In CBE's Comment Letter No. 2, several articles were attached and referred to as Exhibits (A through P). In addition, there were several other articles referenced as footnotes but the full text of each article was not attached by the commenter as an exhibit. For ease of identification in the responses to comments contained in Appendix F, the articles are referred to as Exhibit Q through Exhibit V. Attached are Exhibits Q through V.

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Exhibit Q

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Pipeline project quietly moving forward would send oil across Canada to West Coast

By DAVID R. BAKER

San Francisco ChronicleApril 21, 2013

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SAN FRANCISCO -- As President Obama weighs the fate of the Keystone pipeline, a similar project connecting Canada's oil sands to the West Coast is quietly moving forward, little noticed in the United States.

A 60-year-old pipeline already pumps oil from northern Alberta to Vancouver's busy harbor for shipment to Asia or California. Now the owner, Kinder Morgan Canada, wants to nearly triple the Trans Mountain Pipeline's capacity, making it even bigger than Keystone.

And unlike Keystone, Trans Mountain's proposed $5.4 billion expansion doesn't need the approval of the U.S. government. Canadian authorities will have the final say.

The project would give Canada's oil industry something it desperately wants -- a wide-open conduit between the tar sands and the global market. The existing pipelines that run from northern Alberta are at full capacity, and oil sands operators can't increase production as a result. Plus, most of the lines run south to the United States, which is in the midst of its own oil boom. Direct access to overseas customers could fetch tar sands oil a higher price.

"The constraints are extremely real," said Geoff Hill, head of consulting firm Deloitte Canada's oil and gas practice. "We can't get our product to market. We need several pipelines leaving Canada, not one."

Very little tar sands oil finds its way into California today. But the Trans Mountain expansion could change that, placing the state in the center of the oil sands debate.

Canada now supplies just 2.4 percent of the crude processed in California refineries, according to the state Energy Commission. And one of California's global warming regulations would make it difficult for those refineries to use tar sands oil in the future. The rule, called the Low Carbon Fuel Standard, requires oil companies to cut the "carbon intensity" of the fuels they sell in the state.

But the standard is under attack in court, and one judge already has ruled it unconstitutional. If higher courts strike it down, Trans Mountain oil could find eager buyers in California. Oil shipments from Alaska -- long one of California's main suppliers -- are falling, making the state more dependent on foreign imports.

"Would it be beneficial to refiners to get this Canadian crude into the refineries in California and the West Coast?" said Charles Drevna, president of the American Fuel & Petrochemical Manufacturers trade group. "The short answer is yes. The long answer is heck yes."

Hotly debated in Canada, Trans Mountain hasn't attracted much attention on this side of the border.

U.S. environmentalists have pushed hard to stop the Keystone XL Pipeline extension, trying to keep the tar sands bottled up. Extracting hydrocarbons from the sands releases more carbon dioxide than conventional oil drilling, adding to global warming.

The $5.3 billion Keystone XL project would connect Hardisty, Alberta, to refineries on the Texas coast, completing a pipeline network that now extends as far south as Oklahoma. The project has touched off a pitched political brawl, pitting an alliance of Republicans, business groups and labor organizations against environmentalists, including some prominent Democratic fundraisers. If Obama approves its construction, the new line could open as soon as 2015.

American environmentalists recognize they don't have any political leverage to stop Trans Mountain, since the expansion won't touch U.S. soil. They'll still try to help their Canadian counterparts any way they can. They see the fight against Keystone as just the first in a series of battles over multiple pipelines proposed for the tar sands, a fight that will involve citizens of both countries.

"The theory has always been delay, delay, delay," said Michael Marx, director of the Sierra Club's Beyond Oil campaign. "We know the key to expanding the tar sands is getting the oil to market. So our strategy is to block the infrastructure."

Kinder Morgan Canada, a subsidiary of Houston's Kinder Morgan Inc., plans to submit a formal expansion proposal to Canada's National Energy Board in October, starting a two-year approval process. The company has been holding meetings in communities along the route, finding both support and opposition.

"The issues around climate are important -- they need to be considered," said Michael Davies, director of marine development for the project. "But a project like this is important to Canada. It's important to the Canadian economy. And we'll look to the National Energy Board to weigh the benefits with the risks."

Trans Mountain opened in 1953, years before commercial operations at the oil sands began.

The line snakes 715 miles through forests and mountain passes, starting near Edmonton and reaching the sea on the outskirts of Vancouver. A short spur heads south across the U.S. border, connecting to the refineries of Washington state.

Trans Mountain carries refined petroleum products, such as gasoline and diesel, for use in British Columbia. It also ships a diluted form of bitumen, the thick and viscous hydrocarbon that gave the tar sands their name. (People in the oil industry prefer the term "oil sands.")

Capable of carrying 300,000 barrels per day, Trans Mountain is the only pipeline linking Alberta to the Pacific coast. And that gives Kinder Morgan an advantage.

Another company, Enbridge, wants to build a second West Coast pipeline well to the north. But Enbridge has run into a wall of resistance from environmentalists and First Nations tribes determined not to see a new line carved through the wilderness.

Trans Mountain's expansion, in contrast, would string a second pipeline alongside the first. For most of the route, the second line could be installed within the existing right of way. Some detours may be required where the line runs through communities that have grown since 1953.

The second line would boost Trans Mountain's capacity to 890,000 barrels per day. Keystone's proposed capacity is 830,000 barrels per day.

Even though the new pipe would largely parallel the old, Trans Mountain's expansion has already drawn fire.

The Coldwater Indian Band of British Columbia last month sued both Kinder Morgan and the Canadian government's minister of Indian affairs to block the project. Environmentalists worry that a second line would double the chances of a spill. They're also alarmed that the number of tanker ships moving through Vancouver's harbor each month would jump from five to 34, by Kinder Morgan's estimate. They say that unlike oil, diluted bitumen -- known as "dilbit" -- sinks in water, making any spill from a tanker hard to clean up.

"This is a risk not worth taking," said Todd Paglia, executive director of the ForestEthics environmental group, which has offices in Vancouver, San Francisco and Bellingham, Wash. "People feel very strongly that this is not the future of British Columbia, that it's too much risk to put the salmon and the waters in jeopardy."

According to Kinder Morgan, the pipeline has suffered 78 spills since record keeping by the National Energy Board began in 1961. About 70 percent occurred at pump stations or terminals, which typically have systems in place to contain leaked oil.

"Let's be clear: any spill is unacceptable," Davies said. "We're very proud of our record. All human endeavor involves some risk, and we work very hard to manage that."

Unlike Keystone, the U.S. government has no authority over the Trans Mountain project. The only piece of the pipeline that crosses into American territory -- the spur into Washington state -- would not receive a second, parallel line. As a result, U.S. environmentalists must watch the debate from a distance, even though many of the ships loaded with Trans Mountain dilbit would probably sail through U.S. waters.

"That's what is really frustrating," said Elisabeth Keating, with the Sierra Club's Washington state chapter. "All this stuff is coming through Puget Sound, and we can't do anything about it."

California could be one of the destinations.

At a time when the United States is growing less dependent on foreign oil, California is becoming more. Crude flowing from newly fracked shale rock in North Dakota and Texas doesn't come here. Oil production within California ticked up last year for the first time in over a decade, but the increase was tiny and followed years of steady decline.

Meanwhile, petroleum shipments from Alaska are shrinking. Alaska once supplied 46 percent of the crude processed in California. Today, it's 12.5 percent. The Low Carbon Fuel Standard doesn't bar California refineries from using tar sands oil. But it does pose an obstacle.

The standard requires oil companies to lower the amount of greenhouse gases associated with each gallon of fuel they sell in the state. State regulators study the emissions produced by extracting oil from the ground, processing it, and burning it in an engine. Different oil fields receive different scores, depending on their production techniques.

Under that system, the tar sands fare badly. The bitumen bound in the sand is too thick to flow into a well, the way crude oil does. So companies strip mine the sand and use hot water to separate out the hydrocarbons. Or they pump steam or solvents underground to make the bitumen less viscous and easier to extract.

Those production techniques require more energy than conventional oil drilling and, therefore, release more greenhouse gases. Environmentalists consider the fuel standard a last line of defense, denying oil sands producers access to California's large and lucrative market.

But it may not last. In 2011, a U.S. district judge in Fresno ruled that the fuel standard violated the Constitution by interfering with interstate commerce. That decision is still under appeal.

In addition, the companies working in the oil sands have been slowly ratcheting down the carbon intensity of their operations, said Greg Stringham, vice president of the Canadian Association of Petroleum Producers.

Greenhouse gas emissions per barrel have dropped 26 percent over the last two decades, he said. And one of the newer production techniques, which uses a mix of propane and steam, has a carbon intensity just 2 percent higher than the U.S. average, he said. The state's fuel standard may not be such a barrier after all.

"If it's done on an oil-by-oil basis, and everyone's treated the same scientific way, we can actually live with that," Stringham said.

Meanwhile, other pipeline projects linked to the oil sands are moving forward. Two proposals, for example, would extend or reverse the flow on existing pipelines that stretch between Alberta and Canada's eastern provinces, giving tar sands oil access to the Atlantic coast. Environmentalists vow to fight those, too.

"There are many efforts to pursue other routes that don't go south," said Hill, with Deloitte. "You can assume some of them will be successful. We're going to get the oil out."

Exhibit R

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PSX - Phillips 66 First Annual Analyst Meeting

EVENT DATE/TIME: DECEMBER 13, 2012 / 01:30PM GMT

CORPORATE PARTICIPANTS

Clayton Reasor *Phillips 66 - SVP - IR, Strategy & Corporate Relations*

Greg Garland *Phillips 66 - CEO*

Tim Taylor *Phillips 66 - EVP - Commercial Marketing Transportation & Business Development*

Lawrence Ziemba *Phillips 66 - EVP - Refining Projects & Procurement*

Greg Maxwell *Phillips 66 - CFO*

CONFERENCE CALL PARTICIPANTS

Paul Cheng *Barclays Capital - Analyst*

Doug Leggate *Bank of America/Merrill Lynch - Analyst*

Arjun Murti *Goldman Sachs - Analyst*

Edward Westlake *Credit Suisse - Analyst*

Eric Mandelblatt *Soroban Capital - Analyst*

Jeff Dietert *Simmons & Co. - Analyst*

Paul Sankey *Deutsche Bank - Analyst*

Evan Calio *Morgan Stanley - Analyst*

Jonathan Hains *NLI International - Analyst*

Faisel Khan *Citigroup - Analyst*

Kate Minyard *JPMorgan - Analyst*

Philip Weiss *Argus Research - Analyst*

Brad Olsen *Tudor Pickering & Holt - Analyst*

PRESENTATION

Clayton Reasor - ***Phillips 66 - SVP - IR, Strategy & Corporate Relations***

Good to see so many people here this morning. You know it's great when you have a record crowd, and that's what we've got this morning, a record crowd at the Phillips 66 Analyst Meeting. Good to see you here this morning. Thank you for coming.

On behalf of Greg Garland, our Chairman and CEO, the entire Phillips 66 management team you see here in front of you I'd like to welcome you to the inaugural Phillips 66 analyst's meeting.

We're real excited about what our discussions are going to be around this morning. We really think we have a very solid plan to create value for our shareholders. We've talked for the last six months about growing the Company. We think we have an unparalleled platform for growth.

We also have been very clear about how we plan to improve our returns, refining historically has had a questionable -- or lower returns in the other parts of our portfolio. We have some specific actions we're taking to improve capital efficiency within the refining business and really it's all -- it's about you guys, it's about our shareholders. So, you'll hear plans on capital allocation, how we plan to improve our capital structure and increase shareholder distributions over time.

My name is Clayton Reasor, I'm responsible for investor relations at Phillips 66. For those of you in the room, I'd like to point out the exits are behind you, so there's no planned fire drill this morning. So in case of an alarm, hotel staff will direct you to a safe place.

For those of you that are listening and watching webcast, you can find the material that we will be presenting this morning on the Phillips 66 investor relations website and we'll also be posting the full transcript and replays of the analyst presentation immediately on the conclusion of this meeting.

Page two, you can find our Safe Harbor statement. So during the presentation this morning and during the question and answer session, we'll be making forward-looking statements. Actual results may differ materially from what we disclosed this morning and sources of those differences can be found on page two and also in our filings with the SEC.

Quickly, to cover the agenda before I ask Greg to come up, you'll see that Greg Garland, our Chairman and CEO will give an overview of the Company and what our strategy is. He'll be followed by Executive Vice President over Commercial Marketing Transportation and Business Development, Tim Taylor. Who will talk about how we're going to grow the Company. He'll be followed by our EVP of Refining Projects and Procurement, Larry Ziemba who'll talk about the steps we're taking to increase the amount of advantage crudes that are being run in our refineries and plans to significantly improve ROCE in the refining segment.

Greg Maxwell will follow with a discussion on our financial strategy, talk about capital structure and plans on increasing distributions. We'll take a quick break. I know 10 minutes is a kind of an optimistic break time to hope for, but that's what we're going to try to do before Greg comes back, offer some closing statements and then handle Q&A at the end. So, please hold your questions for the end of the presentation.

Again, thank you for coming, we appreciate your interest in the Company. We're excited about what we have in front of us and I'll turn the floor over now to our chairman and CEO, Greg Garland.

Greg Garland *- Phillips 66 - CEO*

So, good morning everyone. I want to add my personal welcome to all those here in New York and also to those of you that are joining us via the conference. We're glad you're here and thank you for your interest in our company. Today we're going to talk about how we're going to create superior shareholder value, we'll share with you our plans to drive growth, improve returns and grow our distributions.

There's several take aways that I want you to walk away from today about Phillips 66. First, I think most of you have probably seen the announcement to increase our dividends and we've reloaded the share repurchase program from our original $0.80 per share dividend, we've increase that 56%. And I have $2 billion of share repurchase programs.

Second, the big announcement today is our intention to form a master limited partnership. We believe that at Phillips 66 MLP will provide value to Phillips 66 shareholders. It will increase transparency to investors, but it's also going to be a very efficient vehicle that we can use to accelerate growth in infrastructure for our company. Tim Taylor is going to talk about the MLP a little bit more this morning.

Secondly -- or thirdly, consistent with our stated target of debt to cap of 20% to 30%, by the end of 2013 we're going to pay down $2 billion of our $8 billion of debt, so that's a 25% reduction in our debt. Admittedly, that's towards the low end of our target ratio. We think this is prudent. This is a volatile business. We want to continue to invest in growth and distributions growing with confidence at all points in the cycle.

