Phillips 66
Form DEF 14A
March 22, 2017

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

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.   )

Filed by the Registrant ý

Filed by a party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under § 240.14a-12

Phillips 66

(Name of Registrant as Specified In Its Charter)

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March 22, 2017

To My Fellow Shareholders:

The Board of Directors and executive leadership team cordially invite you to attend the 2017 Annual Meeting of Shareholders to be held at the Houston Marriott Westchase, 2900 Briarpark Drive, Houston, Texas 77042, on Wednesday, May 3 at 9:00 a.m. Central Daylight Time. You will find information regarding the matters to be voted on at the meeting in the attached proxy statement.

Your company. Phillips 66 is a diversified energy manufacturing and logistics company with a portfolio of midstream, chemicals, refining, and marketing and specialties businesses. Our diverse portfolio, resilient cash flow and disciplined capital allocation position us to capitalize on opportunities across the value chain. Our corporate strategy remains unchanged and clear we aim to deliver profitable growth, enhance returns on capital, and grow shareholder distributions, underpinned by strong operating excellence and a high-performing organization. These founding principles remain the pillars of all that we do. I look forward to sharing more about your company when we gather for our annual meeting.

Safety. Honor. Commitment. These are the values that guide how the 14,800 employees of Phillips 66 conduct business every day as they work to fulfill our mission to provide energy and improve lives. We are also guided by our four pillars of sustainability: operational excellence, environmental commitment, social responsibility and economic performance.

Our commitment to shareholder engagement. We value the perspectives our shareholders provide by participating at our annual meeting and engaging in conversations with us throughout the year. In 2016, we invited shareholders representing approximately half of our shares outstanding to discuss governance, compensation and other topics of interest to our shareholders. In response, shareholders provided valuable feedback that was shared with the full Board, which considered that feedback in its decision making process. As a result of these discussions, the Board adopted a proxy access bylaw earlier this year. The valuable input we receive from shareholders is very important to the Board and we look forward to continuing our dialogue in the coming year.

Growing shareholder distributions. We understand the importance of growing shareholder distributions in the form of share repurchases and dividends. In 2016, we increased the dividend by 13 percent and returned $2.3 billion of capital to shareholders through dividends and share repurchases.

Your vote is important. Whether or not you plan to attend the annual meeting in person, and no matter how many shares you own, please vote by telephone or the Internet, or mark your vote on the enclosed proxy card and sign, date, and return it by mail. For additional information on voting your shares, please see the instructions in the proxy statement on page 57.

We look forward to greeting you on May 3.

Sincerely,

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

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IMPROVING THE LIVES OF CURRENT AND FUTURE GENERATIONS

Phillips 66 supports educational programs that contribute to the vibrancy and resilience of communities. Recognizing that an educated workforce moves the world forward, we invest in teaching the skills that are critical to developing energy solutions for the 21st century. Key among these skills is competence in science, technology, engineering and math (STEM) disciplines.

One way we demonstrate that support is our participation with the MIND Research Institute, a nonprofit organization that develops visually based software to enhance learning and brings visual math instruction and game-based learning to local schools. MIND's signature ST Math program, game-based instructional software for K-12, is designed to boost math comprehension and proficiency through visual learning. With this program, we aim to instill a love of math in students and develop tomorrow's problem solvers.

Since 2014, Phillips 66 has contributed $2.5 million to the Institute and sponsored the ST Math program in 50 schools, many of them in the communities in which we operate: Freeport, Brazoria, and Houston, Texas; Ponca City, Oklahoma; Billings, Montana; Ferndale, Washington; and Wilmington, California. We often accompany this gift with the technology needed to ensure a successful implementation, such as 3-D printers and Chromebook computers.

Among the children sitting in classrooms today are tomorrow's energy industry leaders. That's why Phillips 66 is investing in STEM education. We believe that this partnership will help us fuel students' interest in science, technology, engineering and math, while preparing them for the future.

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NOTICE OF 2017 ANNUAL MEETING OF SHAREHOLDERS

May 3, 2017

9:00 A.M. Central Daylight Time

Houston Marriott Westchase
2900 Briarpark Drive
Houston, Texas 77042

Items of Business

1. To elect the three Directors named in this proxy statement
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2017
3. To consider and vote on a management proposal to approve, on an advisory (non-binding) basis, the compensation of our Named Executive Officers
4. To transact other business properly coming before the meeting

Record Date

You can vote if you were a shareholder of record on March 10, 2017.

Annual Report

Our 2016 Annual Report to Shareholders accompanies, but is not part of, these proxy materials.

Proxy Voting

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

This proxy statement and accompanying proxy are being provided to shareholders on or about March 22, 2017.

By Order of the Board of Directors

Paula A. Johnson
Corporate Secretary

March 22, 2017

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PROXY SUMMARY

This proxy summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. Page references are supplied to help you find further information in this proxy statement. Throughout the proxy statement, we may refer to Phillips 66 as the "Company," "we" or "our." For more complete information regarding the Company's 2016 performance, please review the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

If you are a beneficial owner and do not give your broker instructions on how to vote your shares, the broker will return the proxy card to us without voting on proposals not considered "routine." This is known as a broker non-vote. Only the ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2017 is considered to be a routine matter. Your broker may not vote on any non-routine matters without instructions from you.

Attend Our 2017 Annual Meeting of Shareholders

The Annual Meeting is open to all shareholders of Phillips 66, and each shareholder may bring one guest. You will need an admission ticket or proof of stock ownership to attend the meeting. Additional information regarding attending the meeting can be found under **About the Annual Meeting** beginning on page 57.

Date and Time:	9:00 a.m. (CDT) on Wednesday, May 3, 2017
Location:	Houston Marriott Westchase 2900 Briarpark Drive Houston, Texas 77042 (713) 978-7400
Record Date:	March 10, 2017

Proposals Requiring Your Vote

PROPOSAL 1	Election of Directors	Page 15	FOR each Nominee	Majority of votes cast
PROPOSAL 2	Ratification of the Appointment of Ernst & Young LLP	Page 23	FOR	Majority of votes present
PROPOSAL 3	Advisory Approval of Executive Compensation	Page 25	FOR	Majority of votes present

Vote Right Away

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

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

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

PROXY SUMMARY

If you hold your stock through a Phillips 66 employee benefit plan, please see page 58 for information about voting.

Visit 24/7
www.phillips66.com

Review and download this proxy statement and our Annual Report.

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

Your Company

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

Our financial performance in 2016 demonstrated the resiliency of our diversified portfolio in a volatile market. We create value by focusing on operating excellence, enhancing returns in Refining and executing our Midstream and Chemicals growth programs. Our balance sheet is strong, and we maintain a disciplined approach to capital allocation. The graph below shows our total shareholder return (TSR) since May 2012 compared to the S&P 100 Index and our performance peer group, which is detailed in **Peer Group Comparisons Performance Peer Group** in the **Compensation Discussion and Analysis**.

Since the Company's inception in May 2012, our strategic priorities have remained unchanged. The following graphic summarizes highlights of our performance during 2016 as measured by our compensation program performance targets, which are discussed in the **Compensation Discussion and Analysis**.

