ELLIOTT

Elliott Investment Management L.P.
360 S Rosemary Ave, 18th Floor, West Palm Beach, FL 33401

February 11, 2025

The Board of Directors
Phillips 66
2331 CityWest Boulevard
Houston, TX 77042

Dear Members of the Board:

We are writing to you on behalf of funds managed by Elliott Investment Management L.P. (together with such funds, "Elliott" or "we"). We have an investment of more than $2.5 billion in Phillips 66 (the "Company" or "Phillips"), making us one of your top five investors.

As you know, this is not the first time we have publicly shared our views on Phillips' opportunities and challenges. In November of 2023, we published a letter to the Board noting the Company's ambitious targets in the areas of operational improvement, portfolio-streamlining and improved capital return to shareholders. To repair Phillips' damaged credibility with investors and ensure the right oversight and accountability, we called for collaboration on the addition of two new directors with refining-operation experience. And if Phillips failed to show material progress, we suggested an alternative path similar to the one taken by Marathon Petroleum ("Marathon") following our engagement there in 2019. In that situation, board and management enhancements led to operational improvement, portfolio-rationalization and significant long-term share-price outperformance. Since our engagement, Marathon's total shareholder return has outperformed Valero Energy Corp. ("Valero") by 120% and Phillips by 178%.[1]

The 2023 publication of these views put a spotlight on the significant opportunity present at Phillips and initially sparked market optimism for a long-overdue turnaround at the Company. Unfortunately for investors, patience has been punished.

As detailed in the enclosed presentation, available at **Streamline66.com**, Phillips has failed to make meaningful progress on its targets. It abandoned serious collaboration on Board and corporate governance improvements by failing to honor its commitment to add a second director and reverting to a combined CEO-Chairman role. And despite possessing valuable assets and a clear, achievable path to realizing their full potential, Phillips' total shareholder return has continued to disappoint, lagging well behind peers. Over the past decade, Phillips has underperformed Valero by 138% and Marathon by 188%.[2]

This experience has been frustrating but has clarified the scale of the problem and reinforced the urgent need for the Company to pursue an alternative path, namely (i) an overhaul of the Company's conglomerate structure, (ii) demonstrable improvements in its operating performance and (iii) a refresh of the Board and executive team.

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[1] Bloomberg, from 9/24/2019 (the day prior to Elliott's public presentation) to 2/7/2025
[2] Bloomberg, as of 2/7/2025

We remain committed, engaged investors in Phillips due to our conviction in the significant opportunity for value creation represented by the quality of the Company's assets. These underappreciated assets benefit from significant scale and strong competitive positioning across the Company's businesses. In addition to its core refining business, Phillips has a highly valuable midstream business focused on the NGL value chain and a world-class chemicals joint venture.

However, Phillips today trades at a substantial discount to a sum-of-its-parts valuation, and investors have plainly lost confidence in the Company's ability to unlock this value under its current structure.

We believe the factors driving this underperformance are clear:

- *Conglomerate Structure*: Phillips' inefficient structure obscures the true value of its assets. Within a single conglomerate, the Company's disparate businesses lack a natural shareholder base and a coherent equity story. Phillips delivers weaker capital returns than leading refiners and slower growth than midstream peers, resulting in the worst of both worlds for investors. This structure hinders management's ability to focus on the unique needs of each business, weakening its ability to drive operational excellence.

- *Poor Operating Performance*: Phillips has repeatedly failed to meet key targets. The Company's 2024 refining EBITDA per barrel has trailed best-in-class peer Valero by $3.75 per barrel, widening to a $4.75 per barrel shortfall in the most recent fourth quarter.[3] Former employees and other industry executives have described Phillips as a company unable to control costs or stay commercially competitive, citing a management team and Board that continue to lack refinery operating experience and have outsourced key operational initiatives to management consultants.

- *Damaged Credibility*: Persistent financial misses and the pursuit of acquisitions instead of portfolio simplification have eroded investor confidence in management. The market still does not appear to take this leadership team's 2025 and new 2027 mid-cycle EBITDA targets seriously. Worse, the management team's continuous claims of a successful turnaround without corresponding tangible financial results have further eroded its credibility. Long-term shareholders recall the 2019 Analyst Day "AdvantEdge66," where management's claims fell far short of Phillips' actual operating performance. Even the Company's recent $3 billion in promised divestitures, initially earmarked for shareholder returns or debt reduction, was immediately redeployed into a near equivalent amount of new acquisitions. The Board has repeatedly failed in its fundamental oversight duties, rewarding management with compensation disconnected from the Company's performance.

As detailed in our "Streamline66" presentation, we believe Phillips can resolve these issues through decisive action. Another year of empty rhetoric and broken promises is unacceptable. We believe that Phillips must pursue the following initiatives without delay:

[3] Company filings, Q4 2024 earnings, see analysis in enclosed presentation

1) **Streamline Portfolio** – Phillips' world-class midstream business should be sold or spun off, as we believe it could command a premium valuation in excess of $40 billion.[4] This standout business should separate from a corporate structure that both diminishes and obscures its value. Phillips should also sell its interest in CPChem, an asset that we believe would likely attract significant interest from its existing JV partner or other potential buyers. The Company should execute on the frequently discussed sale of its JET retail operations in Germany and Austria. Divesting non-core assets, such as CPChem and select European retail operations, would allow Phillips to increase capital returns to its shareholders and sharpen its focus on operational excellence within its core business.

2) **Operating Review** – A more focused Phillips can better prioritize refining profitability. The Company should commit to ambitious refining targets that reflect best-in-class performance. We reaffirm our November 2023 call for Phillips to close the EBITDA-per-barrel gap with its peers, a gap that has actually widened since our initial engagement with the Company.

3) **Enhanced Oversight** – Meeting operational targets requires a comprehensive review of the Company's management team. In addition, fresh perspectives on the Board would strengthen this leadership evaluation. Phillips should add new independent directors to bolster accountability and improve oversight of management initiatives.

Taken together, this plan offers a pathway for restored investor credibility and a realization of the full value of the Company's attractive asset base, which is currently obscured by its conglomerate structure. More than a decade ago, after spinning out its refining and midstream assets, Conoco became a purpose-built upstream business that has flourished. The mix of assets that became Phillips in 2012 has since lacked cohesion, limiting the potential of its disparate businesses. A transformation of Phillips is long overdue.

The past year has provided strong evidence that change is needed. In our November 2023 letter, we wrote, "At present, we believe [CEO Mark] Lashier and the rest of the management team deserve investor support so long as they demonstrate meaningful progress against [their financial] targets." Since then, Phillips has failed to do so. As such, investor support has evaporated. The Board and management team must now recognize the severity of their credibility crisis and seize the opportunity to address it by pursuing the initiatives outlined above.

Sincerely,

John Pike	Mike Tomkins
Partner	Senior Portfolio Manager

[4] See analysis in enclosed presentation