Another important point today is we're announcing our 2013 capital -- planned capital program, with $3.7 billion. This includes our share of our equity investments for CPChem, DCP and WRB. Much of this investment is directed towards our faster growing businesses in midstream and chemicals, although we do have some small increase in capital spend around the R&M business for what I call the quick hits, the high return fast payout projects and we will go through that with you this morning.

We have solid plans in place to improve performance in our base R&M business and Larry Ziemba is going to talk about that in some detail today, but it's around capturing advantaged feed stocks, it's around margin improvements and some of the cost initiatives that we have. And finally, I'll just say we remain committed to paying growing distributions to our shareholders.

So, I'm on slide five, we're off to a good start as a company, seven, going on eight months old. We're delivering on the financial and operating results that we expected when we put the Company together. I'm very, very proud of our employees, frankly, they've just done a marvelous effort of standing up this new company and executing the spin flawlessly. This picture you have before you is the top 60 people in our company. You have today the entire leadership team -- executive leadership team, these are all my direct reports that are here today supporting us. And these are the ones that are going to drive the financial and operating performance and goals that we've set for ourselves.

I have to tell you that our employees are dedicated, they're committed and they're excited about the opportunity set that they see for our company. Our employees have successfully stood up the Company and they have a shared understanding of our strategy, they have a commitment to our enduring values of our company and I have absolute confidence that this group will deliver industry leading shareholder value creation.

We're going to tell you today that we're successfully implementing our strategy, growth, returns and distributions really under pinned by an unyielding commitment to operational excellence and building a high performing organization. We're already capturing opportunities to enhance value and grow returns. We're looking to see how do we accelerate those value capture opportunities. We're going to give you specific examples today of where we've moved quickly and deliberately to capture new value.

So, we think that we're growing shareholder value by prudently investing in our businesses and increasing shareholder distributions. You'll see that we have a continuing commitment to the capital allocation discipline and we're going to make sure that we have a strong balance sheet so that we can fund growth and distributions throughout the cycle.

As we move on to slide six, operating excellence. I have to talk about that today. Our company has a long legacy of outstanding operations. We have a deep commitment to the principles of operating excellence, and when we talk about operating excellence it's personal safety, it's process safety, it's environmental excellence, it's reliability, it's cost management.

I have a passion around these areas. If a contractor or an employee or a visitor walks into one of our facilities or even an office, we want to send them home safe every day. We're proud of the stats, you can see them. We're certainly better than industry average, but in all three segments, we're among the very best of the best in our respective groups.

Proud of the achievements, but zero is the target and we'll continue to work that every day.

Think I went one too far there. I get asked a lot is -- where are you going to take the Company. And so one of the things we wanted to lay out for you today is our vision or some of the key principles that we have. Starts with safety operating excellence, we will be the safest, most reliable company in our industry. We're going to grow enterprise value.

We were purposeful, we were thoughtful about how we put Phillips 66 together when we considered what was in, what was out and the assets. We believe that our three business segments are valuable together. We believe that value is created through a lower cost of capital, through the ability to see and optimize the entire value chain and we make better capital allocation decisions because of our businesses.

We're blessed with a portfolio that generates strong cash flows and it allows us to fund our investments in Phillips, but also to grow our distributions.

And then, by growing our higher returning, higher multiple businesses and businesses that have greater growth opportunities, we plan to double the enterprise value over the next five to 10 years.

We've always believed that competitive returns generate superior shareholder returns. We already have leading returns in our chemicals and our midstream businesses, we have solid plans in place to improve returns and our base refining and marketing business.

Also, tell you that we recognize the need to balance returns in growth, but we are also committed, as we grow, to watch returns in our businesses.

You can't execute these plans without having a high performing organization. I believe that we have the team in place to execute the plan today. This management team has grown up in volatile commodity businesses. They're well equipped to manage in this space. But we also recognize that you have to develop future leaders. We worked hard on our vision and our values and that really sets the stage for creating a great place to work for our employees and we believe that with our strong culture and the identity that we have with Phillips 66 we will be very competitive in the war for talent and that will enable us to create a high performing sustained organization.

And then holistically as we bring all this together, growing value, balancing the portfolio, improving returns, growing distributions. We believe that ultimately leads to leading shareholder return in our industry.

On slide eight, as you consider the competitive position of Phillips 66, we think we have the ability to capitalize on the US shale plays in ways that our competitors simply can't. When you look at our value proposition, it's unique, because I believe we're the best positioned company to capture the value. When you look across the assets, our refineries, our logistics our gathering and processing our natural gas liquids and our chemicals business, they're in geographic and logistic proximity to some of the very best developing plays and liquids in the US.

We're one of the largest refiners in the US, we have extensive supporting logistics, we have the best chemical company on the planet in CPChem through DCP we are one of the largest gatherers of natural gas and the largest producer of natural gas liquids.

So, we're able to leverage these positions that we have with infrastructure, the geography that we occupy, our global organization to take these feed stock advantages and translate those into value capture opportunities.

We do have a diverse portfolio. You'll hear that many times today. The fact that we can see developments in one area of the portfolio allows us to make better decisions in other parts of the portfolio.

I'll give you an example, the fact that we knew what was behind the NGO pipes allowed us to move quickly and with confidence to make a major investment on the US Gulf coast in petro chemicals.

We also think that the diversity of our portfolio gives us choices as we allocate capital, we can go to the areas with the greatest potential, the highest returns to the highest growth rates, so we can leverage our size to grow those targeted segments faster. For example, when you think about CPChem as a standalone company, they probably would not have made five mega investments in Middle East in the past 12 years without a Chevron or a Phillips 66 behind them.

Similarly, DCP probably would not have been able to continue its aggressive growth program, given where NGL prices have gone without a Spectra Energy and a Phillips 66 standing behind them.

So, each of these businesses is significant in its own right. Each of these businesses is a competitive player in its own right. When you look at our refining and marketing segment, it has one of the broadest geographic basis of our peers, 80% of our capital employed is here in the US. We like this geographic footprint that we have, it's a competitive edge to capture advantage crudes and also to optimize product placements, including growing our exports.

We are planning to invest heavily in our businesses with higher multiples. We expect total earnings for Phillips 66 in the next five to 10 years to double. Refining is a good solid business. We think margins will come in in that business. Although, we'll tell you in a little bit that we think that mid-cycle returns are probably higher than what they've been historically. We expect to see significant growth in earnings coming out of our midstream transportation logistics and chemicals, marketing specialties businesses. And we think this results in higher valuations.

Just a word about the strategic drivers for Phillips 66. They really haven't changed that much in the last 100 years, but there has been something that's changed in the technology and the upstream business with access to shale and the horizontal drilling and frac. And from a refining perspective. This is allowing us to meet domestic demand competitively. It's also allowing us to be competitive in exports. From midstream perspective, it's infrastructure and investment in the increase in natural gas liquids or feed stocks for the petrochemical business.

This picture that you see here on the left of the screen is one of several Jones act vessels that we've contracted. This is a 300,000 barrel vessel and we're using it to move crude from south Texas to our coastal refineries and around to Bayway. Larry is going to talk more about advantaged crude, but we're buying 2,000 rail cars, so we're using rail, pipe, ships, barge, trucks, you name it to get advantaged crude to the front end of our refineries.

Continuing on the theme of the structural shift on slide 11, this chart kind of illustrates the revolution we just talked about in gas and liquids. We think that crude production grows to 6.3 million barrels this year, by 2020, by 10 million barrels a day.

We've seen water born imports decline from their peak in 2005 at 8.5 million barrels a day to 6.5 million barrels this year. We think by 2017 it goes to 2 million barrels a day.

Tried to lay out for you some of the advantages, or quantify for you, the top bar is ethylene, when you look at ethane over Naphtha it's $0.18 of pound advantage versus history. It's huge. We're capturing that today.

Globally chemicals is at a trough, in the US margins are near peak. And CPChem is really well positioned because our assets are US and Middle East.

When you think about energy costs in the US versus Europe or say, Asia, we think a US refiner has a $1.25 a barrel advantage because of energy costs compared to a European refiner, or $1.75 barrel advantage, compared to an Asian refiner.

So, in many ways, the US market is unlike any other market in the world. We look at that strong legacy infrastructure, we have the scale, the complexity that we have in the manufacturing base is unsurpassed any other place in the world, and that really positions the US to capture advantaged crude and translate that into value.

Here's an example. As you look at slide 13, you can see that refine demand peaked in 2005 with about 21 million barrels a day. At that time, utilization was over 90%. We were importing net about 2 million barrels a day. So we actually couldn't produce all the required demand. Recession hit in 2008, 12% reduction, utilization rates dropped in the low 80s. Since that time, demands recovered to about 18 million -- 18.4 million barrels a day. The utilization rates are pushing 90%. The difference is exports.

So, this was, it is, and I think it always will be a volatile business. It's going to be cyclical. We have a management experienced at managing in this space. This is what we do, we're very comfortable executing in this space. We took an average of five different analysts that forecast a 3-2-1 crack spreads, you can see them there in the red. It's down 2, down 1 and in terms of the dollars per barrel.

Like others over the next couple of years, we expect that refinery cracks normalize as transportation infrastructure gets built out, bottlenecks are removed. There's a wide range of viewpoints out there of where this -- we're going to go, but most of the analysts, current forecasts are above historical cracks, and we think this is a significant shift and it's a shift in the mid-cycle earnings of US refining.

Also think that you're going to continue to see disruptions. There's going to be continued volatility. Whether it's a supply disruption or operating issue, or just the fact that the E&Pers are going to out drill the logistics capability and that's going to create opportunities for us. And we believe, given our footprint that we can capitalize on those opportunities.

As I move to midstream, our strategy is aggressive growth, both through our ownership in DCP and through our own Phillips 66 midstream assets. You can see from this map that our legacy assets sit right on top of the heart of the key developing shale areas in the US and this positions us to capture our share of the infrastructure growth.

As we move to chemicals, our strategy is also aggressive growth. The last 12 years CPChem has done five megaprojects in the Middle East, they've built four ethylene crackers over that period of time. As we look forward to the next couple of years, we think that opportunity moves to the US gulf coast, and you consider CPChem's expertise and execution having built four crackers in the last 12 years, their proprietary technology position, their global brands and their global marketing capabilities. We believe that our chemicals business can sustain better than average returns over this next cycle.

As we move on to refining and marketing, our strategy is to improve returns and we're going to do that through accessing advantage crudes, driving yield capture and through cost initiatives in our businesses. Feed stocks are the single biggest lever we have, dollar per barrel is $440 million of net income to us. Larry's going to go through the advantage crude capture in a lot more detail in just a few minutes.

Also want to point out though that a significant portion of our R&M earnings come out of our marketing and specialties businesses. If you look over the last three years they've generated EBITDA of $800 million to $1 billion. These are strong, they're stable, they're high return cash flows and we will invest in these businesses over the next couple years to grow them.

And then, I also want to just point out, Greg Maxwell is going to talk more about this. We have a program called Optimize 66. The spin we told you was about $170 million of pretax to synergy associated with the spin transaction. We committed that we would capture at least $200 million. We've done that, we've exceeded that, we've built that into our accountability plans for next year and Greg is going to share that with you in just a few minutes.

Being disciplined with our capital allocation and being tight with our strategy is significant to our financial strength. We have a very balanced approach to capital allocation. It supports our objectives to grow earnings, but also to grow distributions to our shareholders. We do commit the funds we need to keep our assets consistent with our operating excellence philosophy that we have. We'll reinvest through growth capital opportunities and we remain committed to year over year increases in distributions to our shareholders.

Word about capital today, we announced our capital program plan for 2013, it's $3.7 billion. It's up about 6% over this year's program, of $1 billion of sustaining capital in our R&M business. So this is to keep the refining assets and the transportation assets -- asset integrity around those facilities includes about $400 million of capital to grow. This is a quick hit. Returns improvement projects around the refineries. We'll talk more about that today. $1.1 billion is our share of DCP capital. $550 million is our share of CPChem capital and the balances goes to WRB and for corporate needs.

So, this program is designed to fund growth in midstream and chemicals and to improve returns in our R&M business.

So, as you look at our strategies, we expect that this portfolio can generate 15% plus returns on a mid cycle basis. So, you consider price neutral. We think this will be a 15% business across the cycle. Historically, it's been a 10% to 12% business. We're not counting on the market to bail us out. I will tell you, it's nice when it does, but it doesn't always happen that way. So, we're going to work hard to move the portfolio and as we shift our capital employed into our higher returning, higher growing businesses of midstream chemicals, marketing, specialties. We think that valuations will increase.

We want to be competitive on shareholder distributions. Over the brief period that we've been a new company and a public company, we've grown our dividend by 56%, $2 billion of share repurchases. We look at our dividend and we think that dividend should be secure, it should be growing over time, so our first priority is to a stable growing, secure dividend. We want to look back in 10 years and say that we increased the dividend every year.

So, I'm going to sum up here and we've hit the ground running. I think we're off to a good start delivering on the commitments that we made when we did the spin transaction. I will also tell you that we continue to have very high expectations for value creation at Phillips 66. Our strategy is growth, returns, distributions underpinned by a commitment to operating excellence and growing distributions to our shareholders.

So with that, I'm going to turn the podium over to Tim Taylor, he's the Executive Vice President and there's a lot of words behind that, but Tim runs our marketing, our commercial, our transportation and our business development activities. So, Tim?

Tim Taylor *- Phillips 66 - EVP - Commercial Marketing Transportation & Business Development*

Well, thanks Greg for the introduction and I can tell you, it's a great time to be in a downstream business from a growth and opportunities standpoint and we talked about the shale gas and the oil production growing in North America, and that's creating a world of opportunity to bring those products to market with infrastructure investment, and it's creating the need to create capacity to consume those liquids as they come to market.

And so, in response to that, our midstream business is growing significantly in terms of gathering and processing capability to capture more gas. It's extracting more natural gas liquids and it's moving them to premium markets in a Mont Belvieu marketplace in Texas.

Our chemicals business is going to convert those natural gas liquids to chemicals in plastics. And in our refining business, we've talked about the fact that it impacts our feedstock costs and our energy costs. But we're also finding that we're more competitive for export markets and we're using technology based solutions to increase the value of products coming out of the refineries in things like specialty cokes, lubricants and specialty chemicals to add additional value and growth to our base refining and marketing business. Going forward, we think that that intent to form a master limited partnership is a key part of our growth story as we look at that.

In our view, this is a key vehicle to support the growth of that infrastructure investment that we've talked about. It's a source of funds, it's the opportunity to develop that, and we can enhance the value of that infrastructure with our assets and the values that we can capture from that as well. It also increases the transparency to our shareholders about the value of that midstream investment and those investments in the MLP assets. So we think it's a very profitable and good thing to do from a company standpoint.

