless otherwise indicated, discussion of results for the three and nine months ended September 30, 2023, is based on a comparison with the corresponding periods of 2022.

Basis of Presentation

Effective August 18, 2022, forward, in connection with the DCP Midstream Merger we began consolidating the results of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills. As a result of this transaction, we began presenting the results of DCP Midstream Class A Segment within the results of our NGL and Other business. Prior periods also have been updated to reflect the results of our equity investment in DCP Midstream prior to August 18, 2022, within the results of our NGL and Other business. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, Note 4—Business Combinations, and Note 15—Fair Value Measurements, in the Notes to Consolidated Financial Statements, for additional information regarding the DCP Midstream Merger.

Effective October 1, 2022, we changed the organizational structure of the internal financial information reviewed by our President and Chief Executive Officer, and determined this resulted in a change in the composition of our operating segments. As part of the realignment, we moved the results and net assets of our Merey Sweeny vacuum distillation and delayed coker units at our Sweeny Refinery and the isomerization unit at our Lake Charles Refinery from our Midstream segment to our Refining segment. Additionally, commissions charged to the Refining segment by the M&S segment related to sales of specialty products were eliminated and the costs of the sales organization were reclassified from the M&S segment to the Refining segment. Further, we are no longer presenting disaggregated business line results for our Chemicals and M&S segments to align with changes in our internal financial reporting. The segment realignment and business line reporting changes are presented for the three and nine months ended September 30, 2023, with the prior periods recast for comparability.

Consolidated Results

A summary of income before income taxes by business segment with a reconciliation to net income attributable to Phillips 66 follows:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Midstream	$ **712**	3,608	**2,018**	4,078
Chemicals	**104**	135	**494**	804
Refining	**1,710**	2,907	**4,452**	6,176
Marketing and Specialties	**633**	828	**1,703**	1,863
Corporate and Other	**(346)**	(320)	**(959)**	(829)
Income before income taxes	**2,813**	7,158	**7,708**	12,092
Income tax expense	**670**	1,618	**1,754**	2,713
Net income	**2,143**	5,540	**5,954**	9,379
Less: net income attributable to noncontrolling interests	**46**	149	**199**	239
Net income attributable to Phillips 66	$ **2,097**	5,391	**5,755**	9,140

Our net income attributable to Phillips 66 in the third quarter and nine-month period of 2023 was $2.1 billion and $5.8 billion, respectively, compared with $5.4 billion and $9.1 billion in the third quarter and nine-month period of 2022, respectively.

The decreases in the third quarter and nine-month period of 2023 were primarily due to the recognition of an aggregate before-tax gain of $3 billion recognized by the Midstream segment in 2022 in connection with the DCP Midstream Merger and a decline in realized refining margins, partially offset by lower income tax expense. In addition, the decrease in the nine-month period 2023 was also partially offset by lower unrealized losses related to our investment in NOVONIX Limited (NOVONIX).

See the “Segment Results” section for additional information about our segment performance and Note 20—Income Taxes, in the Notes to Consolidated Financial Statements, for additional information regarding income taxes. See also Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, in the Notes to Consolidated Financial Statements, for additional information regarding these merger transactions.

Statement of Income Analysis

Sales and other operating revenues for the third quarter and nine-month period of 2023 decreased 12% and 16%, respectively, and purchased crude oil and products decreased 11% and 18%, respectively. These decreases were mainly due to lower prices for refined petroleum products, crude oil and NGL.

Equity in earnings of affiliates decreased 28% and 27% in the third quarter and nine-month period of 2023, respectively. The decrease in both periods reflects lower equity earnings from DCP Midstream, DCP Sand Hills, DCP Southern Hills and Gray Oak Pipeline due to the DCP Midstream Merger in August 2022, as well as lower equity earnings from CPChem primarily due to a decline in margins. The third quarter of 2023 also reflects lower equity earnings from WRB Refining LP (WRB), primarily due to lower margins, partially offset by improved operating costs. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, in the Notes to Consolidated Financial Statements, and the Chemicals segment analysis in the “Segment Results” section for additional information.

Net gain on dispositions increased $101 million and $122 million for the third quarter and nine-month period of 2023, respectively, primarily due to a before-tax gain recognized in the Midstream segment in the third quarter of 2023 associated with the sale of our 25% ownership interest in the South Texas Gateway Terminal.

Other income decreased $3,011 million and $2,536 million in the third quarter and nine-month period of 2023, respectively. The decrease in both periods of 2023 was primarily due to an aggregate before-tax gain of $3,013 million recognized in the third quarter of 2022 in our Midstream segment in connection with the DCP Midstream Merger. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, in the Notes to Consolidated Financial Statements, for additional information regarding the merger.

Selling, general and administrative expenses increased 21% in the nine-month period of 2023. The increase was primarily due to consolidating DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills starting in August 2022, as well as restructuring costs associated with our business transformation. See Note 23—Restructuring, in the Notes to Consolidated Financial Statements, for additional information regarding restructuring costs.

Depreciation and amortization increased 13% and 29% in the third quarter and nine-month period of 2023, respectively. The increases were primarily due to additional depreciation and amortization related to assets acquired as a result of consolidating DCP Midstream Class A Segment, DCP Southern Hills and DCP Sand Hills starting in August 2022.

Taxes other than income taxes increased 29% and 38% in the third quarter and nine-month period of 2023, respectively. The increases were primarily due to consolidating DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills starting in August 2022 and higher crude oil and refined petroleum product excise taxes.

Interest and debt expense increased 40% and 59% in the third quarter and nine-month period of 2023, respectively. The increase was primarily driven by higher average debt principal balances as a result of consolidating DCP Midstream Class A Segment, DCP Southern Hills and DCP Sand Hills starting in August 2022.

Income tax expense decreased 59% and 35% in the third quarter and nine-month period of 2023, respectively, primarily due to lower results. See Note 20—Income Taxes, in the Notes to Consolidated Financial Statements, for information regarding our effective income tax rates.

Net income attributable to noncontrolling interests decreased 69% and 17% in the third quarter and nine-month period of 2023, respectively. The decreases in both periods reflect the impacts of the DCP LP Merger in June 2023, and the consolidation of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills and the derecognition of a noncontrolling interest related to Gray Oak Holdings as a result of the DCP Midstream Merger in August 2022. The decrease in the nine-month period was also due to the merger between us and Phillips 66 Partners LP (Phillips 66 Partners) that occurred in the first quarter of 2022. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, Note 21—DCP Midstream Class A Segment, and Note 22—Phillips 66 Partners LP, in the Notes to Consolidated Financial Statements, for additional information regarding these merger transactions.

Segment Results

Midstream

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
	Millions of Dollars			
Income (Loss) Before Income Taxes				
Transportation	$ **386**	411	**976**	939
NGL and Other	**335**	3,230	**1,078**	3,570
NOVONIX	**(9)**	(33)	**(36)**	(431)
Total Midstream	$ **712**	3,608	**2,018**	4,078

	Thousands of Barrels Daily			
Transportation Volumes				
Pipelines*	**3,039**	3,084	**3,111**	3,083
Terminals	**3,167**	3,066	**3,173**	2,962
Operating Statistics				
NGL fractionated**	**703**	508	**700**	477
NGL production***	**432**	434	**432**	424

** Pipelines represent the sum of volumes transported through each separately tariffed consolidated pipeline segment, excluding NGL pipelines.*
*** Includes 100% of DCP Midstream Class A Segment's volumes from August 18, 2022, forward.*
**** Includes 100% of DCP Midstream Class A Segment's volumes.*

	Dollars Per Gallon			
Market Indicator				
Weighted-Average NGL Price*	$ **0.67**	0.98	**0.67**	1.08

** Based on index prices from the Mont Belvieu market hub, which are weighted by NGL component mix.*

The Midstream segment provides crude oil and refined petroleum product transportation, terminaling and processing services; NGL production, transportation, storage, fractionation, processing and marketing services; natural gas gathering, compressing, treating, processing, storage, transportation and marketing services; and condensate recovery. These activities are mainly in the United States. This segment also includes our investment in NOVONIX.