Summary of Governance Best Practices

Earlier this year, in response to feedback we received from our shareholders, our Board adopted a proxy access bylaw, which is included among our corporate governance best practices summarized below:

BEST PRACTICES

Majority voting for Directors

Provide 3%/3 year/20% proxy access right

Robust shareholder engagement program covering large percentage of outstanding shares and proxy advisory firms

Substantial majority of independent Directors

Independent Lead Director with clearly defined responsibilities

Independent Board Committees

Executive sessions of independent Directors

Stock ownership guidelines

Prohibition on pledging and hedging of our stock

Clawback policy

Regular Board and Committee self-evaluations

Risk oversight by the full Board and Committees

Company does not have a poison pill

Board Diversity and Independence

Our business requires that we not only bring together a knowledgeable and qualified leadership team, but one with diverse backgrounds, experiences and perspectives. The composition of our Board and the experiences and backgrounds of our executives reflect the Company's ongoing organizational commitment to diversity. In addition, the Nominating and Governance

Committee, which we may also refer to as the Nominating Committee, seeks Board members who possess the highest personal and professional ethics, integrity and values, and are committed to representing the long-term interests of the Company's shareholders. The Nominating Committee regularly reviews the composition of the Board and the evolving needs of the Company's businesses to ensure the Board reflects a range of talents, ages, skills, experiences, diversity, and expertise, particularly in the areas of accounting and finance, management, domestic and international markets, leadership, environment, and energy-related industries, sufficient to provide sound and prudent guidance with respect to the Company's strategic and operational objectives. The charts below highlight the diversity and independence of our ten-member Board of Directors.

Our Shareholder Engagement Effort

Throughout the past year, we invited shareholders representing approximately half of our shares outstanding to discuss topics of interest to our shareholders. In response, shareholders provided valuable feedback that was shared with the full Board, which considered that feedback in its decision making process. Topics discussed included our strategy and performance; corporate governance matters; our executive compensation programs; and environmental and social concerns. As a direct result of these discussions, we recently adopted a proxy access bylaw giving shareholders holding at least 3 percent of our shares for at least 3 years the right to include in the proxy statement director nominees for up to 20 percent of the Board (but not less than two nominees). In addition, we encouraged shareholders at the last two annual meetings to approve a management proposal to eliminate our classified board structure and permit all directors to be elected annually. Unfortunately, the proposal did not receive the required vote to pass in either year. We consulted with our proxy solicitor, who advised us, based on its analysis of our shareholder base, that the proposal would likely not be successful this year. We also discussed this topic with our largest investors and they conveyed understanding for this conclusion. Therefore, we are not resubmitting the proposal at the Annual Meeting, but will continue to discuss this matter and others with our investors to ensure they have a meaningful voice in our boardroom.

In addition, the Human Resources and Compensation Committee, which we refer to as the Compensation Committee, values these discussions and encourages shareholders to provide comments about our executive compensation programs. Based on the overwhelmingly positive result of our 2016 say-on-pay vote (95% support), as well as the feedback received during ongoing shareholder engagement meetings, we believe our shareholders approve of our executive compensation program and recognize its link to our business strategy. Nevertheless, we continue to evaluate our compensation program in light of evolving best practices to ensure alignment with shareholder interests.

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PROXY SUMMARY

Summary of Compensation Best Practices

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

WE DO ...	WE DO NOT ...
Target the majority of Named Executive Officer (NEO) compensation to be performance based	Provide excise tax gross-ups to our NEOs under our CICSP
Link NEO compensation to shareholder value creation by having a significant portion of compensation at risk	Reprice stock options without shareholder approval
Apply multiple performance metrics aligned with our corporate strategy to measure our performance	Price stock options below grant date fair market value
Cap maximum payouts (number of shares) under our equity programs	Allow share recycling for stock options
Employ a "double trigger" for severance benefits and equity awards under our Key Employee Change in Control Severance Plan (CICSP)	Have evergreen provisions in our active equity plans
Include absolute and relative metrics in our Long-Term Incentive (LTI) programs	Allow hedging or pledging of Phillips 66 stock, or trading Phillips 66 stock outside of approved windows
Maintain stock ownership guidelines for executives Chief Executive Officer (CEO) 6x base salary; other NEOs 3-5x base salary	Pay dividends during the performance period on Performance Share Program (PSP) targets
Balance, monitor and manage compensation risk through regular assessments and robust clawback provisions	Allow transfer of equity awards (except in the case of death)
Have extended vesting periods on stock awards, with a minimum one-year vesting period required for stock and stock option awards	Provide separate supplemental executive retirement benefits for individual NEOs

Intend to qualify compensation payments for deductibility under Internal Revenue Code (IRC) Section 162(m)	Maintain individual change-in-control agreements
Maintain a fully independent Compensation Committee	Have an employment agreement with the CEO
Retain an independent compensation consultant	Have excessive perquisites
Hold a Say-on-Pay vote annually	

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PROXY STATEMENT

This proxy statement and accompanying proxy are being provided to shareholders on or about March 22, 2017, in connection with the solicitation by the Board of Directors of Phillips 66 of proxies to be voted at the 2017 Annual Meeting of Shareholders on May 3, 2017.

CORPORATE GOVERNANCE OF THE COMPANY

The Nominating Committee and the Board of Directors, which we may also refer to as the Board, annually review the Company's governance structure to take into account changes in Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) rules, as well as current best practices. Our Corporate Governance Guidelines, posted on the "*Investors*" section of the Company's website under the "*Governance*" caption and available in print upon request (see **Available Information** on page 61), address the following matters, among others:

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

BOARD LEADERSHIP STRUCTURE

Chairman and CEO Roles

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

Company, currently is best suited to serve as Chairman and perform this unified role.

The Board of Directors believes that no single organizational model is the most effective in all circumstances. As a consequence, the Board periodically considers whether the offices of Chairman and CEO should continue to be combined and who should serve in such capacities. The Board also periodically reexamines its corporate governance policies and leadership structure to ensure that they continue to meet the Company's needs. As part of this review, the Board rotated committee chairs and committee membership in 2016. The decision to rotate committee positions was not taken lightly given the benefits that can come from continuity and the expertise of members. The Nominating Committee, however, believed that rotating committee positions would be beneficial, providing fresh perspectives and enhancing Directors' familiarity with different aspects of the Company's business while maintaining subject matter expertise on all committees.

