Phillips 66
Form 10-Q
October 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-35349
Phillips 66
(Exact name of registrant as specified in its charter)

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

2331 CityWest Blvd., Houston, Texas 77042
(Address of principal executive offices) (Zip Code)
281-293-6600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]
Smaller reporting company [ ] Emerging growth company [ ]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]
The registrant had 506,740,487 shares of common stock, $.01 par value, outstanding as of September 30, 2017.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income Phillips 66

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Revenues and Other Income				
Sales and other operating revenues*	$25,627	21,624	72,608	60,882
Equity in earnings of affiliates	530	391	1,357	1,159
Net gain on dispositions	—	3	15	9
Other income	49	24	519	59
Total Revenues and Other Income	26,206	22,042	74,499	62,109
Costs and Expenses				
Purchased crude oil and products	19,463	15,961	55,495	44,089
Operating expenses	1,134	1,061	3,541	3,078
Selling, general and administrative expenses	435	411	1,258	1,218
Depreciation and amortization	337	293	972	863
Impairments	1	2	18	4
Taxes other than income taxes*	3,456	3,424	9,968	10,479
Accretion on discounted liabilities	5	5	16	15
Interest and debt expense	112	81	324	250
Foreign currency transaction (gains) losses	7	(9)	6	(16)
Total Costs and Expenses	24,950	21,229	71,598	59,980
Income before income taxes	1,256	813	2,901	2,129
Provision for income taxes	407	277	908	679
Net Income	849	536	1,993	1,450
Less: net income attributable to noncontrolling interests	26	25	85	58
Net Income Attributable to Phillips 66	$823	511	1,908	1,392
Net Income Attributable to Phillips 66 Per Share of Common Stock (dollars)				
Basic	$1.60	0.97	3.68	2.62
Diluted	1.60	0.96	3.66	2.61
Dividends Paid Per Share of Common Stock (dollars)	$0.70	0.63	2.03	1.82
Weighted-Average Common Shares Outstanding (thousands)				
Basic	512,923	525,991	517,420	528,650
Diluted	515,960	528,798	520,516	531,650
* Includes excise taxes on petroleum products sales:	$3,376	3,357	9,664	10,225

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income Phillips 66

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net Income	$849	536	1,993	1,450
Other comprehensive income (loss)				
Defined benefit plans				
Actuarial loss arising during the period	—	(28)	—	(28)
Amortization to net income of net actuarial loss and settlements	45	23	145	70
Curtailment gain	—	31	—	31
Plans sponsored by equity affiliates	2	2	8	11
Income taxes on defined benefit plans	(17)	(9)	(56)	(29)
Defined benefit plans, net of tax	30	19	97	55
Foreign currency translation adjustments	94	(61)	222	(183)
Income taxes on foreign currency translation adjustments	1	(1)	(8)	(4)
Foreign currency translation adjustments, net of tax	95	(62)	214	(187)
Cash flow hedges	—	4	—	(12)
Income taxes on hedging activities	—	(1)	—	5
Hedging activities, net of tax	—	3	—	(7)
Other Comprehensive Income (Loss), Net of Tax	125	(40)	311	(139)
Comprehensive Income	974	496	2,304	1,311
Less: comprehensive income attributable to noncontrolling interests	26	25	85	58
Comprehensive Income Attributable to Phillips 66	$948	471	2,219	1,253

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Phillips 66

	Millions of Dollars	
	September 30 2017	December 31 2016
Assets		
Cash and cash equivalents	$1,547	2,711
Accounts and notes receivable (net of allowances of $31 million in 2017 and $34 million in 2016)	5,421	5,485
Accounts and notes receivable—related parties	934	912
Inventories	4,455	3,150
Prepaid expenses and other current assets	578	422
Total Current Assets	12,935	12,680
Investments and long-term receivables	13,899	13,534
Net properties, plants and equipment	21,303	20,855
Goodwill	3,270	3,270
Intangibles	884	888
Other assets	421	426
Total Assets	$52,712	51,653
Liabilities		
Accounts payable	$6,404	6,395
Accounts payable—related parties	867	666
Short-term debt	706	550
Accrued income and other taxes	901	805
Employee benefit obligations	482	527
Other accruals	545	520
Total Current Liabilities	9,905	9,463
Long-term debt	9,495	9,588
Asset retirement obligations and accrued environmental costs	629	655
Deferred income taxes	7,605	6,743
Employee benefit obligations	877	1,216
Other liabilities and deferred credits	242	263
Total Liabilities	28,753	27,928
Equity		
Common stock (2,500,000,000 shares authorized at $.01 par value)		
Issued (2017—643,419,792 shares; 2016—641,593,854 shares)		
Par value	6	6
Capital in excess of par	19,652	19,559
Treasury stock (at cost: 2017—136,679,305 shares; 2016—122,827,264 shares)	(9,915)	(8,788)
Retained earnings	13,464	12,608
Accumulated other comprehensive loss	(684)	(995)
Total Stockholders' Equity	22,523	22,390
Noncontrolling interests	1,436	1,335
Total Equity	23,959	23,725
Total Liabilities and Equity	$52,712	51,653