In connection with the DCP Midstream Merger, the results of our Transportation business reflect a decrease in our indirect economic interest in Gray Oak Pipeline to 6.5% from August 18, 2022, forward. Prior to August 18, 2022, the Transportation results presented in the table above reflect Gray Oak Holdings' 65% economic interest in Gray Oak Pipeline. In addition, the results of our NGL and Other business include the consolidated results of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills from August 18, 2022, forward. Prior to August 18, 2022, our investments in DCP Midstream, DCP Sand Hills and DCP Southern Hills were accounted for using the equity method. As a result of the DCP Midstream Merger and consolidation, equity earnings from our investment in DCP Midstream prior to the DCP Midstream Merger have been included with the results of our NGL and Other business.

In the Notes to Consolidated Financial Statements, see Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, for additional information regarding the DCP Midstream Merger.

Results from our Midstream segment decreased $2,896 million and $2,060 million in the third quarter and nine-month period of 2023, respectively.

Results from our Transportation business decreased $25 million in the third quarter of 2023 and increased $37 million in the nine-month period of 2023.

The decrease in the third quarter of 2023 was primarily due to a before-tax gain of $182 million related to the transfer of an indirect economic interest in Gray Oak Pipeline as part of the DCP Midstream Merger in August 2022, partially offset by a $101 million before-tax gain on the sale of our 25% ownership interest in the South Texas Gateway Terminal in August 2023, lower operating costs and higher pipeline tariffs. The increase for the nine-month period of 2023 was primarily due to the South Texas Gateway Terminal before-tax gain recognized in August 2023 and lower operating costs, partially offset by the DCP Midstream Merger before-tax gain recognized in August 2022.

Results from our NGL and Other business decreased $2,895 million and $2,492 million in the third quarter and nine-month period of 2023, respectively. The decrease in both periods was primarily due to an aggregate before-tax gain of $2,831 million recognized in the third quarter of 2022 from remeasuring our previously held equity investments in DCP Midstream, DCP Sand Hills and DCP Southern Hills to their fair values in connection with the DCP Midstream Merger.

The fair value of our investment in NOVONIX declined by $9 million in the third quarter of 2023, compared with a decline of $33 million in the third quarter of 2022. The fair value of our investment in NOVONIX declined by $36 million in the nine-month period of 2023, compared with a decline of $431 million in the nine-month period of 2022.

In the Notes to Consolidated Financial Statements, see Note 8—Investments, Loans and Long-Term Receivables, for additional information on our investment in NOVONIX.

See the “Executive Overview and Business Environment” section for information on market factors impacting this quarter’s results.

Chemicals

		Three Months Ended September 30		Nine Months Ended September 30	
		2023	2022	**2023**	2022
		Millions of Dollars			
Income Before Income Taxes	**$**	**104**	135	**494**	804
		Millions of Pounds			
CPChem Externally Marketed Sales Volumes*		**6,241**	5,969	**17,839**	18,265

** Represents 100% of CPChem's outside sales of produced petrochemical products, as well as commission sales from equity affiliates.*

Olefins and Polyolefins Capacity Utilization (percent)	**99 %**	90	**97**	95

The Chemicals segment consists of our 50% interest in CPChem, which we account for under the equity method. CPChem uses NGL and other feedstocks to produce petrochemicals. These products are then marketed and sold or used as feedstocks to produce plastics and other chemicals. CPChem produces and markets ethylene and other olefin products. Ethylene produced is primarily consumed within CPChem for the production of polyethylene, normal alpha olefins and polyethylene pipe. CPChem manufactures and markets aromatics and styrenics products, such as benzene, cyclohexane, styrene and polystyrene, as well as manufactures and/or markets a variety of specialty chemical products. Unless otherwise noted, amounts referenced below reflect our net 50% interest in CPChem.

Results from the Chemicals segment decreased $31 million and $310 million in the third quarter and nine-month period of 2023, respectively. The decrease in the third quarter and nine-month period of 2023 was primarily due to lower margins, partially offset by decreased utility costs and higher sales volumes. The decrease in the nine-month period of 2023 also reflected lower equity earnings from CPChem's equity affiliates.

See the "Executive Overview and Business Environment" section for information on market factors impacting CPChem's results.

Refining

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
	Millions of Dollars			
Income Before Income Taxes				
Atlantic Basin/Europe	**$ 444**	530	**735**	1,784
Gulf Coast	**342**	770	**1,290**	1,717
Central Corridor	**361**	1,343	**1,730**	1,699
West Coast	**563**	264	**697**	976
Worldwide	**$ 1,710**	2,907	**4,452**	6,176
	Dollars Per Barrel			
Income Before Income Taxes				
Atlantic Basin/Europe	**$ 9.50**	10.72	**5.61**	12.11
Gulf Coast	**6.44**	15.27	**8.34**	11.07
Central Corridor	**14.89**	53.36	**22.29**	23.76
West Coast	**17.48**	9.14	**7.59**	11.09
Worldwide	**10.94**	18.89	**9.78**	13.37
Realized Refining Margins*				
Atlantic Basin/Europe	**$ 16.85**	19.22	**14.61**	20.55
Gulf Coast	**13.58**	22.30	**15.57**	18.84
Central Corridor	**18.05**	38.76	**22.43**	24.92
West Coast	**32.23**	28.64	**21.94**	26.68
Worldwide	**18.96**	26.87	**18.30**	22.17

** See the “Non-GAAP Reconciliations” section for a reconciliation of this non-GAAP measure to the most directly comparable measure under generally accepted accounting principles in the United States (GAAP), income before income taxes per barrel.*

Operating Statistics	Thousands of Barrels Daily			
	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Refining operations*				
Atlantic Basin/Europe				
Crude oil capacity	**537**	537	**537**	537
Crude oil processed	**492**	525	**467**	518
Capacity utilization (percent)	**92%**	98	**87**	96
Refinery production	**511**	539	**482**	543
Gulf Coast				
Crude oil capacity	**529**	529	**529**	529
Crude oil processed	**519**	481	**512**	493
Capacity utilization (percent)	**98%**	91	**97**	93
Refinery production	**587**	557	**576**	578
Central Corridor				
Crude oil capacity	**531**	531	**531**	531
Crude oil processed	**492**	492	**488**	460
Capacity utilization (percent)	**93%**	93	**92**	87
Refinery production	**514**	512	**509**	477
West Coast				
Crude oil capacity	**319**	364	**319**	364
Crude oil processed	**323**	290	**306**	297
Capacity utilization (percent)	**101%**	80	**96**	81
Refinery production	**348**	312	**335**	321
Worldwide				
Crude oil capacity	**1,916**	1,961	**1,916**	1,961
Crude oil processed	**1,826**	1,788	**1,773**	1,768
Capacity utilization (percent)	**95%**	91	**93**	90
Refinery production	**1,960**	1,920	**1,902**	1,919

** Includes our share of equity affiliates.*

The Refining segment refines crude oil and other feedstocks into petroleum products, such as gasoline, distillates and aviation fuels, as well as renewable fuels, at 12 refineries in the United States and Europe.

Results from our Refining segment decreased $1,197 million and $1,724 million in the third quarter and nine-month period of 2023, respectively. The decrease in both periods was primarily due to lower realized margins, partially offset by higher volumes and decreased utility costs. The decrease in realized margins in the third quarter of 2023 was primarily driven by unfavorable inventory hedging impacts, lower clean product differentials and a decline in market crack spreads. The decrease in realized margins in the nine-month period of 2023 was primarily driven by a decline in market crack spreads.

Our worldwide refining crude oil capacity utilization rate was 95% and 93% in the third quarter and nine-month period of 2023, respectively, compared with 91% and 90% in the third quarter and nine-month period of 2022, respectively. See the “Executive Overview and Business Environment” section for information on market factors impacting this quarter’s results.