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CORPORATE GOVERNANCE OF THE COMPANY

Independent Director Leadership

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

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

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

- advising the Chairman on an appropriate schedule of Board meetings, seeking to ensure that the non-employee Directors can perform their duties responsibly without interfering with operations
- providing the Chairman with input on the preparation of the agenda for each Board meeting and assuring that there is sufficient time for discussion of all agenda items
- advising the Chairman on the quality, quantity and timeliness of the flow of information from management to the non-employee Directors in order that they may perform their duties effectively and responsibly, including specifically requesting certain materials be provided to the Board
- recommending to the Chairman the retention of consultants who report directly to the Board of Directors
- interviewing all board candidates and making nomination recommendations to the Nominating Committee and the Board of Directors
- assisting the Board of Directors and Company officers in assuring compliance with and implementation of the Corporate Governance Guidelines
- ensuring that he or she or another appropriate Director is available for engagement with shareholders when warranted

- having the authority to call meetings of the non-employee Directors, as well as to develop the agenda for and moderate any such meetings and executive sessions of the non-employee Directors

- acting as principal liaison between the non-employee Directors and the Chairman on sensitive issues

- participating with the Compensation Committee in the periodic discussion of CEO performance

- ensuring the Board of Directors conducts an annual self-assessment and meeting with the CEO to discuss the results of the annual self-assessment

- working with the Nominating Committee to recommend the membership of the various Board committees, as well as selection of the committee chairs

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

Our Corporate Governance Guidelines require that the non-employee Directors meet in executive session at every Board meeting and, when there are non-employee Directors who are not independent, that the independent Directors meet in executive session at least annually. The Lead Director presides at such executive sessions. Each executive session may include discussions of, among other things, (1) the performance of the Chairman and the CEO, (2) matters concerning the

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relationship of the Board of Directors with the members of senior management, and (3) such other matters as the non-employee Directors deem appropriate. No formal action of the Board of Directors is taken at these meetings, although the non-employee Directors may subsequently recommend matters for consideration by the full Board. The Board of Directors may invite guest attendees to make presentations, respond to questions, or provide counsel on specific matters within their areas of expertise.

SUMMARY OF BOARD COMMITTEES

Effective October 2016, based upon the recommendation of the Nominating Committee, the membership of the Board committees was revised as set forth below.

udit and nance		X*		X	X		X		X	
ecutive		X	X*	X	X			X		X
uman sources and ompensation	X					X		X		X*
ominating d overnance		X		X*			X			X
blic Policy	X	X		X	X*	X	X	X	X	X

* Committee Chair

The charters for our Audit Committee, Executive Committee, Compensation Committee, Nominating Committee, and Public Policy Committee can be found in the "*Investors*" section on the Phillips 66 website under the "*Governance*" caption. Shareholders may also request printed copies of these charters by following the instructions located under the caption **Available Information** on page 61.

DIRECTOR INDEPENDENCE

The Corporate Governance Guidelines also contain director independence standards, which are consistent with the standards set forth in the NYSE listing standards, to assist the Board of Directors in determining the independence of the Company's Directors. The Board of Directors has determined that each Director, except Mr. Garland, meets the standards regarding independence set forth in the Corporate Governance Guidelines and is free of any material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Mr. Garland is not considered independent because he is an executive officer of the Company. In making independence determinations, the Board of Directors specifically considered the fact that many of our Directors are directors, current or retired officers or shareholders of companies with which we conduct business. In addition, some of our Directors serve as employees of, or consultants to, companies that do business with Phillips 66 and its affiliates (as further described in **Related Party Transactions** on page 13). Finally, some of our Directors may purchase retail products (such as gasoline, fuel additives or lubricants) from the Company. In all cases, it was determined that the nature of the business conducted and the interest of the Director by virtue of such position were immaterial both to the Company and to such Director.

SHAREHOLDER AND COMMUNITY ENGAGEMENT

The Company's values embrace shareholder engagement as an important tenet of good governance. We value the views of our shareholders and believe that positive dialogue builds informed relationships that promote transparency and accountability. Although the Lead Director or other members of the Board are available to participate in meetings with shareholders as appropriate, management has the principal responsibility for shareholder communication. As part of our annual engagement efforts in 2016, we invited shareholders representing approximately half of our shares outstanding, and other interested parties, to discuss matters of interest to them. Topics discussed included our strategy and performance; corporate governance matters; our executive compensation programs; and environmental and social concerns. The valuable feedback received was then shared with the full Board, which considered the feedback in its decision making process. As a direct result of these discussions, we adopted a proxy access bylaw giving shareholders holding at least 3 percent of our shares for at least 3 years the right to include in the proxy statement director nominees for up to 20 percent of the Board (but not less than two nominees). In addition, we encouraged shareholders at the last two annual meetings to approve a charter amendment that would eliminate the classified board structure and permit all directors to be elected annually. Unfortunately, the proposal did not receive the required vote to pass in either year. We consulted with our proxy solicitor, who advised us, based on its analysis of our shareholder base, that the proposal would likely not be successful this year. We also discussed this topic with our largest investors and they conveyed understanding for this conclusion. Therefore, we are not resubmitting the proposal at the Annual Meeting, but will continue to assess the proposal and its potential for adoption in the future.

We also believe that engagement and good governance involve participating in political or public policy activities that advance the Company's goals, are consistent with Company values and improve the communities where we work and live. A number of federal, state and local laws govern corporate involvement in such activities, and we maintain policies and procedures to comply with these laws. The Public Policy Committee is responsible for overseeing our political and public policy work and related activities about which it receives regular reports. Additional information about our involvement in political or public policy activities is available on our website.

SUSTAINABILITY

Phillips 66 is dedicated to meeting the world's energy needs responsibly, efficiently and sustainably. For us, sustainability means manufacturing and delivering affordable, clean products in a safe and environmentally sound manner. Our sustainability efforts are built on four pillars: operational excellence, environmental commitment, social responsibility and economic performance.

More than one-third of our U.S. refineries have earned the U.S. Environmental Protection Agency ENERGY STAR® Award, which recognizes their top-quartile energy efficiency performance. In addition, 25 of our sites have received Voluntary Protection Program (VPP) certification for their strong safety records and comprehensive safety and health management systems.

Our commitment to excellence compels us to invest in environmental projects and sustaining capital to improve our operations. The results are industry-leading practices and improved environmental performance. We invested more than $5.4 billion in refining environmental projects and improvements from 2003 through 2015. During that time, we reduced SOx emissions by 90 percent, NOx emissions by 55 percent and particulate matter by 57 percent.

Phillips 66 is investing in its future by conducting research to manage water consumption, improve energy efficiency and provide technology to change the future of power generation. We seek solutions for tomorrow's energy needs, from opportunities to blend biofuels into clean products to co-founding forward-looking think tanks, such as the Fuels Institute. Phillips 66 is one of the few energy companies with a state-of-the-art Research Center. We have more than 350 scientists and engineers in Bartlesville, Oklahoma, conducting research to enhance the safety and reliability of our operations and to develop future air, water and energy solutions.

Additional information regarding our commitment to sustainability, including our Sustainability Highlights Brochure, can be found in the Sustainability section of our website.

COMMUNICATIONS WITH THE BOARD

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

Mailing Address:	Corporate Secretary Phillips 66 P.O. Box 4428 Houston, TX 77210
Phone Number:	(281) 293-6600
Internet:	"*Investors*" section of the Company's website (www.phillips66.com) under the "*Governance*" caption

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

DIRECTOR MEETING ATTENDANCE

Recognizing that director attendance at the Company's Annual Meeting can provide the Company's shareholders with an opportunity to communicate with the Directors about issues affecting the Company, the Company actively encourages our Directors to attend the Annual Meeting of Shareholders. All of our Directors attended the 2016 Annual Meeting of Shareholders.

The Board of Directors met six times in 2016. Each Director attended at least 75 percent of the aggregate of:

- the total number of meetings of the Board held in 2016 during his or her tenure, and
- the total number of full-committee meetings held in 2016 by all committees of the Board on which he or she served.