In terms of qualified assets for the MLP, we have a big pool today of assets that qualify. It's primarily our crude and product pipelines. It's our terminals, it's our NGL assets that can form the base for the MLP, but the real story here for us is it's a vehicle in which we can grow additional midstream and transportation infrastructure as we go forward.

In terms of the structure of the MLP, our focus is to do what I would call a traditional MLP structure. Phillips 66 would be the general partner of the MLP. We would have incentive distribution rights to encourage us to grow the MLP over time. We will make quarterly distributions of the cash flow of the MLP to the unit holders and we will sell -- anticipate selling a minority share of those units to the public as well.

We're on target now currently preparing financial and legal documents to prepare for the SEC registration. Have that done the first half of this year and then IPO those initial shares of the minority share of the partnership in the second half of 2013, and we anticipate that we would raise $300 million to $400 million of gross cash procedures from the sale of those units to the public. So fundamentally this partnership, if we go forward in the MLP will be funded -- or founded on a base of very strong high quality assets in our company today with the ability to do organic growth and provide substantial growth to the MLP, which we think it'll make it a very high quality MLP as we go forward.

Greg talked a bit about the plans to grow our midstream business. When you look at our midstream business, we have two elements here. The biggest part of the midstream business is our investment in DCP, which is jointly owned with Spectra Energy, 50/50 and it's been a very successful venture that's been in operation since 2000. It is a leading gas gatherer and processor in the key basins in North America.

It's the largest producers of natural gas liquids with about 400,000 barrels a day of natural gas liquids production and the earnings from this business has averaged about $1.3 billion on an EBITDA basis over the past three years and we've had strong returns in this business. And I'll talk more about the growth plans for DCP in the next couple of slides, but first, I want to mention that we do have an embedded Phillips 66 midstream business as well. Its purpose really is to market volumes from our refinery NGL production and from our own wholly owned -- or partially owned fractionation interests.

We have about 130,000 barrels a day of fractionation capacity in the midcontinent and the gulf coast regions of the US. We also include in our midstream business our natural gas pipeline, our interest in REX natural gas pipeline. We do have plans to grow this business. We see the opportunity in the market facing part of our business to grow the fractionation, the storage and the export capability for the natural gas liquids part of our business in the wholly owned piece of that and that would be in addition to the growth plans that we see for DCP midstream.

The DCP midstream growth strategy is focused and really composed of two elements to grow the business. First, they are today a very large gather and processor. So they're going to continue to keep that core capability and grow that. So, they have the opportunity and are currently developing assets around those existing assets today, that footprint that they have in the most prolific liquid rich basins in North America.

And probably add -- capability to add 10 new processing plants to do that. It'll take about $3 billion to 4 billion to be spent over the next three to four years to complete that. And then, the second part of their strategy is to really deeper integrate into the market side of the business and invest in NGL pipeline take away capacity from those basins to bring those NGLs to market in the premium Mont Belvieu market in the Houston area and so they've been actively developing new projects.

You'll recall that we have invested directly along with Spectra in two of those in Sand Hills and Southern Hills pipelines taking one third interest each. But they also have additional pipeline projects in place to develop that capability to increase and provide better access to those NGL markets as they go forward. So, this is an ambitious program too with a $2 billion to $3 billion capital expenditure, but it adds substantial fee based income to DCP, which we think will provide better stability in the long run over their business and continues to strengthen their competitive position.

When you look at what happens from DCP standpoint, you contrast where they are today of 2012, you can see the huge gathering and processing footprint that they have in those basins today and when you look out at 2015, you see the transformation you say, now we've got the pipes to connect those NGLs to the markets and at the end of that period, they'll have the capability to process about 10% more gas volume. NGL production will be up 25%. That reflects more liquid content in the gas that they process. It reflects better recoveries.

And then, the real key to this is they're going to quadruple their take away capacity on NGL pipelines and bring those liquids on their own system into those markets in Mont Belvieu and provide access to those feed stocks and fuel markets for the growing presence in the gulf coast. So, fundamentally a very strong growth plan. I think this positions them well to continue to grow as those very attractive basins continue to develop. So, we expect over time that we'll continue to see good growth opportunity in the NGL side of the business with DCP and that their movement into the transportation piece of the business only strengthens their leading competitive position.

On the Phillips 66 transportation system, we have a very large extensive network that's really designed to enhance value of our refining and marketing business and it probably is no surprise, most of those assets are really centered around the inland market -- refining assets that we have in the central part of the country, the rocky mountains and to a lesser extent the west coast, where we need access to markets and we need access to crudes that are more difficult to get to because of the refinery's location. So the key piece of this in the past for the transportation business has been to really optimize that value. And you can imagine, that today with strong crack, that's been a key piece of what we've done to add value to the system.

We have 46 terminals, many of those are product terminals with proprietary racks to help us move product. We have a rail car fleet today that we're going to add 2,000 cars to move crude. So we may see that piece continue to expand as crude becomes a more viable take away option via rail. And we have an interest in proprietary trucking operations to deliver products and crude to our refineries and to our customers.

But overall, we're still supporting and focused on how do we access advantage feed stocks, support our NGL business and add value to our refining network and I think the best way to illustrate that is to talk about what we do in the central region of the country with our transportation network to add value. It shows the integration here. So, again, these are relatively isolated refineries in Borger, Texas, Ponca City, Oklahoma, Wood River over in St. Louis is a part of that system, but it -- we can see that with our footprint a lot of our transportation assets are directed for gathering local lease crudes for Borger and Ponca City.

We also have connectivity to Cushing. So we have tremendous crude flexibility in the central region, based on our transportation network and this is an area where we're continuing to expand and add to our gathering systems and our connectivity because of the strong incentive that we see with midcontinent crude pricing today and that's enabled us, this year, to keep our refineries in those regions running at high rates, been able to convert that.

And then on the other side of that has been a network we have with marketing through our proprietary racks. They let us bring those products to market, keep the pull through and assure the highest possible price. We're also able to move various product components on our pipeline system that not necessarily finished fuels at this point to keep our system loaded and add value for the refining network we have there. So, it's just a great story in terms of how we integrate that total value chain to optimize the value of the assets and the earnings performance of the central corridor of assets have been very strong as a result of that integration.

When you talk about EBITDA in this segment, this has been primarily a system, as we said, around our refining business and marketing business to optimize earnings. We're looking at today at growing that business quite substantially in the near term. We have additional advantaged crude investments that we're making to generate income on top of the base income that we have in the business today. We're adding services such as biodiesel blending at our terminals, and we're continuing to make sure that we have market base rates in place in our systems and then you see the organic growth component beginning to kick in when you look at the addition of the DCP co-invested pipelines and Southern Hills and Sand Hills pipelines.

So overall, we expect to grow the EBITDA in this segment to more than $500 million over the next couple of years and can see the opportunity to continue to expand that based on those infrastructure needs that we see to access crudes and bring products to market. So, we think this will continue to be a growing and more important part of our business as we go forward.

I'd like to shift gears and we've talked about the midstream, our transportation business and talk about now our chemicals investments that we have in CPChem. Greg mentioned that this is a global business with the two poles of production are really in Saudi Arabia and the United States, they have a global marketing reach, selling over 100 countries today and they have 36 manufacturing sites.

So, a fairly complex business but really underpinned with access to advantage feed stock to drive value. Performance has been very strong. Adjusted EBITDA in the last three years has averaged $2.4 billion a year and is improving in time and we think structurally this business is set up to capture additional value going forward, based on what's happened with advantage feed stocks in both North America as well as the base in the Middle East.

On an equity basis, I wanted to give you some flavor of where the capacity is and how it breaks down. As you can see, over 70% of the capacity is in the US and if you look on the right hand side of the chart, you can see that the biggest business in the CPChem portfolio is in what we call olefins and polyolefins. And the other major poly production is the Middle East with a very similar profile there with the heavy orientation toward olefins and polyolefins.

This business, on the olefins and polyolefins side grows at rates of 1.1% to 1.3% times global GDP. So fundamentally there's growth in this business, it requires four or five world scale crackers every year on the ethylene side of the business to keep up with that growth and CPChem has plaid a key part of that as they built their capacity over the past few years.

So, of that, the ethylene is typically used to make derivatives we call polyethylene which is exposure to consumer packaging markets, rigid infrastructure, things like pipe, automotive applications as well. And then we have a very strong business segment with normal alpha olefins, there're things like co-raw material for polyethylene production, synthetic lubricants, detergents and other specialty chemicals.

When you look at the other 30% of the capacity of this business, it's in the aromatics specialties part of the business and the biggest piece of that being the commodity aromatics businesses, benezene, cyclohexane and paraxylene. Growth rates here are about one times GDP and some of the specialty products really driving growth rates up to about two times that. So, significant growth opportunity in the aromatics and specialties piece of the business as well, but I think the size reflects the general size of the two markets with ethylene and olefins being the largest building blocks in petrochemical space and CPChem is well represented in the commodity petro chemicals with that.

We talked about the relative performance of CPChem and the last four years, we've benchmarked this versus the peer group in chemicals and the EBITDA return on assets or capital employed here has been either one or two for the past four years and that's really been from that focus strategy on working at capacity. How do you get maximum access to advantage feed stocks in the Middle East, now in North America? How do you use technology? It enables us to build more cost effective plants. It enables us to have plants that operate with lower costs and then not unimportant to that is really the global marketing capability, which allows the assets to run at high utilization and gives the capability for CPChem to execute growth projects around the world.

From a cost standpoint, just want to take a second here to share with you the inherent advantage and the power of the competitive advantage that you get from advantage feed stocks. So, this is a chart that shows the global cost of -- serve capacity for the ethylene business. You can see that US ethane, Middle East ethane are the most competitive based ethylene projects in the world. And that's where CPChem has their exposure to that.

The marginal production is Naphtha based production in Europe and Asia and it's a very steep cost curve. It's a structure that we think stays in place based on what we see happening in North America with ethane production and you can -- if you look at the numbers you'll see that the cost of production in North America is about half or more or less than the cost of production in Asia, Europe. So, very strong competitive advantage that drives that -- underpins that and drives that performance at CPChem.

We talked about the Middle East and the position that CPChem has. If you turn back the clock to 2000, there was no capacity that CPChem had in the Middle East, so over the last 12 years, the venture has built to a total capacity -- equity capacity of 7.4 -- 7.8 billion pounds per year. It's been based on five megaprojects, two of those have been in Qatar, where they own 49% of ethylene crackers, in partnership with Qatar Petroleum. And then there's been three projects that have been executed in Saudi Arabia.

The first two were aromatics and styrenics related, based on advantage feed stocks there, and we're just now in the process of bringing on line the third project, which is an ethylene cracker based on ethane and propane and partnership that we have with a public company, Petro Chem, which includes our original shareholders in the Saudi investments there. And that capacity -- that cracker is about 1.6 million tons a year of ethylene and propylene and our 35% will generate significant earnings for CPChem going forward. I would say that what's changed is that the Middle East availability of advantaged feed stocks has diminished.

So, the availability of ethane at a very low price has diminished and we're moving now more toward propane and butane. So, it's become relatively high costs, still a good place to be and we're still looking at developing projects there, but the best place at this point to build new capacity is right here in North America, based on low cost ethane.

And today, if you looked at CPChem's profile of production plants in the olefins business, it's concentrated on the gulf coast and they're currently executing now projects to bring on additional capacity to build on that advantage that they have there. So we're adding fractionation capacity to increase ethane feed into their plants at Sweeny. They're building the world's largest one hexane plant at Cedar Bayou, 250,000 tons per year and then the major project that they have under development is a new cracker in the gulf coast that's a 1.5 million ton per year, ethylene -- ethane based ethylene cracker that should come on in early 2017 and we believe that will be the first major cracker complex to come on in the gulf coast and capture more of that advantage ethane margin. To give you some feel, 1.5 million ton cracker requires about 95,000 barrels a day of ethane.

So, there's about five of those complexes under consideration we believe today, that gives you some feel for the consumption capacity that's being built to capitalize on the increasing flow of natural gas liquids in the business.

So, I want to move now from where we've got heavy investment in capacity growth in our business segments and chemicals and in midstream and talk about how we're going to grow value in that refining and marketing piece of our system, because we see -- still see opportunity to do that and capture significant value.

Start first with our marketing network and our marketing operations and really, this is about which channel do you use to maximize refinery value.

If you look at the central part of the country, to no surprise, our branded marketing is the strongest in the central and the western part of the US, again, reflects the more isolated nature of the market. We have 8,000 branded outlets that we sell through. Those are dealer owned stores, they're not company owned stores. So, it's a very significant piece. We're waiting to insure that we get the refinery pull through, get maximum value.

As you move to the gulf coast and the east coast, very liquid markets do not have the need for nearly as much branded presence there. And so the channels really shift to wholesale marketing as well as commercial opportunities. And in particular, we're seeing the opportunity now in the US gulf coast to increase exports of products. And so that's been the really growth channel, if you will, from the marketing standpoint, if you think about it, it makes sense because the Gulf coast used to be much more major supply for the midcontinent region for products and with increased runs in the midcontinent refineries, that's backed out that product demand and that's now still going to the east coast or offshore to exports. So the export has been critical to keeping utilization rates high and Larry's going to talk more about that as we go forward.

If we look at the UK and Ireland, a very similar structure to I would say the gulf coast of the US where we have a blend of branded outlets, but really the focuses are wholesale and commercial activities and capturing value from that. Overall, a very stable return year on year consistent business that's averaged about a 13% ROCE as additional value to our refining network.

On the European side, we actually have a very strong retail marketing business in contrast to a wholesale model and we have 900 company owned stores that we operate in Germany and Austria under the Jet brand and we have another 250 joint ventures retail outlets that we have in operation with a company called COOP, that's large retail chain there, and this business has a very successful model of high volume, low cost and a value brand proposition and increasing substantial value there and adding to that, ROCE's in this business are in excess of 25% and we're continuing to add to that retail network on a very selective basis to increase the volumes, because the volume -- the returns are very substantial and it integrates nicely with our supply out of the Miro refinery with our equity interest there in Germany.

Now, I'd like to talk about what do we do from a technology based product offering to add value. Now, in the biggest and best illustration that I think is our lubricants business. And that's really composed of base oil production at the Lake Charles refinery and in finished lubricant production. So, at Lake Charles, we make base -- we make group two base oils with our joint venture with Excel Paralubes and we have 50% ownership of that. And we enjoy very low cost position as a result of the integration with that and we also enjoy growing markets. Markets are growing at about 6% a year for group two base oils as they penetrate older technology group one base oils. We think that continues now for the next several years as well. So we've got a very strong case in the business growth side of that and we've enjoyed that. We have about 13% of the US group two base oil productions in Excel Paralubes.