Marketing and Specialties

		Three Months Ended September 30		Nine Months Ended September 30	
		2023	2022	**2023**	2022
		Millions of Dollars			
Income Before Income Taxes	$	**633**	828	**1,703**	1,863

		Dollars Per Barrel			
Income Before Income Taxes					
U.S.	$	**2.60**	2.16	**2.30**	2.05
International		**4.14**	12.60	**4.91**	7.06
Realized Marketing Fuel Margins*					
U.S.	$	**3.03**	2.49	**2.76**	2.44
International		**5.27**	12.40	**6.34**	7.74

** See the "Non-GAAP Reconciliations" section for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure, income before income taxes per barrel.*

		Dollars Per Gallon			
U.S. Average Wholesale Prices*					
Gasoline	$	**3.25**	3.37	**3.02**	3.44
Distillates		**3.48**	3.96	**3.24**	3.88

** On third-party branded petroleum product sales, excluding excise taxes.*

	Thousands of Barrels Daily			
Marketing Refined Petroleum Product Sales				
Gasoline	**1,224**	1,190	**1,187**	1,165
Distillates	**984**	935	**936**	968
Other	**18**	16	**19**	17
	2,226	2,141	**2,142**	2,150

The M&S segment purchases for resale and markets refined petroleum products, such as gasoline, distillates and aviation fuels, as well as renewable fuels, mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of base oils and lubricants.

Before-tax income from the M&S segment decreased $195 million and $160 million in the third quarter and nine-month period of 2023, respectively. The decrease in both periods was primarily driven by lower realized international marketing fuel margins and decreased equity earnings from affiliates, partially offset by higher U.S. realized marketing fuel margins. The decrease in the nine-month period of 2023 also reflected lower results from trading activities.

See the "Executive Overview and Business Environment" section for information on marketing fuel margins and other market factors impacting this quarter's results.

Corporate and Other

		Millions of Dollars			
		Three Months Ended September 30		Nine Months Ended September 30	
		2023	2022	**2023**	2022
Loss Before Income Taxes					
Net interest expense	**$**	**(163)**	(136)	**(469)**	(395)
Corporate overhead and other		**(183)**	(184)	**(490)**	(434)
Total Corporate and Other	**$**	**(346)**	(320)	**(959)**	(829)

Net interest expense consists of interest and financing expense, net of interest income and capitalized interest. Corporate overhead and other includes general and administrative expenses, technology costs, environmental costs associated with sites no longer in operation, restructuring costs related to our business transformation, foreign currency transaction gains and losses, and other costs not directly associated with an operating segment.

Net interest expense increased $27 million and $74 million, in the third quarter and nine-month period of 2023, respectively. The increases in both periods were primarily driven by higher interest expense as a result of consolidating DCP Midstream Class A Segment, partially offset by increased interest income. Additionally, the increase in net interest expense for the nine-month period of 2023 included a $53 million before-tax loss on the early redemption of DCP LP’s 5.850% junior subordinated notes. See Note 11—Debt, in the Notes to Consolidated Financial Statements, for additional information regarding DCP LP’s redemption of its junior subordinated notes.

Corporate overhead and other costs increased $56 million in the nine-month period of 2023 primarily due to higher costs related to our business transformation. See Note 23—Restructuring, in the Notes to Consolidated Financial Statements, for additional information regarding restructuring costs.

CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

		Millions of Dollars, Except as Indicated	
		September 30 2023	December 31 2022
Cash and cash equivalents	**$**	**3,539**	6,133
Short-term debt		**913**	529
Total debt		**19,444**	17,190
Total equity		**31,989**	34,106
Percent of total debt to capital*		**38%**	34
Percent of floating-rate debt to total debt		**10%**	—

** Capital includes total debt and total equity.*

To meet our short- and long-term liquidity requirements, we use a variety of funding sources but rely primarily on cash generated from operating activities and debt financing. During the first nine months of 2023, we generated $4.8 billion of cash from operations and had net borrowings of $2.1 billion. We used available cash primarily to repurchase $4 billion of noncontrolling interests in DCP LP, repurchase $2.9 billion of our common stock, fund capital expenditures and investments of $1.8 billion, and pay dividends on our common stock of $1.4 billion. During the first nine months of 2023, cash and cash equivalents decreased to $3.5 billion.

Significant Sources of Capital

Operating Activities
During the first nine months of 2023, cash generated by operating activities was $4.8 billion, compared with $6.1 billion for the first nine months of 2022. The decrease was primarily due to lower earnings, decreased distributions from equity affiliates and higher contributions to our pension plans.

Our short- and long-term operating cash flows are highly dependent upon refining and marketing margins, NGL prices and chemicals margins. Prices and margins in our industry can be volatile, and are driven by market conditions over which we have little or no control. Absent other mitigating factors, as these prices and margins fluctuate, we would expect a corresponding change in our operating cash flows.

The level and quality of output from our refineries also impact our cash flows. Factors such as operating efficiency, maintenance turnarounds, market conditions, feedstock availability, and weather conditions can affect output. We actively manage the operations of our refineries, and any variability in their operations typically has not been as significant to cash flows as that caused by margins and prices.

Equity Affiliate Operating Distributions
Our operating cash flows are also impacted by distribution decisions made by our equity affiliates, including CPChem. During the first nine months of 2023, cash from operations included aggregate distributions of $969 million from our equity affiliates. During the same period of 2022, cash from operations included aggregate distributions of $1.4 billion. The decrease in equity distributions was primarily due to lower distributions from CPChem. We cannot control the amount of future dividends from equity affiliates; therefore, future dividend payments by these equity affiliates are not assured.

Senior Note Issuances
On March 29, 2023, Phillips 66 Company, a wholly owned subsidiary of Phillips 66, issued $1.25 billion aggregate principal amount of senior unsecured notes consisting of:

- $750 million aggregate principal amount of 4.950% Senior Notes due December 2027 (2027 Notes).

- $500 million aggregate principal amount of 5.300% Senior Notes due June 2033 (2033 Notes).

The 2027 Notes and 2033 Notes (collectively, the Notes) are fully and unconditionally guaranteed by Phillips 66. Interest on the 2027 Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2023. Interest on the 2033 Notes is payable semi-annually on June 30 and December 30 of each year, commencing on December 30, 2023.

Related Party Advance Term Loan Agreements
At September 30, 2023, and December 31, 2022, borrowings outstanding under Advance Term Loan agreements with WRB totaled $290 million and $25 million, respectively. Borrowings under these agreements are due between 2035 and 2038 and bear interest at a floating rate based on Adjusted Term SOFR plus an applicable margin, payable on the last day of each month.

Term Loan Agreement
On March 27, 2023, Phillips 66 Company, a wholly owned subsidiary of Phillips 66, entered into a $1.5 billion delayed draw term loan agreement guaranteed by Phillips 66 (the Term Loan Agreement). The Term Loan Agreement provides for a single borrowing during a 90-day period commencing on the closing date, which borrowing was contingent upon the completion of the DCP LP Merger. The Term Loan Agreement contains customary covenants similar to those contained in our revolving credit agreement, including a maximum consolidated net debt-to-capitalization ratio of 65% as of the last day of each fiscal quarter. The Term Loan Agreement has customary events of default, such as nonpayment of principal when due; nonpayment of interest, fees or other amounts after grace periods; and violation of covenants. We may at any time prepay outstanding borrowings under the Term Loan Agreement, in whole or in part, without premium or penalty. Outstanding borrowings under the Term Loan Agreement bear interest at either: (a) Adjusted Term SOFR in effect from time to time plus the applicable margin; or (b) the reference rate plus the applicable margin, as defined in the Term Loan Agreement. At September 30, 2023, $1.25 billion was borrowed under the Term Loan Agreement, which matures in June 2026. See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, in the Notes to Consolidated Financial Statements, for additional information regarding the DCP LP Merger.

Credit Facilities and Commercial Paper

Phillips 66 and Phillips 66 Company
We have a $5 billion revolving credit facility with Phillips 66 Company as the borrower and Phillips 66 as the guarantor and a $5 billion commercial paper program with Phillips 66 as the borrower that is supported by the revolving credit facility. At both September 30, 2023, and December 31, 2022, no amount had been drawn under the $5 billion revolving credit facility or $5 billion uncommitted commercial paper program.

DCP Midstream Class A Segment
At September 30, 2023, DCP LP had $110 million of borrowings outstanding under its $1.4 billion credit facility and $2 million of letters of credit had been issued that are supported by the credit facility. At December 31, 2022, DCP LP had no borrowings outstanding under its $1.4 billion credit facility, and $10 million in letters of credit had been issued that are supported by the credit facility.

