

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1994-03-18** | Period of Report: **1993-12-31**
SEC Accession No. **0000078214-94-000009**

([HTML Version](#) on secdatabase.com)

FILER

PHILLIPS PETROLEUM CO

CIK: **78214** | IRS No.: **730400345** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-00720** | Film No.: **94516627**
SIC: **2911** Petroleum refining

Business Address
*PHILLIPS BUILDING
800 PLAZA OFFICE BUILDING
BARTLESVILLE OK 74004
9186616600*

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended December 31, 1993

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from to

Commission file number 1-720

PHILLIPS PETROLEUM COMPANY

(Exact name of registrant as specified in its charter)

Delaware 73-0400345
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

PHILLIPS BUILDING, BARTLESVILLE, OKLAHOMA 74004
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 918-661-6600

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

Title of each class	Name of each exchange on which registered
-----	-----
Common Stock, \$1.25 Par Value	New York, Pacific and Toronto Stock Exchanges
Preferred Share Purchase Rights Expiring July 31, 1999	New York Stock Exchange
6.65% Notes Due March 1, 2003	New York Stock Exchange
7.20% Notes Due November 1, 2023	New York Stock Exchange
7.92% Notes Due April 15, 2023	New York Stock Exchange
8.49% Notes Due January 1, 2023	New York Stock Exchange
8.86% Notes Due May 15, 2022	New York Stock Exchange
9% Notes Due 2001	New York Stock Exchange
9.18% Notes Due September 15, 2021	New York Stock Exchange
9 3/8% Notes Due 2011	New York Stock Exchange
9 1/2% Notes Due 1997	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

The registrant had 261,388,811 shares of Common Stock \$1.25 Par Value, outstanding at February 28, 1994. The aggregate market value of voting stock held by nonaffiliates of the registrant was \$7,059,108,410 as of February 28, 1994. The registrant, solely for the purpose of this required presentation, has deemed its Board of Directors to be affiliates, and deducted from its outstanding shares in determining the aggregate market value, their beneficial stockholdings of 1,145,183 shares, not including shares held in the registrant's Thrift and Long-Term Stock Savings Plans.

Documents incorporated by reference:
 Proxy Statement for the Annual Meeting of Stockholders
 on May 9, 1994 (Part III)

TABLE OF CONTENTS

PART I

Item	Page
----	----
1. and 2. Business and Properties.....	1
Corporate Structure and Current Developments...	1
Segment and Geographic Information.....	2
Petroleum.....	2
Oil and Gas Statistics.....	3
Exploration and Production.....	4
Gas and Gas Liquids.....	10
Petroleum Products.....	12
Chemicals.....	15
Other.....	17
Competition.....	18
General.....	18
3. Legal Proceedings.....	20
4. Submission of Matters to a Vote of Security Holders.....	20

Executive Officers of the Registrant..... 21

PART II

5. Market for Registrant's Common Equity and
Related Stockholder Matters..... 22
6. Selected Financial Data..... 23
7. Management's Discussion and Analysis of
Financial Condition and Results of
Operations..... 24
8. Financial Statements and Supplementary Data..... 45
9. Changes in and Disagreements with Accountants
on Accounting and Financial Disclosure..... 96

PART III

10. Directors and Executive Officers of the
Registrant..... 97
11. Executive Compensation..... 97
12. Security Ownership of Certain Beneficial
Owners and Management..... 97
13. Certain Relationships and Related Transactions... 97

PART IV

14. Exhibits, Financial Statement Schedules,
and Reports on Form 8-K..... 98

PART I

(Unless otherwise indicated, "the company" and "Phillips" are used in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries.)

Items 1 and 2. BUSINESS AND PROPERTIES

CORPORATE STRUCTURE AND CURRENT DEVELOPMENTS

Phillips Petroleum Company was incorporated in the state of Delaware on June 13, 1917. The company is headquartered where it was founded--Bartlesville, Oklahoma. Phillips is engaged in petroleum exploration and production on a worldwide basis, natural gas gathering, processing and marketing, and petroleum refining and marketing, primarily in the United States. The

company also produces and distributes chemicals in the United States and overseas. The company has three operating groups-- Exploration and Production (E&P), Gas and Gas Liquids (G&GL), and Downstream Operations, which encompasses Petroleum Products and Chemicals. These operating groups are divided into two segments--Petroleum and Chemicals. Support staffs provide technical, professional and other services to the operating groups. At December 31, 1993, Phillips employed 19,400 people, 9 percent less than the previous year. The reduction was primarily due to the sale of the company's subsidiary, Phillips Fibers Corporation.

The company and its co-venturers announced a subsalt oil discovery on the Mahogany prospect in the Gulf of Mexico. Drilling also began at the Teak prospect, another subsalt prospect in the Gulf.

Also in the Gulf of Mexico, a natural gas discovery was made in the Garden Banks area, and at the company's 100 percent owned South Marsh Island Block 147 field, four additional production wells were drilled, increasing total field production.

In the Beaufort Sea off northern Alaska, the Kuvlum prospect was determined not to be commercial as a stand-alone development. The Wild Weasel prospect, located nearby, also failed to find commercial quantities of hydrocarbons.

Two exploration wells drilled during the year in the southern section of the Sunfish prospect in the Cook Inlet of Alaska failed to find commercial hydrocarbons. The wells were drilled to test the southern portion of the Sunfish prospect on acreage acquired at a state lease sale in January 1993. Phillips and its co-venturer continue to regard the northern section of the Sunfish prospect as commercially viable, with additional delineation drilling required to determine the field boundaries.

1

On December 31, 1993, Phillips Petroleum Company Norway submitted to the Norwegian Ministry of Industry and Energy a Plan for Development and Operation (PDO) to provide continued safe and reliable production, processing and transportation for the economic life of the Ekofisk field.

The company continued to strengthen its financial position in 1993, with total debt decreasing \$594 million. The company redeemed its 8 7/8% debentures due in 2000 and 7 5/8% debentures due in 2001 for \$175 million. The company's refinancings and debt reductions in 1993 and prior years, along with general interest rate declines, have reduced interest on debt 50 percent,

from \$471 million in 1990 to \$234 million in 1993.

The company substantially exceeded its 1991 goal of completing \$500 million in asset sales by the end of 1993. Since late 1991, the company has received more than \$650 million in net proceeds from such sales. The assets sold range from oil and gas properties to the company's Phillips Fibers Corporation subsidiary.

At year-end 1993, the company's average worldwide crude oil sales prices were at their lowest levels since 1988, while the company's U.S. natural gas sales prices were at their highest levels since 1985.

SEGMENT AND GEOGRAPHIC INFORMATION

Reference is made to Note 20--Segment and Geographic Information in the Notes to Financial Statements on pages 74 through 77 for segment information concerning sales and other operating revenues, earnings, total assets and additional information for certain operations of the company.

Petroleum

- - - - -

This segment encompasses the company's worldwide oil and gas activities. The E&P group explores for and produces crude oil, natural gas and natural gas liquids. The G&GL group gathers and processes natural gas; extracts natural gas liquids for use in the company's refining, marketing and chemicals operations; and markets residue gas. Included in the Petroleum segment is that portion of Downstream Operations which refines, markets and transports crude oil and petroleum products and provides feedstocks for the production of petrochemicals. Products which

2

contributed more than 10 percent of consolidated sales and other operating revenues follow:

	1993	1992	1991

Crude Oil			
United States	19%	20	21
- - - - -			
Foreign	5	5	6
- - - - -			
Automotive Gasoline			

United States	23	23	23

Natural Gas			
United States	11	9	8

Foreign	3	4	4

Oil and Gas Statistics

The information listed below appears in the oil and gas operations disclosures on pages 78 through 93.

- o Proved worldwide crude oil, natural gas, and natural gas liquids reserves.
- o Net production of crude oil, natural gas liquids and natural gas.
- o Average sales prices of crude oil, natural gas liquids and natural gas.
- o Average production costs per equivalent barrel of oil.
- o Developed and undeveloped acreage at year-end 1993.
- o Net wells completed, and wells in progress and productive wells at year-end 1993.

In 1993, Phillips' net worldwide crude oil production averaged 203,000 barrels per day, compared to 209,000 barrels per day in 1992. In 1993, 93,000 barrels per day of worldwide crude oil production was from the United States, down from 96,000 barrels per day in 1992. In the United States, normal field declines from mature fields were partly offset by increased production from the Point Arguello field, offshore California. Foreign production was down due to the sale of producing properties in Indonesia and Australia, as well as lower production in the United Kingdom. Partially offsetting the foreign production decline was the 1993 start-up of Embla field production in the Ekofisk area.

Net production satisfied 64 percent of Phillips' crude oil requirements (315,000 barrels per day), which consisted primarily of refinery crude oil runs (278,000 barrels per day) and contractual supply obligations. The deficiency between the company's requirements and production was covered mainly by

purchases in the United States, from Saudi Arabia, and, to a lesser extent, from Kuwait. The ratio of production to requirements for 1994 is estimated at 57 percent, based on production forecasts of 205,000 barrels per day and crude oil requirements of 358,000 barrels per day, projected to be up from 1993 due to higher crude oil runs. Purchases from the United States, Saudi Arabia and Kuwait are expected to be the major source for covering the shortage.

Phillips' worldwide production of natural gas liquids from its E&P operations averaged 13,000 barrels per day in 1993, with U.S. production averaging 5,000 barrels per day. Most of the U.S. liquids were used as feedstocks for the company's refining and chemicals operations.

The company's worldwide natural gas production averaged 1.4 billion cubic feet a day in 1993. U.S. production averaged 973 million cubic feet per day during the year.

Worldwide natural gas production was down 5 percent from 1992. In the United States, production was down mainly due to normal field declines from mature fields. Foreign production was down partly as a result of lower demand, offset somewhat by new gas production from the Ann gas field in the U.K. sector of the North Sea.

Worldwide and U.S. natural gas liquids production from E&P operations was at the same level as in 1992. Phillips' U.S. production in 1993 decreased 3 percent for crude oil and decreased 4 percent for natural gas.

Exploration and Production

Phillips' realized worldwide average crude oil price declined 12 percent to \$15.92 a barrel. Phillips' realized average price for U.S. crude oil was \$14.20 a barrel, also down 12 percent from 1992. Foreign crude prices averaged \$17.30 a barrel, down 11 percent. The company's realized worldwide average natural gas price increased 6 percent to \$2.11 per thousand cubic feet, with a 19 percent increase in the United States and a 10 percent decrease in foreign operations.

Phillips' finding and development costs in 1993 were \$3.88 per barrel-of-oil-equivalent, with a five-year average of \$3.11 per barrel-of-oil-equivalent.

At year-end 1993, Phillips held 29.5 million developed and undeveloped net acres, an 8 percent decrease from year-end 1992. The decrease in net acres is primarily attributable to asset sales in Egypt and the Netherlands, along with release of acreage in Yemen and Papua New Guinea. The company holds acreage in 17

UNITED STATES

In September 1993, Phillips and its co-venturers announced an oil discovery on the Mahogany prospect (Ship Shoal Blocks 349/359) in the Gulf of Mexico, 80 miles offshore Louisiana. The well was drilled to a total depth of 16,500 feet in 370 feet of water and produced an initial flow of more than 7,200 barrels of oil per day and 7 million cubic feet of gas per day. Drilling of an appraisal well began in early 1994. This well is particularly important because it is the first successful subsalt oil discovery on the continental shelf. Drilling also began on another subsalt prospect, the Teak prospect, located 50 miles northeast of Mahogany. Subsalt refers to rock formations lying beneath layers of salt. Phillips developed a new seismic data interpretation method--three dimensional depth migration--that allows the study and meaningful interpretation of subsalt formations. The company holds a 37.5 percent working interest in the Mahogany prospect and a 50 percent working interest in the Teak prospect.

Also in the Gulf of Mexico off the Louisiana coast, a natural gas discovery was made in the Garden Banks area. A subsea first phase development plan is being pursued for the Garden Banks area, in which Phillips holds a 100 percent interest. At the company's 100 percent owned South Marsh Island Block 147 field, four additional production wells were completed in 1993. These new wells brought total production to over 115 million cubic feet of gas per day, and 4,000 barrels of condensate per day.

In the Beaufort Sea, off Northern Alaska, two wells were drilled during the year on the Kuvlum prospect. Although test results indicated an accumulation of hydrocarbons, the discovery was not commercial as a stand-alone development. Phillips has a 13 percent interest in the prospect.

In November, Phillips and its co-venturer completed a test well on the Wild Weasel prospect, about six miles south of the Kuvlum prospect. Commercial hydrocarbons were not encountered and the well was plugged and abandoned. There are no immediate plans for further drilling in the area.

In the Cook Inlet, southern Alaska, Phillips and its co-venturer continue delineation drilling with the Sunfish 3 well, currently being drilled from Phillips' Tyonek platform. A 1993 appraisal well, also drilled from Phillips' Tyonek platform, tested water from three zones, but based on pressure data, the zones appear to

be separated from the production zones encountered in the 1991 Sunfish discovery well and the 1992 North Forelands confirmation well. Although the well did not encounter hydrocarbons in the exploration target, it currently produces gas from shallower intervals. Two wells were drilled during the year on acreage acquired at a state lease sale in January 1993 in the southern section of the Sunfish prospect. Both wells failed to find

commercial hydrocarbons. Phillips and its co-venturer regard the northern section as commercially viable, but the ultimate scope of this development must be determined from further drilling. Phillips' interest is 40 percent.

Offshore California, Phillips and its co-venturers received state approval in 1993 to tanker oil from the Point Arguello field until January 1, 1996, or until new pipeline capacity is operational, whichever comes first. Phillips' production continues to be transported by pipeline, but the tankering approval has been beneficial to the company because it opened up more transportation capacity--allowing production to increase during the last five months of the year. As a result, Phillips' net production from Point Arguello in 1993 averaged approximately 14,000 barrels of oil per day, a 38 percent increase from 1992.

On February 1, 1994, tankering was temporarily halted because a condition of the tankering permit was not met. The tankering permit requires producers to commit a sufficient amount of throughput to a pipeline company so that it can obtain financing to build additional pipeline capacity from the Gaviota Terminal to Los Angeles. The Point Arguello producers were unable to meet this requirement, and it is expected to take two months to one year to do so. The pipeline company must also have all the necessary permits. During the period tankering is suspended, Phillips' net production from Point Arguello is expected to be reduced by about 4,600 barrels of oil per day. When the permit condition is met, tankering is expected to resume and production will return to higher levels. Once completed, the additional pipeline capacity will end tankering of Point Arguello oil.

In 1993, the company and a co-venturer agreed to sell and lease back two tankers under construction for use in the transport of liquefied natural gas from Kenai, Alaska to Japan. Construction on both tankers was completed in 1993, and both tankers have been placed in service. The new tankers' larger capacity, as well as a plant optimization project completed in 1992, contributed to a 7 percent increase in LNG sales volume in 1993, compared with 1992. Deliveries of contract volumes are expected to increase in

1994 and 1995 also, for a cumulative increase of 25 percent above 1992 volumes.

NORWAY

Development of the Embla field continued in 1993, with first production coming online in the spring. The fourth Embla well was brought online in the second half of the year, and by year-end net production was up to 12,000 barrels of oil per day and 22 million cubic feet of gas per day. Embla is the eighth producing field in the Greater Ekofisk area, and is the first deep, high pressure/temperature field on the Norwegian Continental Shelf.

6

The Ekofisk waterflood program is being expanded with the installation of a modified jack-up platform. Base water injection capacity is expected to increase from 500,000 barrels of water per day to 820,000 barrels of water per day. In addition to increasing production, water injection serves to slow seabed subsidence, as injected water replaces produced oil and natural gas.

In December 1993, Phillips Petroleum Company Norway, as operator for the Phillips Norway Group, submitted to the Norwegian government a detailed Plan of Development and Operation (PDO) for the Ekofisk development. The PDO provided technical and commercial details of the plan for the proposed Ekofisk II development, as well as an alternate plan, Ekofisk 2011. Both alternatives complied with the Norwegian Petroleum Directorate's (NPD) requirements. Ekofisk II included new processing and transportation facilities outside the area of seabed subsidence and new wellhead platforms built to withstand future subsidence. The Ekofisk 2011 alternative was a medium-term plan to provide continued safe, effective operations within the current Ekofisk license period, which ends in August 2011.

Following discussions with the Norwegian government authorities, Phillips Petroleum Company Norway and its co-venturers (Phillips Norway Group) modified the long-term Ekofisk II solution outlined in the PDO submitted on December 31, 1993. This modification stemmed from further technical studies and the government's informing the Phillips Norway Group that certain aspects of the Ekofisk II plan, as described in the PDO document, were not acceptable. The modified Ekofisk II plan consists of a new processing and transportation platform and a single new wellhead platform, all to be located within the subsidence area. Phillips' share of capital expenditures for the new facilities and wellhead platform, to be installed in or before 1998, is about

\$1.1 billion. Design for the new facilities began in the first quarter of 1994. It is anticipated that the wellhead platform will be installed in 1996 and the process/transportation platform installed in 1998.

The modified plan proposes making greater use of the existing Ekofisk infrastructure and will be in accordance with Norwegian safety requirements. It is also expected to lower future operating costs, to be comparable with the original Ekofisk II plan. The modified plan continues to effectively address future long-term production, transportation, processing and reservoir management issues, while retaining the values reflected in the original Ekofisk II plan for members of the Phillips Norway Group. The Ekofisk II modified plan will be proposed subject to extension of production and pipeline transportation licenses to correspond with the economic life of the field, royalty exemption on oil and NGL production, deferral of removal of existing facilities, and the Norwegian government's agreement to other fiscal incentives.

7

The modified technical plan has been provided to the Norwegian authorities. Discussions concerning the PDO are expected to continue and an amended PDO is scheduled to be submitted in mid-March. It is anticipated that a recommendation about the Ekofisk development will be made by the Norwegian authorities in the spring session of the Norwegian Storting, or parliament, and that the Storting will make its decision later in the spring session.

During 1993, Phillips was awarded interests in two Norway license areas, one in the North Sea and one in the Norwegian Sea, located near existing production and new discoveries. These new license areas will add to Phillips' holdings outside the Ekofisk area. An exploratory well is planned for 1994.

UNITED KINGDOM

Production began late in the year from the Ann gas field in the U.K. sector of the North Sea. The field was producing at a year-end rate of 25 million cubic feet of gas per day. The gas is produced from two horizontal wells, the first such wells drilled by Phillips in the U.K. North Sea. The subsea wells are operated by remote control from the nearby Audrey platform, utilizing the company's existing facilities.

After two successful appraisal wells were drilled in 1992 on the Judy field, development commenced in 1993 in the J-Block area of the U.K. North Sea. Work on the Judy platform started in mid-1993, and initial production from J-Block is expected in 1996, at

an expected initial net production rate of 24,000 barrels of oil per day and 95 million cubic feet of gas per day. The J-Block infrastructure will allow for the future economic development of several smaller Phillips-held prospects in the area.

An oil discovery was made in early 1994 in the U.K. North Sea, six miles south of the Maureen platform, about 160 miles offshore Scotland. The well tested at rates of up to 7,700 barrels of oil per day and over 16 million cubic feet of gas per day. Various plans are being considered for the project, which has been named Maria. Phillips holds a 34 percent interest.

In the southern section of the U.K. North Sea, a new natural gas well was completed at the Hewett field. A new accommodation platform was installed at the central Hewett complex, and outlying platforms will soon be switched to remote-control operation.

OTHER

In the South China Sea, development is under way on two platforms, along with a floating crude oil storage and loading facility, in the Xijiang fields, where production is expected in late 1994. Peak production is estimated to be 66,000 barrels of oil per day (gross). Phillips' average working interest in the fields is

8

18 percent. In the first quarter of 1994, the company and its co-venturer announced that geophysical agreements have been signed with the China National Offshore Oil Corporation for exploration of two blocks in the East China Sea, 120 miles southeast of Shanghai. The agreements are for two years and consist of reprocessing existing seismic data and acquiring new seismic data. The company has a 50 percent interest.

Exploratory drilling began in early 1994 at prospects in Papua New Guinea and the Timor Sea Zone of Cooperation, jointly administered by Indonesia and Australia. In the Italian Alps, an exploratory well was started on the Sebino permit. Other exploratory wells were drilled in Australia, Egypt and Nigeria during 1993.

Phillips completed seismic acquisition programs on blocks in Bolivia, Paraguay, Cameroon and Australia during 1993. In Algeria, seismic work started on a tract in the Sahara Desert, near the Tunisia and Libya borders. Development continued at the Ogbainbiri onshore oil field in Nigeria, where first production began in early 1994.

Early in 1993, Phillips completed the sale of a subsidiary with

operations in the Netherlands. A subsidiary that owned an interest in Indonesia was also sold early in the year. The Netherlands interest consisted of a producing field, an undeveloped field, and an exploratory permit area. The Indonesian property consisted of a 15 percent interest in certain offshore acreage.

During the fourth quarter of 1993, three subsidiaries with operations outside the United States were sold. Two of these subsidiaries held interests in the Harriet field, offshore Western Australia, and another held properties in Egypt. Phillips also sold an interest in certain Egyptian producing properties owned directly by the company.

RESERVES

In 1993, on a barrel-of-oil-equivalent basis, Phillips replaced 104 percent of the reserves it produced during the year. U.S. reserves increased 4 percent while foreign reserves decreased 4 percent. Total worldwide proved reserves on a barrel-of-oil-equivalent basis were 2.0 billion barrels at year-end. Crude oil reserves declined 2 percent, natural gas liquids reserves declined 10 percent, and natural gas reserves increased 4 percent.

Estimates of proved reserves are based upon reservoir information, technology and economics available at the time the estimates are made. Adjustments are made to reflect changes in economic conditions, results of drilling and production and the technical reevaluation of reservoirs.

The company has not filed any figures with any other federal authority or agency with respect to its estimated total proved reserves at December 31, 1993. No difference exists between the company's estimated total proved reserves for year-end 1992 and year-end 1991, which are shown in this filing, and estimates of these reserves shown in a filing with another federal agency in 1993.

DELIVERY COMMITMENTS

Phillips has a commitment to deliver a fixed and determinable quantity of liquefied natural gas in the future to two utility customers in Japan. The company is obligated over the next three years to supply a total of 140 billion cubic feet of liquefied natural gas. Production from one field in Alaska, with estimated proved reserves greater than the company's obligation and with an estimated production level sufficient to meet the required

delivery amount, will be used to fulfill the obligation.

The company sells gas in the U.S. from its producing operations under a variety of contractual arrangements. Most contracts generally commit the company to sell quantities based on production from specified properties, but certain gas sales contracts specify delivery of fixed and determinable quantities. The quantities of natural gas the company is obligated to deliver in the U.S. in the future, under existing contracts, are not significant in relation to the quantities available from production of the company's proved developed U.S. natural gas reserves.

Gas and Gas Liquids

Phillips, through its GPM Gas Corporation (GPM) subsidiary, processes both natural gas purchased from others and natural gas produced from the company's own reserves. The natural gas liquids--ethane, propane, butanes and pentanes--are extracted and sold primarily to the company's Downstream Operations, where they are used as feedstock or sold to outside customers. The residue gas is sold to others or used as fuel in company operations. GPM wholly owns 18 natural gas liquids extraction plants, and controls or has an interest in 3 more. The plants are located in Texas (13), Oklahoma (4), and New Mexico (4).

During 1993, GPM completed the new Zia plant in southeastern New Mexico. The plant's processing capacity is 29 million cubic feet of gas per day. The automated plant is operated by remote control from another location, and contains many technological features that GPM plans to include in other operations. GPM also restarted its Quarry, Texas, plant, expanding its capacity in the Austin Chalk Area. GPM also expanded its business by acquiring four processing plants and their associated gathering systems in West Texas, thereby increasing GPM's raw gas throughput by about

10

30 million cubic feet per day. Two of these plants, plus another facility, were shut down or consolidated with existing facilities.

In December 1993, GPM sold a portion of its gas gathering assets in the West Texas region of the Permian Basin to GPM Gas Gathering L.L.C. (GGG) for \$138 million. GPM owns a 50 percent equity interest in GGG. GPM intends to use the funds from the sale to continue to grow by acquiring new gathering systems and expanding existing ones. GPM will operate the gathering assets sold to GGG, and retains priority access to this gas gathering capacity through a long-term contract.

GPM's raw gas throughput averaged 1.4 billion cubic feet per day in 1993, the same as in 1992, although third and fourth quarter 1993 levels approached 1.5 billion cubic feet per day, reflecting the acquisitions and expansions discussed above. Approximately 14 percent of the 1993 raw gas throughput was purchased from Phillips.

GPM continued to be a significant U.S. producer of natural gas liquids. GPM's U.S. plant natural gas liquids production was as follows:

	Thousands of Barrels Daily		
	1993	1992	1991
From leasehold gas	22	23	23
From purchased raw gas	124	122	120

	146	145	143
=====			

Residue gas sales were 867 million cubic feet per day in 1993, compared with 851 million cubic feet per day in 1992. Residue gas sales made directly to end-users, such as utilities or local gas distribution companies, were approximately 73 percent of total sales during 1993, compared with 65 percent in 1992. Included in direct sales are some term sales (those contracts of one year or longer). Total term sales were 56 percent of total sales in 1993. Sales made directly to end-users and term sales often bring premium prices.

The company's average sales price for unfractionated natural gas liquids decreased to \$10.79 per barrel, down 4 percent from 1992. During 1993, average residue gas prices increased to \$2.03 per thousand cubic feet, up 21 percent from 1992 levels.

At year-end 1993, gross raw natural gas supplies available for processing through GPM-operated plants were estimated at 5.5 trillion cubic feet, versus 5.4 trillion cubic feet at year-end 1992. In 1993 and 1992, respectively, these supplies included about 617 million and 605 million barrels of natural gas liquids, assuming full ethane extraction.

requires interstate pipeline companies to separate their natural gas transportation services from other services, including gas gathering, storage and pipeline sales. As a result, pipeline transmission charges must be separate from pipeline gathering charges. GPM views this Order as an opportunity to compete more effectively with interstate pipelines that own gathering systems and to reduce transportation charges for its residue gas customers.