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows Phillips 66

	Millions of Dollars Nine Months Ended September 30 2017	2016
Cash Flows From Operating Activities		
Net income	$ 1,993	1,450
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	972	863
Impairments	18	4
Accretion on discounted liabilities	16	15
Deferred taxes	784	467
Undistributed equity earnings	(543)	(772)
Net gain on dispositions	(15)	(9)
Gain on consolidation of business	(423)	—
Other	(234)	(192)
Working capital adjustments		
Decrease (increase) in accounts and notes receivable	(33)	185
Decrease (increase) in inventories	(1,228)	(510)
Decrease (increase) in prepaid expenses and other current assets	(106)	(453)
Increase (decrease) in accounts payable	464	1,025
Increase (decrease) in taxes and other accruals	52	223
Net Cash Provided by Operating Activities	1,717	2,296
Cash Flows From Investing Activities		
Capital expenditures and investments	(1,295)	(2,031)
Proceeds from asset dispositions*	65	159
Advances/loans—related parties	(9)	(266)
Collection of advances/loans—related parties	325	107
Restricted cash received from consolidation of business	318	—
Other	(80)	(132)
Net Cash Used in Investing Activities	(676)	(2,163)
Cash Flows From Financing Activities		
Issuance of debt	3,083	400
Repayment of debt	(3,161)	(418)
Issuance of common stock	23	14
Repurchase of common stock	(1,127)	(812)
Dividends paid on common stock	(1,042)	(954)
Distributions to noncontrolling interests	(83)	(45)
Net proceeds from issuance of Phillips 66 Partners LP common units	171	972
Other	(66)	(38)
Net Cash Used in Financing Activities	(2,202)	(881)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	(3)	11
Net Change in Cash, Cash Equivalents and Restricted Cash	(1,164)	(737)

Cash, cash equivalents and restricted cash at beginning of period	2,711	3,074
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 1,547	2,337

* Includes return of investments in equity affiliates and working capital true-ups on dispositions.
See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity Phillips 66

	Millions of Dollars						
	Attributable to Phillips 66						
	Common Stock						
	Par Value	Capital in Excess of Par	Treasury Stock	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
December 31, 2015	$6	19,145	(7,746)	12,348	(653)	838	23,938
Net income	—	—	—	1,392	—	58	1,450
Other comprehensive loss	—	—	—	—	(139)	—	(139)
Cash dividends paid on common stock	—	—	—	(954)	—	—	(954)
Repurchase of common stock	—	—	(812)	—	—	—	(812)
Benefit plan activity	—	66	—	(11)	—	—	55
Issuance of Phillips 66 Partners LP common units	—	263	—	—	—	555	818
Distributions to noncontrolling interests and other	—	—	—	—	—	(45)	(45)
September 30, 2016	$6	19,474	(8,558)	12,775	(792)	1,406	24,311
December 31, 2016	$6	19,559	(8,788)	12,608	(995)	1,335	23,725
Net income	—	—	—	1,908	—	85	1,993
Other comprehensive income	—	—	—	—	311	—	311
Cash dividends paid on common stock	—	—	—	(1,042)	—	—	(1,042)
Repurchase of common stock	—	—	(1,127)	—	—	—	(1,127)
Benefit plan activity	—	48	—	(10)	—	—	38
Issuance of Phillips 66 Partners LP common units	—	45	—	—	—	99	144
Distributions to noncontrolling interests and other	—	—	—	—	—	(83)	(83)
September 30, 2017	$6	19,652	(9,915)	13,464	(684)	1,436	23,959

	Shares in Thousands	
	Common Stock Issued	Treasury Stock
December 31, 2015	639,336	109,926
Repurchase of common stock	—	10,141
Shares issued—share-based compensation	1,581	—
September 30, 2016	640,917	120,067
December 31, 2016	641,594	122,827
Repurchase of common stock	—	13,852
Shares issued—share-based compensation	1,826	—
September 30, 2017	643,420	136,679

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements Phillips 66

Note 1—Interim Financial Information

The interim financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments necessary, in the opinion of management, for a fair presentation of the consolidated financial position of Phillips 66 and its results of operations and cash flows for the periods presented. Unless otherwise specified, all such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these interim financial statements should be read in conjunction with the consolidated financial statements and notes included in our 2016 Annual Report on Form 10-K. The results of operations for the three- and nine-month periods ended September 30, 2017, are not necessarily indicative of the results to be expected for the full year. Certain prior period financial information has been recast to reflect the current year's presentation.

Note 2—Changes in Accounting Principles

Effective January 1, 2017, we early adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates the second step from the goodwill impairment test. Under the revised test, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is applied prospectively to goodwill impairment tests performed on or after January 1, 2017.

Effective January 1, 2017, we early adopted ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The new update clarifies the classification and presentation of changes in restricted cash. The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Adoption of this ASU on a retrospective basis did not have a material impact on our financial statements. See Note 17—Restricted Cash for more information.