At September 30, 2023, and December 31, 2022, $350 million and $40 million of borrowings, respectively, were outstanding under DCP LP's accounts receivable securitization facility, which are secured by its accounts receivable at DCP Receivables LLC.

Total Committed Capacity Available
At September 30, 2023, and December 31, 2022, we had approximately $6.3 billion and $6.7 billion, respectively, of total committed capacity available under the credit facilities described above.

Dispositions
On August 1, 2023, we sold our 25% ownership interest in the South Texas Gateway Terminal for approximately $275 million.

On February 28, 2023, we closed on the sale of the Belle Chasse Terminal for approximately $76 million.

Off-Balance Sheet Arrangements

Lease Residual Value Guarantees
Under the operating lease agreement for our headquarters facility in Houston, Texas, we have the option, at the end of the lease term in September 2025, to request to renew the lease, purchase the facility or assist the lessor in marketing it for resale. We have a residual value guarantee associated with the operating lease agreement with a maximum potential future exposure of $514 million at September 30, 2023. We also have residual value guarantees associated with railcar, truck and airplane leases with maximum potential future exposures totaling $164 million. These leases have remaining terms of one to ten years.

Dakota Access, LLC (Dakota Access) and Energy Transfer Crude Oil Company, LLC (ETCO)
In 2020, the trial court presiding over litigation brought by the Standing Rock Sioux Tribe (the Tribe) ordered the U.S. Army Corps of Engineers (USACE) to prepare an Environmental Impact Statement (EIS) addressing an easement under Lake Oahe in North Dakota. The trial court later vacated the easement. Although the easement is vacated, the USACE has no plans to stop pipeline operations while it proceeds with the EIS, and the Tribe's request for a shutdown was denied in May 2021. In June 2021, the trial court dismissed the litigation entirely. Once the EIS is completed, new litigation or challenges may be filed.

In February 2022, the U.S. Supreme Court (the Court) denied Dakota Access' writ of certiorari requesting the Court to review the trial court's decision to order the EIS and vacate the easement. Therefore, the requirement to prepare the EIS stood. Also in February 2022, the Tribe withdrew as a cooperating agency, causing the USACE to halt the EIS process while the USACE engaged with the Tribe on their reasons for withdrawing.

The draft EIS process resumed in August 2022, and in September 2023 the USACE published its draft EIS for public comment. The USACE identified five potential outcomes, but did not indicate which one it preferred. The options comprise two "no action" alternatives where the USACE would deny an easement to Dakota Access and require it to shut down the pipeline and either remove the pipe from under Lake Oahe or allow the pipeline to be abandoned-in-place under the lake. The USACE also identified three "action" alternatives. Two of them contemplate that the USACE would reissue the easement to Dakota Access under essentially the same terms as 2017 with either the same or a larger volume of oil allowed through the pipeline while the third option would decommission the current pipeline and require construction of a new line 39 miles upstream from the current location. Although the USACE has not indicated when it will issue its final decision, no decision is expected until 2024.

Dakota Access and ETCO have guaranteed repayment of senior unsecured notes issued by a wholly owned subsidiary of Dakota Access in March 2019. On April 1, 2022, Dakota Access' wholly owned subsidiary repaid $650 million aggregate principal amount of its outstanding senior notes upon maturity. We funded our 25% share, or $163 million, with a capital contribution of $89 million in March 2022 and $74 million of distributions we elected not to receive from Dakota Access in the first quarter of 2022. At September 30, 2023, the aggregate principal amount outstanding of Dakota Access' senior unsecured notes was $1.85 billion.

In conjunction with the notes offering, Phillips 66 Partners, now a wholly owned subsidiary of Phillips 66, and its co-venturers in Dakota Access also provided a Contingent Equity Contribution Undertaking (CECU). Under the CECU, the co-venturers may be severally required to make proportionate equity contributions to Dakota Access if there is an unfavorable final judgment in the above-mentioned ongoing litigation. At September 30, 2023, our 25% share of the maximum potential equity contributions under the CECU was approximately $467 million.

If the pipeline is required to cease operations, it may have a material adverse effect on our results of operations and cash flows. Should operations cease and Dakota Access and ETCO not have sufficient funds to pay its expenses, we also could be required to support our 25% share of the ongoing expenses, including scheduled interest payments on the notes of approximately $20 million annually, in addition to the potential obligations under the CECU at September 30, 2023.

See Note 12—Guarantees, in the Notes to Consolidated Financial Statements, for additional information regarding our guarantees.

Capital Requirements

Capital Expenditures and Investments
For information about our capital expenditures and investments, see the “Capital Spending” section below.

Debt Financing
Our debt balance at September 30, 2023, and December 31, 2022, was $19.4 billion and $17.2 billion, respectively. Our total debt-to-capital ratio was 38% and 34% at September 30, 2023, and December 31, 2022, respectively.

On May 19, 2023, DCP LP redeemed its 5.850% junior subordinated notes due May 2043 with an aggregate principal amount outstanding of $550 million using borrowings under its revolving credit and accounts receivable securitization facilities.

On March 15, 2023, DCP LP repaid its 3.875% senior unsecured notes due March 2023 with an aggregate principal amount of $500 million using borrowings under its revolving credit and accounts receivable securitization facilities.

In April 2022, upon maturity, Phillips 66 repaid its 4.300% senior notes with an aggregate principal amount of $1.0 billion and Phillips 66 Partners repaid its $450 million term loan.

DCP LP Merger
On June 15, 2023, we completed the acquisition of all publicly held common units of DCP LP pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2023. The DCP LP Merger Agreement was entered into with DCP LP, its subsidiaries and its general partner entities, pursuant to which one of our wholly owned subsidiaries merged with and into DCP LP, with DCP LP surviving as a Delaware limited partnership. Under the terms of the DCP LP Merger Agreement, at the effective time of the DCP LP Merger, each publicly held common unit representing a limited partner interest in DCP LP (other than the common units owned by DCP Midstream and its subsidiaries) issued and outstanding as of immediately prior to the effective time was converted into the right to receive $41.75 per common unit in cash, without interest. The DCP LP Merger increased our aggregate direct and indirect economic interest in DCP LP from 43.3% to 86.8%.

We paid approximately $3.8 billion in cash consideration, funded through a combination of cash generated from operating activities and proceeds from the offering of the Notes and borrowings under the Term Loan Agreement.

See Note 3—DCP Midstream, LLC and DCP Midstream, LP Mergers, Note 11—Debt and Note 21—DCP Midstream Class A Segment, in the Notes to the Consolidated Financial Statements, for additional information.

DCP LP Preferred Units
On June 15, 2023, DCP LP redeemed its Series B preferred units with an aggregate liquidation preference of approximately $161 million. DCP LP funded this redemption with borrowings under its credit facilities.

On October 16, 2023, DCP LP redeemed its Series C preferred units with an aggregate liquidation preference of approximately $110 million. DCP LP funded this redemption using cash on hand and borrowings under its accounts receivable securitization facility.

DCP LP Cash Distributions to Unitholders
DCP LP’s partnership agreement requires it to distribute all available cash within 45 days after the end of each quarter. During the nine months ended September 30, 2023, DCP LP made cash distributions of $113 million to common unitholders other than Phillips 66 and its subsidiaries and $12 million to preferred unitholders.

On April 19, 2023, the board of directors of DCP Midstream GP, LLC, declared a quarterly distribution on DCP LP’s common units of $0.43 per common unit and a quarterly distribution on DCP LP’s Series B and Series C preferred units of $0.4922 and $0.4969 per unit, respectively. The distribution on the common units was paid on May 15, 2023, to unitholders of record on May 1, 2023. The Series B distribution was paid on June 15, 2023, to unitholders of record on June 1, 2023. The Series C distribution was paid on July 17, 2023, to unitholders of record on July 3, 2023.

On July 14, 2023, the board of directors of DCP Midstream, GP, LLC, declared a quarterly distribution on DCP LP’s common units of $0.43 per common unit and a quarterly distribution on DCP LP’s Series C preferred units of $0.4969 per unit. The distribution on the common units was paid on August 11, 2023, to unitholders of record on July 31, 2023. The Series C distribution was paid on October 16, 2023, to preferred unitholders of record on October 2, 2023.