Petroleum Products

REFINING

The company currently owns and operates three domestic refineries having an aggregate rated capacity of 305,000 barrels a day of crude oil and has part-ownership of a refinery in Teesside, England. The U.S. refineries are located at Borger and Sweeny, Texas, and Woods Cross, Utah. The cost per barrel of crude oil delivered to the U.S. refineries was 10 percent lower than in 1992, primarily because of falling crude prices.

Phillips has the ability to utilize high-sulfur crude oils for about 80 percent of its total crude oil refining requirements. High-sulfur crude accounted for 64 percent of the crude processed during 1993, down from 1992's 67 percent. The low 1993 percentage was due primarily to maintenance turnarounds at the Sweeny refinery, while the low 1992 percentage was due primarily to the 1991 damage to the Sweeny refinery's ARDS unit, which extracts sulfur and metals from sour crude oil. Approximately 46 percent of the crude oil processed by Phillips' refineries in 1993 came from the United States, with the remainder provided primarily by purchases from the Middle East. In addition to its capability to process crude oil, the company has an aggregate capacity of 227,000 barrels per day for fractionating natural gas liquids in the United States. In 1993, 198,000 barrels a day were fractionated, compared with 183,000 barrels a day in 1992. Effective January 1, 1992, Phillips entered into an agreement with its GPM subsidiary to purchase a substantial portion of the natural gas liquids produced by GPM through December 31, 2007.

Refinery feedstocks in 1993 consisted of 26 percent domestic crude oil, 39 percent natural gas liquids, 30 percent imported crude oil and 5 percent miscellaneous hydrocarbons. In 1993, Phillips operated its refineries at 91 percent of rated crude oil capacity, compared with an industry average of 92 percent. Performance was up from 1992, when Phillips refineries operated at 87 percent capacity.

Output from refining operations--automotive gasoline, distillates, consumer liquefied petroleum gas, aviation fuels, chemical feedstocks and other products--averaged 504,000 barrels daily, up from 476,000 barrels daily in 1992.

Since Phillips blends natural gas liquids into automotive gasoline, the company produces a percentage of gasoline per barrel of crude oil run that is higher than the United States industry average. In 1993, automotive gasoline produced per barrel of crude oil run was 63 percent, up slightly from 1992.

During 1993, Phillips continued implementing Process Safety Management, a comprehensive program aimed at improving safety at major manufacturing facilities. In addition, at the Borger and Sweeny Complexes, an employee-driven program is being implemented that utilizes peer review and positive reinforcement. This program was introduced in 1990 at Phillips Research and Development Center, where it produced excellent results in reducing recordable injuries.

Phillips began producing low-sulfur diesel at all three U.S. refineries in 1993. By modifying and making better use of existing equipment, the company saved substantial amounts of capital over the projected cost of building new units. Low-sulfur diesel accounted for approximately 80 percent of the company's total diesel capacity by year-end. Modifications are planned at the Woods Cross refinery in 1994 to further increase low-sulfur capacity.

As in the United States, Europe is adopting new requirements for diesel fuel emissions, calling for low-sulfur diesel by 1996. To meet the new requirements, Phillips plans to utilize the same approach--modification of existing equipment--at the company's 50 percent owned Teesside, England, refinery.

The company performed a major maintenance turnaround at its Sweeny refinery in the fourth quarter of 1993. The Borger refinery is scheduled for maintenance turnarounds in early 1994.

MARKETING

In the United States, the company markets refined products under the Phillips 66 trademark. Market concentration is highest in the Midwest. Gasoline and other products are distributed in the United States through approximately 8,600 service stations, bulk distributing plants, airport dealers and marinas. Of these, Phillips owns or leases 309 service stations and bulk plants, of which 18 percent are leased.

Phillips' total gasoline sales volumes in the United States, including spot sales, were up 12 percent during the year. Sales

volumes at Phillips-operated service stations were up in 1993. Company-operated outlets generated nearly 18 percent of total company gasoline sales, although they accounted for only 4 percent of Phillips 66 branded stations.

13

At year-end, the company had some 6,840 branded retail stations operated by independent marketers in 26 states. Phillips also has 300 branded company-operated outlets.

Petroleum product sales in the United States during 1993, from both Phillips' refinery output and purchased products, averaged 564,000 barrels a day, compared with 521,000 barrels daily in 1992.

Phillips continued to sell oxygenated gasoline during the year in nine areas where federal mandates went into effect in 1992. Oxygenated gasoline reduces carbon monoxide emissions. Phillips blends methyl tertiary-butyl ether (MTBE) or ethanol into gasoline where oxygenated gasoline is required. To avoid the capital investments that would be required to expand its production of MTBE, the company will continue to purchase additional oxygenate supplies.

In 1995, federal requirements for reformulated gasolines (gasolines that include oxygenates and also have other composition changes that significantly reduce air toxics and hydrocarbon emission) are set to take effect in cities with high ozone levels. Phillips markets gasoline in three of these cities--Chicago, Houston and Milwaukee. The company is evaluating the reformulated gasoline situation, and expects to make a decision regarding the production of reformulated gasoline during 1994.

The company continues to market its UltraClean propane, an alternate fuel for fleet vehicles, in Colorado, Missouri and Wyoming. Another alternate fuel, compressed natural gas, is sold at two Phillips service stations in Oklahoma. Although alternative fuels account for only a small part of Phillips' petroleum products business, the company considers the experience gained by participating in the alternative fuels market as beneficial as this market grows.

TRANSPORTATION

Phillips' Petroleum Products operations own or have an interest in 6,900 miles of common carrier crude oil and products pipeline systems, of which 6,000 miles are company-operated. The largest

segment of the total system consists of 2,000 miles of products line extending from the Texas Panhandle to East Chicago, Indiana. The pipeline mileage above excludes the company's 1.36 percent interest in the 800 mile Trans-Alaska Pipeline System, as this system is now a part of E&P operations.

In addition to the two leased LNG tankers discussed in the Exploration and Production section, the company has a U.S.-flag tanker of 37,000 tons under charter. Phillips also owns or leases barges, tank cars, hopper cars and trucks.

14

Through membership and participation in the Marine Preservation Association, Phillips has the ability to call upon the assistance of the Marine Spill Response Corporation in the event of a major oil spill at any of the domestic offshore oil production or marine related transportation facilities operated by the company, except the company's portion of the Trans-Alaska Pipeline, which is covered by the Alyeska Pipeline Service Company.

Chemicals

- -----

Chemicals manufactures intermediate and finished chemical products from natural gas liquids and other feedstocks provided mainly from Phillips' production. Principal products are plastic resins, engineering plastics, olefins, aromatics, cyclics, extractive chemicals and specialty chemicals for industrial and laboratory uses, and plastic pipe. Chemical products contributed 17, 17 and 15 percent, respectively, of the company's 1993, 1992 and 1991 sales and other operating revenues.

The new ethylene unit at the Sweeny complex performed well during 1993, contributing to the company's overall increase in ethylene sales volumes in 1993. Ethylene is the primary feedstock for polyethylene and other plastics and petrochemicals. Phillips has a 50 percent interest in the partnership that owns the new unit. Subject to the terms of various contracts, the partnership is contractually obligated to deliver approximately 1.26 billion pounds of ethylene annually until the year 2000. The Sweeny Complex's annual ethylene capacity, including the partnership, is 4 billion pounds. Phillips' share of the total annual ethylene capacity is 3.2 billion pounds.

Another olefin, propylene, is also produced at the Sweeny complex. Propylene is used as a feedstock for polypropylene, a plastic used to manufacture various products including synthetic fibers, auto parts and other molded products. The Sweeny

complex's annual propylene capacity is 1.2 billion pounds. In addition to its domestic sales, Phillips exports propylene to Europe, Mexico, South America and the Far East, utilizing a new export terminal on the Houston Ship Channel that was completed in 1992.

Phillips had higher sales volumes and reduced feedstock costs in its aromatics and cyclics businesses. These helped offset lower sales prices for cyclohexane, a feedstock for nylon, and paraxylene, a feedstock for polyester. Aromatics are produced at the Sweeny, and Borger, Texas, complexes, and at the company's Puerto Rico facility. Phillips is the world's leading producer of cyclohexane.

Phillips' wholly owned subsidiary, Phillips Puerto Rico Core Inc., which owns the Puerto Rico facility, agreed in early 1993 to license Chevron Corporation's Aromax catalytic reforming

15

technology. The new technology, expected to be in place at the end of 1994, will broaden the range of hydrocarbon feedstocks that can be used at the facility.

In the specialty chemicals area, the company had higher sales volumes for sulfur chemicals, which are produced at the Borger Complex and a plant at Tessenderlo, Belgium. At the Tessenderlo plant, production of polysulfides, used in lubricant additives and catalyst presulfiding, began in 1993. In the United States, sales of isobutylbenzene, a feedstock for the pain reliever ibuprofen, were higher, utilizing increased capacity at the Borger complex. Sales were also up for oil field chemicals manufactured at the company's Conroe, Texas, plant, primarily due to increased exploration and production activity in the Gulf of Mexico.

Overcapacity in the market kept prices and margins low in the company's polyethylene operations. Though the company's Houston Chemical Complex (HCC) increased polyethylene production and moved towards its full polyethylene capacity of 1.8 billion pounds a year, the decision was made to stabilize production and sales volumes of polyethylene at HCC to about 1.4 billion pounds, thus controlling product inventories.

Phillips is planning to increase its participation in the growing plastics markets of Asia. Currently, Phillips supplies polyethylene product from HCC and its Singapore polyethylene facility to the Asian market. The company is planning to expand its Singapore facility, doubling the plant's linear polyethylene

capacity to more than 800 million pounds a year. The project would be funded partially through the sale of additional equity to other parties, which would lower Phillips' interest from 86 percent to 50 percent.

A major upgrade of HCC's polypropylene operations was completed late in 1993. As a result, new types of catalysts can be used to enhance the quality of polymers. The upgrade will improve operating efficiency and eliminate a by-product that must be handled as hazardous waste.

The company and Sumika Polymers America Corporation, a subsidiary of Sumitomo Chemical Company (Sumitomo), plan to make a decision in the first half of 1994 regarding the construction of a new 270-million-pounds-a-year polypropylene plant at HCC. If the project is approved, the plant would be built through a partnership between Phillips and Sumitomo, and would be completed by 1996. The project would increase HCC's polypropylene capacity by over 50 percent and utilize Sumitomo technology, allowing entry into higher-value markets. Funding would be provided by Sumitomo in exchange for an interest in the company's existing 480-million-pounds-a-year polypropylene facility currently at HCC.

16

Phillips' wholly owned subsidiary, Phillips Driscopipe, Inc. (Driscopipe), had higher sales volumes and earnings in 1993. Driscopipe, headquartered in Richardson, Texas, is the nation's largest supplier of polyethylene pipe.

Phillips sold its Phillips Fibers Corporation subsidiary in the fourth quarter of 1993 to Amoco Fabrics and Fibers Company. With facilities in North and South Carolina, Phillips Fibers manufactured polypropylene fibers used in home furnishings, apparel and other consumer and industrial applications.

Late in the year, Phillips sold the assets of its Aztec Catalyst Company in Elyria, Ohio. Phillips also agreed to sell Catalyst Resources Inc. The sale is contingent on Catalyst Resources meeting certain conditions by the March 31, 1994, closing date.

Other
- - - - -

Phillips' operations are backed by a strong research and development (R&D) team that provides and improves the technology needed to achieve their goals. Examples of R&D support for the operating groups in 1993 include:

Upstream

- Phillips research geoscientists found ways to process seismic data to see beneath underground salt layers and locate potential oil and gas deposits. This technology was the key in making the 1993 oil discovery at the Mahogany prospect in the Gulf of Mexico.
- Using geoscience and engineering data, as well as computer technology, the company is a leader in reservoir characterization. This aids in predicting production from existing fields and plays a role in the company's use of horizontal drilling.

Downstream

- R&D helped the company save large amounts of capital by meeting the low-sulfur diesel requirements through modification of existing equipment, as opposed to construction of new units.
- R&D supported the company's plastics business by developing new polyethylene resins and evaluating an improved polypropylene process that eliminates several processing steps and produces four to five times the amount of plastic per pound of catalyst.
- R&D supported the company's chemicals business by working with the Sweeny Complex to remove minute impurities from ethylene and propylene.

Gross production from Phillips' three jointly owned coal mines was 5.5 million tons in 1993, compared with 5.8 million tons produced in 1992. The mines are located in Louisiana, Wyoming and Texas. Phillips has a 50 percent interest in each of these mines.

COMPETITION

All phases of the businesses in which Phillips is engaged are highly competitive. Phillips competes at various levels with both petroleum and non-petroleum companies in providing energy and other products to the consumer. Several of the company's competitors are larger and have substantially greater resources.

While Phillips is one of 19 large integrated oil companies, and generally ranks in the middle of the group, each of the segments in which Phillips operates is highly competitive and characterized by a great number of competitors. No single competitor, or small group of competitors, dominates any of Phillips' operating segments.

Upstream, the company competes with numerous other companies in the industry to locate and to obtain new sources of supply and to produce oil and gas in a cost-effective and efficient manner. The principal methods of competition include geological, geophysical and engineering research and technology, experience and expertise, and economic analysis in connection with property acquisitions.

Downstream, competitive methods consist of product improvement and new product development through research and technology, and efficient manufacturing and distribution systems. In the marketing phase of the business, competitive factors include product quality and reliability, price, advertising and sales promotion, and development of customer loyalty to Phillips' products.

Because Phillips is a significant U.S. producer of natural gas liquids, the company has wide access to relatively low-cost feedstocks, which are upgraded into chemicals and plastics. The company's well-integrated structure--with businesses ranging from feedstocks to plastic pipe--helps ensure markets for certain products. A substantial percentage of Phillips' olefins, for example, is typically used as a raw material in plastics manufactured by the company.

At the end of 1993, Phillips held a total of 5,088 active patents in 68 countries worldwide, including 2,711 active U.S. patents. During 1993, the company received 197 patents in the United States, and 320 foreign patents. The profitability of the Petroleum and Chemicals segments is not dependent upon any single patent, trademark, license, franchise or concession.

GENERAL

Company-sponsored research and development activities charged against earnings were \$93 million, \$96 million and \$119 million in 1993, 1992 and 1991, respectively.

18

Expensed environmental costs were \$234 million in 1993 and are expected to be approximately the same in 1994 and 1995. Capitalized environmental costs were \$86 million in 1993, and are expected to be approximately \$100 million per year in both 1994 and 1995.

In keeping with efforts to reduce the environmental impact of company products and processes, Phillips research programs in

1993 continued to focus on developing cleaner-burning, reformulated gasolines, reducing the sulfur and aromatics content of diesel fuels, decreasing emissions from production facilities and recycling plastics and catalysts.

International and domestic political developments and government regulation are prime factors that may materially affect the company's operations. Such political developments and regulation may impact price, production, allocation and distribution of raw materials and products, including their import, export and ownership; the amount of tax and timing of payment; and environmental protection. The occurrences and effect of such events are unpredictable.

19

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

20

EXECUTIVE OFFICERS OF THE REGISTRANT

Name ----	Position Held -----	Age* ---	Officer Since -----
W. W. Allen	President and Chief Operating Officer Director	57	1988
C. L. Bowerman	Executive Vice President Director	54	1984
R. G. Ceconi	Vice President Corporate Engineering	51	1991
J. J. Mulva	Executive Vice President and Chief Financial Officer Director	47	1985

William G. Paul	Senior Vice President and General Counsel	63	1985
Barbara J. Price	Vice President Health, Environment and Safety	49	1992
C. J. Silas	Chairman of the Board of Directors and Chief Executive Officer	61	1976
D. J. Tippeconnic	Executive Vice President Director	54	1986
John L. Whitmire	Executive Vice President Director	53	1988
J. Bryan Whitworth	Senior Vice President Corporate Relations and Services	55	1981

*On March 1, 1994

There is no family relationship among the officers named above. Each officer is elected by the Board of Directors at its first meeting after the Annual Meeting of the Stockholders and thereafter as appropriate. Each officer holds office from the date of his election until the first meeting of the directors held after the next Annual Meeting of the Stockholders or until his successor is elected. The date of the next annual meeting is May 9, 1994. All of the executive officers named above have been employed by the company for more than five years. Effective May 1, 1994, C. J. Silas will retire from the company and board service. Also effective May 1, 1994, W. W. Allen will become Chairman of the Board of Directors and Chief Executive Officer and J. J. Mulva will become President and Chief Operating Officer.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Quarterly Common Stock Prices and Cash Dividends Per Share

	Stock Price		Dividends
	High	Low	
1993			
First	\$29 5/8	24 1/2	.28
Second	32 1/4	27 7/8	.28
Third	34	28 1/8	.28
Fourth	37 3/8	26 7/8	.28

1992			
First	25 1/8	22	.28
Second	27	22 1/2	.28
Third	28 7/8	24 1/8	.28
Fourth	27 7/8	23 1/8	.28

Closing Stock Price at December 31, 1993 \$29

Number of Stockholders of Record at January 31, 1994 73,782

Phillips' common stock is traded on the New York, Pacific and Toronto stock exchanges.

Item 6. SELECTED FINANCIAL DATA

	Millions of Dollars Except Per Share Amounts				
	1993	1992	1991	1990	1989
Sales and other operating revenues	\$12,309	11,933	12,604	13,603	12,384
Income before extraordinary items and cumulative					

effect of changes in accounting principles	245	270	98	541	219
Net income	243	180	258	779	219
Per common share					
Income before extraordinary items and cumulative effect of changes in accounting principles	.94	1.04	.38	2.18	.90
Net income	.93	.69	.99	3.13	.90
Total assets	10,868	11,468	11,473	12,130	11,256
Long-term debt	3,208	3,718	3,876	3,839	3,939
Cash dividends declared per common share	1.12	1.12	1.12	1.03	.94

See Management's Discussion and Analysis (Item 7, pages 24 through 44) for discussion of factors that would enhance an understanding of this data.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

March 8, 1994

Management's Discussion and Analysis is the company's analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the financial statements and notes, accounting policies, supplemental oil and gas disclosures, and 11-year financial and operating reviews.

RESULTS OF OPERATIONS

A summary of the company's net income, by business segment and consolidated, is:

Years Ended December 31	Millions of Dollars		
	1993	1992	1991
Petroleum			
Exploration and Production			
United States	\$ 250	260	(7)
Foreign	136	109	231
- - - - -			
	386	369	224
Gas and Gas Liquids	42	78	67
Petroleum Products	81	102	88
- - - - -			
	509	549	379
Chemicals	75	41	186
Corporate and Other	(339)	(320)	(467)
- - - - -			
Income before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	245	270	98
Extraordinary Items	(2)	(46)	213
Cumulative Effect of Changes in Accounting Principles	-	(44)	(53)
- - - - -			
Net Income	\$ 243	180	258
=====			

Consolidated Results

Consolidated net income for 1993 was \$243 million, compared with \$180 million in 1992 and \$258 million in 1991. Earnings for the three years included the following special items, extraordinary items and accounting changes on an after-tax basis:

	Millions of Dollars		
	1993	1992	1991
Net gains on asset sales	\$ 61	25	108
Capital-loss carryforwards	27	-	-
Work force reduction charges	(26)	(62)	(11)
Revisions of prior year tax accruals	-	78	-
Foreign currency gains (losses)	(2)	27	(32)

Offshore California writedown	-	-	(244)
Gas imbalance accrual adjustment	-	(19)	-
Accruals for pending claims	(32)	-	-
Incinerator project writedown	(20)	-	-
Other items	20	(21)	20

Total special items	28	28	(159)

Extraordinary items			
Early retirement of debt	(2)	(46)	(43)
Gain on HCC property insurance settlement	-	-	256
Cumulative effect of accounting changes			
FASB Statement No. 109 (income taxes)	-	(44)	-
FASB Statement No. 106 (postretirement benefits)	-	-	(53)

Total	\$ 26	(62)	1
=====			

Excluding the above items, operating income was \$217 million in 1993, \$242 million in 1992 and \$257 million in 1991. The U.S. economy improved somewhat in 1993, but that had little impact on the supply and demand imbalance that has been affecting the company's business lines.

Crude oil prices dropped significantly in 1993. The company's average worldwide sales price declined 12 percent for the year, compared with 1992's average. In December 1993, the company's U.S. oil sales prices averaged less than \$11 per barrel, while worldwide prices averaged under \$13 per barrel. As a result, the company's U.S. oil prices were at their lowest level since 1986 and worldwide prices were at their lowest level since 1988. Despite weak economies in Japan and Europe, OPEC maintained high production in 1993. The resulting oversupply of oil caused lower prices. The possibility that the embargo of Iraqi oil exports might be lifted by the United Nations also depressed prices.

Natural gas liquids (NGL) prices followed crude oil prices, with GPM Gas Corporation's average 1993 unfractionated NGL prices dropping 4 percent, compared with 1992. Lower crude oil and natural gas production also contributed to the lower operating income.

In the company's Petroleum Products operations, a fourth quarter maintenance shutdown at the company's Sweeny, Texas, complex had

a negative impact on income from operations, as well as Phillips' utilization of refinery capacity. Chemicals' earnings continued to lag, as industry oversupply in the polyethylene market kept prices and margins low in both 1993 and 1992.

These negative factors were partly offset by an increase in U.S. natural gas prices, which were 19 percent higher than in 1992. A decline in industrywide proved natural gas reserves and production capacity--along with purchasers' replenishing low storage levels early in 1993--brought natural gas supplies more in line with demand. Cost reduction measures implemented during 1993 and 1992, along with lower financing costs achieved through debt refinancings, lower average debt levels and lower overall interest rates also helped to moderate the decline in operating income.

Comparing 1992 with 1991, the decline in results reflected lower earnings from the company's Chemicals operations, and lower crude oil sales prices and volumes. These negative factors were partially offset by higher U.S. natural gas prices, lower worldwide exploration expenses, a decline in interest expense and tax credits for producing natural gas from a nonconventional source at the company's San Juan Basin operations in New Mexico.

Segment Results

Exploration and Production

	Millions of Dollars		
	1993	1992	1991
Reported net income	\$386	369	224
Less special items	45	17	(115)
-----	-----	-----	-----
Operating income	\$341	352	339
=====	=====	=====	=====

In 1993, worldwide exploration and production operating income was down slightly from 1992. Although U.S. natural gas prices were higher, they could not overcome the negative effect of lower worldwide crude oil sales prices. Sales prices and other statistics are:

1993	1992	1991
-----	-----	-----

SALES PRICES

Crude oil (per barrel)

United States	\$14.20	16.16	17.29
Foreign	17.30	19.51	19.98
Worldwide	15.92	18.01	18.86

Natural gas--lease

(per thousand cubic feet)

United States	1.99	1.67	1.50
Foreign	2.36	2.61	2.91
Worldwide	2.11	1.99	2.00

AVERAGE PRODUCTION COSTS PER

BARREL OF OIL EQUIVALENT

United States	4.86	4.78	5.44
Foreign	5.57	6.68	5.78
Worldwide	5.15	5.57	5.58

FINDING AND DEVELOPMENT COSTS PER

BARREL OF OIL EQUIVALENT

United States	2.54	2.49	4.63
Foreign	8.88	2.86	5.10
Worldwide	3.88	2.71	4.85

Millions of Dollars

1993 1992 1991

WORLDWIDE EXPLORATION EXPENSES

Geological and geophysical	\$127	135	167
Leasehold impairment	24	30	37
Dry holes	98	81	84
Lease rentals	7	6	9

\$256 252 297
=====

27

United States

Millions of Dollars

1993 1992 1991

Reported net income (loss)	\$250	260	(7)
Less special items	6	(11)	(164)

Operating income	\$244	271	157
------------------	-------	-----	-----

The decrease in operating income for 1993 resulted from lower crude oil sales prices and volumes, lower natural gas production, and higher exploration expenses, primarily from dry hole charges for wells drilled on the Sunfish, Kuvlum and Wild Weasel prospects in Alaska. Partially offsetting these negative factors were 19 percent higher natural gas sales prices.

U.S. crude oil and natural gas production was lower in 1993, compared with 1992, primarily due to normal declines in production from mature fields. The decline in crude production was partly offset by increased production from the Point Arguello field, offshore California.

The increase in operating income from 1991 to 1992 was primarily due to higher natural gas sales prices, lower exploration expenses and lifting costs, and tax credits for producing fuel from a nonconventional source related to the company's San Juan Basin natural gas production. These positive factors were partly offset by lower sales prices for crude oil and liquefied natural gas.

Special items in 1993 included a \$5 million after-tax refund of windfall profit taxes. The \$11 million in special items in 1992 included after-tax asset-sale gains of \$19 million, which were more than offset by a natural gas imbalance accrual adjustment and other charges. The special item in 1991 was an after-tax \$164 million writedown of the company's offshore California properties.

Foreign

	Millions of Dollars		
	1993	1992	1991
Reported net income	\$136	109	231
Less special items	39	28	49

Operating income	\$ 97	81	182

Operating income increased for 1993, compared with 1992, because of lower lifting costs and exploration expenses, partially offset by lower crude oil and natural gas sales prices and volumes. Lifting costs were lower in 1993 partly due to a stronger dollar against the kroner in the company's Norwegian operations. Exploration expenses were lower primarily due to lower dry hole expenses in Canada, Norway and other foreign countries.

Foreign crude oil production was down in 1993, compared with 1992, primarily because of the sale of producing properties in Indonesia and Australia, as well as lower production in the United Kingdom sector of the North Sea. Partially offsetting the production decline was the 1993 start-up of Embla field production in the Ekofisk area.

Natural gas production was down in 1993, due mainly to lower demand. The lower output was partially offset by higher production in the United Kingdom, aided by the Ann gas field, which came on stream in October 1993.

The decrease in operating income from 1991 to 1992 resulted from lower sales prices for crude oil and natural gas, along with a decline in crude oil sales volumes. Crude oil production was down in 1992, compared with 1991, due to lower production in Indonesia and the United Kingdom, coupled with the sale of producing properties in Argentina late in the fourth quarter of 1991. Natural gas production was up in 1992, compared with 1991, primarily from higher production in Norway.

Special items in 1993 included after-tax asset-sale gains of \$26 million, while special items in 1992 included after-tax foreign currency gains of \$30 million. Special items in 1991 included after-tax asset-sale gains of \$78 million, partially offset by after-tax foreign currency losses of \$29 million.