Effective January 1, 2017, we early adopted ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The new update clarifies how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. In addition, ASU No. 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. Adoption of this ASU on a retrospective basis did not have a material impact on our financial statements.

Effective January 1, 2017, we adopted ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment award transactions, including accounting for income taxes and classification of excess tax benefits on the statement of cash flows, forfeitures and minimum statutory tax withholding requirements. Adoption of this ASU on a prospective basis did not materially impact our financial position, results of operations, or cash flows. We account for forfeitures of awards when they occur and excess tax benefits, which were previously reported in cash flows from financing activities, are now reported in cash flows from operating activities on a prospective basis.

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Note 3—Variable Interest Entities (VIEs)

Consolidated VIEs
In 2013, we formed Phillips 66 Partners LP, a master limited partnership, to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and natural gas liquids (NGL) pipelines and terminals, as well as other midstream assets. We consolidate Phillips 66 Partners, as we determined that Phillips 66 Partners is a VIE and we are the primary beneficiary. As general partner of Phillips 66 Partners, we have the ability to control its financial interests, as well as the ability to direct the activities that most significantly impact its economic performance. See Note 21—Phillips 66 Partners LP, for additional information.

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

	Millions of Dollars	
	September 30 2017	December 31 2016
Equity investments*	$1,265	1,142
Net properties, plants and equipment	2,675	2,675
Long-term debt	2,273	2,396

* Included in "Investments and long-term receivables" on the Phillips 66 consolidated balance sheet.

Non-consolidated VIEs
We hold variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary.

Merey Sweeny, L.P. (MSLP) is a limited partnership that owns a delayed coker and related facilities at the Sweeny Refinery. Under the agreements that governed the relationships between the former co-venturers in MSLP, certain defaults by Petróleos de Venezuela S.A. (PDVSA) with respect to supply of crude oil to the Sweeny Refinery triggered the right to acquire PDVSA's 50 percent ownership interest in MSLP. The call right was exercised in August 2009. The exercise of the call right was challenged, and the dispute was arbitrated in our favor and subsequently litigated. Through February 7, 2017, we determined MSLP was a VIE and used the equity method of accounting because the exercise of the call right remained subject to legal challenge. As discussed more fully in Note 5—Business Combinations, the exercise of the call right ceased to be subject to legal challenge in February 2017. At that point, we no longer considered MSLP a VIE and began consolidating the entity as a wholly owned subsidiary.

We have a 25 percent ownership interest in both Dakota Access, LLC (DAPL) and Energy Transfer Crude Oil Company, LLC (ETCO), which collectively own the Bakken Pipeline. These entities did not have sufficient equity at risk to fully fund the construction of all assets required for principal operations, and thus represented VIEs until operations commenced. On June 1, 2017, these entities commenced operations and were no longer considered VIEs. We use the equity method of accounting for these investments.

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Note 4—Inventories

Inventories consisted of the following:

	Millions of Dollars	
	September 30 2017	December 31 2016
Crude oil and petroleum products	$4,172	2,883
Materials and supplies	283	267
	$4,455	3,150

Inventories valued on the last-in, first-out (LIFO) basis totaled $4,059 million and $2,772 million at September 30, 2017, and December 31, 2016, respectively. The estimated excess of current replacement cost over LIFO cost of inventories amounted to approximately $3.8 billion and $3.3 billion at September 30, 2017, and December 31, 2016, respectively.

Certain planned reductions in inventory that are not expected to be replaced by the end of the year cause liquidations of LIFO inventory values. LIFO inventory liquidations during the three- and nine-month periods ended September 30, 2017, were not material. Excluding the disposition of the Whitegate Refinery, LIFO liquidations during the three- and nine-month periods ended September 30, 2016, decreased net income by approximately $13 million and $71 million, respectively.

In conjunction with the Whitegate Refinery disposition, the refinery's LIFO inventory values were liquidated causing a decrease in net income of $62 million during the three- and nine-month periods ended September 30, 2016. This LIFO liquidation impact was included in the gain recognized on the disposition.

Note 5—Business Combinations

MSLP owns a delayed coker and related facilities at the Sweeny Refinery, and its results are included in our Refining segment. Prior to August 28, 2009, MSLP was owned 50/50 by ConocoPhillips and PDVSA. Under the agreements that governed the relationships between the partners, certain defaults by PDVSA with respect to supply of crude oil to the Sweeny Refinery triggered the right, exercised in August 2009, to acquire its 50 percent ownership interest in MSLP for a purchase price determined by a contractual formula. As the distributions PDVSA received from MSLP exceeded the amounts it contributed to MSLP, the contractual formula required no cash consideration for the acquisition. The exercise was challenged, and the dispute was arbitrated in our favor and subsequently litigated. While the dispute was being arbitrated and litigated, we continued to use the equity method of accounting for our 50 percent interest in MSLP. When the exercise of the call right ceased to be subject to legal challenge on February 7, 2017, we deemed that the acquisition was complete and began accounting for MSLP as a wholly owned consolidated subsidiary.