On October 20, 2023, the board of directors of DCP Midstream, GP, LLC, declared a quarterly distribution on DCP LP’s common units of $0.43 per common unit. The distribution will be paid on November 10, 2023, to unitholders of record on October 31, 2023.

See Note 21—DCP Midstream Class A Segment, in the Notes to the Consolidated Financial Statements, for additional information regarding the DCP LP public common unit acquisition and the redemptions of DCP LP’s Series B and Series C preferred units.

Dividends
On July 12, 2023, our board of directors declared a quarterly cash dividend of $1.05 per common share. This dividend was paid on September 1, 2023, to shareholders of record as of the close of business on August 18, 2023.

On October 6, 2023, our board of directors declared a quarterly cash dividend of $1.05 per common share. This dividend is payable on December 1, 2023, to shareholders of record as of the close of business on November 17, 2023.

Share Repurchases
On October 25, 2023, our board of directors approved a $5 billion increase to our share repurchase authorization. Since July 2012, our board of directors has authorized an aggregate of $25 billion of repurchases of our outstanding common stock. The authorizations do not have expiration dates. Future share repurchases are expected to be funded primarily through available cash. We are not obligated to repurchase any shares of common stock pursuant to these authorizations and may commence, suspend or terminate repurchases at any time. For the nine months ended September 30, 2023, we repurchased 28.1 million shares at an aggregate cost of approximately $2.9 billion. Since July 2012, we have repurchased 204 million shares at an aggregate cost of $16.9 billion. Shares of stock repurchased are held as treasury shares.

Employee Benefit Plan Contributions
During the nine months ended September 30, 2023, we contributed $401 million to our U.S. pension and other postretirement benefit plans and $15 million to our international pension plans. We currently expect to make additional contributions of approximately $10 million to our U.S. pension and other postretirement benefit plans and approximately $5 million to our international pension plans during the remainder of 2023.

Rodeo Renewed Project
We expect the total capital project cost for the ongoing conversion of the San Francisco refinery in Rodeo, California into a renewable fuels facility to be approximately $1.25 billion. Our projected capital spend on the Rodeo Renewed project in 2023 is expected to be approximately $200 million higher than initially budgeted. See the “Capital Spending” section below for further discussion regarding the increase in our 2023 capital budget.

Marketing and Specialties Acquisition
On August 1, 2023, we acquired a marketing business on the U.S. West Coast for total consideration of $269 million. This acquisition supports the placement of renewable diesel that will be produced by the Rodeo renewable fuels facility.

Capital Spending

		Millions of Dollars	
		Nine Months Ended September 30	
		2023	2022
Capital Expenditures and Investments			
Midstream*	$	**460**	729
Chemicals		**—**	—
Refining		**938**	604
Marketing and Specialties		**323**	60
Corporate and Other		**63**	88
Total Capital Expenditures and Investments	$	**1,784**	1,481
Selected Equity Affiliates**			
CPChem		**773**	432
WRB		**128**	125
	$	**901**	557

** Includes 100% of DCP Midstream Class A Segment, DCP Sand Hills and DCP Southern Hills capital expenditures and investments from August 18, 2022, forward, net of acquired cash.*

*** Our share of joint ventures' capital spending.*

Midstream
During the first nine months of 2023, capital spending in our Midstream segment, including DCP LP, was primarily driven by expansion of gathering systems in the DJ Basin and Permian Basin, along with other return projects, well connections, reliability and maintenance projects.

Chemicals
During the first nine months of 2023, on a 100% basis, CPChem's capital expenditures and investments were $1,545 million. The capital spending was primarily for the development of petrochemical projects on the U.S. Gulf Coast and in the Middle East, as well as sustaining, debottlenecking and optimization projects on existing assets. CPChem's capital program was self-funded, and we expect CPChem to continue self-funding its capital program for the remainder of 2023.

Refining
Capital spending for the Refining segment during the first nine months of 2023 was primarily for refinery upgrade projects to enhance the yield of high-value products, produce renewable diesel, improve operating integrity of key processing units, and safety-related projects.

Major capital activities included:

- Engineering of facilities, procurement of long-lead items and construction to produce renewable fuels at the San Francisco refinery.
- Installation of facilities to improve product value at the Lake Charles refinery.
- Installation of facilities to improve utilization and product value at the jointly owned Borger refinery.

Marketing and Specialties
Capital spending for the M&S segment during the first nine months of 2023 was primarily for the acquisition of a marketing business on the U.S. West Coast and continued development and enhancement of retail sites in Europe.

Corporate and Other
Capital spending for Corporate and Other during the first nine months of 2023 was primarily for information technology.

2023 Budget Update
In October 2023, our Board of Directors authorized an increase of approximately $520 million to the 2023 planned capital budget previously reported in our 2022 Annual Report on Form 10-K. The increased capital budget relates to our Refining and M&S segments and reflects additional capital for our Rodeo Renewed project and the acquisition of a marketing business on the U.S. West Coast. See Note 4—Business Combinations, in the Notes to the Consolidated Financial Statements, for additional information on the marketing business acquisition.

Contingencies

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

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other potentially responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Legal and Tax Matters

Our legal and tax matters are handled by our legal and tax organizations. These organizations apply their knowledge, experience and professional judgment to the specific characteristics of our cases and uncertain tax positions. We employ a litigation management process to manage and monitor the legal proceedings. Our process facilitates the early evaluation and quantification of potential exposures in individual cases and enables the tracking of those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, our legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, is required. In the case of income tax-related contingencies, we monitor tax legislation and court decisions, the status of tax audits and the statute of limitations within which a taxing authority can assert a liability.

Environmental
Like other companies in our industry, we are subject to numerous international, federal, state and local environmental laws and regulations. For a discussion of the most significant international and federal environmental laws and regulations to which we are subject, see the “Environmental” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2022 Annual Report on Form 10-K.

We are required to purchase RINs in the open market to satisfy the portion of our obligation under the Renewable Fuel Standard (RFS) that is not fulfilled by blending renewable fuels into the motor fuels we produce. For the nine months ended September 30, 2023 and 2022, we incurred expenses of $242 million and $403 million, respectively, associated with our obligation to purchase RINs in the open market to comply with the RFS for our wholly owned refineries. These expenses are included in the “Purchased crude oil and products” line item on our consolidated statement of income. Our jointly owned refineries also incurred expenses associated with the purchase of RINs in the open market, of which our share was $326 million and $296 million for the nine months ended September 30, 2023 and 2022, respectively. These expenses are included in the “Equity in earnings of affiliates” line item on our consolidated statement of income. The amount of these expenses and fluctuations between periods is primarily driven by the market price of RINs, refinery production, blending activities and renewable volume obligation requirements.

We occasionally receive requests for information or notices of potential liability from the Environmental Protection Agency (EPA) and state environmental agencies alleging that we are a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or an equivalent state statute. On occasion, we also have been made a party to cost recovery litigation by those agencies or by private parties. These requests, notices and lawsuits assert potential liability for remediation costs at various sites that typically are not owned by us, but allegedly contain wastes attributable to our past operations. At September 30, 2023 and December 31, 2022, we had been notified of potential liability under CERCLA and comparable state laws at 22 sites within the United States.

Notwithstanding any of the foregoing, and as with other companies engaged in similar businesses, environmental costs and liabilities are inherent concerns in certain of our operations and products, and there can be no assurance that those costs and liabilities will not be material. However, we currently do not expect any material adverse effect on our results of operations or financial position as a result of compliance with current environmental laws and regulations.

Climate Change

There has been a broad range of proposed or promulgated state, national and international laws focusing on GHG emissions reduction, including various regulations proposed or issued by the EPA. These proposed or promulgated laws apply or could apply in states and/or countries where we have interests or may have interests in the future. Laws regulating GHG emissions continue to evolve, and while it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation, such laws potentially could have a material impact on our results of operations and financial condition as a result of increasing costs of compliance, lengthening project implementation and agency reviews, or reducing demand for certain hydrocarbon products. We continue to monitor legislative and regulatory actions and legal proceedings globally relating to GHG emissions for potential impacts on our operations.