Gas and Gas Liquids

	Millions of Dollars		
	1993	1992	1991
Reported net income	\$ 42	78	67
Less special item--asset writedown	-	(4)	-
Less preferred dividend requirements of Phillips Gas Company	(32)	(2)	-

Operating income	\$ 74	84	67
------------------	-------	----	----

=====

The company's Gas and Gas Liquids (G&GL) operations are conducted primarily through GPM Gas Corporation (GPM), a wholly owned subsidiary of Phillips Gas Company. In December 1992, Phillips Gas Company issued preferred stock, and the effect of the preferred dividend requirements has been excluded in determining operating income. Sales statistics are:

	1993	1992	1991
U.S. residue gas (per thousand cubic feet)	\$ 2.03	1.68	1.50
U.S. natural gas liquids (per barrel--unfractionated)	10.79	11.24	11.57

Operating income decreased in 1993, compared with 1992. Although revenues were up in 1993, gas purchase costs were up more, lowering GPM's feedstock margin. The increase in revenues was due primarily to higher residue gas sales prices, as natural gas supplies were brought more in line with demand in 1993. The higher residue sales prices were partly offset by lower NGL prices, which generally followed the decline in crude oil prices during the year. This combination in price movements led to higher gas purchase costs. Payments to suppliers under GPM's gas purchase contracts are generally determined based on a percentage of residue gas and NGL market prices.

The increase in operating income from 1991 to 1992 was mainly due to improved feedstock margins. Higher residue gas sales prices and volumes, along with higher natural gas liquids sales volumes, were partially offset by lower natural gas liquids sales prices and higher natural gas purchase costs. Natural gas liquids sales prices were lower in 1992, even though a change in the company's internal transfer pricing formula improved GPM's operating income by \$7 million.

30

Petroleum Products

	Millions of Dollars		
	1993	1992	1991
Reported net income	\$ 81	102	88

Less special items	(25)	18	9

Operating income	\$106	84	79
=====			

Sales prices for petroleum products, along with refinery capacity utilization percentages, are:

	1993	1992	1991

Automotive gasoline (per gallon)	\$.58	.64	.69
Distillates (per gallon)	.56	.59	.62
Liquefied petroleum gas (per gallon)	.37	.35	.37
Refinery crude oil capacity utilization	91%	87	90

Operating income increased 26 percent in 1993, compared with 1992. A 5 percent increase in crude oil refinery runs, coupled with an 8 percent increase in NGL processing runs, contributed to an increase in the company's overall refinery capacity utilization and improved operating income. Through the first three quarters of 1993, refinery crude oil capacity utilization was near 100 percent. The fourth quarter maintenance shutdown at the Sweeny refinery reduced Phillips' fourth quarter utilization rate to approximately 70 percent.

In addition to the positive effect of lower crude oil and NGL prices, feedstock costs in 1993 benefited from refining a higher percentage of a heavier grade of high-sulfur crude oil, which costs less than other grades of sour crude oil. Another positive factor for 1993's operating income was improved margins for distillates, as the company converted a substantial amount of its diesel capacity to produce low-sulfur diesel, which brings higher margins.

Liquefied petroleum gas margins also improved in 1993, as sales prices increased and NGL feedstock prices came down.

The company had higher overall sales volumes in 1993, due to the increased refinery runs and increased activity in the petroleum products spot market.

The slight increase in operating income from 1991 to 1992 was due to lower feedstock costs and a decline in operating expenses, mostly offset by lower petroleum products sales prices. Feedstock costs were lower even though the change in the internal transfer pricing formula for NGL purchased from GPM reduced operating income by \$7 million.

Special items in 1993 included an after-tax charge of \$20 million for the writedown of an incinerator project and a \$10 million after-tax charge for the abandonment of a pipeline. Special items in 1992 included a property settlement gain related to a 1991 fire, which damaged the atmospheric residuum desulfurization unit at the Sweeny refinery. Special items in 1991 included after-tax asset-sale gains of \$30 million, partly offset by \$10 million in after-tax project cancellation costs and other charges to income.

Chemicals

	Millions of Dollars		
	1993	1992	1991
Reported net income	\$75	41	186
Less special items	23	(2)	20
-----	-----	-----	-----
Operating income	\$52	43	166
=====	=====	=====	=====

In 1993, operating income benefited from an increase in gross ethylene margins in the company's olefins operations. However, results in both 1993 and 1992 were negatively affected by continuous low margins in polyethylene operations. Market overcapacity kept polyethylene prices and margins low during these years.

The company's share of earnings from the Sweeny Olefins Limited Partnership (SOLP) increased from \$5 million in 1992 to more than \$10 million in 1993.

The decrease in operating income from 1991 to 1992 is the result of lower olefin margins and losses from the company's plastics operations, partly offset by improved results for aromatics. In 1991 income also received significant benefits from business interruption insurance related to a 1989 accident at the Houston Chemical Complex (HCC).

Special items in 1993 included net after-tax asset-sale gains of \$33 million from the sale of the assets of Aztec Catalyst Company and the sale of Phillips Fibers Corporation. These gains were partly offset by a \$12 million after-tax writedown of assets held

for sale resulting from the company's decision to exit from the catalyst business. Late in 1993, the company agreed to sell Catalyst Resources, Inc. (CRI) contingent on CRI's meeting certain conditions by the March 31, 1994, closing date. Special items in 1991 included final settlement of a prior year's business interruption insurance claim.

Corporate and Other

	Millions of Dollars		
	1993	1992	1991
Reported Corporate and Other	\$ (339)	(320)	(467)
Less special items	(15)	(1)	(73)

Adjusted Corporate and Other	\$ (324)	(319)	(394)
=====			

Adjusted Corporate and Other includes:

Corporate general and administrative expenses	\$ (142)	(141)	(166)
Net interest	(181)	(209)	(260)
Other	(1)	31	32

Adjusted Corporate and Other	\$ (324)	(319)	(394)
=====			

Corporate general and administrative expenses for 1993 and 1992 were down from 1991 as a result of cost savings realized through salary and other reductions from the company's Activity Value Analysis (AVA) program completed in March 1992. The Performance Incentive Program (PIP) was established in 1993 to improve company performance by providing most nonexecutive employees with additional compensation if key safety, operating and financial objectives were met. None of the PIP costs were charged to operating segments in 1993, but will be allocated in future years. The increased cost due to the PIP was offset by lower corporate Research and Development (R&D) costs. In 1993, corporate R&D staffs were realigned to more closely associate the R&D activities with the operating segments. This realignment resulted in lower R&D costs in corporate general and administrative expenses.

Net interest represents interest income and expense, net of capitalized interest. Net interest declined over the past three years, as the company has benefited from refinancing high-interest rate debt, the general decline in interest rates, and lower average outstanding debt.

Other consists primarily of the company's minerals, licensing and insurance operations, along with income tax items that are not directly associated with the operating segments on a stand-alone basis. The decrease in 1993, compared with 1992, is due to lower net premiums charged to the operating segments by the company's captive insurance subsidiary, coupled with lower minerals earnings due to charges for coal lease cancellations and an impairment for properties and leases expected to be released in 1994.

Special items in 1993 included an after-tax work force reduction charge of \$26 million and after-tax accruals for pending claims of \$32 million. These negative factors were partially offset by an after-tax benefit of \$27 million from capital-loss carryforwards applied against the current year capital gains from asset sales, and after-tax interest income of \$9 million from windfall profit tax refunds. In 1992, a \$78 million benefit from revisions of prior year income tax accruals was offset by after-tax work force reduction charges of \$62 million and other minor items. Special items in 1991 included an \$80 million after-tax writedown of capitalized interest associated with offshore California properties, partly offset by after-tax interest income of \$19 million related to federal excise tax refunds.

Income Statement Analysis

Revenues

Total revenues for 1993 were \$12.5 billion, compared with \$12.1 billion in 1992 and \$13.3 billion in 1991. Sales and other operating revenues were up 3 percent in 1993, compared with 1992, primarily due to increased U.S. natural gas revenues and higher petroleum products sales volumes. The higher U.S. natural gas revenues were the result of higher overall sales prices. Other revenues increased in 1993 primarily as a result of asset sales.

Comparing 1992 with 1991, the decrease in sales and other operating revenues was primarily due to lower sales prices for most products, partly offset by higher U.S. natural gas prices.

Other revenues decreased in 1992, compared with 1991, as a result of lower gains from asset sales and a decline in interest income.

Total Costs and Expenses

Total costs and expenses were up 3 percent from 1992 to 1993. Purchase costs increased primarily due to higher natural gas prices and higher crude oil purchase volumes in 1993. Selling, general and administrative expenses decreased due to lower work force reduction charges and benefits realized from cost cutting measures implemented in 1992, mostly offset by the costs of the PIP implemented in 1993 and accruals for pending claims. Depreciation, depletion, amortization and retirements increased slightly due to the writedown of certain catalyst business assets and charges associated with abandonment of a pipeline. Interest expenses were down due to debt refinancings, lower interest rates on fixed- and variable-rate debt, and lower average outstanding debt. Expenses in 1993 included a full year's effect of the preferred dividend requirements of the Phillips Gas Company preferred stock, which was issued in December 1992.

In comparing 1992 with 1991, total costs and expenses were down 9 percent. Purchase costs were lower, mainly due to lower prices for crude oil. Selling, general and administrative expenses were up in 1992, compared with 1991, primarily as a result of higher work force reduction charges. Exploration expenses were lower due to reduced dry hole costs and elimination of costs associated with a previously idled drilling rig which was sold in 1991. Depreciation, depletion, amortization and retirements showed a decline primarily because 1991 included a writedown of the company's offshore California properties. Interest expense was lower as a result of declining interest rates and the company's refinancing of high-interest-rate debt.

Income Taxes

The effective income tax rate was 55 percent in 1993, compared with 47 percent in 1992 and 78 percent in 1991. The 1992 tax provision and effective tax rate was low, compared with 1993 and 1991, primarily due to a \$78 million benefit from revisions of prior year tax accruals. The high effective tax rate in 1991 was due to the predominance of highly taxed foreign income, coupled with U.S. losses, which were benefited at lower rates.

CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

	Millions of Dollars		
	1993	1992	1991
Current ratio	1.0	.9	.9
Long-term debt	\$3,208	3,718	3,876
Preferred stock of subsidiary	\$ 345	345	-
Stockholders' equity	\$2,688	2,698	2,757
Percent of long-term debt to capital*	51%	55	58
Percent of floating-rate debt to total debt	25%	54	20

*Capital includes long-term debt, preferred stock of subsidiary and stockholders' equity.

During 1993, the company's cash provided by operating activities was \$1.3 billion. This was an increase of \$400 million from a year ago. However, spending for capital programs and dividends exceeded the cash provided by operations. The company's cash and cash equivalent balances decreased to \$119 million in 1993, from \$131 million in 1992. The company's ratios of current assets to current liabilities reflect the company's plan, begun in 1991, to use various committed bank lines of credit instead of maintaining higher levels of cash. The company's short-term liquidity position at December 31, 1993, was stronger than indicated

35

because the current costs of the company's inventories was approximately \$360 million greater than their last-in, first-out (LIFO) carrying value.

During 1993, the company extended its debt maturities by issuing \$850 million of notes in the public market at interest rates ranging from 6.65 percent to 8.49 percent. The proceeds were used to pay down shorter-term variable-interest-rate bank debt, as well as to replace longer-term high-interest-rate debt. During the year, the company redeemed its outstanding 8 7/8 percent and 7 5/8 percent debentures for \$175 million. Interest incurred on debt declined by \$77 million in 1993 because of the debt refinancings, lower interest rates on fixed- and variable-rate debt, and lower average debt.

The company has \$1.7 billion of committed credit facilities with major banks. Of this, \$159 million had been drawn at December 31, 1993. With respect to the undrawn balance, \$114 million supports the noncurrent classification of the Long-Term Stock Savings Plan notes payable. Also, the company has a \$250 million committed letter-of-credit-supported commercial paper program, under which \$120 million had been issued at year-end. In December, the company filed with the Securities and Exchange Commission a shelf registration for \$500 million of debt securities. This registration statement became effective in January 1994.

During 1993, the company sold and leased back its 70 percent interest in two tankers used to transport liquefied natural gas (LNG) from Kenai, Alaska, to Japan. The two vessels were completed and placed in service during 1993. The company received \$278 million for its 70 percent share of the vessels.

The company's G&GL operating subsidiary, GPM, is seeking acquisitions that could require funds in excess of those generated internally by GPM. To pursue these opportunities, GPM and a group of institutional investors formed GPM Gas Gathering L.L.C. (GGG), a limited liability company in which GPM owns a 50 percent equity interest. GPM sold to GGG a portion of its gas gathering assets in the West Texas region of the Permian Basin for \$138 million. GPM will use the proceeds from the sale to acquire new gas gathering systems and to expand existing systems. GPM will continue to operate and to have priority access to the gathering assets sold to GGG through a long-term contract.

The company substantially exceeded its 1991 goal of completing \$500 million in asset sales by the end of 1993. Since late 1991, the company has received more than \$650 million in net proceeds from such sales. The assets sold range from oil and gas properties to the company's Phillips Fibers Corporation subsidiary.

Most of the company's foreign operations use the local currency as the functional currency. The local currency reflects the expected economic effect of exchange rate fluctuations on cash flows and equity, since cash flows of the company's foreign operations are largely denominated in the local currency. Phillips hedges, where feasible and appropriate, foreign exchange exposures that affect cash flow.

Capital Spending

Millions of Dollars

	Estimated			
	1994	1993	1992	1991
Exploration and Production	\$ 725	819	583	636
Gas and Gas Liquids	147	116	73	81
Petroleum Products	130	91	217	262
Chemicals	166	162	249	346
Corporate and Other	20	28	30	60
	\$1,188	1,216	1,152	1,385
United States	\$ 706	893	825	1,089
Foreign	482	323	327	296
	\$1,188	1,216	1,152	1,385

Capital spending for 1993 was \$1.2 billion, about the same as 1992 and down from \$1.4 billion in 1991. These amounts included \$52 million, \$162 million and \$252 million in 1993, 1992 and 1991, respectively, for rebuilding the HCC facilities. Also included were \$127 million, \$54 million and \$44 million in 1993, 1992 and 1991, respectively, for construction of two liquefied natural gas tankers.

Phillips 1994 capital spending is expected to be approximately \$1.2 billion, targeted to areas of strategic importance to the company, including: meeting safety and environmental needs, profitably replacing oil and gas reserves, increasing NGL and raw gas throughput, and improving downstream profitability.

The estimated capital spending amount for 1994 includes carryover commitments of \$422 million.

Upstream projects--including Exploration and Production (E&P) and G&GL operations--continue to be the focus of Phillips' capital program, accounting for about 75 percent of both 1993 actual and 1994 expected expenditures.

Capital spending for E&P during the three-year period from 1991 through 1993 included several major development projects, including J-Block in the U.K. North Sea, the Embla field in Norway and the Xijiang fields offshore China. The major focus of the 1994 capital budget will be on the continued development of J-Block and the Xijiang fields, as well as on Ekofisk projects in Norway. Additional capital funds are being directed to

exploratory drilling in North America, Norway, the United Kingdom, Nigeria, Tunisia, Papua New Guinea, Italy and Egypt. About half of the 1994 U.S. exploratory budget is targeted to subsalt projects in the Gulf of Mexico.

Capital spending in the G&GL business increased significantly in 1993, reflecting the company's focus on increasing throughput volumes and processing capacity for this business. This trend is expected to continue in 1994. The increase in 1993 funded the acquisition of four processing plants and associated gathering systems in West Texas, the building of a new gas processing plant in New Mexico and the restarting of an idle plant in central Texas. Capital expenditures in 1992 and 1991 included acquisition of supply-backed gathering systems and consolidation of two processing plants in West Texas.

Petroleum Products' capital spending declined in 1993 as several major projects were completed. During 1991 through 1993, expenditures were made for modifying equipment at the Borger, Texas, refinery to produce low-sulfur diesel fuel; upgrading the Sweeny and Borger, Texas, refineries to meet new environmental standards; and renovating feedstock pipelines and product terminals. The major focus of the 1994 capital budget will be meeting additional safety and environmental requirements, and operating expenditures and projects designed to improve efficiency.

After several years of large capital expenditures for new polyethylene facilities at HCC and a major ethylene facility at the Sweeny, Texas, facility, capital spending for Chemicals declined in 1993. Capital expenditures in 1993 were directed toward several projects at HCC, including a major upgrade of polypropylene operations. The capital budget for 1994 reflects projects designed to improve operating efficiency, including improvement projects in the aromatics and polypropylene business lines.

Contingencies

Legal and Tax Matters

The U.S. Tax Court in July 1993 issued a second ruling related to income received from sales of LNG manufactured at the company's 70-percent-owned Kenai, Alaska, plant to two utility companies in Japan. The ruling supported the company's position that more than 50 percent of the income at issue was from a foreign source.

The ruling favorably affects the company's income tax liability for the years 1975 through 1978, and the tax liability for these LNG sales for all subsequent years. These sales had been classified as U.S. income by the Internal Revenue Service. In a 1991 decision in the same case, the court had invalidated a regulation that purported to classify such income as entirely domestic. Though a final, favorable settlement of this issue

38

would have a material, positive effect on Phillips' net income and cash position, the ruling is subject to appeal by the Internal Revenue Service. It remains too early to determine the outcome, when the issues will be resolved, or the final financial effect.

In February 1994, the U.S. Internal Revenue Service completed its examination of the company's income tax returns for 1989 and 1990, which resulted in proposed adjustments totaling approximately \$80 million, including interest, all of which was previously accrued. The company plans to pay the assessment and then file a claim for refund contesting a significant portion of that amount.

The company continues to defend claims made by plaintiffs resulting from the October 23, 1989, explosion and fire at Phillips 66 Company's HCC facilities. All suits involving fatalities and most of those involving serious physical injury have been settled.

Since December 31, 1993, the company has settled or agreed in principle to settle about 250 claims, including 191 on March 2, 1994. The March 2 agreement was for an amount in excess of what the company had previously anticipated for those claims. The agreement occurred in the third week of a trial of 15 of the 191 claims, which commenced in February 1994. The agreement resulted from a mediation of all 191 claims ordered during the trial. Based on this event and the company's anticipated future liability exposure in the remaining unsettled cases, an additional accrual was reflected in 1993. Most of the approximately 150 remaining claimants seek compensatory and punitive damages, primarily for psychological injury.

Because of the nature of personal injury litigation, the company cannot predict with certainty the amount of damages or other costs it may incur in settling and trying the remaining claims. Phillips believes, however, that should the ultimate cost of the disposition of such claims, either by settlement or after trial, exceed its remaining liability insurance plus amounts for which

the company has made provision, such excess would not have a material adverse impact on the company's financial position.

Phillips provides for costs related to contingencies when a loss is probable and the amounts can be reasonably estimated. The ultimate resolution of known contingencies, to the extent not previously provided, is not expected to have a material adverse impact on the company's financial position. However, such additional costs could be material to the operating results or cash flows of a particular year or quarter.

Environmental

Most aspects of the businesses in which the company engages are subject to various foreign, federal, state and local environmental laws and regulations. The company, as well as other companies in the petroleum or chemical industries, incurs costs for preventive and corrective actions at facilities and waste disposal sites.

Phillips may be obligated to take remedial action as the result of the enactment of laws, such as the federal Superfund law, the issuance of new regulations, or as a result of leaks and spills. In addition, an obligation may arise when a facility is closed or sold. Most of the expenditures to fulfill these obligations relate to facilities and sites where past operations followed practice and procedures that were considered acceptable under regulations, if any, existing at the time, but will now require investigatory or remedial work to adequately protect the environment.

At year-end 1992, Phillips reported 51 sites where it had information indicating that it might have been identified as a Potentially Responsible Party (PRP). Of these sites, 11 were resolved during the year through consent decrees, deposits into trust funds or otherwise. Also during the year, 23 sites were added. Of the 63 sites at year-end 1993, the company believes it has a legal defense or its records indicate no involvement for 24 sites. At 12 sites, present information indicates that it is reasonably likely that the company's exposure is less than \$100,000 per site. At four, Phillips has had no communication or activity with government agencies or other PRPs in more than two years. Of the remaining sites, the company has provided for any probable costs that can be reasonably estimated. Any additional costs related to these sites are not expected to be material to the company's financial position. However, such additional costs could be material to the operating results or cash flows of a

particular year or quarter.

For those sites where it is probable that future costs will be incurred and these costs can be reasonably estimated, reserves have been recorded in the consolidated balance sheet. At December 31, 1993, accruals of \$13 million had been made for the company's PRP sites. In addition, the company has accrued \$88 million for planned remediation activities, including sites where no claims have been asserted, and \$14 million for other environmental litigation. No one site represents more than 15 percent of the total. Expensed environmental costs were \$234 million in 1993 and are expected to be approximately the same in 1994 and 1995. Capitalized environmental costs were \$86 million in 1993, and are expected to be approximately \$100 million per year in both 1994 and 1995.

40

Phillips does not consider the number of sites at which it has been designated a PRP as a relevant measure of liability. Some companies may be involved in few sites but have much larger liabilities than companies involved in many more sites. Although the liability of a PRP is generally joint and several, the company is usually one of many companies cited as a PRP at these sites, and has, to date, been successful in sharing cleanup costs with other financially sound companies. Also, many of these sites are still under investigation by the EPA or the state agencies concerned. Prior to actual cleanup, the PRPs normally assess site conditions, apportion responsibility and determine the appropriate remediation. In some instances, Phillips may have no liability or attain a settlement of liability.

The actual cleanup costs generally occur after the PRPs obtain EPA or equivalent state agency approval. After an investigation and assessment, the company makes accruals for planned remediation activities for sites where it is probable that future costs will be incurred and these costs can be reasonably estimated.

The ultimate costs of remediation of sites for which the company has been designated as a PRP is not determinable due to such unknown factors as the magnitude of cleanup costs, the time and extent of remedial actions that may be required, and the company's liability in proportion to other responsible parties. However, based on information available at this time, the ultimate resolution of these matters, to the extent not previously provided, is not expected to have a material adverse impact on the company's financial position. Such additional costs could be material to the operating results or cash flows of

a particular year or quarter.

Other

Phillips has deferred tax assets for certain accrued liabilities, loss carryforwards and the alternative minimum tax. Valuation allowances reduce these assets to an amount that is likely to be realized. Uncertainties that may affect the realization of these assets include the future level of product prices, costs and tax rates. Therefore, the company reviews these assets periodically and adjusts the related allowances as needed. By realizing net capital gains on asset sales during 1993, the company reduced its valuation allowance because part of its capital-loss carryforward offset the net capital gains.

New Accounting Standards

Effective January 1, 1993, the company adopted FASB Statement No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." The Statement was issued in December 1992 and was effective in 1993. This Statement

41

applies to the company's captive insurance subsidiary and requires that the company show the total amount receivable from reinsurance, instead of netting the anticipated insurance recovery against the related liability account. This increased both long-term receivables and liabilities by \$76 million. There was no impact on net income.

OUTLOOK

Phillips anticipates that the economy will continue its recovery in 1994. The company does not expect large improvements in prices or margins during the year, but does expect crude prices to begin recovering and natural gas prices to remain near current levels. Also, the company expects to benefit from its continuing cost-reduction efforts and increased operating efficiencies.

In December 1993, Phillips Petroleum Company Norway, as operator for the Phillips Norway Group, submitted to the Norwegian government a detailed Plan for Development and Operation (PDO) for the Ekofisk development. The PDO provided technical and commercial details of the plan for the proposed Ekofisk II development, as well as an alternate plan, Ekofisk 2011. Both

alternatives complied with the Norwegian Petroleum Directorate's (NPD) requirements. Ekofisk II included new processing and transportation facilities outside the area of seabed subsidence and new wellhead platforms built to withstand future subsidence. The Ekofisk 2011 alternative was a medium-term plan to provide continued safe, effective operations within the current Ekofisk license period, which ends in August 2011.

Following discussions with the Norwegian government authorities, Phillips Petroleum Company Norway and its co-venturers (Phillips Norway Group) modified the long-term Ekofisk II solution outlined in the PDO submitted on December 31, 1993. This modification stemmed from further technical studies and the government's informing the Phillips Norway Group that certain aspects of the Ekofisk II plan, as described in the PDO document, were not acceptable. The modified Ekofisk II plan consists of a new processing and transportation platform and a single new wellhead platform, all to be located within the subsidence area. Phillips' share of capital expenditures for the new facilities and wellhead platform, to be installed in or before 1998, is about \$1.1 billion. Design for the new facilities began in the first quarter of 1994. It is anticipated that the wellhead platform will be installed in 1996 and the process/transportation platform installed in 1998.

The modified plan proposes making greater use of the existing Ekofisk infrastructure and will be in accordance with Norwegian safety requirements. It is also expected to lower future operating costs, to be comparable with the original Ekofisk II plan. The modified plan continues to effectively address future long-term production, transportation, processing and reservoir

management issues, while retaining the values reflected in the original Ekofisk II plan for members of the Phillips Norway Group. The Ekofisk II modified plan will be proposed subject to extension of production and pipeline transportation licenses to correspond with the economic life of the field, royalty exemption on oil and NGL production, deferral of removal of existing facilities, and the Norwegian government's agreement to other fiscal incentives.

The modified technical plan has been provided to the Norwegian authorities. Discussions concerning the PDO are expected to continue and an amended PDO is scheduled to be submitted in mid-March. It is anticipated that a recommendation about the Ekofisk development will be made by the Norwegian authorities in the spring session of the Norwegian Storting, or parliament, and that

the Starting will make its decision later in the spring session.

In connection with developing the plans for the Norwegian government, a review was made of dismantlement costs for existing facilities. That review resulted in an increase in provisions for abandonment costs, but the impact on results of operations and financial position was not material in 1993 and is not expected to be material in any future year.

Net production from the Point Arguello field, offshore California, is projected to be approximately 4,600 barrels of oil per day lower because one of the conditions of the tankering permit was not met by February 1, 1994. Interim tankering was temporarily halted when sufficient commitment had not been made to a pipeline under throughput agreements. This commitment is needed to allow the pipeline company to obtain financing to construct a pipeline to increase pipeline capacity from Gaviota, near Santa Barbara, to Los Angeles. When the permit condition is met, in an estimated two months to one year, tankering is expected to resume and production will return to higher levels. Tankering of Point Arguello oil will cease once the pipeline is completed or on January 1, 1996, whichever comes first.