BOARD'S RISK OVERSIGHT

The Company's management is responsible for the day-to-day conduct of our businesses and operations, including management of risks the Company faces. To fulfill this responsibility, our management has established an enterprise risk management program designed to identify and facilitate management of the significant and diverse risks facing the Company and the approaches to mitigate such risks. The Board of Directors has broad oversight responsibility over the Company's enterprise risk management program and receives management updates on its development and implementation. In this oversight role, the Board of Directors is responsible for satisfying itself that the risk management processes designed and implemented by the Company's management are functioning as intended, and that necessary steps are taken to foster a culture of risk-adjusted decision making throughout the organization.

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

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

CODE OF BUSINESS ETHICS AND CONDUCT

Phillips 66 has adopted a Code of Business Ethics and Conduct for Directors and Employees designed to help resolve ethical issues in an increasingly complex global business environment. Our Code of Business Ethics and Conduct applies to all directors and employees, including the CEO and the Chief Financial Officer. Our Code of Business Ethics and Conduct covers topics including, but not limited to, conflicts of interest, insider trading, competition and fair dealing, discrimination and harassment, confidentiality, payments to government personnel, anti-boycott laws, U.S. embargoes and sanctions, compliance procedures and employee complaint procedures. Our Code of Business Ethics and Conduct is posted on the "*Investors*" section of our website under the "*Governance*" caption. Shareholders may also request printed copies of our Code of Business Ethics and Conduct by following the instructions located under the caption **Available Information** on page 61.

RELATED PARTY TRANSACTIONS

Our Code of Business Ethics and Conduct requires that all directors and executive officers promptly bring to the attention of the General Counsel and, in the case of Directors, the Chair of the Nominating Committee or, in the case of executive officers, the Chair of the Audit Committee, any transaction or relationship that arises and of which she or he becomes aware that reasonably could be expected to constitute a related party transaction. Any such transaction or relationship is reviewed by the Company's management and the appropriate Board Committee to ensure that it does not constitute a conflict of interest and is reported appropriately. Additionally, the Nominating Committee conducts an annual review of related party transactions between each of our directors and the Company (and its subsidiaries) and makes recommendations to the Board regarding the continued independence of each Board member. In 2016, there were no related party transactions in which the Company (or a subsidiary) was a participant and in which any director or executive officer (or their immediate family members) had a direct or indirect material interest. The Nominating Committee also considered relationships that, while not constituting related party transactions where a director had a direct or indirect material interest, nonetheless involved transactions between the Company and an organization with which a director is affiliated, either directly or as a partner, shareholder or officer. Included in its review were ordinary course of business transactions with companies employing a director, such as ordinary course of business transactions with ITT Inc., of which Ms. Ramos serves as CEO and President. The Nominating Committee determined that there were no transactions impairing the independence of any member of the Board.

BOARD AND COMMITTEE EVALUATIONS

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

NOMINATING PROCESSES OF THE NOMINATING AND GOVERNANCE COMMITTEE

The Nominating Committee consists of four non-employee Directors, all of whom are independent under NYSE listing standards and our Corporate Governance Guidelines. The Nominating Committee identifies, considers and recommends director candidates to the Board of Directors with the goal of creating a balance of knowledge, experience and diversity. Generally, the Nominating Committee identifies candidates through the use of a search firm or the business and organizational contacts of the directors and management. Our By-Laws permit shareholders to nominate candidates for director election at a shareholders meeting whether or not such nominee is submitted to and evaluated by the Nominating Committee. Shareholders who wish to submit nominees for election at an annual or special meeting of shareholders should follow the procedures described under **Submission of Future Shareholder Proposals** on page 61. The Nominating Committee will consider director candidates recommended by shareholders. If a shareholder wishes to recommend a candidate for nomination by the Nominating Committee, he or she should follow the same procedures referred to above for nominations to be made directly by the shareholder. In addition, the shareholder should provide such other information deemed relevant to the Nominating Committee's evaluation. Candidates recommended by the Company's shareholders are evaluated on the same basis as candidates recommended by the Company's directors, CEO, other executive officers, third-party search firms or other sources.

PROPOSAL 1: Election of Directors

Our By-Laws provide that the Directors are divided into three classes, which are to be as nearly equal in size as possible, with one class being elected each year. The Board of Directors has set the current number of Directors at ten, with two classes of three Directors each and one class of four Directors. Any director vacancies created between annual shareholder meetings (such as by a current director's death, resignation or removal for cause or an increase in the number of directors) may be filled by a majority vote of the remaining directors then in office. Any director appointed in this manner would hold office for a term expiring at the annual meeting of shareholders at which the term of office of the class to which he or she has been appointed expires. If a vacancy resulted from an action of our shareholders, only our shareholders would be entitled to elect a successor.

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

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

For information on the compensation of our non-employee Directors, please see the the discussion beginning on page 53.

Nominees for Directors to be Elected at the 2017 Annual Meeting for a three-year term ending at the 2020 Annual Meeting

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

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

William R. Loomis, Jr.	Age 68	Director since April 2012

Mr. Loomis has been an independent financial advisor since 2009. He was a general partner and Managing Director of Lazard Freres & Co. from 1984 to 2002, the CEO of Lazard LLC from 2000 to 2001 and a Limited Managing Director of Lazard LLC from 2002 to 2004. Mr. Loomis served as a director of L Brands Inc. from 2005 to 2016.

Skills and qualifications:

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

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Glenn F. Tilton Age 68 Director since April 2012

Mr. Tilton served as Chairman of the Midwest of JPMorgan Chase & Co. from 2011 to June 2014. From September 2002 to October 2010, he served as Chairman, President and CEO of UAL Corporation, a holding company, and United Air Lines, Inc., an air transportation company and wholly-owned subsidiary of UAL Corporation. Mr. Tilton previously spent more than 30 years in increasingly senior roles with Texaco Inc., including Chairman and CEO in 2001. He served as Non-Executive Chairman of the Board of United Continental Holdings Inc. from 2010 to 2013 and currently serves on the boards of Abbott Laboratories and AbbVie Inc. (as lead director).

Skills and qualifications:

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

Marna C. Whittington Age 69 Director since May 2012

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

Skills and qualifications:

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

PROPOSAL 1: Election of Directors

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

Directors Whose Terms Expire at the 2018 Annual Meeting

J. Brian Ferguson Age 62 Director since April 2012

Mr. Ferguson retired as Chairman of Eastman Chemical Company (Eastman) in 2010 and as CEO of Eastman in 2009. He became the Chairman and CEO of Eastman in 2002. He served on the board of NextEra Energy Inc. from 2005 to 2013 and currently serves on the board of Owens Corning.

Skills and qualifications:

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

Harold W. McGraw III Age 68 Director since April 2012

Mr. McGraw is Chairman Emeritus of S&P Global Inc. (previously McGraw Hill Financial), having served as Chairman of the Board from 1999 until 2015, as President and Chief Executive Officer from 1998 to November 2013 and as President and Chief Operating Officer starting in 1993. Mr. McGraw is the Honorary Chairman of the International Chamber of Commerce. He currently serves on the board of United Technologies Corporation.