For examples of legislation and regulation or precursors for possible regulation that do or could affect our operations, see the “Climate Change” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2022 Annual Report on Form 10-K.

We consider and take into account anticipated future GHG emissions in designing and developing major facilities and projects, and implement energy efficiency initiatives to reduce GHG emissions. Data on our GHG emissions, legal requirements regulating such emissions, and the possible physical effects of climate change on our coastal assets are incorporated into our planning, investment, and risk management decision-making. We are working to continuously improve operational and energy efficiency through resource and energy conservation throughout our operations.

In February 2022, we announced our intention to reduce our Scope 1 and Scope 2 GHG emissions intensity related to our operations by 50% of 2019 levels by the year 2050. The 2050 target builds upon our 2030 GHG emissions intensity targets to reduce Scope 1 and Scope 2 emissions from our operations by 30% and Scope 3 emissions from our energy products by 15% compared to 2019 levels.

GUARANTOR FINANCIAL INFORMATION

We have various cross guarantees between Phillips 66 and its wholly owned subsidiary Phillips 66 Company (together, the Obligor Group) with respect to publicly held debt securities. Phillips 66 conducts substantially all of its operations through subsidiaries, including Phillips 66 Company, and those subsidiaries generate substantially all of its operating income and cash flow. Phillips 66 has fully and unconditionally guaranteed the payment obligations of Phillips 66 Company with respect to its publicly held debt securities. In addition, Phillips 66 Company has fully and unconditionally guaranteed the payment obligations of Phillips 66 with respect to its publicly held debt securities. All guarantees are full and unconditional. At September 30, 2023, $13.3 billion of senior unsecured notes outstanding has been guaranteed by the Obligor Group.

Summarized financial information of the Obligor Group is presented on a combined basis. Intercompany transactions among the members of the Obligor Group have been eliminated. The financial information of non-guarantor subsidiaries has been excluded from the summarized financial information. Significant intercompany transactions and receivable/payable balances between the Obligor Group and non-guarantor subsidiaries are presented separately in the summarized financial information.

The summarized results of operations for the nine months ended September 30, 2023, and the summarized financial position at September 30, 2023, and December 31, 2022, for the Obligor Group on a combined basis were:

Summarized Combined Statement of Income	Millions of Dollars
	Nine Months Ended September 30, 2023
Sales and other operating revenues	**$ 82,199**
Revenues and other income—non-guarantor subsidiaries	**4,082**
Purchased crude oil and products—third parties	**47,110**
Purchased crude oil and products—related parties	**12,582**
Purchased crude oil and products—non-guarantor subsidiaries	**17,150**
Income before income taxes	**4,529**
Net income	**3,509**

Summarized Combined Balance Sheet	Millions of Dollars	
	September 30 2023	December 31 2022
Accounts and notes receivable—third parties	**$ 6,419**	5,485
Accounts and notes receivable—related parties	**1,325**	1,376
Due from non-guarantor subsidiaries, current	**954**	741
Total current assets	**15,696**	15,566
Investments and long-term receivables	**11,273**	10,433
Net properties, plants and equipment	**12,041**	11,652
Goodwill	**1,047**	1,047
Due from non-guarantor subsidiaries, noncurrent	**2,791**	2,163
Other assets associated with non-guarantor subsidiaries	**1,759**	2,144
Total noncurrent assets	**30,677**	29,209
Total assets	**46,373**	44,775
Due to non-guarantor subsidiaries, current	**$ 3,159**	2,297
Total current liabilities	**13,503**	11,148
Long-term debt	**13,737**	12,060
Due to non-guarantor subsidiaries, noncurrent	**10,000**	7,088
Total noncurrent liabilities	**29,517**	25,223
Total liabilities	**43,020**	36,371
Total equity	**3,353**	8,404
Total liabilities and equity	**46,373**	44,775

NON-GAAP RECONCILIATIONS

Refining

Our realized refining margins measure the difference between (a) sales and other operating revenues derived from the sale of petroleum products manufactured at our refineries and (b) costs of feedstocks, primarily crude oil, used to produce the petroleum products. The realized refining margins are adjusted to include our proportional share of our joint venture refineries' realized margins, as well as to exclude those items that are not representative of the underlying operating performance of a period, which we call "special items." The realized refining margins are converted to a per-barrel basis by dividing them by total refinery processed inputs (primarily crude oil) measured on a barrel basis, including our share of inputs processed by our joint venture refineries. Our realized refining margin per barrel is intended to be comparable with industry refining margins, which are known as "crack spreads." As discussed in "Executive Overview and Business Environment—Business Environment," industry crack spreads measure the difference between market prices for refined petroleum products and crude oil. We believe realized refining margin per barrel calculated on a similar basis as industry crack spreads provides a useful measure of how well we performed relative to benchmark industry refining margins.

The GAAP performance measure most directly comparable to realized refining margin per barrel is the Refining segment's "income before income taxes per barrel." Realized refining margin per barrel excludes items that are typically included in a manufacturer's gross margin, such as depreciation and operating expenses, and other items used to determine income before income taxes, such as general and administrative expenses. It also includes our proportional share of joint venture refineries' realized refining margins and excludes special items. Because realized refining margin per barrel is calculated in this manner, and because realized refining margin per barrel may be defined differently by other companies in our industry, it has limitations as an analytical tool. Following are reconciliations of income before income taxes to realized refining margins:

Realized Refining Margins		Atlantic Basin/ Europe	Gulf Coast	Central Corridor	West Coast	Worldwide
		Millions of Dollars, Except as Indicated				
Three Months Ended September 30, 2023						
Income before income taxes	**$**	**444**	**342**	**361**	**563**	**1,710**
Plus:						
Taxes other than income taxes		**12**	**28**	**23**	**30**	**93**
Depreciation, amortization and impairments		**53**	**61**	**42**	**55**	**211**
Selling, general and administrative expenses		**9**	**5**	**17**	**8**	**39**
Operating expenses		**252**	**286**	**223**	**381**	**1,142**
Equity in (earnings) losses of affiliates		**2**	**(1)**	**(209)**	**—**	**(208)**
Other segment (income) expense, net		**(7)**	**—**	**(4)**	**1**	**(10)**
Proportional share of refining gross margins contributed by equity affiliates		**22**	**—**	**394**	**—**	**416**
Realized refining margins	**$**	**787**	**721**	**847**	**1,038**	**3,393**
Total processed inputs (*thousands of barrels*)		**46,731**	**53,120**	**24,242**	**32,207**	**156,300**
Adjusted total processed inputs (*thousands of barrels*)*		**46,731**	**53,120**	**46,871**	**32,207**	**178,929**
Income before income taxes per barrel (*dollars per barrel*)**	**$**	**9.50**	**6.44**	**14.89**	**17.48**	**10.94**
Realized refining margins (*dollars per barrel*)***		**16.85**	**13.58**	**18.05**	**32.23**	**18.96**
Three Months Ended September 30, 2022						
Income before income taxes	$	530	770	1,343	264	2,907
Plus:						
Taxes other than income taxes		14	19	16	31	80
Depreciation, amortization and impairments		50	59	36	76	221
Selling, general and administrative expenses		18	4	14	7	43
Operating expenses		311	273	179	451	1,214
Equity in (earnings) losses of affiliates		2	1	(294)	—	(291)
Other segment (income) expense, net		2	—	4	(1)	5
Proportional share of refining gross margins contributed by equity affiliates		22	—	517	—	539
Realized refining margins	$	949	1,126	1,815	828	4,718
Total processed inputs (*thousands of barrels*)		49,420	50,435	25,167	28,897	153,919
Adjusted total processed inputs (*thousands of barrels*)*		49,420	50,435	46,857	28,897	175,609
Income before income taxes per barrel (*dollars per barrel*)**	$	10.72	15.27	53.36	9.14	18.89
Realized refining margins (*dollars per barrel*)***		19.22	22.30	38.76	28.64	26.87

** Adjusted total processed inputs include our proportional share of processed inputs of an equity affiliate.*

*** Income before income taxes divided by total processed inputs.*

**** Realized refining margins per barrel, as presented, are calculated using the underlying realized refining margin amounts, in dollars, divided by adjusted total processed inputs, in barrels. As such, recalculated per barrel amounts using the rounded margins and barrels presented may differ from the presented per barrel amounts.*