Based on a third-party appraisal of the fair value of MSLP's net assets, utilizing discounted cash flows and replacement costs, the acquisition of PDVSA's 50 percent interest resulted in our recording a pre-tax gain of $423 million in the first quarter of 2017. This gain was included in the "Other income" line on our consolidated statement of income. The fair value of our original equity interest in MSLP immediately prior to the deemed acquisition was $145 million. As a result of the transaction, we recorded $318 million of restricted cash, $250 million of properties, plants and equipment (PP&E) and $238 million of debt, as well as a net $93 million for the elimination of our equity investment in MSLP and net intercompany payables. Our acquisition accounting was finalized during the first quarter of 2017.

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In November 2016, Phillips 66 Partners acquired NGL logistics assets located in southeast Louisiana, consisting of approximately 500 miles of pipelines and storage caverns connecting multiple fractionation facilities, refineries and a petrochemical facility. The acquisition provided an opportunity for fee-based growth in the Louisiana market within our Midstream segment. The acquisition was included in the “Capital expenditures and investments” line on our consolidated statement of cash flows. At the acquisition date, we recorded $183 million of PP&E and $3 million of goodwill. Our acquisition accounting was finalized during the first quarter of 2017, with no change to the provisional amounts recorded in 2016.

Note 6—Assets Held for Sale or Sold

In June 2017, we entered into an agreement to sell vacant land. In our segment disclosures, the property is included in Corporate and Other. We classified the property as held for sale and transferred $50 million of PP&E to the “Prepaid expenses and other current assets” line on our consolidated balance sheet. We expect to close the sale in the first quarter of 2018, following a contractual inspection period. The net sales proceeds are expected to approximate the carrying value of the land.

In September 2016, we completed the sale of the Whitegate Refinery and related marketing assets, which were included primarily in our Refining segment. The net carrying value of the assets at the time of their disposition was $135 million, which consisted of $127 million of inventory, other working capital, and PP&E; and $8 million of allocated goodwill. An immaterial gain was recognized in 2016 on the disposition.

Note 7—Investments, Loans and Long-Term Receivables

Equity Investments

Summarized 100 percent financial information for Chevron Phillips Chemical Company LLC (CPChem) was as follows:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Revenues	$2,287	2,186	7,196	6,526
Income before income taxes	345	372	1,469	1,400
Net income	331	355	1,424	1,343

Related Party Loans and Advances

In the first quarter of 2017, we received payment of the $250 million outstanding principal balance at December 31, 2016, of our sponsor loans to the DAPL and ETCO joint ventures. We also received payment of the $75 million outstanding principal balance of the partner loan to WRB Refining LP (WRB). These cash inflows, totaling $325 million, are included in the “Collections of advances/loans—related parties” line on our consolidated statement of cash flows.

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Note 8—Properties, Plants and Equipment

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

	Millions of Dollars					
	September 30, 2017			December 31, 2016		
	Gross PP&E	Accum. D&A	Net PP&E	Gross PP&E	Accum. D&A	Net PP&E
Midstream	$8,491	1,775	6,716	8,179	1,579	6,600
Chemicals	—	—	—	—	—	—
Refining	22,143	8,805	13,338	21,152	8,197	12,955
Marketing and Specialties	1,610	889	721	1,451	776	675
Corporate and Other	1,104	576	528	1,207	582	625
	$33,348	12,045	21,303	31,989	11,134	20,855

Note 9—Earnings Per Share

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2017		2016		2017		2016	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Amounts attributed to Phillips 66 Common Stockholders (millions):								
Net income attributable to Phillips 66	$823	823	511	511	1,908	1,908	1,392	1,392
Income allocated to participating securities	(1)	—	(2)	(1)	(4)	(1)	(5)	(3)
Net income available to common stockholders	$822	823	509	510	1,904	1,907	1,387	1,389
Weighted-average common shares outstanding (thousands):	509,147	512,923	521,815	525,991	513,583	517,420	524,365	528,650
Effect of stock-based compensation	3,776	3,037	4,176	2,807	3,837	3,096	4,285	3,000
Weighted-average common shares outstanding—EPS	512,923	515,960	525,991	528,798	517,420	520,516	528,650	531,650
Earnings Per Share of Common Stock (dollars)	$1.60	1.60	0.97	0.96	3.68	3.66	2.62	2.61

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Note 10—Debt

At September 30, 2017, no amount had been directly drawn under our $5 billion revolving credit facility; however, we had $200 million of short-term commercial paper outstanding and $51 million of issued letters of credit that were supported by this facility. In addition, at September 30, 2017, there was $87 million outstanding under Phillips 66 Partners' $750 million revolving credit facility. As a result, we had $5.4 billion of total committed capacity available under our credit facilities at September 30, 2017.

Debt Repayments

In May 2017, we repaid $1,500 million of 2.95% Senior Notes upon maturity with the funding from the April 2017 debt issuances discussed below.