Skills and qualifications:

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

Victoria J. Tschinkel Age 69 Director since April 2012

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

Skills and qualifications:

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

Directors Whose Terms Expire at the 2019 Annual Meeting

Greg C. Garland Age 59 Director since April 2012

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

Skills and qualifications:

Mr. Garland's more than 35-year career with Phillips Petroleum Company, CPChem and ConocoPhillips, and as CEO of Phillips 66, makes him well qualified to serve both as a Director and as Chairman of the Board. Mr. Garland's extensive experience in the energy industry makes his service as a Director invaluable to the Company. In addition to his other skills and qualifications, Mr. Garland's role as both Chairman and CEO of Phillips 66 serves as a vital link between the Board of Directors and management, allowing the Board to perform its oversight role with the benefit of management's perspective on business and strategy.

PROPOSAL 1: Election of Directors

Gary K. Adams	Age 66	Director since October 2016

Mr. Adams was appointed to the Board in October 2016 based on a recommendation by the Company's Chief Executive Officer and the Nominating Committee. Mr. Adams is currently the chief advisor of chemicals for IHS Inc. He started his chemical industry career with Union Carbide. After 15 years serving in a number of positions at Union Carbide, Mr. Adams joined Chemical Market Associates Inc. (CMAI). He served as President, CEO and Chairman of the Board of CMAI from 1997 until its acquisition by IHS in 2011.

Mr. Adams is a director of Trecora Resources and previously served on the boards of Westlake Chemical Partners LP from 2014 to 2016 and Phillips 66 Partners LP from 2013 to 2016.

Skills and qualifications:

Mr. Adams has a lengthy tenure and extensive experience in the energy industry, including leadership experience with operating responsibilities and in-depth knowledge of the chemicals market.

John E. Lowe	Age 58	Director since April 2012

Mr. Lowe served as assistant to the CEO of ConocoPhillips, a position he held from 2008 until May 2012. He previously held a series of executive positions with ConocoPhillips, including Executive Vice President, Exploration and Production, from 2007 to 2008, and Executive Vice President, Commercial, from 2006 to 2007. Mr. Lowe is a Senior Executive Advisor to Tudor, Pickering, Holt & Co. He served on the board of Agrium Inc. from 2010 to 2015 and currently serves on the boards of TransCanada Corporation and Apache Corporation, where he is non-executive Chairman.

Skills and qualifications:

Mr. Lowe has relevant industry financial expertise in addition to his extensive experience in and knowledge of the energy industry.

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PROPOSAL 1: Election of Directors

Denise L. Ramos Age 60 Director since October 2016

Ms. Ramos was appointed to the Board in October 2016 based on a recommendation by the Company's Chief Executive Officer and the Nominating Committee. Ms. Ramos has served as the Chief Executive Officer, President and a director of ITT Inc. (formerly ITT Corporation) since October 2011. She previously served as Senior Vice President and Chief Financial Officer of ITT. Prior to joining ITT, Ms. Ramos served as Chief Financial Officer for Furniture Brands International from 2005 to 2007. From 2000 to 2005, Ms. Ramos served as Senior Vice President and Corporate Treasurer at Yum! Brands, Inc. and Chief Financial Officer for the U.S. division of KFC Corporation. Ms. Ramos began her career in 1979 at Atlantic Richfield Company (ARCO), where she spent more than 20 years serving in a number of finance positions including Corporate General Auditor and Assistant Treasurer.

Ms. Ramos served on the board of Praxair, Inc. from 2014 to 2016. She serves on the board of trustees for the Manufacturers Alliance for Productivity and Innovation, and is also a member of the Business Roundtable and the Business Council.

Skills and qualifications:

Ms. Ramos has more than two decades of experience in the oil and gas industry and possesses significant retail and customer-centric experience. In addition to her financial expertise, she has extensive operational and manufacturing experience with industrial companies.

Majority Voting

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

Nominations

In selecting the 2017 nominees for Director, the Nominating Committee sought candidates who possess the highest personal and professional ethics, integrity and values and are committed to representing the long-term interests of the Company's shareholders. In addition to reviewing a candidate's background and accomplishments, the Nominating Committee reviewed candidates in the context of the current composition of the Board and the evolving needs of the Company's businesses. The Nominating Committee also considered the number of boards on which the candidate already serves. It is the Board's policy that at all times at least a substantial majority of its members meets the standards of independence promulgated by the NYSE and the SEC, and as set forth in the Company's Corporate Governance Guidelines. The Nominating Committee also seeks to ensure that the Board reflects a range of talents, ages, skills, experiences, diversity, and expertise, particularly in the areas of accounting and finance, management, domestic and international markets, leadership, and energy-related industries, sufficient to provide sound and prudent guidance with respect to the Company's strategic and operational

PROPOSAL 1: Election of Directors

objectives. The Board seeks to maintain a diverse membership, but does not have a separate policy on diversity. The Board also requires that its members be able to dedicate the time and resources necessary to ensure the diligent performance of their duties on the Company's behalf, including attending Board and applicable committee meetings.

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

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

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

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

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

Environmental experience. The perspective of directors who have experience within the environmental regulatory field is valued as we implement policies and conduct operations in order to ensure that our actions today will provide the energy needed to drive economic growth and social well-being, while also securing a stable and healthy environment for tomorrow.

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

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

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Committees of the Board

Audit and Finance	J. Brian Ferguson*(1) William R. Loomis, Jr.(1) John E. Lowe(1) Denise L. Ramos(1) Victoria J. Tschinkel	Discusses, with management, the independent auditors and the internal auditors, the integrity of the Company's accounting policies, internal controls, financial statements, and financial reporting practices, and select financial matters, covering the Company's capital structure, complex financial transactions, financial risk management, retirement plans and tax planning. Reviews significant corporate risk exposures and steps management has taken to monitor, control and report such exposures. Monitors the qualifications, independence and performance of our independent auditors and internal auditors. Monitors our compliance with legal and regulatory requirements and corporate governance guidelines, including our Code of Business Ethics and Conduct. Maintains open and direct lines of communication with the Board and our management, internal auditors and independent auditors.	11
Executive	Greg C. Garland* J. Brian Ferguson William R. Loomis, Jr. John E. Lowe Glenn F. Tilton Marna C. Whittington	Exercises the authority of the full Board between Board meetings on all matters other than (1) those expressly delegated to another committee of the Board, (2) the adoption, amendment or repeal of any of our By-Laws and (3) those that cannot be delegated to a committee under statute or our Certificate of Incorporation or By-Laws.	
Human Resources and Compensation	Marna C. Whittington* Gary K. Adams	Oversees our executive compensation policies, plans, programs and practices.	6

	Harold W. McGraw III Glenn F. Tilton	Assists the Board in discharging its responsibilities relating to the fair and competitive compensation of our executives and other key employees. Reviews at least annually the performance (together with the Lead Director) and sets the compensation of the CEO.	
Nominating and Governance	William R. Loomis, Jr.* J. Brian Ferguson Denise L. Ramos Marna C. Whittington	Selects and recommends director candidates to the Board to be submitted for election at Annual Meetings and to fill any vacancies on the Board. Recommends committee assignments to the Board. Reviews and recommends to the Board compensation and benefits policies for our non-employee Directors. Reviews and recommends to the Board appropriate corporate governance policies and procedures for our Company. Conducts an annual assessment of the qualifications and performance of the Board. Reviews and reports to the Board annually on succession planning for the CEO.	3
Public Policy	John E. Lowe* Gary K. Adams J. Brian Ferguson William R. Loomis, Jr. Harold W. McGraw III Denise L. Ramos Glenn F. Tilton Victoria J. Tschinkel Marna C. Whittington	Advises the Board on current and emerging domestic and international public policy issues. Assists the Board with the development, review and approval of policies and budgets for charitable and political contributions and activity. Advises the Board on compliance with policies, programs and practices regarding health, safety and environmental protection.	6

* Committee Chairperson

(1) Audit committee financial expert

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

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm retained to audit the Company's financial statements. The Audit Committee has appointed Ernst & Young LLP to serve as the Company's independent registered public accounting firm for fiscal year 2017. Ernst & Young has been retained as the Company's independent registered public accounting firm continuously since 2012.