Government environmental regulations continue to affect the company's downstream operations. The Clean Air Act of 1990 mandated cleaner-burning, oxygenated gasoline in nine urban areas in 1992. Phillips blends methyl tertiary-butyl ether (MTBE) or ethanol into gasoline in areas where oxygenated fuel is required. MTBE is manufactured at the company's Sweeny facility, but the company has decided to continue to purchase additional oxygenate supplies to avoid the large capital investment that would be needed to increase capacity. The final rules for cleaner-burning gasolines, which require new gasoline formulas to be ready for sale by 1995, were established in late 1993. The switch to reformulated gasoline production and distribution is extremely complex and the company plans to make decisions about producing reformulated gasoline for specific markets during 1994. Phillips sells gasolines in three cities affected by the mandate--Chicago, Houston and Milwaukee.

The company and Sumika Polymers America Corporation, a subsidiary of Sumitomo Chemical Company (Sumitomo), plan to decide in the first half of 1994 whether to construct a new 270-million-pound-per-year polypropylene plant at HCC by 1996. If the project is approved, the plant would be built by Phillips Sumika Polypropylene Company, a partnership between Phillips and Sumitomo. The project would increase HCC's polypropylene

capacity by more than 50 percent. Funding for the project would be provided by Sumitomo in exchange for an interest in Phillips' existing polypropylene business.

Phillips is planning to increase its participation in the growing plastic markets in Asia by expanding its Singapore polyethylene facility. The expansion is expected to be funded partly by a \$93 million non-recourse project loan and partly by selling additional equity to other parties. The sale of additional equity will reduce Phillips' equity interest in the company that owns the polyethylene facility from 86 percent to 50 percent. This expansion will double the Singapore facility's linear polyethylene capacity to more than 800 million pounds a year and is expected to be completed by 1997.

Phillips has non-contributory defined benefit retirement plans covering substantially all employees. In 1986, the company restructured its principal retirement plan. After the restructuring, a surplus of \$125 million remained in the plan. At that time, the company anticipated that funding would have to be resumed in three to four years. However, because of the plan's successful investment experience, plan assets exceeded plan liabilities until 1993. In 1994, the company expects to contribute approximately \$55 million to meet current funding requirements.

The year 1993 ended with the company's downstream margins depressed and average realized worldwide crude oil sales prices at their lowest levels since 1988. If crude oil prices and downstream margins remain low, earnings and cash flow could be negatively affected and it may be necessary for the company to revise its current and future spending program.

To meet its liquidity requirements, including funding its capital program, the company will look primarily to cash generated from operations, asset sales and financing. Over the next few years, the company plans to maintain its long-term debt level around \$3.5 billion.

Phillips recognizes that the financial performance of the businesses in the industries in which the company operates are subject to significant fluctuations, and are affected by the uncertainty of oil and natural gas prices. The company plans to continue to operate as an integrated domestic petroleum company, focusing on improving its core operations and on the pursuit of its worldwide exploration and production program.

PHILLIPS PETROLEUM COMPANY
 INDEX TO FINANCIAL STATEMENTS

	Page -----
Report of Independent Auditors.....	46
Consolidated Statement of Income for the years ended December 31, 1993, 1992 and 1991.....	47
Consolidated Balance Sheet at December 31, 1993 and 1992.....	48
Consolidated Statement of Cash Flows for the years ended December 31, 1993, 1992 and 1991.....	49
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 1993, 1992 and 1991.....	50
Accounting Policies.....	51
Notes to Financial Statements.....	54
Supplementary Information	
Oil and Gas Operations.....	78
Selected Quarterly Financial Data.....	94

INDEX TO FINANCIAL STATEMENT SCHEDULES

Schedule V--Properties, Plants and Equipment.....	99
Schedule VI--Accumulated Depreciation, Depletion and Amortization of Properties, Plants and Equipment.....	100
Schedule VIII--Valuation Accounts and Reserves.....	101

All other schedules are omitted because they are either not required, not significant, not applicable or the information is shown in another schedule, the financial statements or in the notes to financial statements.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Phillips Petroleum Company

We have audited the accompanying consolidated balance sheets of Phillips Petroleum Company as of December 31, 1993 and 1992, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. Our audits also included the financial statement schedules listed in the Index in Item 8. These financial statements and schedules are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phillips Petroleum Company at December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, effective January 1, 1992 the company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and effective January 1, 1991 the company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting

ERNST & YOUNG

ERNST & YOUNGTulsa, Oklahoma
March 8, 1994

46

Consolidated Statement of Income	Phillips Petroleum Company		
	Millions of Dollars		
Years Ended December 31	1993	1992	1991
Revenues			
Sales and other operating revenues	\$12,309	11,933	12,604
Business interruption insurance	14	38	391
Equity in earnings of affiliated companies	66	65	43
Other revenues	156	104	221
Total Revenues	12,545	12,140	13,259
Costs and Expenses			
Purchased crude oil and products	7,498	7,063	7,766
Production and operating expenses	2,222	2,197	2,270
Exploration expenses	256	252	297
Selling, general and administrative expenses	597	609	562
Depreciation, depletion, amortization and retirements	841	820	1,190
Taxes other than income taxes	283	310	266
Interest and expense on indebtedness	278	376	457
Preferred dividend requirements of subsidiary	32	2	-
Total Costs and Expenses	12,007	11,629	12,808
Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles	538	511	451
Provision for income taxes	293	241	353

Income before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	245	270	98
Extraordinary items	(2)	(46)	213
Cumulative effect of changes in accounting principles	-	(44)	(53)

Net Income	\$ 243	180	258
=====			

Per Share of Common Stock			
Income before extraordinary items and cumulative effect of changes in accounting principles	\$.94	1.04	.38
Extraordinary items	(.01)	(.18)	.82
Cumulative effect of changes in accounting principles	-	(.17)	(.21)

Net Income	\$.93	.69	.99
=====			

Average Common Shares Outstanding (in thousands)	261,015	259,979	259,458

See Accounting Policies and Notes to Financial Statements.

Consolidated Balance Sheet

Phillips Petroleum Company

At December 31

Millions of Dollars

	1993	1992
	-----	-----
Assets		
Cash and cash equivalents	\$ 119	131
Accounts and notes receivable (less allowances: 1993--\$14; 1992--\$16)	1,248	1,268
Inventories	538	664
Deferred income taxes	170	151
Prepaid expenses and other current assets	118	135

Total Current Assets	2,193	2,349
Investments and long-term receivables	543	451
Properties, plants and equipment (net)	7,961	8,489
Deferred income taxes	98	116
Deferred charges	73	63

	1993	1992	1991

Cash Flows from Operating Activities			
Net income	\$ 243	180	258
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, amortization and retirements	841	820	1,190
Dry hole costs and leasehold impairment	122	111	121
Deferred taxes	(48)	(302)	(193)
Cumulative effect of accounting changes	-	44	53
Extraordinary items	2	46	(213)
Decrease (increase) in accounts and notes receivable	(20)	(31)	332
Decrease in inventories	80	22	17
Decrease (increase) in prepaid expenses and other current assets	(11)	63	(31)
Increase (decrease) in accounts payable	28	82	(267)
Decrease in taxes and other accruals	(34)	(165)	(94)
Other	105	38	(143)

Net Cash Provided by Operating Activities	1,308	908	1,030
---	-------	-----	-------

Cash Flows from Investing Activities

Capital expenditures, including dry hole costs	(1,216)	(1,152)	(1,385)
Proceeds from property insurance	17	21	-
Property dispositions	468	123	192
Investment purchases	(10)	(25)	(196)
Investment sales	336	242	56

Net Cash Used for Investing Activities	(405)	(791)	(1,333)
--	-------	-------	---------

Cash Flows from Financing Activities

Issuance of debt	2,613	3,603	2,674
Repayment of debt	(3,209)	(3,851)	(2,639)
Issuance of company stock	19	11	7
Issuance of preferred stock of subsidiary	-	333	-
Purchase of company stock	(4)	(4)	(4)
Dividends paid	(292)	(291)	(291)
Other	(42)	99	-

Net Cash Used for Financing Activities	(915)	(100)	(253)
--	-------	-------	-------

Increase (Decrease) in Cash and Cash Equivalents	(12)	17	(556)
Cash and cash equivalents at beginning of year	131	114	670

Cash and Cash Equivalents at End of Year	\$ 119	131	114
=====			

See Accounting Policies and Notes to Financial Statements.

49

Consolidated Statement of Changes
in Stockholders' Equity

Phillips Petroleum Company

	Shares of Common Stock	
	Issued	Held in Treasury
	-----	-----
December 31, 1990	277,180,511	18,460,827
Net income		
Cash dividends paid on common stock Distributed under incentive compensation plans		(1,061,992)
Recognition of LTSSP unearned compensation		
Current period translation adjustment		
Other		744

December 31, 1991	277,180,511	17,399,579
Net income		
Cash dividends paid on common stock Distributed under incentive compensation plans		(451,380)
Recognition of LTSSP unearned compensation		
Tax benefit of dividends on unallocated LTSSP shares		
Current period translation adjustment		
Translation adjustments recognized upon disposal of foreign investments		
Issuance costs for preferred stock of subsidiary		
Other		1,297

December 31, 1992	277,180,511	16,949,496
Net income		
Cash dividends paid on common stock		
Distributed under incentive		
compensation plans		(1,249,217)
Recognition of LTSSP unearned		
compensation		
Tax benefit of dividends on		
unallocated LTSSP shares		
Current period translation adjustment		
Other		
- - - - -		
December 31, 1993	277,180,511	15,700,279
=====		

Consolidated Statement of Changes
in Stockholders' Equity

Phillips Petroleum Company

Millions of Dollars

	Common Stock		
	Par	Capital in	Treasury
	Value	Excess of Par	Stock

December 31, 1990	\$346	914	(1,066)
Net income			
Cash dividends paid on common stock			
Distributed under incentive			
compensation plans		22	67
Recognition of LTSSP unearned			
compensation			
Current period translation adjustment			
Other		3	
- - - - -			
December 31, 1991	346	939	(999)
Net income			
Cash dividends paid on common stock			
Distributed under incentive			
compensation plans		9	39
Recognition of LTSSP unearned			
compensation			
Tax benefit of dividends on			
unallocated LTSSP shares			
Current period translation adjustment			
Translation adjustments recognized			

upon disposal of foreign investments			
Issuance costs for preferred stock of subsidiary			
Other		2	

December 31, 1992	346	950	(960)
Net income			
Cash dividends paid on common stock			
Distributed under incentive compensation plans		22	75
Recognition of LTSSP unearned compensation			
Tax benefit of dividends on unallocated LTSSP shares			
Current period translation adjustment			
Other		5	

December 31, 1993	\$346	977	(885)
=====			

Consolidated Statement of Changes in Stockholders' Equity Phillips Petroleum Company

Millions of Dollars

	Foreign Currency Translation Adjustments	Unearned Employee Compensation --LTSSP	Earnings Employed in the Business

December 31, 1990	\$ 2	(600)	3,123
Net income			258
Cash dividends paid on common stock			(291)
Distributed under incentive compensation plans			(66)
Recognition of LTSSP unearned compensation		40	
Current period translation adjustment	5		
Other			

December 31, 1991	7	(560)	3,024
Net income			180
Dividends paid on common stock			(291)
Distributed under incentive compensation plans			(44)
Recognition of LTSSP unearned			

compensation		37	
Tax benefit of dividends on unallocated LTSSP shares			9
Current period translation adjustment	19		
Translation adjustments recognized upon disposal of foreign investments	(7)		
Issuance costs for preferred stock of subsidiary			(12)
Other			

December 31, 1992	19	(523)	2,866
Net income			243
Cash dividends paid on common stock			(292)
Distributed under incentive compensation plans			(74)
Recognition of LTSSP unearned compensation		36	
Tax benefit of dividends on unallocated LTSSP shares			8
Current period translation adjustment	(33)		
Other			

December 31, 1993	\$ (14)	(487)	2,751
=====			

See Accounting Policies and Notes to Financial Statements.

Accounting Policies

Phillips Petroleum Company

- o Consolidation Principles and Investments--Majority-owned, controlled subsidiaries are consolidated. Investments in affiliates in which the company owns 20 percent to 50 percent of voting control are generally accounted for under the equity method. Undivided interests in natural resource joint ventures are consolidated on a pro rata basis. Other securities and investments are generally carried at cost.
- o Cash Equivalents--Cash equivalents are highly liquid short-term investments that are readily convertible to known amounts of cash and generally have original maturities within three months from their date of purchase.
- o Inventories--Crude oil and petroleum and chemical products are valued at cost, which is lower than market in the aggregate, primarily on the last-in, first-out (LIFO) basis. Materials and supplies are valued at or below average cost.

- o Oil and Gas Exploration and Development--Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.

Property Acquisition Costs--Oil and gas leasehold acquisition costs are capitalized. Leasehold impairment is recognized based on exploratory experience. Upon discovery of commercial reserves, leasehold costs are transferred to proved properties.

Exploratory Costs--Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Exploratory drilling costs are capitalized when incurred. If exploratory wells are determined to be commercially unsuccessful or dry holes, applicable costs are expensed.

Development Costs--Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.

Impairment of Proved Properties--For "ceiling test" calculations, all proved properties are evaluated in the aggregate using the estimated undiscounted cash flows of one worldwide cost center, based on end of period prices and costs. Additionally, the estimated undiscounted cash flows of high-cost proved properties, based on expected future prices and costs, are evaluated prior to start-up of commercial production and any significant impairment is recognized currently.

Depletion and Amortization--Leasehold costs of producing properties are depleted using the unit-of-production method based on estimated proved oil and gas reserves. Amortization of intangible development costs is based on the unit-of-production method using the estimated proved developed oil and gas reserves.

- o Depreciation and Amortization--Depreciation and amortization of properties, plants and equipment are determined by the group straight-line method, the individual unit straight-line method or the unit-of-production method, applying the method considered most appropriate for each type of property.
- o Property Dispositions--When complete units of depreciable property are retired or sold, the asset cost and related accumulated depreciation are eliminated with any gain or loss

reflected in income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

- o Maintenance and Repairs--Maintenance and repair costs are expensed as incurred. Significant improvements are capitalized.
- o Dismantlement, Removal and Environmental Costs--The estimated undiscounted costs, net of salvage values, of dismantling and removing major facilities, including necessary site restoration, are accrued using either the unit-of-production or the straight-line method.

Environmental expenditures are expensed or capitalized as appropriate, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefits, are expensed. Liabilities for these expenditures are recorded when environmental assessments or cleanups are probable, and the costs can be reasonably estimated.

- o Foreign Currency Translation--Adjustments resulting from the process of translating foreign functional currency financial statements into U.S. dollars are accumulated as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in current earnings. Most of the company's foreign operations use the local currency as the functional currency.
- o Income Taxes--Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial reporting basis and the tax basis of the company's assets and liabilities, except for temporary differences related to investments in certain foreign subsidiaries and corporate joint ventures that are essentially permanent in duration. Allowable tax credits are applied currently as reductions of the provision for income taxes.

- o Income Per Share of Common Stock--Income per share of common stock is calculated based upon the daily weighted-average number of common shares outstanding during the year, including shares held by the company's Long-Term Stock Savings Plan (LTSSP).

Note 1--Extraordinary Items and Accounting Changes

During 1993, 1992 and 1991, the company incurred before-tax extraordinary losses of \$3 million, \$71 million and \$65 million, respectively, attributed to call premiums paid on the early retirement of debt. The after-tax losses were \$2 million, \$46 million and \$43 million, \$.01, \$.18 and \$.16 per share, respectively, in 1993, 1992 and 1991.

In 1991, the company recognized a before-tax extraordinary gain of \$388 million from a settlement that concluded all claims under the company's replacement cost property insurance related to an accident that destroyed polyethylene facilities at the Houston Chemical Complex (HCC) in October 1989. The after-tax gain was \$256 million, \$.98 per share.

Effective January 1, 1993, the company adopted FASB Statement No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." The Statement was issued in December 1992 and was effective in 1993. This Statement applies to the company's captive insurance subsidiary and requires that the company show the total amount receivable from reinsurance instead of netting the anticipated insurance recovery against the related liability account. This increased both long-term receivables and liabilities by \$76 million. There was no impact on net income.

Effective January 1, 1992, the company adopted FASB Statement No. 109, "Accounting for Income Taxes." The cumulative effect of adopting Statement No. 109 as of January 1, 1992, decreased 1992 net income by \$44 million, \$.17 per share. Prior years' financial statements have not been restated.

Effective January 1, 1991, the company adopted FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its U.S. plans and elected immediate recognition of the \$81 million net transition obligation. There was no effect on income before extraordinary items and cumulative effect of changes in accounting principles. The cumulative effect of the change on prior years decreased 1991 net income by \$53 million, \$.21 per share. The company is not required to adopt Statement No. 106 for foreign retirees until 1995 and the effect is not expected to be material.

Note 2--Writedown of Offshore California Investments

In the fourth quarter 1991, the company recorded a before-tax charge of \$369 million to write down the carrying value of its offshore California Point Arguello oil and gas field to \$140 million. The writedown reduced 1991 net income \$244 million, \$.94 per share.

Note 3--Inventories

Inventories at December 31 consisted of the following:

	Millions of Dollars	
	-----	-----
	1993	1992
	-----	-----
Crude oil and petroleum products	\$190	248
Chemical products	245	300
Materials, supplies and other	103	116
	-----	-----
	\$538	664
	=====	=====

Inventories valued on a LIFO basis totaled \$362 million and \$478 million at December 31, 1993 and 1992, respectively, and would have been approximately \$360 million and \$508 million higher, respectively, had they been valued using the first-in, first-out (FIFO) method.

Note 4--Investments and Long-Term Receivables

Components of investments and long-term receivables at December 31 were as follows:

	Millions of Dollars	
	-----	-----
	1993	1992
	-----	-----
Investments in and advances to affiliated companies	\$403	389
Long-term receivables	116	35
Other investments	24	27

Earnings employed in the business at December 31, 1993, included \$89 million relating to undistributed earnings of affiliated companies. Distributions received from affiliated companies were \$88 million, \$79 million and \$59 million in 1993, 1992 and 1991, respectively.

Summarized financial information for all affiliated companies, partnerships and joint ventures, accounted for using the equity method, is shown below.

	Millions of Dollars		
	1993	1992	1991
Revenues	\$2,280	2,294	1,977
Income before income taxes	586	578	422
Net income	353	387	257
Current assets	534	534	562
Other assets	2,639	2,371	2,603
Current liabilities	461	481	583
Other liabilities	1,480	1,365	1,284

The company owns a 50 percent interest in the Sweeny Olefins Limited Partnership (SOLP), which owns and operates a 1.5-billion-pound-per-year ethylene plant located adjacent to the company's Sweeny, Texas, refinery. During construction, the company made advances to the partnership under a subordinated loan agreement to fund certain costs related to completing the project. The outstanding advances at December 31, 1991, of \$192 million increased to \$211 million in 1992. During the fourth quarter of 1992, the company sold participating interests in the subordinated loan agreement to a syndicate of banks for \$211 million under a participation agreement. The banks have the right to receive principal and interest paid by SOLP under the subordinated loan agreement after retention of an interest margin by the company. The sale of this receivable is subject to recourse in that the company has a contingent obligation to pay the amounts due the participating banks in the event that SOLP fails to pay. It is not economically practicable to estimate the fair value of the company's obligations to SOLP or to the participating banks. The uncollected balance of the subordinated

loan at December 31, 1993, was \$212 million.

Although the company met its obligation for construction funding in 1992, the company has a continuing obligation to make advances under the subordinated loan agreement in the event the partnership has insufficient cash flow to pay the current interest due on the amount outstanding under the subordinated loan agreement. During 1993 and 1992, the company was required to make advances of \$1 million and \$19 million, respectively. Receivables from and payables to SOLP were \$17 million and \$11 million at December 31, 1993, and \$23 million and \$12 million at December 31, 1992, respectively.

SOLP has agreements for Phillips to provide specified quantities of feedstocks, which SOLP is committed to take, purchase specified quantities of finished products, and provide plant operating and marketing services.

56

In 1993 and 1992, respectively, SOLP purchased \$205 million and \$210 million in feedstocks from Phillips and sold \$114 million and \$125 million of finished products to the company. SOLP made payments to Phillips for plant operating and marketing services of \$20 million and \$19 million in 1993 and 1992, respectively.

During 1993, the company's subsidiary, GPM Gas Corporation (GPM), formed GPM Gas Gathering L.L.C. (GGG), a limited liability company in which GPM owns a 50 percent equity interest. GPM sold to GGG a portion of its gas gathering assets in the West Texas region of the Permian Basin for \$138 million. GGG will provide gas gathering services to GPM under a long-term contract. Because of GPM's continuing involvement in the business of GGG, a \$22 million gain from the sale of the assets has been deferred and will be recognized over the remaining life of the gathering facilities.

Note 5--Properties, Plants and Equipment

The company's investment in properties, plants and equipment (at cost) at December 31 is summarized as follows:

	Millions of Dollars	
	1993	1992
Exploration and Production	\$ 9,364	9,593

Gas and Gas Liquids	1,464	1,606
Petroleum Products	3,688	3,806
Chemicals	2,430	2,470
Corporate and Other	1,092	1,102

	18,038	18,577
Accumulated depreciation, depletion and amortization	10,077	10,088

	\$ 7,961	8,489
=====		

Note 6--Accrued Dismantlement, Removal and Environmental Costs

At December 31, 1993, the company had accrued dismantlement and removal costs of \$414 million, of a total probable \$675 million, primarily related to worldwide offshore production facilities and to production facilities at Prudhoe Bay. These costs are accrued primarily on the unit-of-production method.

Phillips had also accrued environmental costs, primarily related to cleanup of ponds and pits at domestic refineries and underground storage tanks at U.S. service stations and other various costs, of \$72 million at December 31, 1993. Phillips had also accrued \$16 million of environmental costs associated with discontinued or sold operations at December 31, 1993.

Accruals of \$27 million for environmental matters, which are in the litigation process, are included in Other Liabilities and Deferred Credits, and are not included in the amounts above.

Note 7--Debt

Long-term debt due after one year at December 31 consisted of the following:

	Millions of Dollars	
	-----	-----
	1993	1992
	-----	-----
9 1/2% Notes Due 1997	\$ 299	299
9 3/8% Notes Due 2011	349	349
9.18% Notes Due September 15, 2021	300	300
9% Notes Due 2001	250	250
8 7/8% Debentures Due 2000	-	103
8.86% Notes Due May 15, 2022	250	250

8.49% Notes Due January 1, 2023	250	-
7.92% Notes Due April 15, 2023	250	-
7 5/8% Debentures Due 2001	-	69
7.20% Notes Due November 1, 2023	250	-
6.65% Notes Due March 1, 2003	100	-
5 5/8% Marine Terminal Revenue Bonds, Series 1977 Due 2007	20	20
Revolving debt due to banks and others through 1999 at 3 3/8% - 6 7/16%	278	1,440
Guarantees of LTSSP bank loan and notes payable at 2 15/16% - 3 7/8%	510	535
Medium-Term Notes Due Various Years	100	100
Other obligations	2	3

	\$3,208	3,718
=====		

Maturities of long-term debt in 1994 through 1998 are:
\$18 million (included in current liabilities), \$91 million,
\$28 million, \$862 million and \$125 million, respectively.

Under the LTSSP \$400 million 15-year-term bank loan, any participating bank in the syndicate of lenders may cease to participate on November 30, 1997, by giving not less than 180 days' prior notice to the LTSSP and the company. Because of this option, all of the remaining \$397 million due under this loan has been included in the maturities above for 1997. The company does not anticipate a cessation of participation by the lenders, and plans to commence scheduled repayments beginning in 1999. Each bank participating in the LTSSP loan has the optional right, if the current directors or their approved successors cease to be a majority of the Board, and upon not less than 90 days' notice, to cease to participate in the loan. Under the above conditions, such banks' rights and obligations under the loan agreement must be purchased by the company if not transferred to a bank of the company's choice.

The LTSSP notes payable have scheduled maturities through 1998, and are supported by irrevocable bank letters of credit with a scheduled expiration date of July 1994. (See Note 16 for additional discussion of the LTSSP.) As part of its revolving debt, the company has a \$250 million commercial paper program

supported by a direct-pay irrevocable bank letter of credit with a scheduled expiration date of September 1997. At December 31, 1993, \$120 million of commercial paper had been issued. The

majority of the LTSSP notes and all of the revolving debt, including the commercial paper, have been classified as noncurrent based on the company's ability and intent to refinance them on a long-term basis.

Each bank providing an irrevocable letter of credit for the LTSSP notes and the commercial paper program has the optional right, if the current directors or their approved successors cease to be a majority of the Board, and upon not less than 90 days' notice, to terminate its obligation under the agreements pertaining to the letters of credit.

At year-end 1993, the company had \$1.7 billion of committed credit facilities with major banks. These credit agreements provide commitments for term loans from these institutions. At December 31, 1993, there was \$1.5 billion available to be drawn, including \$114 million which supports the noncurrent classification of the LTSSP notes. Depending on the credit facility, borrowings may bear interest at a margin above rates offered by certain designated banks in the London interbank market or at margins above certificate of deposit or prime rates offered by certain designated banks in the United States. Most margins are adjusted upward at certain intervals throughout the terms of the agreements. In addition, the agreements call for commitment fees on available, but unused, amounts. Included in the agreements for these credit facilities are optional early termination rights like those applicable to the LTSSP notes and the commercial paper program.

In December 1993, the company filed a shelf registration statement with the Securities and Exchange Commission for \$500 million in debt securities. The registration statement became effective January 1994.

Note 8--Business Interruption Insurance

The company recognized income from business interruption insurance in 1993, 1992 and 1991 related to an April 1991 fire at the Sweeny, Texas, refinery and in 1991 due to the 1989 HCC accident.

Note 9--HCC Litigation

The company continues to defend claims resulting from the October 23, 1989, explosion and fire at Phillips 66 Company's Houston Chemical Complex (HCC). All suits involving fatalities and most of those involving serious physical injury have been settled. Most of the approximately 150 remaining claimants seek compensatory and punitive damages, primarily for psychological injury.

Based upon the company's most recent assessment of the HCC claims, it appears that the total loss from all HCC claims, including those settled and those which remain, will exceed the aggregate amount of the company's liability insurance, for which excess the company has made provision. Because of the nature of personal injury litigation, the company cannot predict with certainty the amount of damages or other costs that it may incur in settling and trying the remaining claims.