We also then take those base oils -- group two base oils from our production share and make finished lubricants out of that for sale into retail markets, industrial markets and through a marketing distribution network. And the real value here is the technology and the formulation and the additive package that you make in the finished lubricants and we do that through a number of sites in the US at relatively low costs. It's low capital investment. The market growth again is in that 5% to 6% a year range so we've been very successful in growing that business and we're now the number three marketer of finished lubricants in the United States. So a very substantial business. Returns are very good with above 25% in that business. And we'll continue to support and grow that business.

Another interesting technology based product for us is specialty coke. So, this is in relation if you think about it in terms of making fuel grade coke out of your cokers, we actually have a very strong technology basis on products to make cokes that are used in metals refining. So the most valuable of those is needle coke, which sells for in excess of $1,000 a ton and we have the leading market position in the production of that particular material for the graphite anodes that go into the recycling steel business. And that market continues to grow at 2% to 4% a year and we're going to support that because it's a very high value and I can tell you, it does drive the crude slate selection at both our Humber and Lake Charles refining to insure that we make the high quality product for this needle coke because the value is so substantial.

We also make an anode grade coke, a more generic anode grade coke for other metals refining, particularly driven by aluminum production. We do that at five of our refining sites around the world and we have about a 7% market share in that market. It's a substantial uplift over fuel grade coke, and again influences the refining economics enough that we do -- are careful about the crudes that we select to produce that. So really like these businesses, good strong marketing presence, good value addition to our refining piece of our business and a substantial value contributor to that business.

So taken together when we look at these specialty and marketing businesses, this has been on average about $1 billion a year of EBITDA with more modest growth based on the demand growth in these markets for that and it's had a substantial steady ROCE in that 18% to 21% range. So we're going to continue to support and grow this business because we think it adds significant value to the underlying refining parts of our business.

So in summary, we're investing significant capital in growing our midstream and chemicals capacity to capture the advantage that we see from natural gas liquids and production in the United States. We are growing our access capability for advantage crudes through rail access through pipelines will continue to do that. And we're going to continue to build infrastructure around our assets to capture that ability and use that MLP vehicle as a way to grow that business.

And finally, we're going to continue to invest in our technology based products so we can add value to those refinery streams.

So next, Larry Ziemba, the EVP of Refining, Procurement and Projects will come up and talk about refining operations. Thank you.

Lawrence Ziemba - ***Phillips 66 - EVP - Refining Projects & Procurement***

Thanks, Tim. Good morning, everyone. I've been in the business for over 30 years and I haven't seen such a dramatic change in the marketplace, the landscape around refining like we've got going on today. We've got the shale crude revolution, continued increases in Canadian crude production which are providing advantage feed stocks to our refineries, low natural gas prices, which are supporting manufacturing in the United States and a US products market that has shifted from an import market to an export market.

These changes have provided significant opportunity for us going forward and what I plan to share with you today is what we're doing in our company to capture these opportunities and improve our base business. And so what I wanted to do is start with the fundamentals.

So, to be successful in this business, it's important to operate safely and we've seen in the industry over the last few years some examples of the importance of operating safely. We've got a good track record of improving safety in our company and we have a leading position in terms of injury rates. But, as Greg said, we've got more work to do, because we believe that all of our people should be able to work their entire careers without getting hurt. Our target is zero and we're going to continue not only working to reduce injuries, but also to avoid a serious incidents.

Environmental stewardship also gets a lot of attention in our company and you can see the dramatic reduction in emissions from refineries over the last decade. Both of these metrics are indicators or representative of the trends that we see in the broader set of metrics that we use to manage our performance in the health, safety and environmental area.

So reliability is also another key success factor in our business and generally, refineries that are safe are also reliable. Aside from the obvious benefits of keeping production up, a good reliability lowers risk and avoids cost and good reliability like safety is a matter of diligence and attention to detail, it's about what our people are doing every day, it's about the systems that we use to run the business and it's about the -- keeping our equipment integrity up that really make the difference and so we're proud of what our people have accomplished of what we know that we've got to be vigilant every day in everything that we do.

So, now I'm going to give you just a quick overview of our refining system. We own 15 refineries worldwide, 11 of those refineries are in the US, that's 82% of our capacity is located in the US.

Our geographical footprint gives us a great platform to capture some of the advantage feed stocks that are coming online and also optimize our product placement.

A good example of this is we're the biggest importer of Canadian crude, which is very price advantaged right now, into the US and we're running Canadian crude at six of our refineries.

The chart on the lower right shows our realized crack our gross margin over the last three years and 2012 has been a great year. It's been helped in our system by our big presence in the central region of the United States and as Greg said, most analysts believe that the market is going to soften a little bit towards mid cycle next year, and as he indicated, we share that view. What I intend to show you today is what we're going to improve our base business to offset some of the declines in the market.

So, our plan is to deliver $500 million a year of net income improvement in our refining system, and that's on a constant margin basis and we're focused on four areas. The first area is to lower our crude cost. The second is to continue working on improving yields. The third is to expand our export capability at our coastal refineries, and the fourth is to continue on lowering our cost structure. We will be allocating a small increase in our capital budget to support these efforts, but those projects are largely high return small projects.

Over time, we expect our -- to improve our ROCE by 4% with this program.

So, let's take a closer look at each of these four areas. So the first and the largest lever is to improve our advantage crude runs in our refineries. Greg and Tim have both talked about the shale crude revolution going on in the United States and Phillips 66 is really well positioned to take advantage of the shale crude revolution. This is important to us because $1 a barrel improvement in our crude costs is worth roughly $450 million a year.

We're already running shale crude in eight of our facilities in the United States and as Greg said, we're moving it by truck, by rail, by barge, by ocean going vessel and sometimes even by pipeline. For example, this year, some of the things we've done this year is we've expanded our truck and rail racks at our Ponca City and Sweeny refineries, we've expanded our marine capability in the gulf coast to move Eagle Ford crude into our gulf coast refineries and to our east coast refineries, and we're using third party logistics to move Bakken crude by rail and barge into our Ferndale refinery in the pacific northwest and into our Bayway refinery in the New York harbor.

So, the next two slides cover a few of the projects that we're working on going forward. So, in the Atlantic region, we've developed a project to put in a rail rack at the Bayway refinery to supplement our third party agreements to move Bakken crude into Bayway. We're adding a -- while Humber is not part of the shale revolution, it's in the UK, it does have the ability to run very high acid crudes and we're putting a desalter in Humber to allow us to run more high acid crudes and lower its crude costs.

In the gulf coast area, we're adding marine capability to deliver Eagle Ford. Tim talked about the two Jones Act vessels that we've just chartered to move Eagle Ford crude into Alliance, Lake Charles and all the way to the east coast. And we've got some small projects, we've got a project at Alliance to debottleneck the light ends handling at that refinery to be able to run higher percentages of Eagle Ford.

We've also got a pipeline project with a third party to run a pipeline into Sweeny to deliver Eagle Ford directly into the refinery.

So, our central region is really well positioned to take advantage of the emerging production. Ponca City is making investments not only in the transportation system around the refinery, but also in minor modifications in the refinery to allow replacement of generic WTI crudes with shale crudes that are produced right in the local area.

At Wood River -- I might mention that our project at Wood River, we've been a heavy oil project with Cenovus, it's been running a year and it's exceeded our expectations and we've identified a small modification to allow us to run even more heavy crude at Wood River by debottlenecking the ability to handle the diluent that actually comes in with the crude as it's shipped in.

On the west coast, we've got a rail rack plan for the Ferndale refinery to supplement the third party agreements that are in place today and we're evaluating logistics projects at California, both racks and dock modifications, to be able to bring more water born crudes into those two facilities in California.

So, this is only a sampling of some of the projects we're working on, but I'd like to say that the spinoff of Phillips 66 has really facilitated our ability to move fast on some of these opportunities.

So, this slide shows a summary of our advantage crude runs. We're trying to displace Brent price crudes out of our system, and you can see at the bottom of the chart, the WTI, WTS bar is growing dramatically. That's largely the shale crudes that are coming online and being run in our facilities. We're targeting to increase over the next couple of years our advantage crude runs by 500,000 barrels a day, and ultimately get to 90% of our total crude based on something other than Brent price.

The second improvement area is in yields. We've improved our yields over the last couple of years and you can see that in the case of diesel, we've got an industry leading position, we produce about 3% higher diesel yield than the industry does in the States here. That's worth, in our system, in today's prices about $150 million a year. We've identified 11 -- projects at 11 of our refineries to increase clean products yield and/or diesel yield going forward.

The third improvement area is to improve our export capability and we've got projects that we're going to complete by 2014 to expand our export capability by 100,000 barrels a day in our gulf and west coast refineries. That'll bring our total capability up to 30% -- we'll be able to ship 30% of our clean products production from our coastal refineries over the water. And with the advantage natural gas prices that we have and access to advantage crude relative to the Brent, our coastal facilities should be able to compete well in the export markets.

So maintaining a competitive cost structure is also another key to our success and this is the fourth area and the last area that I'm going to talk about.

We continue to work on offsetting inflation and trying to keep our costs flat. About two thirds of our refineries benchmark in the top tier, top third of their competition in the regions that they operate, but we still have some more work to do. We've got two focus areas that we're working on and that's to improve our turn around execution. We spend about $400 million a year in turn arounds and a small improvement will make a big difference in our cost. And then we're also working on reducing energy consumption in our refineries.

So, I wanted to say a few words about capital. We understand the importance of maintaining capital discipline in the refining business. Our sustaining capital is below our depreciation levels and is expected to remain at those levels over the next few years. We're increasing our return spend about $100 million a year over the next few years. That capital program consists of 60 small projects and have returns of over 30% and they generate $400 million worth of income. And all of those projects are focused on the four areas that I just talked about.

So, as I close the discussion on refining, I hope you see we've got a lot of exciting opportunities ahead of us in the next couple of years. Our priority remains to be a safe and reliable operator and we know how to do that. The shale crude revolution is a real game changer for us and we're working real hard to capture those opportunities and run as much of those advantaged crudes in our system, and of course, we're going to remain focused on keeping disciplined and in capital and expense.

So, overall, as Greg said, we view the refining business as a 10% to 12% return business. This plan will improve our returns by 4%.

So, thank you very much for your time and I'm going to turn the floor over to Greg Maxwell, our Chief Financial Officer who's going to review our financial strategy.

Greg Maxwell *- Phillips 66 - CFO*

Thanks, Larry. Good morning, everyone. Today, I'll be sharing with you the financial strategy for Phillips 66. Before I get started though, we're off, as Greg mentioned, to a good start. From a financial perspective right around the repositioning time we were successful in issuing $8 billion of debt, we achieved our objective of obtaining an investment grade credit rating from the credit rating agencies. As we've already mentioned, we established our first dividend in the third quarter of 2012. Subsequently we raised it 25% in the fourth quarter and announced last Friday our intent to increases it another 25% in the first quarter of 2013.

In addition, last August we announced a $1 billion share repurchase program. Last week we announced our intent to increase that by another $1 billion, take it to a total program of $2 billion. If we look at it from a percent of cash flow from operations that we'll be paying out, I'll show you a slide later that inclusive of dividends and share repurchases, we'll pay out about 18% of our cash flow from operations this year, generated from the date of the spin, May 1st through the estimate for the end of the year and then, from a total share holder return perspective, you'll see a slide later that since we've started regular way trading on May 1st, our total share holder return has been north of 60%.

Now, if we look at our financial strategy, we look at our financial strategy around three main pillars. We want to take a balanced and disciplined approach to capital allocation. We want to maintain effective cost management and we want to always work on continuing to strengthen our balance sheet.

Collectively, we believe that these three pillars will enable us to build and create shareholder value. For example, in the area of capital allocation, first and foremost, we recognize the importance of running and maintaining our assets in a safe and reliable manner, and as Larry mentioned earlier, we intend to spend approximately $1 billion a year on sustaining capital and that'll be targeted to be roughly in line with our annual depreciation and amortization costs.

In addition, we are targeting investing in value accretive projects in our chemical, in our midstream segments as well as some small projects, as Larry mentioned, in our refining segment and a lot of that will be around the key themes of the running advantaged crudes, improving our clean product yields and improving our ability to export clean products.

In the cost area, as a result of the separation of Phillips 66 from ConocoPhillips on May 1st we incurred about $170 million of before tax to synergies. As Greg mentioned, we have established a program called, Optimize 66 that will not look only -- that looks not only at cost cutting and cost reducing activities, but also ways in which we can improve our processes, and improve our overall effectiveness. And I'll cover that in more detail on a later slide.

From a balance sheet perspective, one of our goals is to maintain a strong balance sheet and we've targeted maintaining our debt to capital ratio in the 20% to 30% range and we believe that staying in this range will enable us to maintain our investment grade credit rating.

So, we strongly believe that our differentiated portfolio along with our financial strategy will help drive value creation for our shareholders.

Turning next to our financial performance. As mentioned earlier, we believe we have a portfolio that provides us a strong platform for both growth and value creation.

Our midstream operations include our investment in DCP midstream, plus we also directly hold interests in three fractionators and 240 miles of pipe.

Our midstream operations have provided strong returns and are well positioned to capture significant growth opportunities from the liquids rich oil plays.

On the chemical side, as we talked about earlier, we -- our interest in the chemical segment is through CPChem. And they are the -- we are the only independent downstream company to have a significant ownership in a global petro chemicals business and much like R&M or refining and marketing, access to advantage feed stocks is critical to CPChem's profitability and providing an advantage over their peers. We also have a very competitive refining and marketing space with the broadest geographical base of any of our peers. As you saw on the maps that Larry showed, we have refineries in the US that are operating in all five US PADDs.

This geographical footprint gives us a competitive edge for capturing advantage feed stocks and optimizing the product placement which includes the ability to participate in the export markets.

The R&M segment also has strong niche positions as Tim mentioned in Europe, especially around the Jet and the COOP retail space and then also domestically in our specialties businesses.

If you look at the graph on the right, it shows our positive earnings and return trends since 2009 with a projected total company return of 20% in 2012 based on analyst's estimates. You can see in the grey bars on the graph that the R&M space is subject to more cyclical swings in both earnings and returns with a low point in 2009 when we were in the midst of the economic and financial crisis, and as you see, moving up to 2012, we're expected to earn in excess of $4 billion in 2012.

In contrast, if you look at the chemicals in the midstream segments as shown by the red and the blue, they've shown more stability over time and we expect as you can see in the red, that chemicals will have more of a record year this year, based primarily on record olefins and polyolefin's chain margins.

So, in summary for this slide, we believe that we are well positioned to grow earnings and increase share holder returns.