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

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

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

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

Services Provided by the Independent Registered Public Accounting Firm

Audit services of Ernst & Young for fiscal year 2016 included an audit of our consolidated financial statements, an audit of the effectiveness of the Company's internal control over financial reporting, and services related to periodic filings made with the SEC. Additionally, Ernst & Young provided certain other services as described below. In connection with the audit of the 2016 consolidated financial statements, we entered into an engagement agreement with Ernst & Young that set forth the terms by which Ernst & Young performed audit services for us.

The Audit Committee is responsible for negotiating the audit fee associated with its retention of Ernst & Young. Ernst & Young's fees for professional services totaled $14.5 million for 2016 and $12.9 million for 2015, which consisted of the following:

Fees (in millions)	**2016**	**2015**
Audit Fees(1)	$ 13.5	$ 11.8
Audit-Related Fees(2)	0.6	0.7
Tax Fees(3)	0.2	0.2
All Other Fees	0.2	0.2
Total	**$ 14.5**	**$ 12.9**

(1) Fees for audit services related to the fiscal year consolidated audit, the audit of the effectiveness of internal controls, quarterly reviews, registration statements, comfort letters, statutory and regulatory audits and accounting consultations. Includes audit fees of Phillips 66 Partners LP of $3.3 million and $1.3 million for 2016 and 2015, respectively, which were approved by the Audit Committee of the General Partner of Phillips 66 Partners LP.

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

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

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

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

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

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

AUDIT AND FINANCE COMMITTEE REPORT

The Audit Committee assists the Board of Directors in fulfilling its responsibility to provide independent, objective oversight of the financial reporting functions and internal control systems of Phillips 66. The Audit Committee currently consists of five non-employee Directors. The Board has determined that each member of the Audit Committee satisfies the requirements of the NYSE as to independence, financial literacy and expertise. The Board has further determined that each of J. Brian Ferguson, William R. Loomis, Jr., John E. Lowe, and Denise L. Ramos is an audit committee financial expert as defined by the SEC. The responsibilities of the Audit Committee are set forth in the written charter adopted by the Board of Directors, which is available in the "*Investors*" section of the Company's website under the caption "*Governance*." One of the Audit Committee's primary responsibilities is to assist the Board in its oversight of the integrity of the Company's financial statements. The following report summarizes certain of the Audit Committee's activities in this regard for 2016.

Review with Management. The Audit Committee has reviewed and discussed with management the audited consolidated financial statements of Phillips 66 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, included therein.

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

Recommendation to the Phillips 66 Board of Directors. Based on its review and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of Phillips 66 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

AUDIT AND FINANCE COMMITTEE

J. Brian Ferguson, Chairman
William R. Loomis, Jr.
John E. Lowe
Denise L. Ramos
Victoria J. Tschinkel

PROPOSAL 3: Advisory Approval of Executive Compensation

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

> RESOLVED, that the shareholders approve the compensation of Phillips 66's Named Executive Officers (NEOs) as described in this proxy statement in the Compensation Discussion and Analysis section and in the Executive Compensation Tables (together with the accompanying narrative disclosures).

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

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

As required by Section 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Phillips 66 is providing shareholders with the opportunity to vote on an advisory resolution, commonly known as "Say-on-Pay," considering approval of the compensation of its NEOs.

The Compensation Committee, which is responsible for the compensation of our CEO and Senior Officers (as defined on page 40), has overseen the development of compensation programs designed to attract, retain and motivate executives who enable us to achieve our strategic and financial goals. The **Compensation Discussion and Analysis** and the **Executive Compensation Tables**, together with the accompanying narrative disclosures, allow you to view the trends in compensation and application of our compensation philosophies and practices for the years presented.

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

Because your vote is advisory, it will not be binding upon the Board of Directors. Nevertheless, the Compensation Committee and the Board will consider the outcome of the vote when evaluating future executive compensation arrangements.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis details our executive compensation programs for 2016, as well as the decisions that the Human Resources and Compensation Committee (Compensation Committee) made regarding 2016 compensation, and focuses on the compensation of our NEOs in 2016. Our NEOs were:

Greg Garland	Chairman and CEO
Robert Herman	Executive Vice President, Midstream
Paula Johnson	Executive Vice President, Legal and Government Affairs, General Counsel and Corporate Secretary
Kevin Mitchell	Executive Vice President, Finance and CFO
Tim Taylor	President

EXECUTIVE SUMMARY

The 2016 energy landscape continued to highlight the volatile nature of our industry. Our diversified portfolio enables us to be resilient through industry cycles; accordingly, our overriding objectives remain the same enable our high-performing workforce to execute our corporate strategy efficiently and effectively, while remaining vigilant and focused on safety and operating excellence, in order to:

- Deliver profitable growth
- Optimize returns
- Reward our owners through shareholder distributions

One way we measure progress in implementing our corporate strategy is through enterprise value growth. Through our disciplined capital allocation model, we increase our enterprise value by strategically investing capital in our higher-valued businesses while returning a significant portion of capital to shareholders through dividends and share repurchases.

Our 2016 performance results and strategic highlights are presented below. Some of these results are non-GAAP financial measures for which more information is available in Appendix A.

2016 PERFORMANCE HIGHLIGHTS

98.6%	Our available to run metric was 98.6%, which was 3 percentage points better than target.
0.02	We reduced our Process Safety Event Rate by 75%, from 0.08 in 2015 to 0.02 in 2016.
#1	Our environmental incident rate was the lowest since our Company inception. We published our Sustainability Brochure to consolidate and highlight key information.
0.15	Our Total Recordable Rate (TRR) was the best in our Company history and 50% better than the average of top quartile companies in our industries.
150,000 BPD	We began operations in November 2016 at our 150,000 barrels per day (BPD) Freeport LPG Export Terminal.
$4,094* MM	Our capital program of $4,094 million funded the continuing expansion of our Beaumont Terminal and transportation infrastructure through acquisitions and organic growth. CPChem advanced its Gulf Coast Petrochemicals Project, with completion expected in 2017.
$4,548 MM	We delivered Adjusted EBITDA of $4,548 million in a challenging environment due to exceptional safety and operating excellence. As a result of asset rationalization, we divested the Whitegate refinery.
$6,093 MM	Our Adjusted Controllable Costs were 4% below budget, while absorbing Company growth.