The company believes that should the ultimate cost of the disposition of such claims, whether by settlement or after trial, exceed its remaining liability insurance plus amounts for which the company has made provision, such excess would not have a material adverse impact on its financial position.

Note 10--Other Contingent Liabilities

The company has contingent liabilities resulting from throughput agreements with pipeline and processing companies in which it holds stock interests. Under these agreements, Phillips may be required to provide any such company with additional funds through advances against future charges for the shipping or processing of petroleum liquids, natural gas and refined products.

The company is subject to other loss contingencies pursuant to federal, state and local environmental laws and regulations. These include possible obligations 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 sites. The company is currently participating in environmental assessments and cleanup under these laws at federal Superfund and comparable state sites. For sites where it is probable that future costs will be incurred and such costs can be reasonably estimated, accruals have been recorded. In addition, the company has accrued for planned remediation activities and for environmental proceedings not related to Superfund sites. In the future, the company may be involved in additional environmental assessments, cleanups and proceedings. The amount of such future costs is indeterminable due to such factors as the unknown magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of the company's liability in proportion to other responsible parties.

The company is a party to a number of legal proceedings, including tax proceedings, pending in various courts or agencies for which no provision has been made. Costs related to contingencies are provided when a loss is probable and the amount is reasonably estimable.

60

While it is not possible at this time to establish the ultimate amount of liability with respect to contingent liabilities, including those related to environmental matters and legal proceedings, the company is of the opinion that any such liabilities for which provision has not been made, will not have a material adverse effect on its financial position.

Note 11--Other Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

Off-Balance Sheet Risk

The company has entered into forward exchange contracts to hedge some of its foreign currency exposures. Forward exchange contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. The company uses such contracts to hedge exposure to changes in foreign currency exchange rates associated with certain assets and obligations denominated in foreign currency. Gains and losses on these contracts are recognized concurrently with the transaction gains and losses from the associated exposures. At December 31, 1993, the company had outstanding forward exchange contracts, maturing at various dates in 1994 to sell \$63 million of various foreign currencies (principally German marks), primarily to hedge the company's receivables from gas sales in Germany. At December 31, 1992, the company had outstanding forward exchange contracts, maturing at various dates in 1993 to purchase \$136 million (principally Japanese yen) and to sell \$63 million (principally German marks) of various foreign currencies. In 1992, these hedges consisted primarily of Japanese yen for the construction of two liquefied natural gas tankers and German marks to hedge the company's receivables from gas sales.

Concentrations of Credit Risk

The company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash

equivalents and trade receivables. The company's cash equivalents are in high-quality securities placed with major international banks and financial institutions. The investment policy limits the company's exposure to concentrations of credit risk. The company's trade receivables result primarily from its petroleum and chemicals operations and reflect a broad customer base, both nationally and internationally. Also, the company routinely assesses the financial strength of its customers. As a consequence, concentrations of credit risk are limited.

Note 12--Fair Values of Financial Instruments

The following methods and assumptions were used by the company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet approximates fair value.

Long-term debt: The carrying amount of the company's floating-rate debt approximates fair value. The fair value of the fixed-rate debt is estimated based on quoted market prices.

Forward exchange contracts: The fair value of the company's forward exchange contracts is estimated based on quoted market prices of comparable contracts.

Certain of the company's financial instruments at December 31 are as follows:

	Millions of Dollars			
	Carrying Amount		Fair Value	
	1993	1992	1993	1992
Long-term debt, including current maturities	\$3,226	3,818	3,480	3,920
Forward exchange contracts	-	(1)	-	1

Note 13--Preferred Stock of Subsidiary

In December 1992, the company's subsidiary, Phillips Gas Company (PGC), completed a \$345 million public offering of 13,800,000 shares of a new Series A 9.32% Cumulative Preferred Stock. The shares are redeemable in whole, or in part, at the option of PGC, on or after December 14, 1997, at a redemption price of \$25 per

share, plus accrued and unpaid dividends.

In connection with the offering, the company made a commitment to make equity infusions in the future, if necessary, to keep the consolidated tangible net worth of PGC at or above specified levels and committed to make available a liquidity facility in an amount sufficient to enable PGC to meet its payment obligations, including those in respect to dividends on the Series A Preferred Stock.

Note 14--Preferred Share Purchase Rights

The company has outstanding one Preferred Share Purchase Right (Right) for each outstanding share of the company's common stock. The Rights enable holders to either acquire additional shares of Phillips common stock or purchase the stock of an acquiring company at a discount, depending on specific circumstances. The Rights, which expire July 31, 1999, will be exercisable only if a person or group acquires 20 percent or more of the company's

62

common stock or announces a tender offer that would result in ownership of 20 percent or more of the common stock. The Rights may be redeemed by the company in whole, but not in part, for one cent per Right.

Note 15--Non-Mineral Operating Leases

The company leases service stations, computers, office buildings and other facilities and equipment. At December 31, 1993, future minimum payments due under noncancelable operating leases were as follows:

	Millions of Dollars

1994	\$ 63
1995	53
1996	42
1997	28
1998	14
Remaining years	39
- - - - -	-----
	\$239
=====	

In 1993, the company and a co-venturer agreed to sell and lease back two tankers that were under construction for use in the transport of liquefied natural gas from Kenai, Alaska, to Japan. Construction on both tankers was completed in 1993, and the tankers were placed in service. The company received \$278 million for its 70 percent share of the tankers. The leases have five-year terms. Future minimum rental payments on these leases are included in the table above. The rental payments may vary, depending on movements in certain interest rate indicators. The leases do not contain a renewal option, but do contain a fixed price purchase option. Also, the company and its co-venturer have provided a limited guarantee of the residual values at the end of the leases' terms. The company's 70 percent share of the guaranteed residual values totals \$213 million.

Operating lease rental expense for the years ended December 31 was as follows:

	Millions of Dollars		
	1993	1992	1991
Total rentals	\$ 82	108	107
Less sublease rentals	6	5	5
	\$ 76	103	102

Note 16--Employee Benefit Plans

Defined Benefit Plans

The company has defined benefit retirement plans covering substantially all employees. The plans are generally noncontributory with benefit formulas based on employee earnings and credited service. The company's funding policy for U.S. plans is to contribute the minimum required by the Employee Retirement Income Security Act of 1974. Contributions to foreign plans are dependent upon local laws and tax regulations. The company also sponsors nonqualified supplementary retirement plans for senior management and nonemployee directors.

Net pension cost was as follows:

Millions of Dollars

	U.S. Plans			Foreign Plans		
	1993	1992	1991	1993	1992	1991
Service cost	\$ 32	29	24	7	6	5
Interest cost	42	38	34	10	11	9
Return on assets						
Actual	4	1	(40)	(29)	(8)	(22)
Deferred gains (losses)	(36)	(36)	9	19	(3)	13
Amortization of						
Net asset	(7)	(7)	(7)	(1)	-	(1)
Net losses	8	3	-	-	1	1
Prior service cost	2	1	1	1	1	-
Net pension cost	\$ 45	29	21	7	8	5

In determining net pension cost, Phillips has elected to amortize net gains and losses on a straight-line basis over 10 years.

At year-end 1993, the company's domestic plans generally have an accumulated benefit obligation in excess of plan assets. For the foreign plans, however, the value of plan assets is generally larger than the accumulated benefit obligation. At year-end 1992, all of the company's funded plans (both foreign and domestic) had assets in excess of the accumulated benefit obligation. Assets include a participating annuity contract, commingled funds, real estate, stocks, bonds and insurance contracts. A foreign plan also holds employee home mortgage loans. The following table presents the funded status of the plans and a reconciliation with accrued pension cost and deferred gain on reversion at December 31.

64

	Millions of Dollars			
	U.S. Plans		Foreign Plans	
	1993	1992	1993	1992
Plan assets at fair value	\$ 243	273	131	104
Actuarial present value of benefit obligations				
Vested benefits	311	214	102	70

Nonvested benefits	22	15	-	-
-----	-----	-----	-----	-----
Accumulated benefit obligation	333	229	102	70
Effect of projected future salary increases	211	249	34	39
-----	-----	-----	-----	-----
Projected benefit obligation	544	478	136	109
-----	-----	-----	-----	-----
Excess obligation	(301)	(205)	(5)	(5)
Unrecognized net asset	(48)	(55)	(2)	(3)
Unrecognized net (gains) losses	127	103	1	(2)
Unrecognized prior service cost	26	9	5	9
-----	-----	-----	-----	-----
Accrued pension cost and deferred gain on reversion	\$ (196)	(148)	(1)	(1)
=====	=====	=====	=====	=====

Assumptions--Weighted Average
at December 31

Rate of compensation increase	4.25%	5.25	4.30	6.50
Discount rate	7.25	8.25	7.10	9.40
Long-term rate of return on assets	12.00	12.00	8.30	9.90

Other Postretirement Plans

Company plans provide certain health care and life insurance benefits for substantially all retired U.S. employees. The health care plan is contributory, while the life insurance plan is noncontributory. Retirees covered by the health care plan essentially pay their own way, except those persons who retired prior to March 1986 and early retirees not yet eligible for Medicare. The company's policy is to fund the health care plan in amounts sufficient to cover current claims. The life insurance plan is funded based on actuarial determinations.

65

Net postretirement benefit cost was as follows:

	Millions of Dollars			
	Health		Life	
	1993	1992	1993	1992
Service cost	\$ 2	2	1	1
Interest cost	9	9	4	4

Return on assets				
Actual	-	-	(2)	(2)
Deferred losses	-	-	(1)	(1)
Amortization of net losses	2	3	1	1

Net postretirement benefit cost	\$ 13	14	3	3
=====				

In determining net postretirement benefit cost, the company has elected to amortize net gains and losses on a straight-line basis over 10 years.

The following table presents the funded status of the plans and a reconciliation with accrued postretirement benefit cost at December 31.

	Millions of Dollars			
	Health		Life	
	1993	1992	1993	1992

Accumulated postretirement benefit obligation (APBO)				
Retirees	\$ 56	68	38	36
Fully eligible active participants	12	14	5	6
Other active participants	34	39	9	9

	102	121	52	51
Plan assets at fair value, held under a reserve deposit contract	-	-	36	37

APBO in excess of plan assets	(102)	(121)	(16)	(14)
Unrecognized net loss	8	34	6	6

Accrued postretirement benefit cost	\$ (94)	(87)	(10)	(8)
=====				

Financial Assumptions

	Health		Life	
	1993	1992	1993	1992

Discount rate	7.25%	7.75	7.25	7.75
Long-term rate of return on assets (nontaxable)	-	-	7.00	7.25
Rate of compensation increase	-	-	4.25	5.25

At December 31, 1993, the health care cost trend rate is assumed to be 8 percent through 1996, and then decline gradually to 5 percent in 2003 and thereafter. At December 31, 1992, the health care cost trend rate was assumed to be 10 percent for 1993, 9 percent for 1994 through 1996, and then decline gradually to 6 percent in 2003 and thereafter.

66

Increasing the assumed health care cost trend rate by one percentage point in each year would increase the APBO at December 31, 1993 and 1992, by \$11 million and \$13 million, respectively, and the aggregate of the service and interest cost components by \$1 million for both 1993 and 1992.

Termination Benefits and Plan Curtailments

The company recorded charges of \$40 million and \$93 million for severance benefits in connection with work force reductions in 1993 and 1992, respectively. In addition, the company recorded charges of \$3 million and \$6 million, which represented the curtailment effect and special termination benefits for postretirement medical and life benefits in 1993 and 1992, respectively. For pensions, the company recorded special termination benefit costs of \$6 million in 1993. In 1992, special termination benefit costs of \$18 million were offset by a curtailment gain of \$19 million.

Defined Contribution Plans

Most employees may elect to participate in the company-sponsored Thrift Plan by contributing a portion of their earnings to any of several different investment funds. A specified percentage of the employee contribution is matched by the company. Expensed company contributions were \$6 million in 1993, 1992 and 1991.

The company LTSSP is a leveraged employee stock ownership plan. Most employees may elect to participate in the LTSSP by contributing 1 percent of their earnings, receiving an allocation of shares of common stock proportionate to their contributions. In 1990 and 1988, the LTSSP borrowed funds that were used to purchase previously unissued shares of the company's common stock. Since the company guaranteed the LTSSP's borrowings, the unpaid balance is reported as a liability of the company and unearned compensation is shown as a reduction of stockholders' equity. Dividends on all shares are charged against the retained earnings of the company. The debt is serviced by the LTSSP from company contributions and dividends received on certain shares of common

stock held by the plan. The number of shares to be released for allocation to participant accounts is based on the terms of the plan and is determined by debt service payments on LTSSP borrowings.

The company recognizes interest expense as incurred and compensation expense based on the cost of shares released using the shares allocated method. The company recognized total LTSSP expense of \$18 million, \$26 million and \$47 million in 1993, 1992 and 1991, respectively. This included compensation expense of \$17 million, \$25 million and \$35 million in 1993, 1992 and 1991, respectively. Dividends used to service the LTSSP debt reduce the amount of expense recognized each period. Company contributions to the LTSSP in 1993, 1992 and 1991 were \$7 million, \$15 million and \$30 million, respectively. Dividends used to service debt

67

were \$39 million, \$36 million and \$35 million in 1993, 1992 and 1991, respectively. Interest incurred on the LTSSP debt in 1993, 1992 and 1991 was \$20 million, \$25 million and \$38 million, respectively.

The LTSSP shares as of December 31, 1993, were as follows:

Unallocated shares	20,105,381
Allocated shares	13,856,172

Total LTSSP shares	33,961,553
=====	

Incentive Compensation Plans

At December 31, 1993, the company had four incentive compensation plans to provide awards to key employees--the Annual Incentive Compensation Plan, the 1986 and 1990 Stock Plans, and the Omnibus Securities Plan. In anticipation of awards under the plans, provisions of \$15 million, \$7 million and \$9 million have been charged against earnings in 1993, 1992 and 1991, respectively.

Shareholders approved the Omnibus Securities Plan in May 1993 to be effective January 1, 1993. The plan authorizes stock options and stock awards of eight-tenths of one percent (.8 percent) of the total issued and outstanding shares as of December 31 of the year preceding the awards. If all available shares are not awarded in any year, the remaining shares are available for award in succeeding years. The plan could result in an 8.3 percent dilution of stockholders' interest if all available shares are

awarded over the 10-year life of the plan. The plan also provides for non-stock based awards.

The company has options outstanding under the Omnibus Securities Plan and the Stock Option Plans of the 1986 and 1990 Stock Plans. The 1986 and 1990 Stock Plans, each of which included a Stock Option Plan and a Strategic Incentive Plan, allowed the granting of stock options and stock awards during the five-year periods beginning January 1, 1986, through December 31, 1990, and January 1, 1990, through December 31, 1994, respectively. Approval of the Omnibus Securities Plan had the effect of terminating the 1986 and 1990 Stock Plans in that no further awards will be granted under those plans.

Stock options granted under provisions of the Stock Option Plans and the Omnibus Securities Plan permit the purchase of shares of the company's common stock at exercise prices equivalent to the average market price of the stock on the date the options were granted. The options have a term of 10 years and normally become exercisable in increments up to 25 percent on each anniversary date following the date of grant. Stock Appreciation Rights (SARs) may from time to time be affixed to the options. Options exercised in the form of SARs permit the holder to receive stock, or a combination of cash and stock, subject to a declining cap on the exercise price.

68

A comparative summary of stock options and SARs follows:

	1993	1992	1991

Shares under option January 1	5,170,280	5,924,584	6,378,060
Options granted at \$22.57 to \$35.00 per share	1,671,502	195,131	113,524
Options exercised at \$12.63 to \$27.50 per share	(1,192,015)	(803,899)	(567,000)
Options forfeited	(35,266)	(145,536)	-

Shares under option December 31 (at exercise prices from \$12.63 to \$35.00 per share)	5,614,501	5,170,280	5,924,584
	=====		
Options exercisable December 31 (at exercise prices from \$12.63 to \$28.57 per share)	2,939,548	3,134,622	2,613,293

Shares available for grant at January 1*	2,081,851	6,526,208	6,639,732

Shares available for grant at December 31	219,451	6,442,787	6,526,208

SARs under option January 1	332,588	645,027	935,143
SARs exercised at \$12.82 per share	-	-	(826)
SARs forfeited	(135,972)	(312,439)	(289,290)

SARs under option December 31 (at exercise prices from \$12.63 to \$20.63 per share)	196,616	332,588	645,027
=====			
SARs exercisable December 31 (at exercise prices from \$12.63 to \$20.63 per share)	196,616	332,588	509,571

*The number of shares available for grant in 1993 under the terms of the Omnibus Securities Plan are determined on an annual basis. Shares available for grant in 1992 and 1991 are based on the total number of shares authorized for the life of the 1990 Stock Plan.

In 1993, the Performance Incentive Plan was established to improve company performance by providing eligible employees with additional compensation if key safety, operating and financial objectives are met. During 1993, \$21 million was accrued for anticipated awards under this plan.

69

Note 17--Taxes

Taxes charged to income before extraordinary items and cumulative effect of changes in accounting principles were:

	Millions of Dollars		
	1993	1992	1991

Taxes Other Than Income Taxes			
Property	\$ 89	98	73
Production	65	66	67
Payroll	58	61	58

Environmental	56	65	52
Other	15	20	16

	283	310	266

Income Taxes			
Federal			
Current	60	32	53
Deferred	(105)	(210)	(216)
Foreign			
Current	312	398	489
Deferred	26	10	18
State and local			
Current	1	46	9
Deferred	(1)	(35)	-

	293	241	353

Total taxes charged to income before extraordinary items and cumulative effect of changes in accounting principles	\$ 576	551	619
=====			

70

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Major components of deferred tax liabilities and assets at December 31 are:

	Millions of Dollars	
	----- 1993	----- 1992
	-----	-----
Deferred Tax Liabilities		
Depreciation, depletion and amortization	\$1,549	1,580
Other	24	24

Total Deferred Tax Liabilities	1,573	1,604

Deferred Tax Assets		
Contingency accruals	166	141
Benefit plan accruals	175	143
Accrued dismantlement, removal and environmental costs	138	130

Other financial accruals and deferrals	96	61
Alternative minimum tax and other credit carryforwards	253	229
Loss carryforwards	222	247
Depreciation, depletion and amortization	33	82
Other	31	23

Total Deferred Tax Assets	1,114	1,056
Less Valuation Allowance	181	219

Net Deferred Tax Assets	933	837

Net Deferred Tax Liabilities	\$ 640	767
=====		

Loss carryforwards relate to a number of different tax jurisdictions, primarily foreign, and expire in varying amounts beginning in 1994. Utilization of these carryforwards is dependent on realizing future taxable income in the appropriate tax jurisdiction. Deferred tax assets for these carryforwards have been reduced by the valuation allowance to an amount that is more likely than not to be realized.

Deferred taxes have not been provided on temporary differences related to investments in certain foreign subsidiaries and corporate joint ventures that are essentially permanent in duration. At December 31, 1993 and 1992, these temporary differences were \$240 million and \$200 million, respectively. Determination of the amount of unrecognized deferred taxes on these temporary differences is not practicable due to foreign tax credits and exclusions.

71

The amounts of U.S. and outside U.S. income before income taxes, extraordinary items and cumulative effect of changes in accounting principles and a reconciliation of tax at the federal statutory rate with the provision for income taxes follow:

	Millions of Dollars			Percent of Pretax Income		
	1993	1992	1991	1993	1992	1991
Income (loss) before income taxes, extraordinary items and cumulative effect of						

changes in accounting principles							
United States	\$ (4)	(69)	(346)	(0.7)%	(13.5)	(76.7)	
Foreign	542	580	797	100.7	113.5	176.7	

	\$ 538	511	451	100.0%	100.0	100.0	
	=====						
Federal statutory income tax	\$ 188	174	153	35.0%	34.0	34.0	
Foreign taxes in excess of federal statutory rate	171	193	232	31.8	37.9	51.4	
Revisions of prior year tax accruals	-	(78)	-	-	(15.3)	-	
Credit for producing fuel from a nonconventional source	(37)	(42)	(18)	(6.9)	(8.2)	(4.0)	
Capital-loss carryforward	(27)	-	-	(5.0)	-	-	
Benefit plan dividends	(5)	(5)	(13)	(0.9)	(1.0)	(2.9)	
Other	3	(1)	(1)	0.5	(0.2)	(0.2)	

	\$ 293	241	353	54.5%	47.2	78.3	
	=====						

Excise taxes accrued on the sale of petroleum products were \$844 million, \$752 million and \$612 million for the years ended December 31, 1993, 1992 and 1991, respectively. These taxes are excluded from reported revenues and expenses.

The company's U.S. income tax returns have been examined by the Internal Revenue Service for years through 1990. The company is of the opinion that resolution of unsettled issues will not have a material adverse effect on its financial position.

Note 18--Cash Flow Information

	Millions of Dollars		
	-----	-----	-----
	1993	1992	1991
	-----	-----	-----
Noncash investing and financing activities			
Treasury stock awards issued (canceled)			
under incentive compensation plans	\$ 7	(4)	18
Investment sold in exchange for receivable due January 1992	-	-	21

Accrued expenditures for two liquefied natural gas tankers based on percentage of completion	-	102	-
Capitalized process license fee due in installments from 1993 to 1999	16	-	-
Investment in limited liability company in exchange for noncash assets	27	-	-

Cash payments			
Interest			
Debt	\$224	380	432
Taxes and other	45	119	46
	\$269	499	478

Income taxes	\$487	426	743
--------------	-------	-----	-----

Note 19--Other Financial Information

	Millions of Dollars Except Per Share Amounts		
	1993	1992	1991
Interest Incurred			
Debt	\$ 234	311	413
Other	55	81	66
Capitalized	289	392	479
Expensed	(11)	(16)	(22)
Maintenance and repairs--expensed	\$ 278	376	457
Maintenance and repairs--expensed	\$ 481	537	544
Research and development expenditures--expensed	\$ 93	96	119
Foreign currency transaction gains (losses)--after-tax	\$ (2)	27	(32)
Cash dividends paid per common share	\$1.12	1.12	1.12

Note 20--Segment and Geographic Information

The company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the exploration, production, processing, transportation and refining of crude oil and natural gas, together with the subsequent transportation and marketing of products derived therefrom. This segment also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products. Minerals and various other operations are included in Other.

Sales and other operating revenues to outside customers and sales within Phillips by business segment and by geographic area are at market value. Operating profit excludes general corporate revenue and expense, interest, minority interest and income taxes. Income taxes are allocated based upon each segment's taxable income reduced by applicable tax credits. Corporate assets include cash and cash equivalents.

Analysis of Results by Business Segment

	Millions of Dollars			
	Petroleum*			
	Exploration and Production	Gas and Gas Liquids	Petroleum Products	Total
1993				
Sales and Other				
Operating Revenues				
Outside customers	\$1,737	607	7,644	9,988
Sales within Phillips	1,104	639	561	2,304***

Segment sales	\$2,841	1,246	8,205	12,292
=====				
Operating Profit	\$ 788	114	93	995

Equity in earnings of affiliates	31	-	18	49
Minority interests	(5)	(32)	-	(37)
Corporate/nonoperating items				
Interest expense	-	-	-	-
Other	-	-	-	-
Income taxes	(428)	(40)	(30)	(498)
Extraordinary items	-	-	-	-

Net income (loss)	\$ 386	42	81	509
=====				
Assets				
Identifiable assets	\$3,882	750	2,906	7,538
Investments in and advances to affiliated companies	211	5	59	275

Total assets	\$4,093	755	2,965	7,813
=====				
Depreciation, Depletion, Amortization and Retirements	\$ 450	73	159	682

Capital Expenditures	\$ 819	116	91	1,026

1992

Sales and Other

Operating Revenues				
Outside customers	\$1,685	493	7,521	9,699
Sales within Phillips	1,220	669	638	2,527***

Segment sales	\$2,905	1,162	8,159	12,226
=====				
Operating Profit	\$ 824	125	132	1,081
Equity in earnings of affiliates	40	-	18	58
Minority interests	(10)	(2)	-	(12)
Corporate/nonoperating items				
Interest expense	-	-	-	-
Other	-	-	-	-
Income taxes	(485)	(45)	(48)	(578)
Extraordinary items	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-

Net income (loss)	\$ 369	78	102	549
=====				
Assets				
Identifiable assets	\$4,057	727	3,196	7,980
Investments in and				

advances to affiliated companies	231	-	30	261

Total assets	\$4,288	727	3,226	8,241
=====				
Depreciation, Depletion, Amortization and Retirements	\$ 479	78	130	687

Capital Expenditures	\$ 583	73	217	873

Analysis of Results by Business Segment

	Millions of Dollars		

	Corporate Chemicals	and Other	Consolidated**

1993			
Sales and Other			
Operating Revenues			
Outside customers	\$2,308	13	12,309
Sales within Phillips	107	39	-

Segment sales	\$2,415	52	12,309
=====			
Operating Profit	\$ 97	(21)	1,071
Equity in earnings of affiliates	10	7	66
Minority interests	2	-	(35)
Corporate/nonoperating items			
Interest expense	-	(278)	(278)
Other	-	(286)	(286)
Income taxes	(34)	239	(293)
Extraordinary items	-	(2)	(2)

Net income (loss)	\$ 75	(341)	243
=====			
Assets			
Identifiable assets	\$2,011	916	10,465
Investments in and advances to affiliated companies	61	67	403

Total assets	\$2,072	983	10,868
=====			
Depreciation, Depletion, Amortization and Retirements	\$ 118	41	841

Capital Expenditures	\$ 162	28	1,216
----------------------	--------	----	-------

1992

Sales and Other

Operating Revenues			
Outside customers	\$2,225	9	11,933
Sales within Phillips	134	64	-

Segment sales	\$2,359	73	11,933
---------------	---------	----	--------

Operating Profit	\$ 39	1	1,121
Equity in earnings of affiliates	-	7	65
Minority interests	1	2	(9)
Corporate/nonoperating items			
Interest expense	-	(376)	(376)
Other	-	(290)	(290)
Income taxes	1	336	(241)
Extraordinary items	-	(46)	(46)
Cumulative effect of changes in accounting principles	-	(44)	(44)

Net income (loss)	\$ 41	(410)	180
-------------------	-------	-------	-----

Assets

Identifiable assets	\$2,103	996	11,079
Investments in and advances to affiliated companies	56	72	389

Total assets	\$2,159	1,068	11,468
--------------	---------	-------	--------

Depreciation, Depletion, Amortization and Retirements	\$ 94	39	820
---	-------	----	-----

Capital Expenditures	\$ 249	30	1,152
----------------------	--------	----	-------

See page 76 for accompanying footnotes.