Also in May 2017, we repaid $135 million of MSLP 8.85% Senior Notes due in 2019. This debt was recorded as a result of the consolidation of MSLP in February 2017. See Note 5—Business Combinations for additional information regarding MSLP.

Debt Issuances

In April 2017, Phillips 66 completed a private offering of $600 million aggregate principal amount of unsecured notes, consisting of $300 million of Notes due 2019 and $300 million of Notes due 2020. Interest on these notes is a floating rate equal to three-month LIBOR plus 0.65% per annum for the 2019 Notes and three-month LIBOR plus 0.75% per annum for the 2020 Notes. Interest on both series of notes is payable quarterly in arrears on January 15, April 15, July 15 and October 15, commencing in July 2017. The 2019 Notes mature on April 15, 2019, and the 2020 Notes mature on April 15, 2020. The notes are guaranteed by Phillips 66 Company, a wholly owned subsidiary.

Also in April 2017, Phillips 66 entered into term loan facilities with an aggregate borrowing amount of $900 million, consisting of a $450 million 364-day facility and a $450 million three-year facility. Interest on the term loans is a floating rate based on either the Eurodollar rate or the reference rate, plus a margin determined by our long-term credit ratings.

Phillips 66 used the net proceeds from the issuance of the notes, together with the proceeds from the term loans, and cash on-hand to repay its outstanding 2.95% Senior Notes upon maturity in May 2017, for capital expenditures and for general corporate purposes.

Subsequent Events

In October 2017, as part of a contribution of assets to Phillips 66 Partners, Phillips 66 Partners assumed the $450 million of term loans outstanding under the 364-day facility originally issued in April 2017, and repaid those loans shortly thereafter. In addition, Phillips 66 Partners issued $500 million aggregate principal amount of 3.75% Senior Notes due 2028 and $150 million aggregate principal amount of 4.68% Senior Notes due 2045. Interest on the 3.75% Senior Notes due 2028 is payable semiannually in arrears on March 1 and September 1 of each year, commencing on March 1, 2018. The 4.68% Senior Notes due 2045 are an additional issuance of existing Phillips 66 Partners' 4.68% Senior Notes, and interest is payable semiannually in arrears on February 15 and August 15 of each year.

Also in October 2017, we repaid the $200 million of short-term commercial paper outstanding at September 30, 2017.

Note 11—Guarantees

At September 30, 2017, we were liable for certain contingent obligations under various contractual arrangements as described below. We recognize a liability, at inception, for the fair value of our obligation as a guarantor for newly issued or modified guarantees. Unless the carrying amount of the liability is noted below, we have not recognized a liability either because the guarantees were issued prior to December 31, 2002, or because the fair value of the obligation was immaterial. In addition, unless otherwise stated, we are not currently performing with any significance under the guarantee and expect future performance to be either immaterial or have only a remote chance of occurrence.

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Guarantees of Joint Venture Debt

In December 2016, as part of the restructuring within DCP Midstream, LLC (DCP Midstream), we issued a guarantee, effective January 1, 2017, in support of DCP Midstream's debt issued in the first quarter of 2017. At September 30, 2017, the maximum potential amount of future payments to third parties under the guarantee was estimated to be $175 million. Payment would be required if DCP Midstream defaults on this debt obligation, which matures in 2019.

At September 30, 2017, we had other guarantees outstanding for our portion of certain joint venture debt obligations, which have remaining terms of up to 8 years. The maximum potential amount of future payments to third parties under these guarantees is approximately $135 million. Payment would be required if a joint venture defaults on its debt obligations.

Other Guarantees

In 2016, the operating lease commenced on our headquarters facility in Houston, Texas. Under this lease agreement, we have a residual value guarantee with a maximum future exposure of $554 million. The operating lease has a term of five years and provides us the option, at the end of the lease term, to request to renew the lease, purchase the facility or assist the lessor in marketing it for resale.

We also have residual value guarantees associated with railcar and airplane leases with maximum future exposures totaling $349 million. At year-end 2016, based on an outside appraisal of the railcars' fair value at the end of their lease terms, we estimated a total residual value deficiency of $94 million and recognized $28 million as expense in 2016. During the first nine months of 2017, we recognized an additional $35 million of expense related to the residual value deficiency. At September 30, 2017, the remaining residual value deficiency was $31 million. This deficiency will be recognized on a straight-line basis through May 2019.

Indemnifications

Over the years, we have entered into various agreements to sell ownership interests in certain corporations, joint ventures and assets that gave rise to indemnification. Agreements associated with these sales include indemnifications for taxes, litigation, environmental liabilities, permits and licenses and employee claims, as well as real estate indemnity against tenant defaults. The provisions of these indemnifications vary greatly. The majority of these indemnifications are related to environmental issues, which generally have indefinite terms, and the maximum amount of future payments is generally unlimited. The carrying amount recorded for indemnifications at September 30, 2017, was $201 million.