If we drill down a bit further and look at our returns at the segment level, our returns have been very strong through the first three quarters of 2012 and as compared to our peers, the returns of our midstream and chemical segments, as you can see in the first two charts on the left, have been near the 30% range. The position of these two segments in proximity to advantage feed stocks has significantly contributed to them being able to achieve sector leading performance through the first three quarters of 2012.

Now, in order to help maintain the top position in the midstream segment, DCP is in the process of completing the Sand Hills and the Southern Hills pipeline projects that are being built by DCP midstream. And in addition, we believe that our formation of an MLP is consistent with our objective to grow this segment.

Moving next to the chemicals segment -- CPChem is in the process, as Tim mentioned, of starting up a major petro chemical facility in Saudi Arabia. They also are working on a US gulf coast ethylene -- ethane cracker and derivatives facilities that are expected to start up in the 2017 timeframe.

As shown on the right portion of the chart, on our R&M business is competitive with a strong year to date return on capital employed at 22%. To help improve our positioning in R&M, we're focused on projects that will enable us, again around the key themes of running advantaged crudes, improving our clean product yields and improving and increasing our export capabilities.

We've identified and started implementing multiple projects around these areas, one of which is Optimize 66, which I'll cover more detail on the next slide.

As I mentioned earlier, we -- at the time of the repositioning or the spin, we incurred what we believe to be about $170 million of pretax dis-synergies as a result of the spin and we formed an initiative called Optimize 66 and the reason we chose Optimize 66 is we wanted it to be more than just a cost cutting program. We wanted it to be more holistic where we put groups and teams in place where we can look at not only cost reductions, cost savings, but also look at ways where we can improve our processes, improve our overall effectiveness.

We've got teams formed throughout the organization and I've been really impressed by how the Phillips 66 team has really rallied around this initiative to help us become more competitive. We've come up and captured ideas and implemented ideas as small as improvements in local work groups all the way up to the larger processes associated with how we can run more advantaged crudes.

We believe that these efforts, ideas and capture will help improve our competitiveness amongst our peer groups, while still maintaining our asset integrity and reliability and I believe, as Greg mentioned, we initially established a $200 million target that we would capture in savings by the end of 2013. And as shown on the chart on the right, 2013 we have estimated that we will capture in excess of $170 million purely in the controllable cost savings. And in addition, we have the revenue or the profit increasing ideas with regard to the red and the grey bars showing costs of goods sold savings, which largely represents the improvements that we will get from running more advantaged crudes, and a little bit as shown in the grey bars around the revenue increases.

Moving on out to the long term, you can see we continue to grow that and one thing I should mention is that we have rolled these savings into our long range plans and we will be tracking to insure that we capture these ideas and these cost savings.

The graph on the left here shows that based on analyst estimates, we'll generate about $4.5 billion of cash from operations in 2013. The grey and white bars behind the blue bars cover our dividend requirements and our sustaining capital spend, which on -- for 2013 totals about $1.8 billion.

So, that leaves us with about $2.7 billion of free cash flow. How will we use this free cash flow? First the focus on -- we will focus on investing in disciplined and accretive projects that provide both growth and increase and generate higher portfolio returns.

In addition, we're also committed to providing competitive shareholder returns in the form of dividends and share repurchases.

We'll also use some of our free cash flow to enhance financial flexibility which will help us to weather the volatility or the cyclicality of our businesses. For example, by the end of 2013, we intend to reduce our debt balance by 25%, currently at $8 billion to $6 billion and we believe this supports our strategy of having a strong balance sheet that will enable us to grow shareholder value and support distributions across the business cycles.

Going into more detail on our consolidated capital program, these charts show that our estimated total capital spend in 2012 and 2013 averages about $1.8 billion.

The blue bars on the left chart showing midstream basically are made up of our investments in a one third interest -- acquiring a one third interest in the pipes, the mid steam, - the Sand Hills and Southern Hills pipelines that are being built by DCP and it's our estimate that the total spend in that -- in 2012 and 2013 will be in the $750 million to $800 million range.

In R&M, we're spending an average of about $1.2 billion per year, primarily on sustaining capital, along with some growth and optimization spending.

The chart on the right shows that our sustaining capital approximates our annual depreciation and amortization expense. Our annual -- our D&A expense runs in the neighborhood of $900 million to $950 million and it's our objective and goal to keep our sustaining capital at or below annual D&A costs.

And then, finally as you see on the white bars, we mentioned earlier, you can see quite a bit of growth in 2013 -- growth in spending associated or around the growth projects. Growth in this primarily represents again sounding repetitive, but it's focused on advantaged crudes, it's focused on improving our clean product yields and improving our -- and increasing our export capabilities.

This next chart takes into account our equity share of capital spending by several of our larger joint ventures and provides a broader view of the total capital spend for 2013. As Greg mentioned earlier, total spending is expected to be around $3.7 billion, as shown by the grey bars. And for 2013, this is made up of $1.9 billion that you will see consolidated on Phillips 66's books and about $1.8 billion that is our net share of our key JVs, in particular CPChem, DCP and WRB.

Now, I had a question earlier this morning as to how the additional $1.8 billion will show up on our financial statements. That will show up on our financial statements really on the cash flow statement as undistributed equity earnings because that'll be reported as capital expenditures on the JVs books and then we will bring in equity earnings offset by distributions that will end up showing up as undistributed equity earnings, reflecting the net -- the JV's -- our net share of the JV's capital.

Now, with regard to these three JVs, we expect this $1.8 billion to be self funding. That they will generate sufficient cash from operations to fund their own capital programs, and over and above that have excess free cash flow in order to provide distributions -- some form of distributions to the owners.

Moving next to the slide on returns to our shareholders. Since Phillips 66 was formed on May 1st of this year, we've paid two quarterly dividends and initiated a $1 billion share repurchase program. Last week, we announced an increase in the first quarter 2013 dividend by 25%. And increased our share repurchase program to $2 billion.

If we look at distributions for 2012, by itself, we're projecting that the distributions will be $650 million and that'll be in the form of share repurchases and dividends. And this represents approximately 18% of our cash from operations from May 1st through December 31st of this year for the cash generation perspective and is slightly below the average of 22% as you can see on the chart.

What we did, and you can see in the dash part of the bar that's laid on top of the Phillips 66 is we went through and on a pro forma basis, assumed that we had had $1.25 annual dividend for the full year and as you can see, that brings our average cash from operations -- spending as a percent of cash from operations up to 21%, closer to the average shown on the left.

From a total shareholder return perspective, since we started trading regular way on May 1st of this year, total shareholder return is shown by the red bar has been 61%, that's well ahead of the S&P 100 and slightly higher or quite a bit higher than most of our peers.

This next slide summarizes our 2012 dividend and share repurchase announcements along with -- on the graph on the right, projected distributions as a percent of our share price as of December 7th. As discussed, we've increased our dividends by 56%. We've expanded our share repurchase program to $2 billion and the chart on the right looks at our premise distributions as a percent of our share price, assuming 2013 dividends of $1.25 a share and $1 billion share repurchase program.

So, based on these premises, you can see distributions as a percent of share price have averaged about 5%. Moving next to debt and liquidity. The chart on the left shows the maturity profile of our existing $8 billion of debt, based on our existing debt agreements. As shown, we have a very manageable debt maturity profile that expands out approximately 30 years. However, as we mentioned earlier, we intend to pay down $2 billion of debt by the end of 2013, so basically we will eliminate the maturity shown in 2013 and 2014 and $700 million of the maturity shown in 2015.

So, basically we're taking out -- the intent is to take out the three year term loan that we put in place at the spin and for $2 billion.

If you look at the slides on the right, you can see that we've got $5.2 billion of liquidity facilities. That's made up of a revolving credit facility that matures in 2017 and an accounts receivable securitization facility that matures in 2015.

And based on our current outlook for free cash flow and our cash flow from operations, we do not expect to use these facilities in any significant way other than for letters of credit purposes.

As we move to the next slide, from a capital structure perspective, it's expected that we will increase our equity in 2013 to $23 billion and this is largely a component of earnings offset somewhat by share repurchases and dividends. Looking in the middle, you can see the debt going down to $6 billion by the end of 2013. So with equity increasing and debt decreasing, you can see the impact it has on our debt to capital ratio, bringing us to the low end of our 20% to 30% range at 20% by the end of 2013.

On this slide, we've taken it a step further and looked at it from a net debt to capital ratio, basically taking into account cash balances for each of the companies shown as an offset to their debt.

These are based on the third quarter numbers at which time we had $8 billion of debt and $4.4 billion of cash. So, on a pure debt to capital ratio, we're at 28% at the end of the third quarter. If you net our cash against our debt, it brings our net debt cash ratio to 15% which is very close to the averages shown on the chart of 16%.

Moving next to our long term return on capital employed improvement. And this is looking at it from mid-cycle in the grey bars up to the long term mid-cycle. The blue bars represent the improvements that we're anticipating and expecting and working on first and foremost there is the cost and portfolio where cost management is largely captured by our Optimize 66 initiative, and portfolio optimization, which addresses focusing on our investments in high returning businesses.

Larry touched on this a bit in the R&M space --in R&M, looking at the margin, again focused on the three key themes, advantage crudes, exports and clean product yields. Larry mentioned for refining that the improvement in the refining return on capital employed would be about 400 basis points. If we look at that from a total company perspective, total Phillips 66 perspective, those improvements translate to about 200 basis points or 2% on our portfolio.

On the growth side, the growth is primarily in chemicals and midstream and as we mentioned earlier, a lot of the growth in chemicals is the petrochemicals facility in Saudi Arabia, the cracker and derivatives facility on the gulf coast and DCP midstream, a lot of that is tied to completion of the Southern and Sand Hills pipeline projects and continuing to pursue their growth opportunities around the crude oil shale plays.

Now, if we're able to accomplish all that, we believe that the long term mid cycle return on capital employed will improve to 15% plus.

So, in summary, we plan to increase share holder value through stock price appreciation, increase shareholder distributions and share repurchases. Our disciplined capital strategy involves identifying and investing in the highest return operating segments and projects and through our Optimize 66 initiative, we are confident that our costs and value metrics will be very competitive with those of our peers and by focusing on good capital stewardship and reducing our debt by $2 billion in the near term, we will continue to build on our strong balance sheet and maintain our investment grade credit rating.

So, in conclusion, we believe that we have a very diversified portfolio both geographically and across our various business segments, and when you combine that with our clear financial strategy, we believe it creates a company with great financial strength and flexibility that provides a very compelling investment opportunity.

I thank you for your time. We'll now take a quick 10-minute break, at which time, Greg Garland will come back up and provide some closing comments and then open it up to Q&A. Thank you.

(BREAK)

PRESENTATION

Clayton Reasor *- Phillips 66 - SVP - IR, Strategy & Corporate Relations*

So if everybody can find their seats, we'll get started with the question and answer session, please.

If you could find your seats, we'll have Greg's closing comments and start with the question and answer session.

That's great. So we've got until 11 o'clock. I think what we'll do after Greg speaks, he's got a fairly quick close, is we'll open the floor up. We have a couple people with microphones. Please wait -- actually three of us, please wait until you have a microphone before you ask the question as this is being webcast and we'd like the people that listening on the web to be able to hear the questions.

We'd ask that you identify yourself and the company that you're affiliated with prior to asking the question. So, Greg?

Greg Garland *- Phillips 66 - CEO*

Well, so that's our story. I think that Phillips 66 is a compelling investment opportunity. In fact, we think it's a single best company you can own if you want to participate broadly in this shale revolution that's going on in our space. So across refining our logistics infrastructure, our midstream gather and gas processing, natural gas liquids and chemicals, we're just geographically and logistically ideally positioned. This management team here has 200 years of experience managing commodity businesses, they have demonstrated capability to drive operational performance, operational excellence and create capture value.

We're seven months old. We've increased our dividend 56%, $2 billion worth of share repurchases. We announced the MLP this morning -- reducing our debt 25% and you've seen a significant capital program that's funding growth in the higher return and higher growing businesses that we have.

So we're going to use all the tools available to us to capture and create value at Phillips 66. I'll tell you we're very confident and we're excited about the future that we see for Phillips 66. So, thank you for being here today, thank you for your interest. And Clayton, let's move on and let's take some questions. I've got a big group here to help me.

QUESTION AND ANSWER

Clayton Reasor - ***Phillips 66 - SVP - IR, Strategy & Corporate Relations***

Sure, who'd like to -- [Kevin] you want to --?

Paul Cheng - ***Barclays Capital - Analyst***

Thank you. Paul Cheng, Barclays. Greg, I have two questions, if I could. One maybe is for you. In terms of the dividend policy, when you're looking at that, do you have any kind of target payout rates or let's say at the bottom of the cycle, mid-cycle you can share. When we look at that, back in the last major down cycle in 2009, the Company earned $500 million. You guys probably run about currently 200 million barrel of the WTI linked crude, even you assume the lifting of the export ban, Brent WTI differential will be at least in the $7 per barrel.

And given that you're -- since then that the upgrade in Wood River and also some of the chemical projects, look like at the bottom of the cycle you may earn about $3 per share or higher. So, want to see if that's any kind of pocket payout that you guys may have on that? That's the first question. The second one is on --

Clayton Reasor - ***Phillips 66 - SVP - IR, Strategy & Corporate Relations***

That's the first question?

Paul Cheng - ***Barclays Capital - Analyst***

That's the first question, yes. The second question, I think is actually for Larry, the 500,000 barrel per day increasing the advance crude. Since like you're assuming a margin uplift about $2 to $3 per barrel. Wondering if that is about right in your base case scenario and if that is correct, then what is your base case scenario assumption for Brent WTI? Thank you.

Greg Garland - ***Phillips 66 - CEO***

Paul, thank you for your questions. I can -- I know I can always count on you to ask the dividend questions. So thanks for that. So, we don't really give a target in terms of our distribution policy on dividends, we certainly want to be competitive on dividends and we look at our broad peer to group, we look at the S&P 100 when we think about that I actually think about mid-cycles as we allocate capital, but I also, in the back of my mind, I'm always thinking about what's the worst case scenario for us and I'm not sure 2009 is really representative.

I think there's a lot of things going on in 2009, but I kind of think the trough is about $1 barrel and we make 800 million barrels a year. So you think about $1 a barrel of net income is $800 million, you've got roughly $1 billon of depreciation. So, we're kind of working with $1.8 billion and assuming midstream and chemicals don't make anything. Then we can fund this $800 million dividend and the $1 billion worth of sustaining capital.

So I'm pretty comfortable at that level. And then, as we think about mid cycle and you think about that $1.8 billion versus say $3.5 billion of cash, then we do have room to continue to grow distributions, make strategic investments. So, I think we're pretty comfortable with how we move the dividend, where we're at in the process.