	Exploration and Production	Gas and Gas Liquids	Petroleum Products	Total
1991				
Sales and Other				
Operating Revenues				
Outside customers	\$1,721	395	8,570	10,686
Sales within Phillips	1,302	698	527	2,527***
Segment sales	\$3,023	1,093	9,097	13,213
Operating Profit	\$ 677	102	110	889
Equity in earnings of affiliates	25	-	17	42
Minority interests	(2)	-	-	(2)
Corporate/nonoperating items				
Interest expense	-	-	-	-
Other	-	-	-	-
Income taxes	(476)	(35)	(39)	(550)
Extraordinary items	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-
Net income (loss)	\$ 224	67	88	379
Assets				
Identifiable assets	\$4,052	749	3,181	7,982
Investments in and advances to affiliated companies	233	-	31	264
Total assets	\$4,285	749	3,212	8,246
Depreciation, Depletion, Amortization and Retirements	\$ 751	75	117	943
Capital Expenditures	\$ 636	81	262	979

Analysis of Results by Business Segment

Millions of Dollars

Corporate
Chemicals and Other Consolidated**

1991

Sales and Other

Operating Revenues			
Outside customers	\$1,904	14	12,604
Sales within Phillips	170	56	-

Segment sales	\$2,074	70	12,604
=====			
Operating Profit	\$ 299	3	1,191
Equity in earnings of affiliates	(2)	3	43
Minority interests	(1)	3	-
Corporate/nonoperating items			
Interest expense	-	(457)	(457)
Other	-	(326)	(326)
Income taxes	(110)	307	(353)
Extraordinary items	-	213	213
Cumulative effect of changes in accounting principles	-	(53)	(53)

Net income (loss)	\$ 186	(307)	258
=====			
Assets			
Identifiable assets	\$1,713	1,181	10,876
Investments in and advances to affiliated companies	257	76	597

Total assets	\$1,970	1,257	11,473
=====			
Depreciation, Depletion, Amortization and Retirements	\$ 82	165	1,190

Capital Expenditures	\$ 346	60	1,385

*During 1992, the price for unfractionated natural gas liquids sold to Petroleum Products was revised. This change increased Gas and Gas Liquids' 1992 net income and decreased Petroleum Products' by \$7 million.

**After elimination of intersegment transactions.

***Includes intra-Petroleum Operations sales of \$1,743 million, \$1,897 million and \$2,006 million for 1993, 1992 and 1991, respectively.

Analysis of Results by Geographic Area

Millions of Dollars

	United States	Norway	United Kingdom	Africa
1993				
Sales and Other Operating Revenues				
Outside customers	\$10,334	466	923	117
Sales within Phillips	120	456	2	143
Segment sales	\$10,454	922	925	260
Operating Profit	\$ 549	380	19	70
Equity in Earnings of Affiliates	48	15	3	-
Assets				
Identifiable assets	\$ 7,752	1,114	440	200
Investments in and advances to affiliated companies	269	105	24	-
Total assets	\$ 8,021	1,219	464	200
1992				
Sales and Other Operating Revenues				
Outside customers	\$ 9,885	721	779	58
Sales within Phillips	147	343	2	192
Segment sales	\$10,032	1,064	781	250
Operating Profit	\$ 558	449	30	89
Equity in Earnings of Affiliates	49	17	4	-
Assets				
Identifiable assets	\$ 8,141	1,195	358	199
Investments in and advances to affiliated companies	258	106	22	-
Total assets	\$ 8,399	1,301	380	199
1991				
Sales and Other Operating Revenues				
Outside customers	\$10,278	697	948	153
Sales within Phillips	171	378	17	153

Segment sales	\$10,449	1,075	965	306
Operating Profit	\$ 428	450	188	98
Equity in Earnings of Affiliates	21	24	5	-
Assets				
Identifiable assets	\$ 7,714	1,204	395	164
Investments in and advances to affiliated companies	455	110	21	-
Total assets	\$ 8,169	1,314	416	164

Analysis of Results by Geographic Area

	Millions of Dollars		
	Other Areas	Corporate	Worldwide Consolidated*
1993			
Sales and Other Operating Revenues			
Outside customers	\$ 469	-	12,309
Sales within Phillips	35	-	-
Segment sales	\$ 504	-	12,309
Operating Profit	\$ 53	-	1,071
Equity in Earnings of Affiliates	-	-	66
Assets			
Identifiable assets	\$ 417	542	10,465
Investments in and advances to affiliated companies	5	-	403
Total assets	\$ 422	542	10,868

1992			
Sales and Other Operating Revenues			
Outside customers	\$ 490	-	11,933
Sales within Phillips	29	-	-

Segment sales	\$ 519	-	11,933
Operating Profit	\$ (5)	-	1,121
Equity in Earnings of Affiliates	(5)	-	65
Assets			
Identifiable assets	\$ 498	688	11,079
Investments in and advances to affiliated companies	2	1	389
Total assets	\$ 500	689	11,468

1991			
Sales and Other Operating Revenues			
Outside customers	\$ 528	-	12,604
Sales within Phillips	52	-	-
Segment sales	\$ 580	-	12,604
Operating Profit	\$ 27	-	1,191
Equity in Earnings of Affiliates	(5)	(2)	43
Assets			
Identifiable assets	\$ 533	866	10,876
Investments in and advances to affiliated companies	10	1	597
Total assets	\$ 543	867	11,473

*After elimination of intergeographic transactions.

Export sales totaled \$346 million, \$333 million and \$303 million for 1993, 1992 and 1991, respectively.

Oil and Gas Operations

In accordance with Financial Accounting Standards Board (FASB) Statement No. 69, "Disclosures about Oil and Gas Producing Activities," and regulations of the Securities and Exchange Commission (SEC), the company is making certain disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data are necessarily imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the present financial condition of the company or its expected future results.

Contents

Proved Reserves Worldwide	79
Results of Operations	84
Statistics	86
Costs Incurred	89
Capitalized Costs	90
Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities	91

PROVED RESERVES WORLDWIDE

Years Ended December 31	Crude Oil					
	----- Millions of Barrels					
	Total	United States	Norway	United Kingdom	Africa	Other Areas

Developed and Undeveloped						
End of 1990	876	346	339	45	94	52
Revisions of previous estimates	21	(6)	20	(1)	12	(4)
Improved recovery	7	3	4	-	-	-
Purchases of reserves in place	2	2	-	-	-	-

Extensions and discoveries	41	16	2	2	1	20
Production	(77)	(33)	(25)	(4)	(9)	(6)
Sales of reserves in place	(41)	(2)	-	(31)	-	(8)

End of 1991	829	326	340	11	98	54
Revisions of previous estimates	32	3	31	-	(3)	1
Improved recovery	10	4	5	-	1	-
Purchases of reserves in place	2	2	-	-	-	-
Extensions and discoveries	64	19	-	31	13	1
Production	(76)	(34)	(26)	(3)	(9)	(4)
Sales of reserves in place	(5)	(5)	-	-	-	-

End of 1992	856	315	350	39	100	52
Revisions of previous estimates	(19)	(16)	(7)	(1)	(1)	6
Improved recovery	58	7	44	-	5	2
Purchases of reserves in place	7	6	-	1	-	-
Extensions and discoveries	25	19	-	-	4	2
Production	(73)	(34)	(26)	(2)	(9)	(2)
Sales of reserves in place	(12)	(4)	-	-	(2)	(6)

End of 1993	842	293	361	37	97	54
=====						
Developed						
End of 1990	723	283	285	14	90	51

End of 1991	715	268	310	9	93	35

End of 1992	714	259	326	7	90	32

End of 1993	680	245	314	4	83	34

- o Proved reserves are those quantities of crude oil, natural gas and natural gas liquids (NGL) that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs

under existing economic and operating conditions. As additional information becomes available or conditions change, estimates must be revised.

- o Developed reserves are those portions of proved reserves that are recoverable through existing well bores and production equipment and facilities.
- o Amounts for improved recovery in Norway in 1993 are for an expanded waterflood program at the Ekofisk field.

80

Proved Reserves Worldwide

Years Ended December 31	Natural Gas					
	Billions of Cubic Feet					
	Total	United States	Norway	United Kingdom	Africa	Other Areas
Developed and Undeveloped						
End of 1990	5,663	3,806	1,386	192	32	247
Revisions of previous estimates	65	82	18	(49)	-	14
Improved recovery	160	120	40	-	-	-
Purchases of reserves in place	12	8	-	-	-	4
Extensions and discoveries	237	138	4	61	-	34
Production	(486)	(327)	(115)	(28)	-	(16)
Sales of reserves in place	(12)	(10)	-	-	-	(2)
End of 1991	5,639	3,817	1,333	176	32	281
Revisions of previous estimates	74	(8)	107	7	-	(32)
Improved recovery	108	107	-	-	-	1
Purchases of reserves in place	20	15	-	5	-	-
Extensions and discoveries	538	228	-	297	-	13
Production	(523)	(350)	(135)	(18)	-	(20)
Sales of reserves in place	(40)	(40)	-	-	-	-
End of 1992	5,816	3,769	1,305	467	32	243

Revisions of						
previous estimates	468	579	(106)	2	-	(7)
Improved recovery	12	8	4	-	-	-
Purchases of						
reserves in place	27	19	-	7	-	1
Extensions and						
discoveries	339	281	-	-	-	58
Production	(509)	(345)	(123)	(20)	-	(21)
Sales of reserves						
in place	(84)	(35)	-	-	-	(49)

End of 1993	6,069	4,276	1,080	456	32	225
=====						

Developed						
End of 1990	4,832	3,174	1,277	185	-	196

End of 1991	4,969	3,366	1,274	115	-	214

End of 1992	4,839	3,279	1,246	108	-	206

End of 1993	5,194	3,827	1,068	148	-	151

- o Natural gas production may differ from gas production (delivered for sale) on page 86, primarily because the quantities above omit the gas equivalent of the liquids, where applicable, but include gas consumed at the lease.

- o Revisions of previous estimates in the United States in 1993 are primarily for North Cook Inlet in Alaska and the San Juan Basin in New Mexico. Amounts for extensions and discoveries are for Garden Banks, San Juan Basin and South Marsh Island, as well as other U.S. fields.
- o Amounts for extensions and discoveries in Other Areas in 1993 are in Canada.
- o Natural gas reserves are computed at 14.65 pounds per square inch absolute and 60 degrees Fahrenheit.

Natural Gas Liquids

Years Ended December 31	Millions of Barrels					
	Total	United States	Norway	United Kingdom	Africa	Other Areas
Developed and Undeveloped						
End of 1990	238	161	54	-	21	2
Revisions of previous estimates	1	7	(6)	-	-	-
Improved recovery	1	-	1	-	-	-
Extensions and discoveries	4	4	-	-	-	-
Production	(17)	(14)	(3)	-	-	-
End of 1991	227	158	46	-	21	2
Revisions of previous estimates	(4)	3	(6)	-	-	(1)
Purchases of reserves in place	3	3	-	-	-	-
Extensions and discoveries	10	6	-	3	-	1
Production	(19)	(16)	(3)	-	-	-
Sales of reserves in place	(1)	(1)	-	-	-	-
End of 1992	216	153	37	3	21	2
Revisions of previous estimates	(10)	(6)	(3)	-	-	(1)
Improved recovery	1	1	-	-	-	-
Purchases of reserves in place	1	1	-	-	-	-
Extensions and discoveries	4	4	-	-	-	-
Production	(16)	(13)	(3)	-	-	-
Sales of reserves in place	(1)	(1)	-	-	-	-
End of 1993	195	139	31	3	21	1
===== Developed						
End of 1990	206	154	50	-	-	2
End of 1991	195	150	43	-	-	2
End of 1992	181	146	33	-	-	2
End of 1993	162	132	29	-	-	1

- o NGL reserves include estimates of NGL to be extracted from Phillips leasehold gas at gas processing plants and facilities. Estimates are based at the wellhead and assume full extraction. NGL extraction is attributable to Phillips' Exploration and Production (E&P) operations and Gas and Gas Liquids (G&GL) operations. NGL production above differs from NGL production per day delivered for sale due to gas consumed at the lease and the difference between assumed full extraction and the actual amount of liquids extracted and sold.

83

RESULTS OF OPERATIONS

	Millions of Dollars		
	Total	United States	Norway
1993			
Sales	\$1,148	703	261
Transfers	1,065	476	455
Other revenues	139	35	61
Total revenues	2,352	1,214	777
Production costs	831	463	266
Exploration expenses	256	140	16
Depreciation, depletion, amortization and retirements	424	267	95
Other related expenses	60	47	5
	781	297	395
Provision for income taxes	414	66	288
Results of operations for producing activities	367	231	107
Other earnings	19	19	-
E&P net income	\$ 386	250	107
1992			
Sales	\$1,209	658	345
Transfers	1,208	538	502
Other revenues	48	(11)	57

Total revenues	2,465	1,185	904
Production costs	940	475	346
Exploration expenses	250	92	23
Depreciation, depletion, amortization and retirements	442	292	81
Other related expenses	29	45	(10)

	804	281	464
Provision for income taxes	465	51	337

Results of operations for producing activities	339	230	127

Other earnings	30	30	-

E&P net income	\$ 369	260	127
=====			

1991			
Sales	\$1,170	515	305
Transfers	1,290	624	544
Other revenues	184	10	59

Total revenues	2,644	1,149	908
Production costs	912	505	283
Exploration expenses	296	120	23
Depreciation, depletion, amortization and retirements	715	560*	75
Other related expenses	88	33	55

	633	(69)	472
Provision for income taxes	447	(24)	325

Results of operations for producing activities	186	(45)	147

Other earnings	38	38	-

E&P net income	\$ 224	(7)	147
=====			

RESULTS OF OPERATIONS

Millions of Dollars

United		Other
Kingdom	Africa	Areas

1993

Sales	\$ 88	23	73
Transfers	-	134	-
Other revenues	2	(8)	49

Total revenues	90	149	122
Production costs	31	41	30
Exploration expenses	32	21	47
Depreciation, depletion, amortization and retirements	26	13	23
Other related expenses	1	3	4

Provision for income taxes	(19)	71	18

Results of operations for producing activities	19	3	7

Other earnings	-	-	-

E&P net income	\$ 19	3	7
=====			

1992			
Sales	\$109	10	87
Transfers	-	168	-
Other revenues	1	1	-

Total revenues	110	179	87
Production costs	35	47	37
Exploration expenses	36	42	57
Depreciation, depletion, amortization and retirements	24	11	34
Other related expenses	(7)	1	-

Provision for income taxes	-	78	(41)

Results of operations for producing activities	22	4	(44)

Other earnings	-	-	-

E&P net income	\$ 22	4	(44)
=====			

1991			
Sales	\$186	58	106
Transfers	-	122	-
Other revenues	89	2	24

Total revenues	275	182	130
Production costs	42	42	40

Exploration expenses	35	61	57
Depreciation, depletion, amortization and retirements	40	11	29
Other related expenses	6	(2)	(4)

	152	70	8
Provision for income taxes	44	95	7

Results of operations for producing activities	108	(25)	1

Other earnings	-	-	-

E&P net income	\$108	(25)	1
=====			

*Depreciation, depletion, amortization and retirements in 1991 includes \$249 million for the writedown of offshore California investments.

- o Results of operations for producing activities consist of all the activities within the E&P organization except for a liquefied natural gas (LNG) operation, a gas marketing company and a U.S. natural gas pipeline operation. Also excluded are non-E&P activities, including NGL extraction facilities in Phillips' G&GL organization, as well as downstream petroleum and chemical activities. In addition, there is no deduction for general corporate administrative expenses or interest.
- o Transfers are valued at prices that approximate market.
- o Other revenues include gains and losses from asset sales, equity in earnings from certain transportation and processing operations that directly support the company's producing operations, some revenue resulting from the purchase and sale of hydrocarbons and other miscellaneous income.
- o Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. These costs also include taxes other than income taxes, depreciation of support equipment, cost of retirements, and administrative expenses related to the production activity. Excluded are depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.
- o Exploration expenses include dry hole, leasehold impairment, geological and geophysical expenses and the cost of retaining

undeveloped leaseholds. Also included are taxes other than income taxes, depreciation of support equipment and administrative expenses related to the exploration activity.

- o Depreciation, depletion, amortization and retirements differ from that shown in Analysis of Results by Business Segment on pages 75 and 76, as cost of retirements and depreciation of support equipment are included with production or exploration expenses, as applicable, in Results of Operations.
- o Other related expenses are primarily third party transportation expense, foreign currency gains and losses and other miscellaneous expenses.
- o The provision for income taxes is computed by adjusting each country's income before income taxes for permanent differences related to the oil and gas producing activities that are reflected in the company's consolidated income tax expense for the period, multiplying the result by the country's statutory tax rate and adjusting for applicable tax credits.
- o Other earnings consist of the remaining activities within the E&P organization.

STATISTICS

Net Production	1993	1992	1991

	Thousands of Barrels Daily		

CRUDE OIL			
United States	93	96	94
Norway	72	71	70
United Kingdom	6	8	12
Africa	24	25	24
Other areas	8	9	15
- - - - -	203	209	215
=====			
NATURAL GAS LIQUIDS			
United States*	5	5	3
Norway	8	8	9
- - - - -	13	13	12
=====			

*Represents amounts extracted attributable to E&P operations.

Additional quantities of NGL are extracted at G&GL gas processing plants (see NGL reserves page 83 for further discussion).

	Millions of Cubic Feet Daily		
NATURAL GAS	-----		
United States (less gas equivalent of liquids shown above)*	973	1,018	953
Norway (dry basis)	272	312	254
United Kingdom (dry basis)	54	49	76
Other areas	56	50	44

	1,355	1,429	1,327
	=====		

*Represents quantities available for sale. Natural gas sold from the lease to third parties and to the company's G&GL organization is on a wet basis. Quantities of gas from which NGL have been extracted, attributable to E&P operations, are included on a dry basis.

Average Sales Prices	1993	1992	1991

CRUDE OIL--PER BARREL			
United States	\$14.20	16.16	17.29
Norway	17.33	19.57	20.71
United Kingdom	17.53	19.77	20.33
Africa	17.75	19.94	20.28
Other areas	15.16	17.58	15.63
Total Foreign	17.30	19.51	19.98
Worldwide	15.92	18.01	18.86
NATURAL GAS LIQUIDS--PER BARREL			
United States	12.18	12.80	13.99
Norway	8.55	11.13	11.23
NATURAL GAS (LEASE)--PER THOUSAND CUBIC FEET			
United States	1.99	1.67	1.50
Norway	2.49	2.75	3.01
United Kingdom	2.44	2.72	3.35
Other areas	1.38	1.27	1.23
Total Foreign	2.36	2.61	2.91
Worldwide	2.11	1.99	2.00

Statistics

Average Production Costs*-- Per Equivalent Barrel of Oil	1993	1992	1991

United States	\$4.86	4.78	5.44
Norway	5.86	7.25	6.42
United Kingdom	5.64	5.73	4.64
Africa	4.62	5.16	4.72
Other areas	4.74	5.58	4.79
Worldwide	5.15	5.57	5.58

*Production costs consist of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. These costs also include taxes other than income taxes, depreciation of support equipment, cost of retirements, and administrative expenses associated with the production activity. Excluded are depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.

- o Per unit costs in 1993, compared with 1992, were higher in the United States due to lower production volumes. Norway, the United Kingdom and Africa had lower unit costs as decreases in production volumes were more than offset by lower production costs. The lower per unit costs in Other areas were primarily due to higher production volumes and lower production costs in Canada.

Acreage at December 31, 1993

Thousands of Acres

	Gross	Net
DEVELOPED		
United States	1,953	1,330
Norway	45	17
United Kingdom	166	56
Africa	79	16
Other areas	291	102

	2,534	1,521
=====		
UNDEVELOPED		
United States	3,693	2,424
Norway	1,396	302
United Kingdom	1,165	416
Africa*	27,582	11,273
Australia	1,837	1,032
Canada	1,557	334
Other areas	15,701	12,216

	52,931	27,997
=====		

*Includes two Somalia concessions where operations have been

suspended by declarations of force majeure totaling 21,865 gross and 8,135 net acres.

Statistics

Net Wells Completed*	Productive			Dry		
	1993	1992	1991	1993	1992	1991
EXPLORATORY						
United States	8	7	7	10	7	7
Norway	**	-	-	**	**	1
United Kingdom	-	5	1	1	**	1
Africa	-	**	3	1	4	5
Other areas	3	-	2	3	7	3
	11	12	13	15	18	17
DEVELOPMENT						
United States	115	98	155	10	9	6
Norway	1	1	3	-	-	-
United Kingdom	2	1	1	**	-	-
Africa	1	1	**	**	-	-
Other areas	23	6	3	1	1	2
	142	107	162	11	10	8

*Excludes farmout arrangements.

**Phillips' total proportionate interest was less than one.

Wells at Year-End 1993

	In Progress*		Productive***			
	Gross	Net	Oil		Gas	
			Gross	Net	Gross	Net
United States	48	29	20,560	4,834	5,653	2,940
Norway	1	**	133	48	41	12
United Kingdom	18	6	26	9	67	12
Africa	5	1	186	37	5	1
Other areas	6	3	857	325	241	85
	78	39	21,762	5,253	6,007	3,050

*Includes wells that have been temporarily suspended.
 **Phillips' total proportionate interest was less than one.
 ***Includes 1,368 gross and 495 net multiple completion wells.

COSTS INCURRED

Millions of Dollars						
Total	United States	Norway	United Kingdom	Africa	Other Areas	
1993						
Acquisition	\$ 51	45	-	4	-	2
Exploration	275	158	16	34	22	45
Development	482	213	58	123	38	50

	\$808	416	74	161	60	97
=====						
1992						
Acquisition	\$ 16	8	-	6	-	2
Exploration	241	88	27	43	32	51
Development	395	146	122	43	48	36

	\$652	242	149	92	80	89
=====						
1991						
Acquisition	\$ 32	30	-	-	1	1
Exploration	313	121	30	45	54	63
Development	411	238	118	10	17	28

	\$756	389	148	55	72	92
=====						

- o Costs incurred include capitalized and expensed items.
- o Acquisition costs include the costs of acquiring undeveloped oil and gas leaseholds. It includes proved properties of \$8 million and \$6 million in the United States for 1993 and 1991, respectively, and \$4 million in the United Kingdom for 1993.
- o Exploration costs include geological and geophysical expenses, the cost of retaining undeveloped leaseholds, and exploratory drilling costs.

- o Development costs include the cost of drilling and equipping development wells and building related production facilities for extracting, treating, gathering and storing petroleum liquids and natural gas.

CAPITALIZED COSTS

At December 31

Millions of Dollars

	Total	United States	Norway	United Kingdom	Africa	Other Areas

1993						
Proved properties	\$8,752	5,484	1,915	708	364	281
Unproved properties	482	388	13	47	6	28
	-----	-----	-----	-----	-----	-----
	9,234	5,872	1,928	755	370	309
Accumulated depreciation, depletion and amortization	5,915	4,174	1,006	437	188	110
	-----	-----	-----	-----	-----	-----
	\$3,319	1,698	922	318	182	199
=====						
1992						
Proved properties	\$8,812	5,423	2,034	601	377	377
Unproved properties	472	370	14	45	6	37
	-----	-----	-----	-----	-----	-----
	9,284	5,793	2,048	646	383	414
Accumulated depreciation, depletion and amortization	5,922	4,124	1,008	420	211	159
	-----	-----	-----	-----	-----	-----
	\$3,362	1,669	1,040	226	172	255
=====						

- o Capitalized costs include the cost of equipment and facilities for oil and gas producing activities. These costs include the activities of Phillips' E&P organization excluding the Kenai LNG operation, a gas marketing company and a U.S. natural gas pipeline operation.

- o Proved properties include capitalized costs for oil and gas leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted

development well costs) and support equipment.

- o Unproved properties include capitalized costs for oil and gas leaseholds under exploration (even where petroleum liquids and natural gas were found but not in sufficient quantities to be considered proved reserves) and uncompleted exploratory well costs, including exploratory wells under evaluation.

90

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS
RELATING TO PROVED OIL AND GAS RESERVE QUANTITIES

Amounts are computed using year-end prices and costs (adjusted only for existing contractual changes), appropriate statutory tax rates and a prescribed 10 percent discount factor. Continuation of year-end economic conditions also is assumed. The calculation is based on estimates of proved reserves, which are revised over time as new data becomes available. Probable or possible reserves, which may become proved in the future, are not considered. The calculation also requires assumptions as to the timing of future production of proved reserves, and the timing and amount of future development and production costs.

While due care was taken in its preparation, the company does not represent that this data is the fair value of the company's oil and gas properties, or a fair estimate of the present value of cash flows to be obtained from their development and production.