Realized Refining Margins		Atlantic Basin/ Europe	Gulf Coast	Central Corridor	West Coast	Worldwide
		Millions of Dollars, Except as Indicated				
Nine Months Ended September 30, 2023						
Income before income taxes	**$**	**735**	**1,290**	**1,730**	**697**	**4,452**
Plus:						
Taxes other than income taxes		**51**	**86**	**74**	**94**	**305**
Depreciation, amortization and impairments		**156**	**184**	**118**	**164**	**622**
Selling, general and administrative expenses		**27**	**13**	**55**	**26**	**121**
Operating expenses		**852**	**821**	**546**	**1,031**	**3,250**
Equity in (earnings) losses of affiliates		**6**	**(2)**	**(528)**	**—**	**(524)**
Other segment (income) expense, net		**17**	**17**	**(8)**	**4**	**30**
Proportional share of refining gross margins contributed by equity affiliates		**70**	**—**	**1,109**	**—**	**1,179**
Realized refining margins	**$**	**1,914**	**2,409**	**3,096**	**2,016**	**9,435**
Total processed inputs (*thousands of barrels*)		**130,984**	**154,735**	**77,616**	**91,869**	**455,204**
Adjusted total processed inputs (*thousands of barrels*)*		**130,984**	**154,735**	**138,027**	**91,869**	**515,615**
Income before income taxes per barrel (*dollars per barrel*)**	**$**	**5.61**	**8.34**	**22.29**	**7.59**	**9.78**
Realized refining margins (*dollars per barrel*)***		**14.61**	**15.57**	**22.43**	**21.94**	**18.30**
Nine Months Ended September 30, 2022						
Income before income taxes	$	1,784	1,717	1,699	976	6,176
Plus:						
Taxes other than income taxes		47	68	52	74	241
Depreciation, amortization and impairments		153	182	107	199	641
Selling, general and administrative expenses		31	13	40	22	106
Operating expenses		903	910	627	1,063	3,503
Equity in (earnings) losses of affiliates		7	6	(506)	—	(493)
Other segment (income) expense, net		22	1	2	—	25
Proportional share of refining gross margins contributed by equity affiliates		71	—	1,191	—	1,262
Special items:						
Regulatory compliance costs		9	26	22	13	70
Realized refining margins	$	3,027	2,923	3,234	2,347	11,531
Total processed inputs (*thousands of barrels*)		147,289	155,109	71,493	87,973	461,864
Adjusted total processed inputs (*thousands of barrels*)*		147,289	155,109	129,753	87,973	520,124
Income before income taxes per barrel (*dollars per barrel*)**	$	12.11	11.07	23.76	11.09	13.37
Realized refining margins (*dollars per barrel*)***		20.55	18.84	24.92	26.68	22.17

** Adjusted total processed inputs include our proportional share of processed inputs of an equity affiliate.*

*** Income before income taxes divided by total processed inputs.*

**** Realized refining margins per barrel, as presented, are calculated using the underlying realized refining margin amounts, in dollars, divided by adjusted total processed inputs, in barrels. As such, recalculated per barrel amounts using the rounded margins and barrels presented may differ from the presented per barrel amounts.*

Marketing

Our realized marketing fuel margins measure the difference between (a) sales and other operating revenues derived from the sale of fuels in our M&S segment and (b) costs of those fuels. The realized marketing fuel margins are adjusted to exclude those items that are not representative of the underlying operating performance of a period, which we call “special items.” The realized marketing fuel margins are converted to a per-barrel basis by dividing them by sales volumes measured on a barrel basis. We believe realized marketing fuel margin per barrel demonstrates the value uplift our marketing operations provide by optimizing the placement and ultimate sale of our refineries’ fuel production.

Within the M&S segment, the GAAP performance measure most directly comparable to realized marketing fuel margin per barrel is the marketing business’ “income before income taxes per barrel.” Realized marketing fuel margin per barrel excludes items that are typically included in gross margin, such as depreciation and operating expenses, and other items used to determine income before income taxes, such as general and administrative expenses. Because realized marketing fuel margin per barrel excludes these items, and because realized marketing fuel margin per barrel may be defined differently by other companies in our industry, it has limitations as an analytical tool. Following are reconciliations of income before income taxes to realized marketing fuel margins:

	Millions of Dollars, Except as Indicated			
	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
	U.S.	International	U.S.	International
Realized Marketing Fuel Margins				
Income before income taxes	**$ 466**	**105**	368	334
Plus:				
Depreciation and amortization	**5**	**18**	4	17
Selling, general and administrative expenses	**217**	**65**	218	59
Equity in earnings of affiliates	**(19)**	**(32)**	(30)	(31)
Other operating revenues*	**(134)**	**(8)**	(141)	(35)
Other (income) expense, net	**8**	**(2)**	6	(3)
Marketing margins	**543**	**146**	425	341
Less: margin for nonfuel related sales	**—**	**13**	—	12
Realized marketing fuel margins	**$ 543**	**133**	425	329
Total fuel sales volumes (*thousands of barrels*)	**179,432**	**25,352**	170,473	26,501
Income before income taxes per barrel (*dollars per barrel*)	**$ 2.60**	**4.14**	2.16	12.60
Realized marketing fuel margins (*dollars per barrel*)**	**3.03**	**5.27**	2.49	12.40

** Includes other nonfuel revenues.*

*** Realized marketing fuel margins per barrel, as presented, are calculated using the underlying realized marketing fuel margin amounts, in dollars, divided by sales volumes, in barrels. As such, recalculated per barrel amounts using the rounded margins and barrels presented may differ from the presented per barrel amounts.*

	Millions of Dollars, Except as Indicated			
	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
	U.S.	International	U.S.	International
Realized Marketing Fuel Margins				
Income before income taxes	$ **1,171**	**375**	1,048	542
Plus:				
Depreciation and amortization	**11**	**57**	10	54
Selling, general and administrative expenses	**602**	**190**	610	184
Equity in earnings of affiliates	**(34)**	**(84)**	(53)	(89)
Other operating revenues*	**(364)**	**(23)**	(387)	(56)
Other (income) expense, net	**17**	**9**	18	(2)
Marketing margins	**1,403**	**524**	1,246	633
Less: margin for nonfuel related sales	**—**	**41**	—	39
Realized marketing fuel margins	$ **1,403**	**483**	1,246	594
Total fuel sales volumes (*thousands of barrels*)	**508,443**	**76,301**	510,568	76,756
Income before income taxes per barrel (*dollars per barrel*)	$ **2.30**	**4.91**	2.05	7.06
Realized marketing fuel margins (*dollars per barrel*)**	**2.76**	**6.34**	2.44	7.74

** Includes other nonfuel revenues.*

*** Realized marketing fuel margins per barrel, as presented, are calculated using the underlying realized marketing fuel margin amounts, in dollars, divided by sales volumes, in barrels. As such, recalculated per barrel amounts using the rounded margins and barrels presented may differ from the presented per barrel amounts.*

CAUTIONARY STATEMENT FOR THE PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can normally identify our forward-looking statements by the words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions that convey the prospective nature of events or outcomes, but the absence of such words does not mean a statement is not forward-looking.