We amortize the indemnification liability over the relevant time period, if one exists, based on the facts and circumstances surrounding each type of indemnity. In cases where the indemnification term is indefinite, we will reverse the liability when we have information to support that the liability was essentially relieved or amortize the liability over an appropriate time period as the fair value of our indemnification exposure declines. Although it is reasonably possible future payments may exceed amounts recorded, due to the nature of the indemnifications, it is not possible to make a reasonable estimate of the maximum potential amount of future payments. Included in the recorded carrying amount were $109 million of environmental accruals for known contamination that were primarily included in the "Asset retirement obligations and accrued environmental costs" line on our consolidated balance sheet at September 30, 2017. For additional information about environmental liabilities, see Note 12—Contingencies and Commitments.

Indemnification and Release Agreement

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

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Note 12—Contingencies and Commitments

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

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

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

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

We are currently participating in environmental assessments and cleanups at numerous federal Superfund and comparable state sites. After an assessment of environmental exposures for cleanup and other costs, we make accruals on an undiscounted basis (except those pertaining to sites acquired in a purchase business combination, which we record on a discounted basis) for planned investigation and remediation activities for sites where it is probable future costs will be incurred and the costs can be reasonably estimated. At September 30, 2017, our total environmental accrual was $458 million, compared with $496 million at December 31, 2016. We expect to incur a substantial amount of these expenditures within the next 30 years. We have not reduced these accruals for possible insurance recoveries. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

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Legal Proceedings

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

Other Contingencies

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

At September 30, 2017, we had performance obligations secured by letters of credit and bank guarantees of $574 million (of which $51 million was issued under the provisions of our revolving credit facility, and the remainder was issued as direct bank letters of credit and bank guarantees) related to various purchase and other commitments incident to the ordinary conduct of business.

Note 13—Derivatives and Financial Instruments

Derivative Instruments

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

Purchase and sales contracts with firm minimum notional volumes for commodities that are readily convertible to cash are recorded on the consolidated balance sheet as derivatives unless the contracts are eligible for, and we elect, the normal purchases and normal sales exception, whereby the contracts are recorded on an accrual basis. We generally apply the normal purchases and normal sales exception to eligible crude oil, refined product, NGL, natural gas and power commodity contracts to purchase or sell quantities we expect to use or sell in the normal course of business. All other derivative instruments are recorded at fair value on our consolidated balance sheet. For further information on the fair value of derivatives, see Note 14—Fair Value Measurements.

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

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

	Millions of Dollars September 30, 2017 Commodity Derivatives Assets	Liabilities	Effect of Collateral Netting	Net Carrying Value Presented on the Balance Sheet
Assets				
Prepaid expenses and other current assets	$30	—	—	30
Other assets	5	(3)	—	2
Liabilities				
Other accruals	933	(1,141)	168	(40)
Other liabilities and deferred credits	2	(4)	—	(2)
Total	$970	(1,148)	168	(10)

	Millions of Dollars December 31, 2016 Commodity Derivatives Assets	Liabilities	Effect of Collateral Netting	Net Carrying Value Presented on the Balance Sheet
Assets				
Prepaid expenses and other current assets	$267	(154)	—	113
Other assets	5	(1)	—	4
Liabilities				
Other accruals	474	(612)	73	(65)
Other liabilities and deferred credits	—	(1)	—	(1)
Total	$746	(768)	73	51

At September 30, 2017, and December 31, 2016, there was no material cash collateral received or paid that was not offset on the consolidated balance sheet.

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

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Sales and other operating revenues	$(256)	(6)	(101)	(274)
Other income	33	8	46	24
Purchased crude oil and products	(111)	36	16	(89)
Net gain (loss) from commodity derivative activity	$(334)	38	(39)	(339)

The following table summarizes our material net exposures resulting from outstanding commodity derivative contracts. These financial and physical derivative contracts are primarily used to manage price exposure on our underlying operations. The underlying exposures may be from non-derivative positions such as inventory volumes. Financial derivative contracts may also offset physical derivative contracts, such as forward sales contracts. The percentage of our derivative contract volumes expiring within the next 12 months was approximately 98 percent at September 30, 2017, and December 31, 2016.

	Open Position Long/(Short)	
	September 30 2017	December 31 2016
Commodity		
Crude oil, refined products and NGL (millions of barrels)	(35)	(18)

Interest Rate Derivative Contracts—In 2016, we entered into interest rate swaps to hedge the variability of anticipated lease payments on our new headquarters. These monthly lease payments will vary based on monthly changes in the one-month LIBOR and changes, if any, in the Company's credit rating over the five-year term of the lease. The pay-fixed, receive-floating interest rate swaps have an aggregate notional value of $650 million and end on April 25, 2021. They qualify for, and are designated as, cash-flow hedges.

The aggregate net fair value of these swaps, which is included in the "Other accruals" and "Other assets" lines on our consolidated balance sheet, amounted to $8 million at both September 30, 2017, and December 31, 2016.