91

Discounted Future Net Cash Flows

	Millions of Dollars					
	Total	United States	Norway	United Kingdom	Africa	Other Areas
1993						
Future cash inflows	\$23,693	11,661	7,940	1,485	1,513	1,094
Less:						
Future production costs	9,048	4,713	3,096	345	468	426
Future development costs	2,818	1,008	1,175	457	50	128
Future income tax provisions	5,025	1,375	2,668	159	763	60

Future net cash flows	6,802	4,565	1,001	524	232	480
10% annual discount	3,227	2,198	437	257	107	228

Discounted future net cash flows	\$ 3,575	2,367	564	267	125	252
=====						

1992						
Future cash inflows	\$27,070	11,845	10,103	1,883	2,022	1,217
Less:						
Future production costs	10,288	4,538	4,345	402	519	484
Future development costs	2,317	1,062	350	679	56	170
Future income tax provisions	6,854	1,469	3,980	223	1,130	52

Future net cash flows	7,611	4,776	1,428	579	317	511
10% annual discount	3,590	2,243	627	322	147	251

Discounted future net cash flows	\$ 4,021	2,533	801	257	170	260
=====						

1991						
Future cash inflows	\$25,995	11,014	11,058	752	2,008	1,163
Less:						
Future production costs	10,459	5,329	4,005	171	453	501
Future development costs	2,198	1,215	296	174	347	166
Future income tax provisions	7,306	1,020	5,104	145	953	84

Future net cash flows	6,032	3,450	1,653	262	255	412
10% annual discount	2,710	1,568	726	71	118	227

Discounted future net cash flows	\$ 3,322	1,882	927	191	137	185
=====						

Sources of Change in Discounted Future Net Cash Flows

Millions of Dollars

1993 1992 1991

Discounted future net cash flows

at the beginning of the year	\$ 4,021	3,322	5,845

Changes during the year			
Revenues less production costs for the year	(1,382)	(1,477)	(1,548)
Net change in prices and production costs	(1,183)	92	(6,444)
Extensions, discoveries and improved recovery less estimated future costs	537	511	455
Development costs for the year	482	395	399
Changes in estimated future development costs	(574)	(16)	(203)
Purchases of reserves in place less estimated future costs	44	30	15
Sales of reserves in place less estimated future costs	(98)	(56)	(110)
Revisions of previous quantity estimates	13	190	47
Accretion of discount	722	685	1,267
Net change in income taxes	996	346	3,831
Other	(3)	(1)	(232)

Total changes	(446)	699	(2,523)

Discounted future net cash flows at year-end	\$ 3,575	4,021	3,322
=====			

- o The net change in prices and production costs is the beginning of the year reserve production forecast multiplied by the net annual change in the per unit sales price and production cost, discounted at 10 percent.
- o Purchases and sales of reserves in place, and extensions, discoveries and improved recovery are production forecasts of the applicable reserve quantities for the year multiplied by the end of the year sales price, less future estimated costs, discounted at 10 percent.
- o The accretion of discount is 10 percent of the prior year's discounted future cash inflows less future production and development costs.
- o The net change in income taxes is the annual change in the discounted future income tax provisions.

 Selected Quarterly Financial Data

		Millions of Dollars			Per Share of Common Stock	
		-----			-----	
		Income (Loss)	Income (Loss)		Income (Loss)	
		Before	Before		Before	
		Income Taxes,	Income Taxes,		Income Taxes,	
		Extraordinary	Extraordinary		Extraordinary	
		Items and	Items and		Items and	
		Cumulative	Cumulative		Cumulative	
		Effect of	Effect of		Effect of	
		Changes in	Changes in	Net	Changes in	Net
		Accounting	Accounting	Income	Accounting	Income
		Principles	Principles	(Loss)	Principles	(Loss)
		-----	-----	-----	-----	-----
		Sales				
		and Other				
		Operating				
		Revenues				
		-----	-----	-----	-----	-----
1993						
First	\$3,029	183	61	61	.23	.23
Second	3,230	224	123	121	.47	.46
Third	3,170	122	41	41	.16	.16
Fourth	2,880	9	20	20	.08	.08

1992						
First	\$2,712	(33)	(79)	(149)	(.30)	(.57)
Second	3,042	242	100	100	.38	.38
Third	3,098	89	105	105	.41	.41
Fourth	3,081	213	144	124	.56	.48

During first and second quarters of 1993, the company incurred after-tax charges of \$22 million, \$.08 per share and \$4 million, \$.02 per share, respectively, for the estimated cost of work force reductions. In the second quarter of 1993, the company incurred a before-tax extraordinary loss of \$3 million attributed to call premiums paid on the early redemption of debt. The after-tax loss was \$2 million, \$.01 per share. During second and fourth quarters of 1993, the company incurred after-tax accruals for pending claims of \$13 million, \$.05 per share, and \$19 million, \$.07 per share, respectively. During first and fourth quarters of 1993, results included after-tax net asset-sale gains of \$20 million, \$.08 per share, and \$39 million, \$.15 per share, respectively. In addition, fourth quarter 1993 results included a \$24 million, \$.09 per share, tax benefit from the utilization of a capital-loss carryforward and a \$12 million, \$.05 per share, after-tax writedown associated with the exit from the catalyst business.

In the first and fourth quarters of 1992, the company incurred before-tax extraordinary losses of \$39 million and \$32 million, respectively, on the early retirement of debt. The losses after-tax were \$26 million and \$20 million, \$.10 and \$.08 per share, respectively. During fourth quarter

1992, the company adopted FASB Statement No. 109, "Accounting for Income Taxes," retroactive to January 1, 1992. The cumulative effect of the change on prior years decreased first quarter 1992 net income by \$44 million, \$.17 per share.

During first quarter 1992, the company incurred an after-tax charge of \$62 million, \$.24 per share, for work force reductions. Third quarter 1992 results included a \$78 million, \$.30 per share, after-tax benefit from revisions of prior year tax accruals due to resolving certain U.S. income tax issues.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information presented under the heading "Nominees for Election as Directors" in the company's definitive proxy statement for the Annual Meeting of Stockholders on May 9, 1994, is incorporated herein by reference.* Information regarding the executive officers appears in Part I of this report on page 21.

Item 11. EXECUTIVE COMPENSATION

Information presented under the following headings in the company's definitive proxy statement for the Annual Meeting of Stockholders on May 9, 1994, is incorporated herein by reference:

Compensation Committee Interlocks and Insider Participation
Compensation of Directors and Nominees

Executive Compensation
Options/SAR Grants in Last Fiscal Year
Aggregated Option/SAR Exercises in Last Fiscal Year, and Fiscal
Year-end Option/SAR Value
Long-Term Incentive Plan Awards in Last Fiscal Year
Pension Plan Table
Employment Contracts and Termination of Employment and Change-
in-Control Arrangements

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT

Information presented under the headings "Voting Securities and
Principal Holders," "Nominees for Election as Directors,"
"Security Ownership of Certain Beneficial Owners," and "Security
Ownership of Management" in the company's definitive proxy
statement for the Annual Meeting of Stockholders on May 9, 1994,
is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information presented under the heading "Other Information About
and Transactions with Directors, Nominees and Officers" in the
company's definitive proxy statement for the Annual Meeting of
Stockholders on May 9, 1994, is incorporated herein by reference.

- - - - -

*Except for information or data specifically incorporated herein
by reference under Items 10 through 13, other information and
data appearing in the company's definitive proxy statement for
the Annual Meeting of Stockholders on May 9, 1994, are not
deemed to be a part of this Annual Report on Form 10-K or deemed
to be filed with the Commission as a part of this report.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS
ON FORM 8-K

(a) 1. Financial Statements and Financial Statement Schedules

The financial statements and schedules listed in the
Index to Financial Statements and Financial Statement
Schedules, which appears on page 45, are filed as part

of this annual report.

2. Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 102 through 105, are filed as a part of this annual report.

(b) Reports on Form 8-K

During the three months ended December 31, 1993, the registrant has not filed any reports on Form 8-K.

PHILLIPS PETROLEUM COMPANY

(Consolidated)

SCHEDULE V--PROPERTIES, PLANTS AND EQUIPMENT

Millions of Dollars

Classification	Balance	Additions at Cost*	Retirements or Sales	Other Changes**	Balance
	at January 1				at December 31

1993					
Exploration and Production	\$ 9,593	716	870	(75)	9,364
Gas and Gas Liquids	1,606	119	263	2	1,464
Petroleum Products	3,806	94	89	(123)	3,688
Chemicals	2,470	174	219	5	2,430
Other	1,102	29	26	(13)	1,092

	\$18,577	1,132	1,467	(204)	18,038
=====					
1992					
Exploration and Production	\$ 9,846	685	503	(435)	9,593
Gas and Gas Liquids	1,705	73	214	42	1,606
Petroleum Products	3,639	217	23	(27)	3,806
Chemicals	2,212	249	13	22	2,470
Other	1,082	30	3	(7)	1,102

	\$18,484	1,254	756	(405)	18,577
=====					
1991					
Exploration and					
Production	\$ 9,577	636	320	(47)	9,846
Gas and Gas Liquids	1,621	81	21	24	1,705
Petroleum Products	3,408	283	99	47	3,639
Chemicals	1,880	346	27	13	2,212
Other	1,087	60	36	(29)	1,082

	\$17,573	1,406	503	8	18,484
=====					

*Additions for 1992 includes an increase of \$102 million related to accrued expenditures for two liquefied natural gas tankers based on percentage of completion (cash payment made in 1993).

**Represents transfers between operations and the effect of translating foreign financial statements.

The company's policy with respect to depreciation, depletion, amortization and retirements is explained in Accounting Policies on page 52.

PHILLIPS PETROLEUM COMPANY

(Consolidated)

SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTIES, PLANTS AND EQUIPMENT

Millions of Dollars

Classification	Balance	Additions	Retirements	Other	Balance
	at January 1	Charged to Income	or Sales	Changes*	at December 31

1993					
Exploration and					
Production	\$ 6,037	432	390	(43)	6,036
Gas and Gas Liquids	956	72	146	2	884
Petroleum Products	1,494	133	25	(62)	1,540
Chemicals	1,014	116	137	3	996
Other	587	42	7	(1)	621

	\$10,088	795	705	(101)	10,077
=====					
1992					
Exploration and					
Production	\$ 6,255	470	364	(324)	6,037
Gas and Gas Liquids	1,038	76	180	22	956
Petroleum Products	1,424	125	20	(35)	1,494
Chemicals	906	94	11	25	1,014
Other	563	39	2	(13)	587

	\$10,186	804	577	(325)	10,088
=====					

1991					
Exploration and					
Production	\$5,680	779	167	(37)	6,255
Gas and Gas Liquids	975	74	20	9	1,038
Petroleum Products	1,329	113	56	38	1,424
Chemicals	839	77	19	9	906
Other	449	165	35	(16)	563

	\$9,272	1,208	297	3	10,186
=====					

*Represents transfers between operations and the effect of translating foreign financial statements.

100

PHILLIPS PETROLEUM COMPANY

(Consolidated)

SCHEDULE VIII--VALUATION ACCOUNTS AND RESERVES

Millions of Dollars

Description	Balance	Additions			Balance
	at	Charged to	Other	Deductions	at
	January 1	Expense	(a)	(b)	December 31

1993

Deducted from asset accounts:

Allowance for doubtful accounts and notes receivable	\$ 16	4	-	6 (c)	14
Deferred tax asset valuation allowance	219	18	(3)	53 (d)	181

1992

Deducted from asset accounts:

Allowance for doubtful accounts and notes receivable	\$ 18	8	-	10 (c)	16
Deferred tax asset valuation allowance	-	225*	(6)	-	219

1991

Deducted from asset accounts:

Allowance for doubtful accounts and notes receivable	\$ 20	8	-	10 (c)	18
Allowance for possible losses on investments	39	(39)	-	-	-

*Includes a \$198 million allowance established as part of the cumulative effect of a change in accounting principle under the provisions of FASB Statement No. 109, "Accounting for Income Taxes," adopted by the company effective January 1, 1992.

- (a) Accounts charged to income less reversal of amounts previously charged to income.
- (b) Represents effect of translating foreign financial statements.
- (c) Accounts charged off less recoveries of accounts previously charged off.
- (d) Reduction in valuation allowance for net operating losses, primarily from the sale of certain foreign operations.

PHILLIPS PETROLEUM COMPANY

INDEX TO EXHIBITS

Exhibit Number	Description
- - - - -	- - - - -

- 3(i) Restated Certificate of Incorporation, as filed with the State of Delaware July 17, 1989 (incorporated by reference to Exhibit 4(a) to Quarterly Report on Form 10-Q for the quarter ended June 30, 1989).
- (ii) Bylaws of Phillips Petroleum Company, as amended effective October 11, 1993 (incorporated by reference to Exhibit 4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1993).
- 4(a) Indenture dated as of September 15, 1990, between Phillips Petroleum Company and Continental Bank, National Association, relating to the 9 1/2% Notes due 1997 and the 9 3/8% Notes due 2011 (incorporated by reference to Exhibit 4(c) to Annual Report on Form 10-K for the year ended December 31, 1990).
- (b) Indenture dated as of September 15, 1990, as supplemented by Supplemental Indenture No. 1 dated May 23, 1991, between Phillips Petroleum Company and Continental Bank, National Association, relating to the 9.18% Notes due September 15, 2021, the 9% Notes due 2001, the 8.86% Notes due May 15, 2022, the 8.49% Notes due January 1, 2023, the 7.92% Notes due April 15, 2023, the 7.20% Notes due November 1, 2023 and the 6.65% Notes due March 1, 2003 (incorporated by reference to Exhibit 4(d) to Annual Report on Form 10-K for the year ended December 31, 1991).
- (c) Preferred Share Purchase Rights as described in the Rights Agreement dated as of July 10, 1989, between Phillips Petroleum Company and Chemical Bank (formerly Manufacturers Hanover Trust Company) (incorporated by reference to Exhibit 1 to Current Report on Form 8-K dated July 10, 1989).
- (d) Amendment dated May 16, 1990, to the Rights Agreement dated July 10, 1989, between Phillips Petroleum Company and Chemical Bank (formerly Manufacturers Hanover Trust Company) (incorporated by reference to Exhibit 1 to Current Report on Form 8-K dated May 16, 1990).

Exhibit
Number

Description

The company incurred during 1993 certain long-term debt not registered pursuant to the Securities Exchange Act of 1934. No instrument with respect to such debt is being filed since the total amount of the securities authorized under any such instrument did not exceed 10 percent of the total assets of the company on a consolidated basis. The company hereby agrees to furnish to the Securities and Exchange Commission upon its request a copy of such instrument defining the rights of the holders of such debt.

- 10 (a) Agreement dated December 23, 1984, among Mesa Partners and related entities and Phillips Petroleum Company and the schedules, annexes and exhibit thereto (incorporated by reference to Exhibit 10(a) to Annual Report on Form 10-K for the year ended December 31, 1989).
- (b) Letter Agreement dated December 23, 1984, among Mesa Partners and related entities and Phillips Petroleum Company (incorporated by reference to Exhibit 10(b) to Annual Report on Form 10-K for the year ended December 31, 1989).
- (c) Deferred Compensation Plan for Non-Employee Directors of Phillips Petroleum Company (incorporated by reference to Exhibit 10(d) to Annual Report on Form 10-K for the year ended December 31, 1990).
- (d) 1986 Stock Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(d) to Annual Report on Form 10-K for the year ended December 31, 1992).
- (e) 1990 Stock Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(f) to Annual Report on Form 10-K for the year ended December 31, 1989).
- (f) Annual Incentive Compensation Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(f) to Annual Report on Form 10-K for the year ended December 31, 1992).
- (g) Incentive Compensation Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(f)

PHILLIPS PETROLEUM COMPANY

INDEX TO EXHIBITS
(Continued)

Exhibit Number - - - - -	Description - - - - -
10(h)	Principal Corporate Officers Supplemental Retirement Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(h) to Annual Report on Form 10-K for the year ended December 31, 1989).
(i)	Phillips Petroleum Company Supplemental Executive Retirement Plan.
(j)	Key Employee Deferred Compensation Plan of Phillips Petroleum Company.
(k)	Non-Employee Director Retirement Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10(k) to Annual Report on Form 10-K for the year ended December 31, 1992).
(l)	Omnibus Securities Plan of Phillips Petroleum Company (incorporated by reference to Exhibit 10 to Quarterly Report on Form 10-Q for the quarter ended June 30, 1993).
(m)	Natural Gas Liquids Output Purchase and Sale Agreement effective as of January 1, 1992, by and between Phillips 66 Company, a division of Phillips Petroleum Company, and GPM Gas Corporation (incorporated by reference to Exhibit 10.3 to GPM Gas Corporation's Registration Statement on Form S-1, File No. 33-45693, filed February 14, 1992).
12	Computation of Ratio of Earnings to Fixed Charges.
21	List of Subsidiaries of Phillips Petroleum Company.
23	Consent of Independent Auditors.
99(a)	Form 11-K, Annual Report, of the Thrift Plan of

Phillips Petroleum Company for the fiscal year ended December 31, 1993 (to be filed by amendment pursuant to Rule 15d-21).

- (b) Form 11-K, Annual Report, of the Long-Term Stock Savings Plan of Phillips Petroleum Company for the fiscal year ended December 31, 1993 (to be filed by amendment pursuant to Rule 15d-21).
- (c) Form 11-K, Annual Report, of the Retirement Savings Plan of Phillips Petroleum Company Subsidiaries for the fiscal year ended December 31, 1993 (to be filed by amendment pursuant to Rule 15d-21).

104

PHILLIPS PETROLEUM COMPANY

INDEX TO EXHIBITS
(Continued)

Copies of the exhibits listed in this Index to Exhibits are available upon request for a fee of \$3.00 per document. Such request should be addressed to:

Secretary
Phillips Petroleum Company
1234 Adams Building
Bartlesville, OK 74004

105

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHILLIPS PETROLEUM COMPANY

March 14, 1994

C. J. Silas

C. J. Silas

Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on behalf of the registrant by the following officers in the capacity indicated and by a majority of directors in response to Instruction D to Form 10-K on March 14, 1994.

Signature

Title

C. J. Silas

Chairman of the Board of Directors
and Chief Executive Officer
(Principal executive officer)

C. J. Silas

J. J. Mulva

Executive Vice President
and Chief Financial Officer
and Director
(Principal financial officer)

J. J. Mulva

L. F. Francis

Controller and General Tax Officer
(Principal accounting officer)

L. F. Francis

W. W. Allen

President and Chief Operating
Officer and Director

W. W. Allen

C. L. Bowerman

Executive Vice President
and Director

C. L. Bowerman

D. J. Tippeconnic

Executive Vice President
and Director

D. J. Tippeconnic

J. L. Whitmire

Executive Vice President
and Director

J. L. Whitmire

106

Signature

Title

Robert E. Chappell, Jr.

Director

Robert E. Chappell, Jr.

Lawrence S. Eagleburger

Director

Lawrence S. Eagleburger

Larry D. Horner

Director

Larry D. Horner

E. Douglas Kenna

Director

E. Douglas Kenna

Randall L. Tobias

Director

Randall L. Tobias

Amended by CEO Approval
April 20, 1993

PHILLIPS PETROLEUM COMPANY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

SECTION I - PURPOSE

The purpose of the Phillips Petroleum Company Supplemental Executive Retirement Plan ("Plan") is to supplement the retirement benefits of Retiring eligible employees who were hired in mid-career. Phillips Petroleum Company ("Company") recognizes that from time to time, it retains the services of employee(s) after the employee has performed services at another company (or companies) for varying periods of time, in order to obtain the special skills and expertise developed by the key employee during these other periods of employment. These employees generally forego all or a portion of their potential retirement benefits upon leaving their previous employer(s). This Plan, therefore, supplements retirement benefits to at least partially compensate for the loss of retirement benefits accrued at the previous employer(s). The amount of supplemental benefit payable under this Plan will not cause a Retiring eligible employee's retirement benefit to equal or exceed a full career Retiring eligible employee's benefit.

SECTION II - DEFINITION OF TERMS

- | | | |
|----|-------------------------------------|---|
| a) | Retirement Income Plan | is the Retirement Income Plan of Phillips Petroleum Company. |
| b) | Retirement (or Retire, or Retiring) | is termination of employment with the Company on or after the employee's earliest early retirement date as defined in the Retirement Income Plan. It includes termination of employment at an age below 55 only when Section V applies. |

- c) Credited Service, Final Average Earnings, Normal Retirement Date, and Early Retirement Date as determined in accordance with the provisions of the Retirement Income Plan.
- d) Total Final Average Earnings is the average of the high 3 earnings, excluding Incentive Compensation Plan Awards, paid in consecutive years of the last 10 years prior to termination of employment plus the average of the high 3 Incentive Compensation Plan Awards for any of such last 10 years under the Incentive Compensation Plan, whether paid or deferred.
- e) Total Credited Service is an employee's Credited Service plus any additional months of service as calculated under the Principal Corporate Officers Supplemental Retirement Plan.

SECTION III - ELIGIBLE EMPLOYEES

All employees of the Company who are participants in the Retirement Income Plan and who, a) as of November 1, 1988 participated in the Incentive Compensation Plan as members of Teams I, II, III (including those individuals promoted to such levels through November 1, 1988, ie: Grade 33 or above and ICP eligible), or b) were active employee participants or were eligible to participate in the Key Employee Death Protection Plan on the date of its termination (December 31, 1986), c) are hired subsequent to November 1, 1988 and at the time of hire are recommended for participation in the Plan by the Vice President, Human Resources and Services with approval by the Chief Executive Officer, or d) prior to retirement are recommended for participation in the Plan by the Vice President, Human Relations and Services with approval

by the Chief Executive Officer, will be eligible for benefits under this Plan.

SECTION IV - ELIGIBILITY FOR BENEFITS

An eligible employee as described in Section III who commences retirement benefits under the Retirement Income Plan, will be eligible to receive the benefit amount described in Section VI only if the results of (a) below exceed the results of (b) below where:

- (a) is the lesser of the following percentages;
 - (i) 2.4% times the greater of the eligible employee's Credited Service or the Employee's Total Credited Service at the time of Retirement; or
 - (ii) the Maximum SERP Benefit Percentage shown in the schedule below based upon the eligible employee's attained age at Retirement

and, (b) is the percentage derived by multiplying 1.6% times the eligible employee's Credited Service at the time of Retirement.

Attained Age at Retirement -----	Maximum SERP Benefit Percentage -----
65	60.0%
64	58.4%
63	56.8%
62	55.2%
61	53.6%
60	52.0%
59	50.4%
58	48.8%
57	47.2%
56	45.6%
55	44.0%
54 or younger	-0-

SECTION V - SPECIAL ELIGIBILITY

An eligible employee as described in Section III who is less than age 55 and who is laid off under the Layoff Plan of Phillips Petroleum Company and/or the Supplemental Layoff Plan of Phillips Petroleum Company and/or the Enhanced Supplemental Layoff Pay Plan of Phillips Petroleum Company or any similar plans which may be adopted by the Company from time to time, will be eligible to receive the benefit described in Section VI if the results of (a) below exceed the results of (b) below where:

- (a) is the lesser of the following percentages;
 - (i) 2.4% times the greater of an eligible employee's Credited Service, or the employee's Total Credited Service at the time of layoff; or
 - (ii) the Maximum SERP Benefit Percentage shown in the schedule below based upon the eligible employee's attained age at the time of layoff.

and, (b) is the percentage derived by multiplying 1.6% times the eligible employee's Credited Service at the time of layoff.

Attained Age at the time of Layoff -----	Maximum SERP Benefit Percentage -----
54	42.4%
53	40.8%
52	39.2%
51	37.6%
50	36.0%
49	34.4%
48	32.8%
47	31.2%
46	29.6%
45	28.0%
44	26.4%
43	24.8%
42	23.2%

Attained Age at the time of Layoff -----	Maximum SERP Benefit Percentage -----
41	21.6%
40	20.0%
39	18.4%
38	16.8%
37	15.2%
36	13.6%
35	12.0%
34	10.4%
33	8.8%
32	7.2%
31	5.6%
30	4.0%
29	2.4%
28	0.8%

SECTION VI - BENEFIT AMOUNT

An eligible employee who qualifies for benefits under this Plan in accordance with Sections IV and V will be eligible to receive retirement benefits from the Plan as follows:

- A. With respect to eligible employees who commence retirement benefits on or after their Normal Retirement Date - multiply the lesser of (a) (i) or (a) (ii) as computed in Sections IV or V, as applicable, times the greater of the employee's Final Average Earnings or the employee's Total Final Average Earnings and with the results reduced by the portion of the eligible employee's Primary Social Security benefit as determined in the same manner as such reduction is determined under the Final Average Earnings formula of the Retirement Income Plan.

- B. With respect to eligible employees who commence retirement benefits at an Early Retirement Date - benefits will be

calculated in the same manner as the benefits for Normal Retirement Date, as described in A. of this Section, but reduced for early retirement in the same manner as is applicable under the Retirement Income Plan.

In either A. or B. above the Retirement Income Plan calculations shall be made as if no benefit limitations were imposed by the Internal Revenue Code and no benefit reductions resulted from participation in any qualified or non-qualified Company-sponsored benefit plan, and the resulting benefit amount will be reduced by applicable retirement benefit payments for which the retiree is eligible from any of the following plans, or any other similar plan or plans, of the Company or any of its subsidiary or affiliated companies; Retirement Income Plan, Retirement Restoration Plan of Phillips Petroleum Company, Key Employee Deferred Compensation Plan of Phillips Petroleum Company, the Retirement Makeup Plan of Phillips Petroleum Company, Principal Corporate Officers Supplemental Retirement Plan of Phillips Petroleum Company and the Phillips Petroleum Company Key Employee Death Protection Plan.

SECTION VII - PAYMENT OF RETIREMENT BENEFITS

Subject to the requirement that the manner of payment of retirement benefits determined in accordance with this Plan, the Retirement Restoration Plan of Phillips Petroleum Company, the Key Employee Deferred Compensation Plan of Phillips Petroleum Company, the Principal Corporate Officers Supplemental Retirement Plan of Phillips Petroleum Company, and the Retirement Makeup Plan of

- 6 -

Phillips Petroleum Company, shall be the same, and subject further to the condition that a Retiring eligible employee who receives retirement payments under this Plan other than in one lump-sum payment, shall agree to be available during the payment period to provide, from time to time, advice and consultation to the Company after reasonable notice, or forfeit his/her remaining unpaid benefits, therefore:

- (i) The Retiring eligible employee may elect on the forms prescribed by the Company to have such retirement

payments paid on a straight-life annuity basis, or to have such life annuity payments converted in the manner provided by the Retirement Income Plan to any one of the other forms of payment which the Retiring eligible employee would be entitled to select (except the lump-sum settlement option) if such payments were to be paid to the Retiring eligible employee under the Retirement Income Plan.

- (ii) Notwithstanding (i) above, an eligible employee who is commencing retirement benefits at age 60 or older may, not later than 30 days prior to commencing retirement benefits, express preferences as to:
 - (a) whether the payment amounts should be converted in the manner provided by the Retirement Income Plan from a life annuity basis to one lump-sum payment,

- 7 -

- (b) whether such lump-sum payment shall be paid to the employee on or as soon as practicable after the employee's commencement of retirement benefits,
 - (c) whether such lump-sum payment shall be credited as an award under the Company's Key Employee Deferred Compensation Plan.