We based these forward-looking statements on our current expectations, estimates and projections about us, our operations, our joint ventures and entities in which we have equity interests, as well as the industries in which we and they operate. We caution you not to place undue reliance on these forward-looking statements as they are not guarantees of future performance and involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecasted in any forward-looking statement. Factors that could cause actual results to differ materially from those in our forward-looking statements include:

- Fluctuations in NGL, crude oil, refined petroleum product and natural gas prices and refining, marketing and petrochemical margins.
- Changes in governmental policies relating to NGL, crude oil, natural gas or refined petroleum products pricing, regulation or taxation, including exports.
- Capacity constraints in, or other limitations on, the pipelines, storage and fractionation facilities to which we deliver natural gas or NGL and the availability of alternative markets and arrangements for our natural gas and NGL.
- Actions taken by OPEC and non-OPEC oil producing countries impacting supply and demand and correspondingly, commodity prices.
- Our ability to achieve the expected benefits of the DCP LP integration, including the realization of expected synergies.
- Unexpected changes in costs or technical requirements for constructing, modifying or operating our facilities or transporting our products.
- Unexpected technological or commercial difficulties in manufacturing, refining or transporting our products, including chemical products.
- Lack of, or disruptions in, adequate and reliable transportation for our NGL, crude oil, natural gas and refined petroleum products.
- The level and success of drilling and quality of production volumes around our midstream assets.
- Our ability to timely obtain or maintain permits, including those necessary for capital projects.
- Our ability to comply with government regulations or make capital expenditures required to maintain compliance.
- Our ability to realize sustained savings and cost reductions from the company's business transformation initiatives.
- Changes to worldwide government policies relating to renewable fuels, climate change and greenhouse gas emissions that adversely affect programs like the renewable fuel standards program, low carbon fuel standards and tax credits for biofuels.
- Domestic and international economic and political developments including armed hostilities, such as the Russia-Ukraine war, instability in the financial services and banking sector, excess inflation, rising interest rates, expropriation of assets and changes in fiscal policy.

- The impact on commercial activity and demand for refined petroleum products from any widespread public health crisis, as well as the extent and duration of recovery of economies and demand for our products following any such crisis.
- Failure to complete definitive agreements and feasibility studies for, and to complete construction of, announced and future capital projects on time and within budget.
- Our ability to successfully complete, or any material delay in the completion of, asset dispositions or acquisitions that we pursue.
- Potential disruption or interruption of our operations or those of our joint ventures due to litigation or other governmental or regulatory action.
- Damage to our facilities due to accidents, weather and climate events, civil unrest, insurrections, political events, terrorism or cyberattacks.
- Our ability to meet our sustainability goals, including reducing our GHG emissions intensity, developing and protecting new technologies, and commercializing lower-carbon opportunities.
- Failure of new products and services to achieve market acceptance.
- International monetary conditions and exchange controls.
- Substantial investments required, or reduced demand for products, as a result of existing or future environmental rules and regulations, including GHG emissions reductions and reduced consumer demand for refined petroleum products.
- Liability resulting from litigation or for remedial actions, including removal and reclamation obligations under environmental regulations.
- Changes in tax, environmental and other laws and regulations (including alternative energy mandates) applicable to our business.
- Political and societal concerns about climate change that could result in changes to our business or operations or increase expenditures, including litigation-related expenses.
- Changes in estimates or projections used to assess fair value of intangible assets, goodwill and property and equipment and/or strategic decisions or other developments with respect to our asset portfolio that cause impairment charges.
- Limited access to capital or significantly higher cost of capital related to changes to our credit profile or illiquidity or uncertainty in the domestic or international financial markets.
- The creditworthiness of our customers and the counterparties to our transactions, including the impact of bankruptcies.
- The operation, financing and distribution decisions of our joint ventures that we do not control.
- The factors generally described in Item 1A.—Risk Factors in our 2022 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our commodity price risk and interest rate risk at September 30, 2023, did not differ materially from the risks disclosed under Item 7A of our 2022 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in U.S. Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. As of September 30, 2023, with the participation of management, our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of September 30, 2023.

During the quarter ended September 30, 2023, we completed the integration of DCP Midstream, LLC’s Class A Segment, DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC into our internal control environment.

There have been no other changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the quarterly period ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation and claims arising out of our operations in the normal course of business. Additionally, we have elected a $300,000 threshold to disclose certain proceedings arising under federal, state or local environmental laws when a governmental authority is a party to the proceedings. During the third quarter of 2023, no such new matters arose and there was one material development with respect to matters previously reported but still unresolved, which is described below. We do not currently believe that the eventual outcome of any matters previously reported but still unresolved, individually or in the aggregate, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Further, our U.S. refineries are implementing two separate consent decrees, regarding alleged violations of the Federal Clean Air Act, with the EPA, five states and one local air pollution agency. Some of the requirements and limitations contained in the decrees provide for stipulated penalties for violations. Stipulated penalties under the decrees are not automatic, but must be requested by one of the agency signatories. As part of periodic reports under the decrees or other reports required by permits or regulations, we occasionally report matters that could be subject to a request for stipulated penalties. If a specific request for stipulated penalties meeting the reporting threshold set forth in U.S. Securities and Exchange Commission (SEC) rules is made pursuant to these decrees based on a given reported exceedance, we will separately report that matter and the amount of the proposed penalty. We received such a request in the first quarter of 2023, which was described in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023. There have been no further developments with respect to this matter.

See “Dakota Access, LLC (Dakota Access) and Energy Transfer Crude Oil Company, LLC (ETCO)” section of Note 8—Investments, Loans and Long-Term Receivables and Note 13—Contingencies and Commitments, in the Notes to Consolidated Financial Statements, for additional information regarding Legal Proceedings and other regulatory actions.

Material Development to Matter Previously Reported
In 2018, the Colorado Department of Public Health and Environment (CDPHE) issued a Compliance Advisory in relation to an improperly permitted facility flare and related air emissions from flare operations at one of DCP Operating Company LP’s (DCP Operating LP) gas processing plants, which DCP Operating LP self-disclosed to CDPHE in December 2017. Following information exchanges and discussions with CDPHE, a resolution was proposed pursuant to which the plant’s air permit would be revised, and DCP Operating LP would be assessed an administrative penalty and economic benefit payment. A revised air permit was issued in May 2019, but the parties had not yet entered into a final settlement agreement to complete the matter. Subsequently, in July 2020, CDPHE issued a Notice of Violation (NOV) in relation to amine treater emissions at this plant, which DCP Operating LP self-disclosed to CDPHE in April 2020. Two additional and related NOVs were then issued in 2021 and 2023. DCP Operating LP and the CDPHE have reached a tentative agreement to resolve these matters for aggregate monetary civil penalties of approximately $4 million. As part of the settlement, DCP Operating LP will install emissions management equipment that will address the alleged violations. A final order to resolve these matters is expected to be issued during the first quarter of 2024.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A of our 2022 Annual Report on Form 10-K and Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On October 25, 2023, our board of directors approved a $5 billion increase to our share repurchase authorization. Any future share repurchases will be made at the discretion of management and will depend on various factors including our share price, results of operations, financial condition and cash required for future business plans.

				Millions of Dollars
Period	Total Number of Shares Purchased*	Average Price Paid per Share**	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs***	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2023	2,314,089	$ 103.90	2,314,089	$ 3,588
August 1-31, 2023	2,419,069	114.29	2,419,069	3,312
September 1-30, 2023	1,789,987	121.78	1,789,987	3,094
Total	6,523,145	$ 112.66	6,523,145	

** Includes repurchase of shares of common stock from company employees in connection with the company’s broad-based employee incentive plans, when applicable.*

*** Average price paid per share includes excise tax.*

**** Since July 2012, our board of directors has authorized an aggregate of $25 billion of repurchases of our outstanding common stock. Repurchases pursuant to the current authorizations do not have an expiration date. The share repurchases are expected to be funded primarily through available cash. We are not obligated to repurchase any shares of common stock pursuant to these authorizations and may commence, suspend or terminate repurchases at any time. Shares of stock repurchased are held as treasury shares.*

Item 5. OTHER INFORMATION

On September 28, 2023, Zhanna Golodryga, Executive Vice President, Emerging Energy, adopted a trading plan intended to satisfy Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, providing for the potential exercise of vested stock options and the associated sale of up to 29,800 shares of our common stock between January 2, 2024 and June 28, 2024.

Item 6. EXHIBITS

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit Number**	**Filing Date**	**SEC File No.**
22*	List of Guarantor Subsidiaries.				
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
32*	Certifications pursuant to 18 U.S.C. Section 1350.				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Schema Document.				
101.CAL*	Inline XBRL Calculation Linkbase Document.				
101.LAB*	Inline XBRL Labels Linkbase Document.				
101.PRE*	Inline XBRL Presentation Linkbase Document.				
101.DEF*	Inline XBRL Definition Linkbase Document.				
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

** Filed herewith.*

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILLIPS 66

/s/ J. Scott Pruitt

J. Scott Pruitt
Vice President and Controller
(Chief Accounting and Duly Authorized Officer)

Date: November 3, 2023