We report the effective portion of the mark-to-market gain or loss on our interest rate swaps designated and qualifying as a cash flow hedging instrument as a component of other comprehensive income (loss) and reclassify such gains and losses into earnings in the same period during which the hedged forecasted transaction affects earnings. Gains and losses due to ineffectiveness are recognized in general and administrative expenses. We did not recognize any material hedge ineffectiveness gain or loss in the consolidated income statement for the three- and nine-month periods ended September 30, 2017 and 2016. Net realized losses from settlements of the swaps were immaterial for the three- and nine-month periods ended September 30, 2017 and 2016.

We currently estimate that pre-tax gains of less than $1 million will be reclassified from accumulated other comprehensive income (loss) into general and administrative expenses during the next twelve months as the hedged transactions settle; however, the actual amounts that will be reclassified will vary based on changes in interest rates.

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Credit Risk
Financial instruments potentially exposed to concentrations of credit risk consist primarily of over-the-counter (OTC) derivative contracts and trade receivables.

The credit risk from our OTC derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant nonperformance. We also use futures, swaps and option contracts that have a negligible credit risk because these trades are cleared with an exchange clearinghouse and subject to mandatory margin requirements until settled. However, we are exposed to the credit risk of those exchange brokers for receivables arising from daily margin cash calls, as well as for cash deposited to meet initial margin requirements.

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

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

The aggregate fair values of all derivative instruments with such credit-risk-related contingent features that were in a liability position were not material at September 30, 2017, or December 31, 2016.

Note 14—Fair Value Measurements

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

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

We classify the fair value of an asset or liability based on the lowest level of input significant to its measurement. However, the fair value of an asset or liability initially reported as Level 3 will be subsequently reported as Level 2 if the unobservable inputs become inconsequential to its measurement or corroborating market data becomes available. Conversely, an asset or liability initially reported as Level 2 will be subsequently reported as Level 3 if corroborating market data becomes unavailable. For the nine-month period ended September 30, 2017, derivative assets with an aggregate value of $110 million and derivative liabilities with an aggregate value of $112 million were transferred into Level 1 from Level 2, as measured from the beginning of the reporting period. The measurements were reclassified within the fair value hierarchy due to the availability of unadjusted quoted prices from an active market.

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

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

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

We determine the fair value of our interest rate swaps based on observed market valuations for interest rate swaps that have notionals, terms and pay and reset frequencies similar to ours.

- Rabbi trust assets—The deferred compensation investments are measured at fair value using unadjusted prices available from national securities exchanges; therefore, these assets are categorized as Level 1 in the fair value hierarchy.
- Debt—The carrying amount of our floating-rate debt approximates fair value. The fair value of our fixed-rate debt is estimated based on observable quotes.

The following tables display the fair value hierarchy for our material financial assets and liabilities either accounted for or disclosed at fair value on a recurring basis. These values are determined by treating each contract as the fundamental unit of account; therefore, derivative assets and liabilities with the same counterparty are shown on a gross basis in the hierarchy sections of these tables, before the effects of counterparty and collateral netting. These tables also show that our Level 3 activity was not material.

We have master netting agreements for all of our exchange-cleared derivative instruments, the majority of our OTC derivative instruments and certain physical commodity forward contracts (primarily pipeline crude oil deliveries). The following tables show the impact of these contracts in the column "Effect of Counterparty Netting."

The carrying values and fair values by hierarchy of our material financial instruments and commodity forward contracts, either carried or disclosed at fair value, including any effects of netting derivative assets with liabilities and netting collateral due to right of setoff or master netting agreements, were:

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	Millions of Dollars September 30, 2017 Fair Value Hierarchy							
	Level 1	Level 2	Level 3	Total Fair Value of Gross Assets & Liabilities	Effect of Counterparty Netting	Effect of Collateral Netting	Difference in Carrying Value and Fair Value	Net Carrying Value Presented on the Balance Sheet
Commodity Derivative Assets								
Exchange-cleared instruments	$487	452	—	939	(938)	—	—	1
OTC instruments	—	1	—	1	—	—	—	1
Physical forward contracts	—	30	—	30	—	—	—	30
Interest rate derivatives	—	8	—	8	—	—	—	8
Rabbi trust assets	111	—	—	111	N/A	N/A	—	111
	$598	491	—	1,089	(938)	—	—	151
Commodity Derivative Liabilities								
Exchange-cleared instruments	$630	476	—	1,106	(938)	(168)	—	—
OTC instruments	—	1	—	1	—	—	—	1
Physical forward contracts	—	30	11	41	—	—	—	41
Floating-rate debt	100	1,587	—	1,687	N/A	N/A	—	1,687
Fixed-rate debt, excluding capital leases	—	9,110	—	9,110	N/A	N/A	(787)	8,323
	$730	11,204	11	11,945	(938)	(168)	(787)	10,052