And then the second question was about crude and uplifting the 500,000 barrels a day and what do we think. We're laying in $2 to $3 a barrel in terms of our normalized assumptions. I don't know exactly where it goes. There's people out there that have different ideas. You've seen numbers of 5 to 7 long term. We'll see where that goes. But in terms of our planning process, we've kind of laid in long term $2 to $3 advantage.

Tim or Larry, I don't know if you want to comment any more about that. Okay.

Clayton Reasor - ***Phillips 66 - SVP - IR, Strategy & Corporate Relations***

Doug?

Doug Leggate *- Bank of America/Merrill Lynch - Analyst*

Yes, Greg, this company was structured to generate free cash flow across the industry cycle and this outcome is clearly unfolded in year one. And so, while there are a variety of initiatives that appear likely to enhance capital productivity this year or in coming years, my question is how do you and the team ensure that this capital discipline is sustained across the organization given the magnitude of a surplus capital that appears likely in the coming years? I mean how do you ensure that the capital is deployed in a productive way in the up cycle when it's usually more difficult?

Greg Garland *- Phillips 66 - CEO*

Thank you for that question. We've grown up in commodity businesses and they're pretty brutal as you think about it. And at the top of the cycle, you got to realize you're not bulletproof and at the bottom of the cycle, you shouldn't jump out of windows. So, you're going to get a windfall from time to time in this business. I think you want to be prudent about what you do with that.

We're obviously choosing to return cash to shareholders, get our balance sheet in shape with it. And then, I tell people in the refining business, bring me all the 40% return projects you have because we will find a way to fund those kind of projects in the business and then the investments midstream and chemicals, they just make fundamental sense to us and we want to continue that trajectory. But we do want to balance our investment in growth along with growing distributions to our shareholders so we'll look at that very holistically.

Clayton Reasor *- Phillips 66 - SVP - IR, Strategy & Corporate Relations*

Arjun?

Arjun Murti *- Goldman Sachs - Analyst*

It's Arjun Murti with Goldman Sachs. Greg, two questions on -- you outlined a plan for improving returns on capital and refining. What role if any, will refinery divestitures play in restructuring the portfolio? I'm really thinking of California and Atlantic Basin in its possibilities. Is that something you're considering? And then, secondly, you are sum of the parts story, if you will, would IPOing the chemicals business be something you'd consider? Not to get rid of it, but just to help highlight its value? Thank you.

Greg Garland *- Phillips 66 - CEO*

So, in terms of the first question, - or let me answer the second question first. The chemicals IPO, we've got a partner, I think that we would be open to any value creation opportunities and ideas, clearly we have a partner in CPChem. I suspect that you probably will not see us IPO the chemicals business in the near term as we look at that. It's a great business. It's -- it's a premium asset out there. It generates industry leading returns, and we think we have industry leading value creation opportunities in that chemical segment. So, very strong. And then remind me -- the first question was?

Arjun Murti *- Goldman Sachs - Analyst*

Refinery divestitures --.

Greg Garland *- Phillips 66 - CEO*

Yes, so we don't have that laid into that in terms of that. We're always looking at our assets. There's no question that the west coast is challenged, as is the east coast. So the short term plan is try to get advantaged crudes in those assets, improve their performance. We talk about sometimes fix or exit. So we'd like to improve the performance of those facilities. Long term, they may be better off in someone else's hands. We'll just have to see. But if we did something with those facilities, they would have to -- I'd have to create value for Phillips 66. We just don't want to give the assets away. There's a lot of refineries for sale today and there's not a lot of value being created in the sales in my opinion.

Arjun Murti *- Goldman Sachs - Analyst*

(Inaudible - microphone inaccessible)

Greg Garland - ***Phillips 66 - CEO***

Yes.

Edward Westlake - ***Credit Suisse - Analyst***

Good afternoon it's -- morning, Ed Westlake, Credit Suisse. Thanks for the analyst's day. On chemicals, your sort of pet subject I guess, you've given the growth, but to help us sort of understand where the EBITDA might come from that, could you give any comments around perhaps how much total spend might be required to deliver that capacity growth between 2012 and 2017? That's my first question.

And then -- and maybe the returns that you'd expect on that type of capital.

Greg Garland - ***Phillips 66 - CEO***

Okay.

Edward Westlake - ***Credit Suisse - Analyst***

And then the second question is, paying down debt, is that an acquisition war chest? Can you talk through some of the ideas behind reducing gearing at this point?

Greg Garland - ***Phillips 66 - CEO***

Okay, Tim, you want to take the first part of the question on CPChem growth and investment?

Tim Taylor - ***Phillips 66 - EVP - Commercial Marketing Transportation & Business Development***

Yes. So, Ed, the initial look on the capital side, these are firm commitments to grow through 2017. So you're capital is in -- probably in the range of $6 billion or so for that in those coming years and to capture that growth and with that kind of uplift on the ethane, we think that makes a lot of sense.

We'd plan long term for returns in the high teens in the chemicals business so on a long term cycle basis.

Greg Garland - ***Phillips 66 - CEO***

So war chest. No, it's not a war chest for an acquisition. I won't say that we would never be acquisitive as Phillips 66, but when I look across opportunities set out there right now, I think chemicals are fully valued -- midstream is fully valued. I don't see any bargains out there. We've said we're not interested in growing the refining business. And so this is not to really create capacity or a war chest. We think this is prudent. I do think there's another 2009 out there some point in time, and we want to make sure that we do have a strong balance sheet so that we can continue our profile in growth, continue distributions growth for the Company, so that's really what is driving us.

So, at the end of the third quarter, we were $4.4 billion of cash on the balance sheet, suspect that grows through the end of the year and so -- what we've chosen to do is to take that and pay back to our shareholders through share repurchases, and then reducing debt which by the way, I think on an EV basis, you think about that, that should translate to about $3 a share.

Eric Mandelblatt - ***Soroban Capital - Analyst***

Hi, it's Eric Mandelblatt at Soroban Capital. I was trying to get a little bit more color around the on balance sheet midstream and infrastructure franchise you're building and I just want to make sure that I have my hands around the numbers. You've outlined on slide 32 that you expect to build your infrastructure value EBITDA to north of $500 million a year.

I guess two questions on that, one, does that include the on balance sheet midstream assets you own in terms of the fractionation plants and the interest in Rockies express, which I think on slide 27 you said was $200 million of EBITDA. So, is the $200 million on top of the $500 million? And secondly, in the back of the deck, you outlined that you're effectively run rate transportation EBITDA is about $250 million per year. Is that included in the $500 million? Or is that additive to the $500 million?

Greg Garland *- Phillips 66 - CEO*

All yours, Tim.

Tim Taylor *- Phillips 66 - EVP - Commercial Marketing Transportation & Business Development*

Eric, on the EBITDA slide, the -- that's really the transportation piece of the business. It does not include the NGL part of our business. So, that's really around our transportation infrastructure assets, and the second question was --.

Eric Mandelblatt *- Soroban Capital - Analyst*

So just to be clear, your total pie of MLP dollar [fine] (inaudible) transportation assets, you're saying is $500 million plus $200 million? So $700 million and growing overtime?

Tim Taylor *- Phillips 66 - EVP - Commercial Marketing Transportation & Business Development*

Yes, that would be the qualifying -- that would be in qualifying income at what could be put into an MLP. Yes.

Eric Mandelblatt *- Soroban Capital - Analyst*

And just a follow-up question, when you think about the MLP, are you thinking about --.

Clayton Reasor *- Phillips 66 - SVP - IR, Strategy & Corporate Relations*

Here.

Eric Mandelblatt *- Soroban Capital - Analyst*

Sure. When you're thinking about building a Phillips 66 dedicated MLP, are you thinking about that as being exclusively the $500 million of transportation related EBITDA? Or the $500 million of transportation EBITDA, plus your interest in Rockies express, plus the fractionation plants you own on balance sheet? So thus the $700 million bucket.

Tim Taylor *- Phillips 66 - EVP - Commercial Marketing Transportation & Business Development*

We really have a limited amount of information we can disclose on that right now because of the S1 process so I think it's' just better to say that we'll continue that. But I think it's important to look at that pool in terms of assets of what could go into an MLP.

Greg Garland *- Phillips 66 - CEO*

So, I suspect we're going to get a lot of MLP questions this morning. One of the great ironies of the process is that once you state your intention, you go into a quiet period. And so I'm sure our answers are going to continue to frustrate you today. So I'm going to apologize in advance to the million questions we're going to get on the MLP and our answer is going to be very consistent.

My general counsel is sitting down here with daggers that she's going to throw if I go off script this morning. So, we're very pleased to announce intention of MLP -- we think it creates value for all the reasons we've talked about over the last seven months and the reasons that many of you have given us great idea on the MLP. So, I think we're committed going forward with this, it will increase transparency. I think -- when you think about the asset we have for the MLP. I think they're just good solid assets and these are the kind of assets traditionally that you're going to see on the MLP.

The other thing I will tell you is I'm frustrated with the pace here. I like to see us move faster. This is a well worn path and so there are steps that you have to go through, but I'd like to see the S1 filed faster. I'd like to get to the IPO faster than what we presented today and we're working that within the organization. So, just general comments on MLP.

Next question.

Jeff Dietert - ***Simmons & Co. - Analyst***

Jeff Dietert with Simmons and Company. You provide some nice information on the growth over the next five years in your midstream and chemical business and it looks like your midstream business is actually growing faster than chemicals if you look at the pie chart on slide nine.

You've also talked about being a net buyer of ethane. Could you talk about how you evolve over the next five years with midstream chemicals with a lot of the midstreams probably being fee based type assets? How does your leverage to ethane evolve over this time frame?

Greg Garland - ***Phillips 66 - CEO***

So, I -- the chart -- it wasn't intentional that midstream was going to be bigger than chemicals. I think we tried to make them about the same. In terms of that long term view, if you're looking at that pie chart, Jeff, we're a net buyer of ethane today, for the next four to five years we're going to really like that position I think, because I think you're going to see a lot of volatility in NGL prices and just being a consumer of ethane is probably a good place to be. Long term, you kind of want to be linked up there.

We don't have a specific goal or target to be X percent integrated ethane into the chems, although I think that exposure does increase over time. I think as you look at the big pipes that are being laid by a DCP, Sand Hills, Southern Hills, those are primarily fee based assets. And so you think about those returns are more utility type returns, but more secure returns around those pipes. And so I do see a lot of the assets in the MLP space moving as they can -- as much as they can to more fee based returns.

We've kind of had a conscious decision over the years to be as much exposed to commodity prices as we can in the midstream part of our business because we think it generates better returns over the cycle, but clearly I think directionally you've got it right, that as this -- this industry really moves more to an MLP model, you're going to see more and more fee based business out there.

Who's got the mic?

Paul Sankey - ***Deutsche Bank - Analyst***

Sorry, Hi, Greg. Paul Sankey at Deutsche Bank. Coming back to the MLP Greg, you said that it's a well worn path and I think it seems that you're going to use a fairly classic structure by extension. You've talked about raising $300 million to $400 million from the sale of a minority stake. That would imply that you would be starting with the $200 million to $300 million EBITDA kind of level, assuming that your minority stake would represent somewhere well below 50%. I just wanted to confirm that those are the right parameters that we should think about and it's well below the sort of $700 million number that we just heard earlier. Thanks.

Greg Garland - ***Phillips 66 - CEO***

Yes, so I think -- I'll go back to Tim's point, I think we're at that point we can't comment on that, Paul. You don't want to front run the S1, because I don't want to go to jail and so you'll be able to read about it in June. But you are accurate in that this is going to be a very traditional MLP as we think about how we structure the MLP and how we step out and do it. And I think -- there's a finite size that you can put out there for your first one, as we've talked about, this is our initial formation in MLP, the initial drop, and I think we're kind of in the range of what others have done in terms of initial drops in MLP. I think the good news is we've got a portfolio of assets, we've got growth opportunities to invest in, and so I think that there is a good path for the future for the Phillips 66 MLP and I probably should stop there.

Paul Sankey *- Deutsche Bank - Analyst*

Thanks, Greg, I think it was a much more statement than a question on my part. If I could ask you a question you might be able to answer, could you talk about the risk in Washington right now as you see it to your industry, particularly as regard to potentially to -- we're thinking about FIFO, LIFO very specifically, but any other wider issues -- also as might regards as well the MLP. Thank you.

Greg Garland *- Phillips 66 - CEO*

So, I don't have any particular insight into Washington other than it's a mess. I think everything is on the table in the discussions. So, I think our exposure probably is about $3 billion. As you would think about PSX exposure, FIFO, LIFO issue gets put on the table and that could get paid over 10 years. That's not a income but that's a cash impact to us, probably over 10 years. Think the industry is going to fight that, because everyone has a very similar issue and exposure from that.

Not sure that -- I think MLPs may be on the table for taxes, but because of the broad retail exposure, I'm not sure they're going to go there with that. I think interest rates are probably a bigger risk longer term to the MLPs. Although there just seems to be an insatiable appetite for yield right now and so even I think with some -- even some tax or some interest rates I still think that there's going to be a segment of the retail industry that's going to want yield and they're still going to find these to be attractive investments.

Evan Calio *- Morgan Stanley - Analyst*

Yes, Evan Calio, Morgan Stanley. So, first question and I'm not maybe to be at risk of frustration related to the MLP. Two parts. I think one is more answerable. With regard to 2013 CapEx that's either within -- characterized as refining or midstream, how much organic spending do you see going forward, spending on assets that will ultimately be suitable for the structure that you'll be launching?

And then, secondly, wholesale marketing MLP by Susser suitable for the structure as well, significant EBITDA contribution to PSX, is that something that you consider or could be considered for that structure as well?

Greg Garland *- Phillips 66 - CEO*

So, I think that all avenues will be considered in terms of quantifiable assets for an MLP. The more traditional ones have the most appeal to us to begin with and they're the simplest to start with, and so I think you see us start there.

And I don't know where to go with the answer to the first part of your question. Clearly, the big pipes for Sand Hill, Southern Hills would be qualifying assets at some point in time as they're up and running and they're probably the biggest part of our spend, as you think about that. But we're pursuing other opportunities in midstream, whether it's -- Tim talked about exports or fracks, additions, things like that. Those also would all be qualifying assets for an MLP and they're included in that capital spend profile that we put in there.

Evan Calio *- Morgan Stanley - Analyst*

(Inaudible - microphone inaccessible) it's already dimensioning]?

Greg Garland *- Phillips 66 - CEO*

I don't have the break down on how much is train, how much is rail loading, how much is the fracks.