13%	We increased our quarterly dividend 13%, our sixth increase since the Company formation less than five years ago.
203%	Our TSR from our Company inception in May 2012 through the end of 2016 was 203% almost twice our peer average of 113% and more than twice the S&P 100 of 73%.
$2,324 MM	In 2016, $2,324 million was returned to shareholders through dividends and share repurchases.
ü	We have robust Succession Management processes to develop and deliver executive talent that will execute our strategy focused on long-term shareholder value creation.
ü	To ensure that we attract and retain top talent, we maintain diversity and inclusion efforts that also help ensure that our workforce represents the communities where we operate.
ü	In 2016, we conducted an Employee Engagement survey and developed action plans to increase discretionary effort and elevate performance across the organization. In 2016, we retained over 98% of our top performers, a key indicator of high employee engagement.

* Includes Phillips 66's portion of self-funded capital spending by DCP Midstream, LLC, CPChem, and WRB Refining LP.

OUR COMPENSATION PHILOSOPHY

Our compensation programs support our corporate mission of providing energy and improving lives. Our programs are aligned with key elements of our corporate strategy. Throughout the past year, we engaged with many of our largest shareholders on corporate governance topics, including executive compensation, and received positive feedback on our current compensation structure. Important tenets of our approach include:

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

COMPENSATION DISCUSSION AND ANALYSIS

We believe our compensation programs play an important role in our employee value proposition. They allow us to attract, retain, motivate, and reward high-performing executive talent, as well as support succession planning.

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

We target and award reasonable and competitive compensation, aligned with market median levels. Awards are differentiated based on performance relative to targets, peers and market conditions.

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

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

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

Significant Pay at Risk

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

Target Mix

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

CEO target compensation mix is 90 percent at risk and 72 percent performance-based. The target mix for the other NEOs is 82 percent at risk and 65 percent performance-based. Further, LTI make up 73 percent of the CEO and 65 percent of other NEO target compensation mix. For both the CEO and other NEOs, target mix percentages are commensurate with their levels of responsibility. Further detail on all of these programs are provided in **2016 Executive Compensation Programs**.

PEER GROUP COMPARISONS

We utilize a performance peer group and a compensation peer group. In this section we provide the criteria used in determining each peer group, the companies included, and how we use each peer group. The Compensation Committee reviews these peer groups annually and adjusts as necessary.

Performance Peer Group

Criteria for selection. Phillips 66 is uniquely positioned in the energy industry, with a large refining and marketing base, growing midstream NGL operations and significant petrochemical business. To reflect our unique portfolio of assets, we include companies operating in each of our three major businesses. We believe that our performance peer group is representative of the companies that investors use for relative performance comparisons.

Companies included. The table below provides the sixteen companies in our performance peer group.

Delek US Holdings, Inc. (DK)	Energy Transfer Equity, L.P. (ETE)	Celanese Corporation (CE)
HollyFrontier Corporation (HFC)	Enterprise Products Partners L.P. (EPD)	The Dow Chemical Company (DOW)
Marathon Petroleum Corporation (MPC)	ONEOK, Inc. (OKE)	Eastman Chemical Company (EMN)
PBF Energy Inc. (PBF)	Targa Resources Corp. (TRGP)	Huntsman Corporation (HUN)
Tesoro Corporation (TSO)		Westlake Chemical Corporation (WLK)
Valero Energy Corporation (VLO)		
Western Refining, Inc. (WNR)		

Relative analysis. Our performance peer group is used to evaluate our business results relative to other companies with similar business operations. We used this peer group in determining the payout for both relative TSR and relative return on capital employed (ROCE) under the PSP 2014-2016. We also evaluate our TSR performance against the S&P 100 Index, which the Compensation Committee believes is an appropriate comparison for performance purposes because the index reflects the companies with which we compete for capital in the broader market.

Compensation Peer Group

Criteria for selection. Our compensation peer group is primarily comprised of companies from the broader market because we draw our executive talent from a candidate pool that extends beyond the energy industry, although there is some overlap with our performance peer group. The compensation peer group primarily consists of large industrial companies with significant capital investments and complex international operations.

Our compensation peer group includes companies that are comparable to Phillips 66 based on three primary criteria assets, market capitalization, and business operations. Revenue is a secondary criteria due to the nature of our operations. The Compensation Committee believes utilizing each of these criteria is necessary in order to fully reflect the complex nature of our business and determine the optimal group of companies with which to compare Phillips 66. In 2016, the Compensation Committee used a simplified compensation peer group in making 2016 compensation decisions. These changes were implemented to align our peer group more closely with our three primary criteria assets, market capitalization, and business operations. At the time of these changes, we were, in comparison to this group, in the 59th percentile in assets, 47th percentile in market value and 91st percentile in revenue.

Companies included. The table below provides the twenty companies in our compensation peer group.

3M Company (MMM)	E. I. du Pont de Nemours and Company (DD)	Lockheed Martin Corporation (LMT)
Archer-Daniels-Midland Company (ADM)	Ford Motor Company (F)	LyondellBasell Industries N.V. (LYB)
The Boeing Company (BA)	General Dynamics Corporation (GD)	Marathon Petroleum Corporation (MPC)
Caterpillar Inc. (CAT)	General Motors Company (GM)	Tesoro Corporation (TSO)
Chevron Corporation (CVX)	Halliburton Company (HAL)	United Technologies Corporation (UTX)
Deere and Company (DE)	Honeywell International Inc. (HON)	Valero Energy Corporation (VLO)
The Dow Chemical Company (DOW)	Johnson Controls, Inc. (JCI)	

(1) The 2015 compensation peer group was modified to include the following large industrial companies 3M Company, Halliburton Company, and LyondellBasell Industries and remove the following service, consumer products, and non-US based companies BP, FedEx Corporation, Johnson & Johnson, Mondelez International, The Procter & Gamble Company, Sysco Corporation, Tyson Foods, United Parcel Service, and Verizon Communications. The 2015 peer group was used to set the compensation structure for 2016 for the NEOs other than the CEO. The 2016 CEO target compensation was aligned with the 2015 and 2016 compensation peer groups.

Relative analysis. We use the compensation peer group to evaluate and determine compensation levels for our NEOs, including base salary adjustments and targets for our annual bonus and LTI programs.

2016 EXECUTIVE COMPENSATION PROGRAMS

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

Base Salary	Cash	Benchmarked to compensation peer group median; adjusted for experience, responsibility, performance and potential	Annual fixed cash compensation to attract and retain NEOs
Annual Incentive	VCIP	100% of Annual Performance-Based Compensation Target	Adjusted EBITDA (40%) Operating Excellence (35%) Adjusted Controllable Costs (15%) High-Performing Organization (10%) Individual Modifier (+/ 50% of target)
Long-Term Incentives	PSP (3-year performance period)	50% of LTI Target	Relative ROCE (25%) Absolute ROCE (25%) Relative TSR (50%)
	Stock Options(1)	25% of LTI Target	Long-term stock price appreciation
	RSUs	25% of LTI Target	Long-term stock price appreciation

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

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

Base Salary

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

Below is a summary of the annualized base salary for each NEO for 2016. Because these amounts reflect each NEO's annualized salary as of the dates indicated, this information may vary from the information provided in the **Summary Compensation Table,** which reflects actual base salary earnings in 2016, including the effect of salary changes during the year.