	Millions of Dollars December 31, 2016 Fair Value Hierarchy							
	Level 1	Level 2	Level 3	Total Fair Value of Gross Assets & Liabilities	Effect of Counterparty Netting	Effect of Collateral Netting	Difference in Carrying Value and Fair Value	Net Carrying Value Presented on the Balance Sheet
Commodity Derivative Assets								
Exchange-cleared instruments	$273	371	—	644	(628)	—	—	16
OTC instruments	—	6	—	6	(1)	—	—	5
Physical forward contracts	—	94	2	96	—	—	—	96

Interest rate derivatives	—	8	—	8	—	—	—	8
Rabbi trust assets	97	—	—	97	N/A	N/A	—	97
	$370	479	2	851	(629	)—	—	222
Commodity Derivative Liabilities								
Exchange-cleared instruments	$249	452	—	701	(628	)(73	)—	—
OTC instruments	—	1	—	1	(1	)—	—	—
Physical forward contracts	—	61	5	66	—	—	—	66
Floating-rate debt	50	210	—	260	N/A	N/A	—	260
Fixed-rate debt, excluding capital leases	—	10,260	—	10,260	N/A	N/A	(570	)9,690
	$299	10,984	5	11,288	(629	)(73	)(570	)10,016

The rabbi trust assets appear on our consolidated balance sheet in the “Investments and long-term receivables” line, while the floating-rate and fixed-rate debt appear in the “Short-term debt” and “Long-term debt” lines. For information

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regarding the location of our commodity derivative assets and liabilities on our consolidated balance sheet, see the first table in Note 13—Derivatives and Financial Instruments.

Nonrecurring Fair Value Measurements
See Note 5—Business Combinations for remeasurement of our investment in MSLP to fair value. During the nine months ended September 30, 2017 and 2016, there were no other material nonrecurring fair value remeasurements of assets subsequent to their initial recognition.

Note 15—Employee Benefit Plans

Pension and Postretirement Plans
The components of net periodic benefit cost for the three- and nine-month periods ended September 30, 2017 and 2016, were as follows:

	Millions of Dollars					
	Pension Benefits				Other Benefits	
	2017		2016		2017	2016
	U.S.	Int'l.	U.S.	Int'l.		
Components of Net Periodic Benefit Cost						
Three Months Ended September 30						
Service cost	$33	8	32	8	1	1
Interest cost	27	7	29	7	2	2
Expected return on plan assets	(37)	(11)	(32)	(9)	—	—
Amortization of prior service cost	1	—	1	—	—	—
Recognized net actuarial loss	17	6	18	4	—	—
Settlements	21	—	2	—	—	—
Net periodic benefit cost	$62	10	50	10	3	3
Nine Months Ended September 30						
Service cost	$99	25	96	26	4	5
Interest cost	81	20	87	22	6	6
Expected return on plan assets	(110)	(30)	(96)	(29)	—	—
Amortization of prior service cost (credit)	2	(1)	2	(1)	(1)	(1)
Recognized net actuarial loss	52	18	54	11	—	—
Settlements	76	—	5	—	—	—
Net periodic benefit cost	$200	32	148	29	9	10

During the first nine months of 2017, we contributed $432 million to our U.S. employee benefit plans and $26 million to our international employee benefit plans. The contributions were included in the "Other" line within the operating activities section on our consolidated statement of cash flows. We currently expect to make additional contributions of approximately $6 million to our U.S. employee benefit plans and $9 million to our international employee benefit plans during the remainder of 2017.

For our U.S. pension plans, lump-sum benefit payments have exceeded the sum of service and interest costs for the year. As a result, we have recognized a proportionate share of prior actuarial losses, or pension settlement expense, totaling $76 million for the nine months ended September 30, 2017.

In conjunction with the Whitegate Refinery disposition, the fair market value of plan assets was updated and the pension benefit obligation was remeasured for the Ireland Pension Plan at August 31, 2016. At the measurement date, the pension liability had a net decrease of $3 million, which resulted in an increase to other comprehensive income, due to the

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following two components: 1) a curtailment gain (decrease in projected benefit obligation) of $31 million, as all future benefit accruals were eliminated from projected benefit obligation, and 2) an actuarial loss (increase in projected benefit obligation) of $28 million, which was primarily related to a decline in the discount rate from 2.3 percent at December 31, 2015, to 1.3 percent at August 31, 2016.

Note 16—Accumulated Other Comprehensive Income (Loss)

The following table depicts changes in accumulated other comprehensive income (loss) by component, as well as detail on reclassifications out of accumulated other comprehensive income (loss):

	Millions of Dollars			
	Defined Benefit Plans	Foreign Currency Translation	Hedging	Accumulated Other Comprehensive Income (Loss)
December 31, 2015	$(662)	11	(2)	(653)
Other comprehensive income (loss) before reclassifications	10	(187)	(7)	(184)
Amounts reclassified from accumulated other comprehensive income (loss)*				
Amortization of defined benefit plan items**				
Actuarial losses and settlements	45	—	—	45
Net current period other comprehensive income (loss)	55	(187)	(7)	(139)
September 30, 2016	$(607)	(176)	(9)	