Tim Taylor - ***Phillips 66 - EVP - Commercial Marketing Transportation & Business Development***

Yes, so a lot of the kinds of things we talk about in infrastructure are relatively smaller capital expenditures for rail unloading, rail car purchases, those kinds of things, and then, as you move to bigger concepts like fractionation the expenditure is much larger. So, I would say shorter term, you're looking at much more smaller increments of investment in the very short term and the bigger asset pieces would be a longer term capital spend. Okay?

Greg Garland - ***Phillips 66 - CEO***

Good, next question?

Doug Leggate - ***Bank of America/Merrill Lynch - Analyst***

Thanks, Greg. Two questions, I'm afraid I'm going to go for an MLP one and then a strategic one. This is Doug Leggate from Bank of America.

So, looking at slide 32, obviously there's only so much you can say about this, but to try and frame this scale of the EBITDA associated with the potential to midstream part of the MLP. One assumes that the EBITDA that goes into the MLP is a cost of the refining business, so my question is, is the $200 million indicated here the entirety of the MLP cost of the midstream cost to your refining business or is it bigger that the $200 million?

Greg Garland - ***Phillips 66 - CEO***

Yes, so I think one of the difficulties -- it's not really a difficulty, it's just a fact of the way we run our business. We run our transportation logistics today as a cost center. And so, there's embedded opportunities to take those to more market rates over time. There's opportunities to optimize those assets as you think about now, it's more of a profit center versus a cost center. So, part of it's just a -- kind of a legacy of the way we historically run that business. And so I think one of the things we try to do with this slide is show you the value opportunity uplift as we did the $500 million and we've shown you kind of the NGL segment EBITDA and that's a nice trajectory of growth and those are all MLP qualifiable assets.

Doug Leggate - ***Bank of America/Merrill Lynch - Analyst***

Gone off here. Just to be clear, the $200 million is that the cost to the midstream -- the refining business for transportation (inaudible - multiple speakers)?

Greg Garland - ***Phillips 66 - CEO***

Oh today. That's correct. That's in -- that's in the -- not the GAAP reconciliations. We've shown that today.

Doug Leggate - ***Bank of America/Merrill Lynch - Analyst***

My follow up is more strategic. As the chemicals and midstream businesses get bigger, you've got some peripheral look, I'll [use] some peripheral assets for example, overseas marketing. Some smaller overseas refineries and perhaps west coast refining. Can you talk strategically about which parts of the portfolio do you think potentially would be right for further pruning if you like?

Greg Garland - ***Phillips 66 - CEO***

Yes, so we like our European position today. And it's really centered around the Miro refinery. The European marketing, as you look at that system, that's plus 25% returns, good solid returns. We don't see that growing. If it grows, it's going to grow marginally. We also like our position in the UK with the Humber refinery in the premium coke that we make there. Very profitable for us and we would tell you that those are core assets for us.

We do have some smaller other international refineries, Whitegate and Melaka and so longer term, we have to determine what is the fit for those facilities in our portfolio and that's something that we're working on.

Doug Leggate - ***Bank of America/Merrill Lynch - Analyst***

(Inaudible - microphone inaccessible).

Greg Garland - ***Phillips 66 - CEO***

West coast refining, challenged. It's -- you go back to 2006 and it's the best assets in our portfolio from a return basis. And so one of the things I always caution people is single point in time forecasting to stay in business is really dangerous because the world changes on you. But we do know since 2008 they've struggled. California is a challenging operating environment from a regulatory standpoint, we do not see that changing over the midterm. And so our opportunity to improve performance in California is really around getting advantage crudes to the front end of the California refineries, it's rail, it's ship, it's working on optimization of the cost structure and the export capabilities of those refineries. And we'll improve them to the extent that we can.

Today, they're net income positive, cash positive, kind of single digit return assets for us and we'd like to see them move up in the double digit areas. But frankly, I don't think there's a lot of interest in people buying California refineries today, and at least at value.

Doug Leggate - ***Bank of America/Merrill Lynch - Analyst***

(Inaudible - microphone inaccessible).

Greg Garland - ***Phillips 66 - CEO***

Okay.

Jonathan Hains - ***NLI International - Analyst***

Jonathan Hains with NLI International. DCP midstream, obviously there's a lot of commodity price exposure there and I'm wondering with the MLP that you're setting up, why did you choose to go that route instead of adding those assets to DCP and making that a more diversified entity that has less volatility?

Greg Garland - ***Phillips 66 - CEO***

I think if -- well, first of all, we think there's more value for PSX shareholders to have our own PSX MLP. When you think about the qualifiable assets that we have, a lot of them are proprietary systems and they're the pipe that feeds the refinery, or the pipe that takes it away. And frankly, we want total control the GP, and that's the reason why we want to have our own PSX MLP.

I think rightly we can be criticized, we haven't moved as aggressively as we could with the DPM, and as you think about that aggressive capital program we have at DCP our intent is still to dividend 90% of the net income back to ourselves and Spectra Energy. DCP is going to fund their growth via their own balance sheet, about a third of it, and two thirds by doing drops into their MLP.

So I think what you see is that the growth of the DPM MLP accelerates over time. That's part of the plan that we have.

Unidentified Company Representative

(Inaudible - microphone inaccessible).

Faisel Khan - ***Citigroup - Analyst***

Thanks. Faisel Khan with Citigroup. Just a question on the -- your disclosure of the 50% of the proprietary racks you own, does that show up on your reconciliation and transportation EBITDA? I have a follow up after that.

Greg Garland - ***Phillips 66 - CEO***

Why don't you take that, Tim?

Tim Taylor - ***Phillips 66 - EVP - Commercial Marketing Transportation & Business Development***

Yes, there are fees for that and it's really -- we look at that more - probably that was really more in reference not to that, but to the fact that it's a way to insure the product pull through by having proprietary rack access in a sure take off capability there.

Faisel Khan - ***Citigroup - Analyst***

Okay, and then, as you look at all the different avenues that you can pull crude into your refineries, pipelines, rail, trucks, barges, all that sort of stuff, it seems like the incident rates on pipelines, or the safety rates on pipelines are much more stable or much more safer than some of the other modes of transportation. How do you guys think about the risk and reward of using these other modes of transportation into your refineries where the rates of incidence on rail can be 20 times higher than on pipes and even 100 times higher on truck.

And then, what's the payback period for some of these investments you make in these kind of logistics sort of assets given that crude spreads are so volatile.

Greg Garland - ***Phillips 66 - CEO***

So, our rail car purchase probably has a payout less than a year on 2000 cars, quick payout. You think about the incident rate -- we handle hydrocarbons every day, it's part of what we do. You think about pipelines, we have pipelines that run under rivers, that run through high impact urban areas and so there are risks with pipes but you manage that risk in terms of how you maintain the assets -- integrity of those assets and what's why we spend money to maintain those assets.

We think about risks for rail. Part of it is a shared responsibility with the carrier and working with the carriers on their programs and I think part of it is the routing that they take with the rail, but I don't think it causes us undue concern in terms of if we're going to truck -- we're trucking probably 10,000 barrels a day around Ponca to get Mississippi lime into Ponca today and some of this is third party, some of its proprietary, but we have extensive audit programs where we go in and work with these services providers to insure the integrity of their systems, the reliability of their systems and how they maintain their systems, the training of their people, et cetera. So, I think we're pretty involved in terms of how we work that because when we think about operational excellence, we think about safety, it really stems beyond just our own facilities but to those people that are working with us and for us.

Unidentified Company Representative

Yes?

Kate Minyard - ***JPMorgan - Analyst***

Thanks, it's Kate Minyard with JPMorgan. Looking at the importance of advantage crude over the long term to your margin enhancement as you're looking at kind of a mean reversion and refining margins, have you considered long term crude supply agreements to lock in some of the advantages crudes?

And then, my second question is you've talked before about an evolution of capital employed by segment. I noticed it wasn't in this presentation, so can you talk a little bit about the evolution over the next five to eight years of capital employed, distributed among the refining, midstream, and chemicals segments? Thanks.

Greg Garland - ***Phillips 66 - CEO***

So, we do term contracts, long term contracts are difficult to do in this space. We also choose to be exposed to commodity prices. We think that makes sense for us. So, we really don't hedge any of our production. There's other ways investors want to do that, then they can certainly do that. So we think we get bought - for one of the things we get bought for is for commodity exposure and risk.

So capital employed is a hard one. We originally started that pie chart with capital employed and one of the things you quickly realize is that with these -- the joint ventures of DCP and CPChem in particular, you've got big investment coming in, it's really the equity earnings, undistributed earnings that start driving that change in capital employed. And so that's really not a fair way for us to think about that. It's -- I really think about the EBITDA and EBITDA growth over time versus capital employed.

Clayton Reasor *- Phillips 66 - SVP - IR, Strategy & Corporate Relations*

Over here, Phil?

Philip Weiss *- Argus Research - Analyst*

Hi, -- hi, Greg. Phil Weiss, Argus Research. When you think about your distributions, and I know you're out -- you're doing some for dividend and some for share purchase. How do you think about value of your stock in terms of making that decision? Is that part of the equation?

Greg Garland *- Phillips 66 - CEO*

Yes, I think that -- one of indictments against management is they tend to buy high and sell low and we certainly don't want to get caught in that trap. It's not in the best interest of our shareholders who disclose what that number is. I think as -- I do look at the multiples and I think as long as we're trading that at a discount, we're going to be buying shares and so I'd probably just leave it there, Phil.

It's kind of hard for me to see up here with the lights in my eyes. So just point. Yes, thanks Rosy.

Brad Olsen *- Tudor Pickering & Holt - Analyst*

Hi, this is Brad Olsen from Tudor Pickering. I've got a couple questions about the use of excess cash. As you think about exiting 2013 at the bottom of your long term debt to cap range, is it reasonable to expect that once you hit kind of the 20% debt to cap level that that incremental free cash will be disproportionately used to buy back shares to the extent that it exceeds the level of a sustainable dividend?

Greg Garland *- Phillips 66 - CEO*

We don't have plans to reduce debt below $6 billion. As you think about it, 2013 probably is going to be a pretty good year, from all we can see right now, in terms of margins. I don't think it's going to be as good as say '11 or '12. Chem's probably going to have a great year. Think the midstream is going to continue to have a volatile period of time with NGL prices. So, I think that cash generation will be pretty good next year and so our preference is going to be to pay a dividend, increase the dividend first order of priority. Then we'll consider share repurchases, and then as a third priority, we would consider special dividends, but we clearly prefer share repurchase over special dividends.

And then the other thing is growth opportunities. We may have the additional investment in growth opportunities. We've been working the midstream and logistics sectors. We have some capital in there in 2013 but there may be additional projects that we want to proceed with next year on that. So, we'll just have to see where we're going next year, how these projects develop, how cash generation goes, but specifically answer your question, it's dividend, grow the dividend, share repurchase.

Brad Olsen *- Tudor Pickering & Holt - Analyst*

And just one more on the use of cash, this is a MLP related, but I think it's something that doesn't hit too much on the actual offering. As you think about the MLP strategy and the use of an MLP, do you think of it more as a way to raise cash and maybe create a more sustainable cash return to PSX shareholders, or do you think of the incremental cash coming in the door from MLP financings as cash that is going to be used predominantly to grow the midstream business further?

Greg Garland *- Phillips 66 - CEO*

So, I think we've said this morning that we're going to use the MLP as a vehicle to more aggressively grow investments in infrastructure and without that in our toolkit, we probably wouldn't be as aggressive in growing that infrastructure space. So our view is it helps accelerate growth.

Faisel Khan - ***Citigroup - Analyst***

Faisel Khan with some follow ups. On the Jones Act -- Jones Act tankers that you guys secured, did you ever look at getting a Jones Act waiver and how competitively prices are these tankers versus other on the water tankers?

Greg Garland - ***Phillips 66 - CEO***

Okay, so we've -- I think we've looked at waivers, they're difficult to get. There's about 30, I think, Jones Act vessels out there and so they're hard to come by, there's a limited supply and I couldn't hear the last part of your question, Faisel.

Faisel Khan - ***Citigroup - Analyst***

What's the cost of getting -- using that tanker to get crude from the gulf coast to Bayway.

Greg Garland - ***Phillips 66 - CEO***

I'd say $2 to $3.

Faisel Khan - ***Citigroup - Analyst***

Okay, got you. And then, just on the distribution from your joint ventures. You talked about the capital expenditures at DCP at CPChem and you said that you'd still be able to receive distributions from those companies even with the capital expenditures at those companies. But what's the level of distributions you expect from those joint ventures? Is it similar to earnings, less than earnings? Or how should we look at that?

Greg Garland - ***Phillips 66 - CEO***

So, I mean we typically don't give guidance. But historically at CPChem it's been about 50% of net income, I would think it's going to be close in that range. There's one year in the plan around 2015 or so when we're doing the heavy lifting on the cracker that it comes down a little below that. But 2013 and '14 certainly I think the cash from them is going to be 50% or so of net income as you think about that.

Unidentified Audience Member

(Inaudible - microphone inaccessible).

Greg Garland - ***Phillips 66 - CEO***

We'll do two more, as he got a mic in his hand.

Paul Cheng - ***Barclays Capital - Analyst***

Hi, Greg. Just a quick question, what is the minimum liquidity requirement for you guys to feel comfortable running the business and also if there's further [sweet debt] how much is the minimum cash that you feel comfortable on the balance sheet also. Thank you.

Greg Garland - ***Phillips 66 - CEO***

$5 billion to $7 billion of liquidity in that range I think is what we've typically said. So, we've got $4 billion revolver,$5 billion -- $1 billion receivable securitization and we want to hold $2 billion to $3 billion of cash on top of that. So, that kind of puts you in that range. It really depends on what's going on and 2008, 2009, you wanted quite a bit of cash because you just -- liquidity wasn't there.

Unidentified Company Representative

Yes, sir.

Unidentified Audience Member

Just a follow on, you've $1 billion in your specialty market in that area, some of those businesses, you said you're going to grow, some are probably more stable, could you just sort of help us out with a sort of an EBITDA growth or some kind of general growth perception for that business? Thank you.

Greg Garland - ***Phillips 66 - CEO***

So, that's a pretty stable business for us. A lot of it is marketing if you can see. And I would say that's 2% to 3% type growth. It's -- when you think about our European marketing, that's a market that's kind of flat to declining and so it's hard, you're growing share there, and so don't expect that that's going to grow. Where we're going to grow is in our lubes business and some of our specialty chemicals that we have, like flow improvers and I don't know, Tim, if you have a feel or number you want to give in that area, but?

Tim Taylor - ***Phillips 66 - EVP - Commercial Marketing Transportation & Business Development***

I think that's a pretty good pretty good ballpark to what we think about in terms of the composite piece of that.

Unidentified Audience Member

Okay, good.