Greg Garland	1,575,816	1,625,016	1,625,016
Robert Herman	627,000	655,224	670,008(1)
Paula Johnson	671,016	704,568	704,568
Kevin Mitchell	670,008	692,136	692,136
Tim Taylor	1,024,416	1,080,768	1,080,768

(1) Mr. Herman received a salary increase April 1, 2016 in conjunction with responsibility changes.

All NEOs received base salary increases effective March 1, 2016, as part of the annual merit cycle for all employees. These merit increases in base salary realigned each applicable NEO's base salary with the respective compensation peer group levels and reflected each NEO's achievement of established performance requirements corresponding to his or her role. The Compensation Committee determined these adjustments were appropriate to maintain our competitiveness in the market.

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COMPENSATION DISCUSSION AND ANALYSIS

Variable Cash Incentive Program

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

Eligible earnings are multiplied by a percentage that is based on each NEO's salary grade level to derive the NEO's target award. At the end of the performance period, the Compensation Committee reviews the Company's performance to determine the Corporate Payout Percentage. This percentage is based on a mix of operational and financial metrics, the details and weighting of which are described below. The Compensation Committee can award a Corporate Payout Percentage of zero up to the maximum of 200 percent.

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

For 2016, the Compensation Committee used the following metrics, which are aligned with our corporate strategy, to evaluate corporate performance under the VCIP. This mix of financial and operational metrics was designed to ensure a balanced view of Company performance.

2016 VCIP METRICS

Adjusted EBITDA

In 2016, we replaced Adjusted Net Income and Adjusted ROCE, each weighted at 25 percent, with Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) weighted at 40 percent. Adjusted ROCE continues to be a metric in our long-term plan because we believe it is an important measure of long-term growth. We believe Adjusted EBITDA is useful in evaluating our annual core operating performance and how we determine enterprise value. Our threshold represents the Adjusted EBITDA required to cover our sustaining capital and shareholder dividend commitments. To ensure we continue to deliver on our growth strategy, the target and maximum for Adjusted EBITDA represent returns that are 1.5 percent and 3.0 percent above our Weighted Average Cost of Capital (WACC), respectively.

Based on actual Company performance, a payout of 58 percent of target was appropriate for this metric. Overall performance was 35 percent below target due primarily to market volatility, which was partially offset by exceptional operating excellence.

* VCIP Adjusted EBITDA is a non-GAAP financial measure. See Appendix A for additional information.

Operating Excellence

Operating excellence, including personal and process safety as well as environmental stewardship and asset availability, is critical to meeting our corporate strategy of growth, returns and distributions. We measure ourselves against others in our industry for safety metrics, target sustained performance in environmental stewardship, and effectively manage unplanned downtime. In 2016, we increased the weighting of this metric from 25 percent to 35 percent, placing a greater emphasis on availability of our assets, in acknowledgment that the availability of our assets across our business segments is essential to profitability.

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

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

In 2016, we excelled in Operating Excellence breaking many Company records in the metrics we use to evaluate ourselves in this area. While some financial metrics may be primarily market driven, operating in a safe, environmentally conscious, and efficient way is something that we can control. The Compensation Committee reviewed each of the following metrics when determining an overall Operating Excellence payout of 196 percent.

Combined TRR and LWCR: Our performance in personal safety was top quartile compared to our industry group. Based on this performance, 200 percent of target was earned for TRR recognizing a 21 percent improvement over 2015 and the best TRR performance in our Company history. Further, 170 percent of target was earned for LWCR recognizing that while 2016 was a good year compared to our industry group, performance in this area was slightly impaired relative to 2015.

Process Safety Rate: Our Process Safety Event Rate was the best in our Company history, and a 75 percent reduction from 2015. As a result, 200 percent of target was earned for this metric.

Environmental Events: The Compensation Committee considered that in the industries in which we operate there is increasingly stringent regulation and scrutiny on environmental performance. We beat our stretch objective by 5 percent and achieved the lowest number of reportable environmental events in our Company history. As a result, 200 percent of target was earned related to this metric.

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Asset Availability: The Compensation Committee determined that our availability was 98.6 percent across all of our lines of business, with record refinery utilization, resulting in achievement of 200 percent of target.

Combined TRR	> 0.45	0.45	0.29	0.25	0.15	200%
Combined LWCR	> 0.15	0.15	0.08	0.04	0.04	170%
Process Safety Rate	> 0.09	0.09	0.06	0.03	0.02	200%
Environmental Events	> 175	<=175	150	<125	119	200%
Asset Availability	< 93.8%	93.8%	95.6%	97.4%	98.6%	200%

Adjusted Controllable Costs

Adjusted Controllable Costs focuses on operating excellence and our ability to deliver differentiated returns to shareholders. Our targets are based on our budget for the current year. In 2016, we reduced the weighting of this metric from 25 percent to 15 percent because, as a financial measure, the effect of cost management is also recognized in Adjusted EBITDA.

We established our threshold, target, and maximum goals as a percentage of budget. For threshold performance, we could not exceed budget by more than 5 percent, target performance was based on achieving budget, and maximum performance required being at least 2 percent under budget. At the end of the performance period, we then considered our costs relative to our peer group to ensure alignment with industry trends and to reflect operating decisions made in response to changing market conditions that vary from budget assumptions, to ensure earned amounts are appropriate given relative performance.

In 2016, we were 4 percent improved versus our budget, which could have resulted in a payout at 200 percent; however, the Compensation Committee exercised negative discretion recognizing that we were third in a group of six refining peers on costs per barrel. Our savings were related to efficient refinery turnarounds, ongoing equipment efficiencies, and lower staff costs, resulting in a payout of 180 percent of target for this metric.

* Adjusted Controllable Costs is a non-GAAP financial measure. See Appendix A for additional information.

High-Performing Organization

In 2016, we added the High-Performing Organization metric to measure the effectiveness of our talent management initiatives. We believe maintaining and enhancing a high-performing organization is critical to achievement of our strategic goals and to maximizing long-term shareholder value. We measure our performance relative to a variety of metrics, including:

- Overall, critical skill, high-performer, diversity, and new hire retention.
- Development of employees through rotational moves and transfers.
- Overall, diversity, and high-performer promotion rates.
- Succession planning and use of internal candidates for succession opportunities.
- Quality and diversity of new hires.

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COMPENSATION DISCUSSION AND ANALYSIS

We strive for continuous improvement of our talent management, as we believe it is our high-performing employees that differentiate us in the market place. Based on our performance, 110 percent of target was earned for High-Performing Organization.

Total Corporate Payout

The formulaic result of our individual metrics resulted in a Total Corporate Payout of 130 percent, as summarized in the following table.

Adjusted EBITDA	58%	40%	23%
Operating Excellence	196%	35%	69%
Adjusted Controllable Costs	180%	15%	27%
High-Performing Organization	110%	10%	11%

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

The Compensation Committee has the authority to adjust individual VCIP payouts by +/ 50 percent of the formula-based target payout. The Compensation Committee may apply an individual performance adjustment to reflect project-based accomplishments that drove or detracted from shareholder value or for market-based considerations to more closely align the payout with shareholder returns. This flexibility allows us to reflect our unique business strategy and portfolio of assets as well as differentiate individual executive performance. The Compensation Committee made adjustments to individual compensation levels based on projects and initiatives leading to the successful execution of our strategy and the senior executives responsible for the success of these projects and initiatives.

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