Greg Garland - ***Phillips 66 - CEO***

Well, let me wrap it up, thank you so much for being here or our first Phillips 66 analyst's day. It was a pleasure to be with you. We wish all of you happy holidays and safe and a prosperous new year. Thank you.

Exhibit S

HYDROCARBON
PROCESSING

US refiners don’t care if Keystone XL pipeline gets built

09.04.2013 | **HP News Services**

Keywords:

By BEN LEFEBVRE

US companies that refine oil increasingly doubt that the controversial Keystone XL pipeline expansion will ever be built, and now they don't particularly care.

Railroads are carrying soaring amounts of crude from Canada down to refineries along the US Gulf Coast, reducing the need for the TransCanada project, which is still awaiting approval from the US government after two years of delays.

Meanwhile, rival Enbridge is expanding existing pipes to carry Canadian crude south -- and it doesn't need federal permission because it's using existing pipeline rights of way. In addition, so much oil is sloshing around the US from its own wells that refiners don't need lots more heavy crude from the north to keep busy.

"Keystone XL has been back-burnered for so long that any relevant parties have been able to make plans as though the project never even existed in the first place," says Sam Margolin, an analyst at Cowen & Co.

TransCanada designed the proposed conduit to ship 830,000 bpd of heavy crude from western Canada, as well as lighter-grade oil from North Dakota shale fields, to the US refining complex along the Gulf of Mexico.

The cross-border Keystone project, billed as a way to reduce heavy oil imports from Venezuela and Mexico, requires a permit from the US State Department.

Concerns about the pipeline's possible environmental impact and legal skirmishes over the company's use of eminent domain to acquire land along the pipeline's proposed route have also bogged down the project.

TransCanada says that the case for building Keystone XL remains strong and that it hopes the US State Department will decide whether to grant the construction permits by the end of this year .

But refiners are moving ahead with other plans. Valero Energy had signed to receive oil from Keystone XL when the project was first announced and spent billions of dollars upgrading some of its US Gulf Coast refineries to turn heavy Canadian crude into gasoline and diesel.

But it says it no longer considers the pipeline critical to its business. The company is now expanding rail terminals at its refineries in Benicia, Calif.; St. James, La.; and Quebec to receive more crude oil shipments, including heavy Canadian crude. Part of the reason is the long wait for Keystone.

"If we just sat around and waited for Washington, we'd never get anything done," Valero spokesman Bill Day said.

Nearly 200,000 rail cars in Canada carried crude oil or fuel during the first seven months of 2013, up 20% from the year before, according to the latest data from the American Association of Railroads.

Refiners along the US Gulf Coast are also taking advantage of the boom in light, sweet crude coming out of Texas and North Dakota. That oil is easier to process than heavy oil from Canada, Venezuela and Mexico, and as the supply has increased, the demand for heavy crudes at many refineries has diminished.

Enbridge, TransCanada's cross-town rival, plans to spend $2.4 billion to expand several pipelines in its Lakehead system by 2014. Such an expansion would bring 1.2 million bpd of crude oil from Canada and North Dakota to the Midwest, where it could then be shipped to the Gulf Coast via the Seaway pipeline that Enbridge owns with Enterprise Products.

Oil producers in Canada are still pushing for Keystone. Imperial Oil, an affiliate of ExxonMobil, and other companies have argued that they need the pipeline to give them more access to the US Gulf Coast, which is one of the few places in the world able to handle large volumes of heavy crude oil. The Canadian Association of Petroleum Producers says that without the pipeline, production from oil sands will exceed shipping capacity by 2016.

But even as they hope for the project's approval, some producers in Canada are making other plans. Cenovus Energy Inc. has signed contracts to send 200,000 bpd to Canada's east coast via TransCanada's Energy East pipeline and 175,000 bpd to the country's west coast on a Kinder Morgan pipeline, spokeswoman Rhona DelFrari said.

"The long wait for the Keystone XL decision has created uncertainty for the oil industry," Ms. DelFrari added. "We're not putting all our eggs in one basket."

Dow Jones Newswires

Exhibit T

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Analysis: California refiners dreamin' of shale oil face hurdles

By

Published December 17, 2012

| Reuters

HOUSTON – Two years on, a gusher of U.S. shale oil production is finally starting to seep into California, where refiners in the country's most isolated fuel market are waging an increasingly desperate battle to curb costs.

It's far from certain, however, that cut-priced light crude from eastern Texas or North Dakota will arrive quickly enough or in sufficient volume to revitalize California plants in the same way new domestic oil has rescued East Coast refiners.

The nation's toughest permitting rules, complex new carbon emission limits and a lack of pipeline infrastructure might delay the flow of large-scale shipments until the end of next year or beyond. By then the big discounts on the glut of U.S. inland crude might have diminished, some analysts warn.

For some companies it's a make or break moment. Niche refiner Alon Energy USA Inc - which mainly produces asphalt for which demand has slumped - shut its underutilized southern California refining system in October and November while it builds an offloading facility to bring in inland crude by rail late next year.

It is the only California refiner so far to seek permits to build a rail offloading facility, according to state and local agencies, but others are definitely looking.

Meanwhile, other companies are looking to profit from the price discrepancies that have emerged from the record boom in output from previously untapped shale deposits.

Kirby Corp , the nation's largest tank barge operator, bought rival Penn Maritime last month in a $295 million deal to boost its coastal fleet. Kirby is "starting to discuss" the idea of expanding those operations to the West Coast, moving oil from railway terminals in Washington State to existing marine import docks in California.

Kinder Morgan Energy Partners LP Chief Executive Richard Kinder said there was "very enthusiastic" interest in a project to convert part of an underused natural gas pipeline to move crude to Southern California. The potentially $2 billion project would transport as much as 400,000 bpd of crude from West Texas and experts say it would take at least a year, if not two to complete.

The race is on and the clock is ticking. Other big projects across the United States are well ahead and could shrink the big discounts by 2014, according to Bernstein Research.

"It's entirely possible California refiners decide they can't get this done in time to catch the arbitrage, so refiners wouldn't get the benefit of low-cost crude from the Midcontinent," said David Hackett, president of energy consultancy Stillwater Associates in Irvine, California.

ISOLATED OUT WEST

California's sheer distance from other markets east of the Rocky Mountains - where the big shale fields are located - already sets it apart. No major pipelines carry crude to the West Coast. No major waterways flow east to west into the state's refining hubs. Even the nation's major freight railroads thin out over the mountain range and on the West Coast.

The state's refiners have long depended on crude from now-shrinking fields in California and Alaska as well as Canada, where export infrastructure also has not kept up with rising production. Imported crude from Argentina to Asia now meets half of California's demand, up from just 10 percent in 1995.

Ironically, California has its own huge shale play, the Monterey shale, estimated by the U.S. government to be the biggest such reserve in the country. But output has been disappointing and producers have struggled with geology that differs from other fast-flowing reserves.

So instead, local refiners are angling to bring in oil from places such as the Bakken fields of North Dakota and the Eagle Ford and Permian Basin in Texas, turning to railways to tap into domestic production that is running at its highest in two decades.

The incentive is clear. Bakken was priced at around $82 a barrel on Friday, while roughly similar quality ANS crude from Alaska was nearly $106, according to Reuters data. That's a steal, even accounting for the up to $15 a barrel cost of shipping the oil by rail from North Dakota to the West Coast.

Phillips 66, which runs refineries in Los Angeles and San Francisco, is "looking for everything we can find," says Tim Taylor, executive vice president of commercial, marketing, transportation and business development.

Its West Coast plants already use rail to export refined fuels and have some capacity for unloading crude, he added.

At the moment, it is a trickle, however. While more than 40,000 barrels per day of Bakken crude from North Dakota is moving west to Washington, it struggles to move south.

Tesoro Corp - poised to take control of more than a quarter of the West Coast's refining capacity when it closes a $2.5 billion deal to buy BP Plc's Los Angeles area plant - is taking "a few thousand barrels per day" of Bakken to its California system, Tesoro Chief Executive Greg Goff recently told analysts. He did not specify which plants.

NuStar Energy Lp , a logistics company, is using manifest shipments - individual tank cars that are less economic than dedicated unit trains - to get some inland crude to its terminal just outside the San Francisco Bay area, the company says.

"We expect to see more of these movements west," Goff told analysts. "Regardless of the origination, additional crude oil supply should improve the West Coast crude oil position."

But dedicated terminals are going to be needed to deliver crude in meaningful volume.

For a FACTBOX on West Coast refiners see: [ID:nL1E8NE6BU]

OF CARBON AND PERMITS

The scramble for cheaper crude comes just as California implements a landmark global warming law that requires emissions to match 1990 levels by 2020. Refiners say it might require hundreds of millions of dollars in upgrades to meet the requirements, potentially forcing some of them to quit the market.

One component of that law might also affect efforts to use more domestic crude: The Low Carbon Fuel Standard, or LCFS, that requires California refineries to run crudes produced in environmentally friendly ways.

The regulations have yet to be finalized six years after the law was passed and are now tangled in the courts. But experts say the LCFS could possibly shut out Bakken crude because of associated natural gas flaring during production, or even cheaper Canadian crude because of their emissions.

John Auers, senior vice president and a refinery specialist at Turner, Mason & Co in Dallas, said the method of transport also is likely to play a part in the "carbon intensity," or CI, scale that determines which crudes they are allowed to process. That could tilt the scales in favor of nearby domestic crude, in spite of the higher carbon cost of truck or rail transport.

"Conceptually, I would think that LCFS rules should advantage domestic crude movements to California. That doesn't mean it will," Auers said.

A more definitive obstacle is the permitting process to build new infrastructure. While small-scale deliveries are likely to keep trickling in, new facilities must be built to handle the larger unit trains of 100 tank cars or more.

More than a dozen such terminals have already been built in the past two years, with more than 500,000 barrels a day of crude now running on U.S. railways, according to the Association of American Railroads. Two years ago that was near zero.

But in California, progress is slow.

Alon Chief Executive Paul Eisman told analysts last month that it may take "up to a year" to get all the permits necessary to build the rail offloading terminal near its 94,000 bpd refining complex outside Bakersfield.

"We've been in the queue for a few months, so we think that the permit process at this point is less than a year away," he said. But he added there was still "a lot of uncertainty."

By contrast, Tesoro applied to Washington's state clean air agency for a permit to build its rail facility in July 2011, during the early stages of the Bakken boom. Approval came four months later and shipments of 40,000 bpd began this September.

Hackett said he is confident California refiners will figure out how to tap the growing U.S. flows because it is so cheap compared with imports that they can't ignore it.

"It's not an if, it's a when," he added.

(Reporting By Kirsten Hays. Editing by Andre Grenon)

URL

http://www.foxbusiness.com/news/2012/12/17/analysis-california-refiners-dreamin-shale-oil-face-hurdles859141/

Exhibit U

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Advantaged Crude by the Numbers

Data as of January 31, 2013, unless otherwise noted

Global crude oil refining capacity	2.2 million BPD
U.S. crude oil refining capacity	1.8 million BPD
Average volume of advantaged crude oil processed at Phillips 66 U.S. refineries in the fourth quarter of 2012	1.1 million BPD
Targeted increase in new or increasingly advantaged crude oil processed from 2011 to 2017	500,000 BPD
Number of new crude oil rail cars to be delivered in 2013-2014	2,000
Capacity of each rail car/Total capacity of new rail car fleet	757 barrels/1.5 million barrels
Number of Jones Act Vessels under long-term charter to deliver advantaged crude oil	2
Brent crude price as of February 22, 2013	~$114/barrel
WTI price as of February 22, 2013	~$93/barrel

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Exhibit V

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Does Collapse of the Brent-WTI Spread Threaten Crude-by-Rail?

by Arjun Sreekumar, The Motley Fool Sep 28th 2013 10:00AM
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Over the past few months, the price difference between the two most heavily traded grades of crude oil -- Brent and WTI -- has plunged. This price gap -- known as the Brent-WTI spread -- has fallen from $23 per barrel seen in early February to just under $5 a barrel now.

While the biggest impact has been on U.S. refiners, for whom the spread is a crucial gauge of profitability, many are concerned that the narrowing differentials could also negatively impact railroad shipments of crude oil. Let's take a closer look.

Impact of narrowing Brent-WTI spread on crude-by-rail

The reason the price gap between Brent and WTI matters for the continued growth of rail-based crude oil shipments is because a lower spread makes it less profitable to ship crude by train and makes other options, such as pipelines and even foreign oil imports, relatively more attractive.

A couple of refiners are already finding it more profitable to use foreign crude slates rather than domestically produced oil at some of their facilities. **Phillips 66** recently said it has modified the crude slate at its Bayway Refinery in New Jersey to use less oil shipped from the Bakken and more foreign oil. Similarly, **PBF Energy** has also said it plans to replace some Bakken crude shipments with imported oil at its refinery in Delaware.

This is already having an impact on some companies' crude-by-rail shipment volumes. **Union Pacific** said that lower differentials in the second quarter had an impact on its short-haul crude business in Texas, where a number of major pipelines have gone into service this year, drawing market share away from rail.

Also, **Global Partners** , an oil storage and transport firm that ships crude from the Bakken via train to refining facilities owned by the likes of Phillips 66, reduced its profit expectations for the second half of the year partially because of lower-than-anticipated crude shipments to coastal refineries.

A mixed bag

On the other hand, **Norfolk Southern** said the recent Brent-WTI spread compression hasn't so far impacted pricing or volumes for its crude-by-rail business, which saw a whopping 51% sequential increase in shipments during the quarter.

As these examples highlight, contracting differentials are indeed having a noticeable impact on crude-by-rail volumes in certain parts of the country, especially Texas and other regions that are relatively well served by pipelines. They're also affecting crude-by-rail volumes to some coastal refineries, where shipment costs are much higher.

For instance, shipping crude from the Bakken to an East Coast refinery currently costs roughly $17 per barrel on average, compared to $2 a barrel for importing foreign crudes. In this light, it shouldn't come as a surprise that refiners such as Phillips 66 and PBF Energy are reducing crude-by-rail Bakken shipments and boosting their use of foreign oil.

The bottom line
Looking ahead, however, I don't expect crude-by-rail shipment volumes to fall sharply, though I do suspect they probably won't grow as fast as they have over the past couple of years. Rail still remains one of the most attractive alternatives to pipelines and, in some cases, the only viable option for shipping crude from remote oil-producing regions of the country.

When compared to pipelines, rail frequently offers greater flexibility since it allows shippers to more easily reroute oil based on price differentials, which are constantly in flux. It also offers a much speedier time to market, sometimes two or three weeks faster than pipelines. Lastly, rail features shorter-term contracts than pipelines and lower regulatory risk -- factors prized by many customers.

The article Does Collapse of the Brent-WTI Spread Threaten Crude-by-Rail? originally appeared on Fool.com.

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