The Chief Executive Officer, with respect to Retiring eligible employees who are not members of the Board of Directors and the Compensation Committee of the Board of Directors, with respect to Retiring eligible employees who are members of the Board of Directors, shall consider such indication of preference and shall respectively decide whether to accept or reject the preferences expressed. In the event the Chief Executive Officer or the Compensation Committee, as applicable, accepts such Retiring eligible employee's preference, such retirement benefit shall be paid in one lump sum as soon as practicable after the later of such acceptance or the Retiring eligible employee's retirement benefit commencement date; or if applicable, credited as of the eligible employee's retirement benefit commencement date as an award under the Key Employee Deferred Compensation Plan.

SECTION VIII - PAYMENT OF RETIREMENT BENEFITS

This Plan shall be unfunded. All benefits shall be provided solely from the general assets of the Company and any rights accruing to an eligible employee under the Plan shall be those of a general creditor; provided, however, that the Company may establish a

- 8 -

grantor trust to satisfy part or all of its Plan payment obligations so long as the plan remains unfunded for purposes of Title I of ERISA.

SECTION IX - MISCELLANEOUS PROVISIONS

- (a) No right or interest of an eligible employee under this Plan shall be assignable or transferable, in whole or in part, directly or indirectly, by operation of law or otherwise (excluding devolution upon death or mental incompetency).
- (b) This Plan shall be administered by the Chief Executive Officer except to the extent otherwise specifically stated herein, and the Chief Executive Officer's decisions in all matters relating to the interpretation and application thereof shall be final.
- (c) The Chief Executive Officer, may amend or terminate this Plan at any time if, in his or her sole judgment such amendment or termination is deemed desirable. However, such amendments may not increase the benefits payable hereunder to any Officer of the Company who is also currently a Director of the Company.
- (d) No amount accrued or payable hereunder shall be deemed to be a portion of an eligible employee's compensation or earnings for the purpose of any other employee benefit plan adopted or maintained by the Company, nor shall this Plan be deemed to amend or modify the provisions of the Retirement Income Plan.
- (e) Participation or nonparticipation in this Plan shall not affect any eligible employee's employment status, or confer any special rights other than those expressly stated in the Plan.

- 9 -

- (f) Except as otherwise provided herein, the Plan shall be binding upon the Company, its successors and assigns, including but not limited to any corporation which may acquire all or substantially all of the Company's assets and business or with or into which the Company may be consolidated or merged.
- (g) The payment of benefits to eligible employees commencing retirement benefits under this Plan is contingent upon their not engaging in activities during the payment period which, in the evaluation of the Chief Executive Officer, are detrimental to the Company. Such determination that an eligible employee has engaged in activities detrimental to the Company will result in the forfeiture of his/her unpaid benefits.
- (h) The Plan shall be construed, regulated, and administered in accordance with the laws of the State of Oklahoma except to the extent that said laws have been preempted by the laws of the United States.

SECTION X - EFFECTIVE DATE

This Plan became effective January 1, 1987.

Board of Directors Approved
January 10, 1994

KEY EMPLOYEE DEFERRED COMPENSATION PLAN OF
PHILLIPS PETROLEUM COMPANY

PURPOSE

The purpose of the Key Employee Deferred Compensation Plan of Phillips Petroleum Company (the "Plan") is to attract and retain key employees by providing them with an opportunity to defer receipt of cash amounts settled in their favor under various plans offered by the Company.

SECTION 1. Definitions.

- (a) "Award" shall mean the United States cash dollar amount (i) allotted to an Employee under the terms of an Incentive Compensation Plan or the Long Term Incentive Compensation Plan, or (ii) required to be credited to an Employee's Deferred Compensation Account pursuant to the Incentive Compensation Plan, the Long Term Incentive Compensation Plan, the Strategic Incentive Plan, the Long Term Incentive Plan, or any similar plans, or any administrative procedure adopted pursuant thereto, (iii) credited as a result of a Participant's deferral of the receipt of the value of the Stock which would otherwise be delivered to an Employee by the Committee acting, in its sole discretion, to lapse restriction on Restricted Stock previously awarded or which may be awarded to the Participant pursuant to the Incentive Compensation Plan, the Long Term Incentive Compensation Plan, the Strategic Incentive Plan, the Long Term Incentive Plan, the Omnibus

Securities Plan, or any similar plans, or any administrative procedure adopted pursuant thereto, (iv) credited resulting from a lump sum distribution from any of the Company's non-qualified retirement plans which provide for a retirement supplement (including this plan), (v) resulting from the forfeiture of Restricted Stock, re-

quired by the Company, of key employees who become employees of GPM Gas Corporation, or (vi) credited as a result of an Employee's deferral of the receipt of the lump sum cash payment from the Employee's account in the Defined Contribution Makeup Plan. Sections 2 and 3 of this Plan shall not apply with respect to Awards included under (ii) and (v) above and a participant receiving such an Award shall be deemed, with respect thereto, to have elected a Section 5(b)(i) payment option - 10 annual installments commencing about one year after retirement, but subject to revocation under the terms of this Plan.

- (b) "Chief Executive Officer (CEO)" shall mean the Chief Executive Officer of the Company.
- (c) "Committee" shall mean the Compensation Committee of the Board of Directors of the Company.
- (d) "Company" shall mean Phillips Petroleum Company.
- (e) "Deferred Compensation Account" shall mean an account established and maintained for each Participant in which is recorded the amounts of Awards deferred by a Participant, the deemed gains, losses and

2

earnings accrued thereon and payments made therefrom all in accordance with the terms of the Plan.

- (f) "Defined Contribution Makeup Plan" shall mean the Defined Contribution Makeup Plan of Phillips Petroleum Company or any similar plan or successor plans.
- (g) "Disability" shall mean the inability, in the opinion of the Company's group life insurance carrier or the Company's Medical Director, of a Participant, because of an injury or sickness, to work at a reasonable occupation which is available with the Company or at any gainful occupation which the Participant is or may become fitted.
- (h) "Employee" shall mean any individual who is a salaried employee of the Company or of a Participating Subsidiary who is eligible to receive an Award from an Incentive Compensation Plan.
- (i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute.
- (j) "Incentive Compensation Plan" shall mean the Incentive Compensation Plan of the Company, or the Annual Incentive Compensation Plan of Phillips Petroleum Company, or similar plan of a Participating

Subsidiary, or any similar or successor plans, or all, as the context may require.

3

- (k) "Long-Term Incentive Compensation Plan" shall mean the Long-Term Incentive Compensation Plan of the Company which was terminated December 31, 1985.
- (l) "Long-Term Incentive Plan" shall mean the Long-Term Incentive Plan, or similar or successor plan, established under the Omnibus Securities Plan of Phillips Petroleum Company.
- (m) "Participant" shall mean a person for whom a Deferred Compensation Account is maintained.
- (n) "Participating Subsidiary" shall mean a subsidiary of the Company, of which the Company beneficially owns, directly or indirectly, more than 50% of the aggregate voting power of all outstanding classes and series of stock, where such subsidiary has adopted one or more plans making participants eligible for participation in this Plan and one or more Employees of which are Potential Participants.
- (o) "Plan Administrator" shall mean the person designated by the Chief Executive Officer to carry out ministerial duties related to the Plan.
- (p) "Potential Participant" shall mean a person who has received a notice specified in Section 2.
- (q) "Restricted Stock" shall mean shares of Stock which have certain restrictions attached to the ownership thereof.

4

- (r) "Retirement Income Plan" shall mean the Retirement Income Plan of the Company or a similar retirement plan of the Participating Subsidiary pursuant to the terms of which the Participant retires.
- (s) "Settlement Date" shall mean the date on which all acts under the Incentive Compensation Plan or the Long-Term Incentive Compensation Plan or actions directed by the Committee, as the case may be, have been taken which are necessary to make an Award payable to the Participant.

- (t) "Stock" means shares of common stock of the Company, par value \$1.25.
- (u) "Strategic Incentive Plan" shall mean the Strategic Incentive Plan portion of the 1986 Stock Plan of the Company, of the 1990 Stock Plan of the Company, and of any successor plans of similar nature.

SECTION 2. Notification of Potential Participants.

- (a) Incentive Compensation Plan. Each year, during September, Employees who are eligible to receive an Award in the immediately following calendar year under the Company's or a Participating Subsidiary's Incentive Compensation Plan will be notified and given the opportunity, in a manner prescribed by the Plan Administrator, to indicate a preference concerning deferral of all or part of such Award.
- (b) Restricted Stock Awards. Each year Employees who are or will become 55 years of age prior to the end of the calendar year or who are over

5

55 years old and have not previously been notified will be notified and given the opportunity, in a manner prescribed by the Plan Administrator, to indicate a preference concerning the deferral of the receipt of the value of all or part of the Stock which would otherwise be delivered to the Employees in the event the Committee acting, in its sole discretion, lapses restrictions on Restricted Stock previously awarded or which may be awarded to the Employees.

- (c) Lump Sum Distribution from Non-Qualified Retirement Plans. With respect to the lump sum distribution permitted from the Company's non-qualified retirement plans and/or plans which provide for a retirement supplement, Potential Participants who commence retirement benefits on or after January 1, 1994, may indicate, in a manner prescribed by the Plan Administrator, a preference for all or part of the lump sum distribution, if any, to be considered an Award under this Plan. Potential Participants who commence retirement benefits prior to January 1, 1994, may indicate a preference for the lump sum distribution, if any, to be considered an Award under this Plan based on the terms of this Plan as approved by the Board of Directors February 8, 1993.
- (d) Lump Sum from Defined Contribution Makeup Plan. Employees who will receive a lump sum cash payment from their account under the Defined Contribution Makeup Plan, may indicate, in a manner prescribed by the Plan Administrator, a preference concerning deferral of all of part of such payment.

SECTION 3. Indication of Preference to Defer Award.

- (a) Incentive Compensation Plan. If a Potential Participant prefers to defer under this Plan all or any part of the Award to which a notice received under Section 2(a) pertains, the Potential Participant must indicate such preference (i) if the Potential Participant is subject to Section 16 of the Exchange Act, to the Committee, or (ii) if the Potential Participant is not subject to Section 16 of the Exchange Act, to the CEO. The Potential Participant's preference must be received on or before October 1 of the year in which said Section 2(a) notice was received. Such indication must be in writing signed by the Potential Participant, and, must state the portion of the Award the Potential Participant desires to be deferred. If an indication is not received by October 1, the Potential Participant will be deemed to have elected to receive any ICP award awarded by the Committee.

Such indication of preference, if accepted, becomes irrevocable on October 1 of the year in which the indication is submitted to the Committee or CEO. The Committee or CEO, as applicable, shall consider such indication of preference as submitted and shall decide whether to accept or reject the preference expressed on or before December 15 of the year in which the Potential Participant has submitted the indication of preference to it for Awards under Section 2(a). The Potential Participant shall be notified in writing of the decision.

- (b) Restricted Stock. If a Potential Participant prefers to defer under this Plan the value of all or any part of the Restricted Stock to

which a notice received under Section 2(b) pertains, the Potential Participant must indicate such preference (i) if the Potential Participant is subject to Section 16 of the Exchange Act, to the Committee, or (ii) if the Potential Participant is not subject to Section 16 of the Exchange Act, to the CEO. The Potential Participant's preference must be received on or before October 1 of the year in which said Section 2(b) notice was received. Such indication must be in writing signed by the Potential Participant, and, must state the portion of the value of the Restricted Stock the Potential Participant desires to be deferred. If an indication is not received by October 1, the Potential Participant will be deemed to have elected to receive any shares for which the restrictions have been lapsed by the Committee. Such indication of preference becomes

irrevocable on October 1 of the year in which the indication is submitted to the Committee or CEO. The Committee or CEO, as applicable, shall consider such indication of preference as submitted and shall decide whether to accept or reject the preference expressed. The Potential Participant shall be notified in writing of the decision. A deferral of the value of the Restricted Stock will be considered a Section 5(b)(i) payment option - 10 annual installments commencing about one year after retirement, but subject to revocation under the terms of this Plan.

- (c) Lump Sum Distribution from Non-Qualified Retirement Plans. If a Potential Participant prefers to defer under this Plan all or part of the lump sum distribution to which Section 2(c) pertains, the Potential Participant must indicate such preference (i) if the Potential

8

Participant is subject to Section 16 of the Exchange Act, to the Committee or (ii) if the Potential Participant is not subject to Section 16 of the Exchange Act, to the CEO. The Potential Participant's preference must be received in the period beginning 90 days prior to and ending no less than 30 days prior to the date of commencement of retirement benefits under such plans. Such indication must be in writing signed by the Potential Participant, and must state the portion of the lump sum distribution the Potential Participant desires to be deferred. The Committee or CEO, as applicable, shall consider such indication of preference as submitted and shall decide whether to accept or reject the preference expressed as soon as practicable. Such indication of preference, if accepted, becomes irrevocable on the date of such acceptance.

- (d) Lump Sum from Defined Contribution Makeup Plan. If a Potential Participant prefers to defer under this Plan all or part of the lump sum cash payment to which Section 2(d) pertains, the Potential Participant must indicate such preference (i) if the Potential Participant is subject to Section 16 of the Exchange Act, to the Committee or (ii) if the Potential Participant is not subject to Section 16 of the Exchange Act, to the CEO. The Potential Participant's preference must be received in the period beginning 365 days prior to and ending no less than 90 days prior to the Participant's retirement date. Such indication must be in writing signed by the Potential Participant, and must state the portion of the lump sum payment the Potential Participant desires to be deferred. The Committee or CEO, as applicable, shall consider such indication of

9

preference as submitted and shall decide whether to accept or reject the preference expressed as soon as practicable. Such indication of preference, if accepted, becomes irrevocable on the date of such acceptance. A deferral of the lump sum from the Defined Contribution Makeup Plan will be considered a Section 5(b)(i) payment option - 10 annual installments commencing about one year after retirement, but subject to revocation under the terms of the Plan.

SECTION 4. Deferred Compensation Accounts.

- (a) Credit for Deferral. Amounts deferred pursuant to Section 3(a) will be credited to the Participant's Deferred Compensation Account as soon as practicable, but not less than 30 days after the Settlement Date of the Incentive Compensation Plan. Amounts deferred pursuant to Section 3(b) will be credited at market value of the underlying Restricted Stock as soon as practicable, but not later than 30 days after the date as of which the Committee elects to lapse the restrictions. Amount deferred pursuant to Section 3(d) will be credited to the Participant's Deferred Compensation Account as soon as practicable, but not later than 30 days after the cash payment would have been made had it not been deferred. Amounts deferred pursuant to other provisions of this plan shall be credited as soon as practicable after the date assigned to the deferral by the Company or by the Committee.
- (b) Designation of Investments. The amount in each Participant's Deferred Compensation Account shall be deemed to have been invested

and reinvested from time to time, in such "eligible securities" as the Participant shall designate. Prior to or in the absence of a Participant's designation, the Company shall designate an "eligible security" in which the Participant's Deferred Compensation Account shall be deemed to have been invested until designation instructions are received from the Participant. Eligible securities are those securities designated by the Treasurer of the Company. The Treasurer may include as eligible securities, stocks listed on a national securities exchange, and bonds, notes, debentures, corporate or governmental, either listed on a national securities exchange or for which price quotations are published in The Wall Street Journal and shares issued by investment companies commonly known as "mutual funds". The Participant's Deferred Compensation Account will be adjusted to reflect the deemed gains, losses and earnings as though the amount deferred was actually invested and reinvested in the

eligible securities for the Participant's Deferred Compensation Account.

Notwithstanding anything to the contrary in this section 4(b), in the event the Company actually purchases or sells such securities in the quantities and at the times the securities are deemed to be purchased or sold for a Participant's Deferred Compensation Account, the Account shall be adjusted accordingly to reflect the price actually paid or received by the Company for such securities after adjustment for all transaction expenses incurred (including without limitation brokerage fees and stock transfer taxes).

11

In the case of any deemed purchase not actually made by the Company, the Deferred Compensation Account shall be charged with a dollar amount equal to the quantity and kind of securities deemed to have been purchased multiplied by the fair market value of such security on the date of reference and shall be credited with the quantity and kind of securities so deemed to have been purchased. In the case of any deemed sale not actually made by the Company, the account shall be charged with the quantity and kind of securities deemed to have been sold, and shall be credited with a dollar amount equal to the quantity and kind of securities deemed to have been sold multiplied by the fair market value of such security on the date of reference. As used herein "fair market value" means in the case of a listed security the closing price on the date of reference, or if there were no sales on such date, then the closing price on the nearest preceding day on which there were such sales, and in the case of an unlisted security the mean between the bid and asked prices on the date of reference, or if no such prices are available for such date, then the mean between the bid and asked prices to the nearest preceding day for which such prices are available.

The Treasurer may also designate a Fund Manager to provide services which may include recordkeeping, Participant accounting, Participant communication, payment of installments to the Participant, tax reporting and any other services specified by the Company in agreement with the Fund Manager.

12

- (c) Payments. A Participant's Deferred Compensation Account shall be debited with respect to payments made from the account pursuant to this Plan as of the date such payments are made from the account.

The payment shall be made as soon as practicable, but no later than 30 days, after the installment payment date.

If any person to whom a payment is due hereunder is under legal disability as determined in the sole discretion of the Plan Administrator, the Plan Administrator shall have the power to cause the payment due such person to be made to such person's guardian or other legal representative for the person's benefit, and such payment shall constitute a full release and discharge of the Company, the Plan Administrator and any fiduciary of the Plan.

- (d) Statements. At least one time per year the Company or the Company's designee will furnish each Participant a written statement setting forth the current balance in the Participant's Deferred Compensation Account, the amounts credited or debited to such account since the last statement and the payment schedule of deferred Awards and deemed gains, losses and earnings accrued thereon as provided by the deferred payment option selected by the Participant.

SECTION 5. Payments from Deferred Compensation Accounts.

- (a) Election of Method of Payment for an Incentive Compensation Plan Award. At the time a Potential Participant submits an indication of preference to defer all or any part of an Award under an Incentive

13

Compensation Plan as provided in Section 3(a) above, the Potential Participant shall also elect in a manner prescribed by the Plan Administrator, which of the payment options, provided for in Paragraph (b) of this Section, shall apply to the deferred portion of said Award adjusted for any deemed gains, losses and earnings accrued thereon credited to the Participant's Deferred Compensation Account under this Plan. Subject to Paragraphs (e), (g) and (h) of this Section, if the Committee or CEO, as appropriate, accepts the Potential Participant's indication of preference, the election of the method of payment of the amount deferred shall become irrevocable.

- (b) Payment Options. A Potential Participant may elect to have the deferred portion of an Incentive Compensation Plan Award adjusted for any deemed gains, losses and earnings accrued thereon paid:
 - (i) in 10 annual installments, the payment of the first of such installments to commence on the first day of the calendar quarter which is on or after the first anniversary of the Potential Participant's first day of retirement under the terms of the Retirement Income Plan, or

- (ii) in annual installments of not less than 5 nor more than 10, in semi-annual installments of not less than 10 nor more than 20, or in quarterly installments of not less than 20 nor more than 40. The first of such installments to commence, as soon as practicable after any date specified by the Potential Participant, so long as such date is the first day of a calendar

14

quarter, is on or after the Settlement Date, is at least one year from the date the payout option was elected, and is prior to the date the Potential Participant will attain the Participant's Normal Retirement Date under the terms of the Retirement Income Plan.

- (c) Election of Method of Payment of the Value of Restricted Stock. As provided in Section 3(b) above, a deferral of the value of all or part of the Restricted Stock will be considered payment option (b) (i) of this Section subject to Paragraphs (e) and (g) of this Section.
- (d) Election of Method of Payment of a Lump Sum Distribution from Non-Qualified Retirement Plans. At the time a Potential Participant submits an indication of preference to defer all or part of the lump sum distribution as provided in Section 3(c) above, the Potential Participant shall also elect in a manner prescribed by the Plan Administrator which payment option shall apply to the deferred lump sum adjusted for any gains, losses and earnings to be accrued thereon credited to the Participant's Deferred Compensation Account under this Plan. The payment options are annual installments of not less than 5 nor more than 10, semi-annual installment of not less than 10 nor more than 20, or quarterly installments of not less than 20 nor more than 40. The first installment to commence as soon as practicable after any date specified by the Potential Participant, so long as such date is the first day of a calendar quarter and is at least one year from the date the payout option was elected. Subject to Paragraph (g) of this Section, if the Committee or CEO, as appropriate,

15

accepts the Potential Participant's indication of preference, the election of the method of payment of the amount deferred shall become irrevocable.

- (e) Revocable Payment Options. If a Section 5(b) (i) payment option

applies to any part of the balance of a Participant's Deferred Compensation Account, the Participant has the following revocations available:

- (i) Revocation Prior to Retirement. The Participant at any time during a period beginning 365 days prior to and ending 90 days prior to the date the Participant retires under the terms of the Retirement Income Plan, may, with respect to the total of all amounts subject to such option at the time of the Participant's retirement, in the manner prescribed by the Plan Administrator, revoke such option and elect one of the payment options specified in (e) (iii) of this Section to apply to such total amount in place of the revoked payment option.
- (ii) Revocation if Laid-Off. If a Participant who is eligible to retire under the terms of the Retirement Income Plan is notified of layoff under the Phillips Layoff Plan or any similar plan which may be adopted by the Company from time to time and if there is not at least 120 days between the date the Participant is notified of layoff and the Participant's termination date, the Participant may, within 30 days of being notified of layoff, in the manner prescribed by the Plan Administrator,

16

revoke such option and elect one of the payment options specified in (e) (iii) of this Section to apply to such total amount in place of the revoked payment option.

- (iii) Payment Options After Revocation. If a Participant revokes a Section 5(b) (i) payment option as specified in (c) (i) or (c) (ii) of this Section, the Participant, subject to the exception in (e) (iv) of this Section, may select payments in annual installments of not less than 5 nor more than 10, in semi-annual installments of not less than 10 nor more than 20, or in quarterly installments of not less than 20 nor more than 40 with the first installment to commence, as soon as practicable following any date specified by the Participant so long as the Participant retires under the Retirement Income Plan and such date is the first day of a calendar quarter, is on or after the Participant's first day of retirement, is at least one year from the date the payment option was elected and is not more than two calendar quarters after the Participant's 70th birthday.
- (iv) Payment Option After Revocation Exception. If a Participant elected a Section 5(b) (i) payment option for Amounts deferred prior to January 1, 1994, the Participant may select payments

in one lump sum or annual installments of not less than 5 nor more than 20 in addition to the payment options specified in (e) (iii) of this Section.

17

- (f) **Installment Amount.** The amount of each installment shall be determined by dividing the balance in the Participant's Deferred Compensation Account as of the date the installment is to be paid, by the number of installments remaining to be paid (inclusive of the current installment).
- (g) **Death of Participant.** Upon the death of a Participant, the Participant's beneficiary or beneficiaries designated in accordance with Section 9, or in the absence of an effective beneficiary designation, the spouse, children (natural or adopted), or the legal representative of the deceased Participant, in that order of priority, shall receive payments in accordance with the payment options selected by the Participant, whether death occurred before or after such payments have commenced; provided, however, such payments may be made in a different manner if the beneficiary or beneficiaries entitled to receive such payments, due to an unanticipated emergency caused by an event beyond the control of the beneficiary or beneficiaries that results in financial hardship to the beneficiary or beneficiaries, so requests and the CEO gives written consent to the method of payment requested.
- (h) **Termination of Employment.**
In the event a Participant's employment with the Company or a Participating Subsidiary terminates for any reason other than death, retirement under the Retirement Income Plan or Disability, the entire balance of the Participant's Deferred Compensation Account shall be

18

paid to the Participant in one lump sum as soon as practicable after the date the Participant terminates employment.

SECTION 6. Effect on Retirement Income Plan Benefits.

If a Participant's deferral of all or any portion of one or more Awards under the Incentive Compensation Plan, pursuant to the provisions hereof, or the issuance of Restricted Stock in settlement of allotments under the Incentive Compensation Plan (which for purposes of this Section 6 the

initial value thereof shall be considered a "deferral"), results in a reduction in the total retirement benefits which would have been payable under the Retirement Income Plan if no benefit limitations were imposed by the Internal Revenue Code and no benefit reduction resulted from participation in any qualified or non-qualified Company-sponsored retirement plan, supplementary payments will be made in such amounts which, together with the sum of the payments which the Participant is eligible to receive under the Retirement Income Plan and all other supplemental payments under Company-sponsored retirement plans, will equal these total retirement benefits.

SECTION 7. Supplemental Retirement Benefits

If the total retirement benefits for an Employee who terminates employment on or after February 8, 1993, calculated in the manner contemplated by the Retirement Income Plan but using as final average earnings the average of the high 3 earnings, excluding Incentive Compensation Plan Awards, paid in consecutive years of the last 10 years prior to termination of employment

19

plus the average of the high 3 Incentive Compensation Awards for any of such last 10 years under the Incentive Compensation Plan, whether paid or deferred, (herein, "total supplemental retirement benefits") are greater than the total retirement benefits which would have been payable under the Retirement Income Plan if no benefit limitations were imposed by the Internal Revenue Code and no benefit reduction resulted from participation in any qualified or non-qualified Company-sponsored retirement plan, supplementary payments will be made in such amounts which, together with the sum of the payments which the Employee is eligible to receive under the Retirement Income Plan and all other supplemental payments under Company-sponsored retirement plans, will equal said total supplemental retirement benefits.

SECTION 8. Payment of Supplemental Retirement Benefits

Subject to the requirement that the manner of payment of supplementary retirement benefits which a Potential Participant is eligible to receive under this Plan, the Retirement Restoration Plan, the Retirement Makeup Plan, the Principal Corporate Officers Supplemental Retirement Plan of Phillips Petroleum Company, the Phillips Petroleum Company Supplemental Executive Retirement Plan, and the Phillips Petroleum Company Key Employee Death Protection Plan, shall be the same and, subject further to the condition that a Potential Participant who receives supplementary retirement payments under this Plan other than in one lump-sum payment, shall agree to be available during the payment period to provide from time to

time advice and consultation to the Company after reasonable notice and for reasonable compensation therefor:

20

- (i) a Potential Participant may elect in the manner prescribed by the Company to have the supplementary retirement payments provided for hereunder made on a straight life annuity basis, or to have such life annuity payments converted in the manner provided by the Retirement Income Plan to any one of the other forms of payment which the Potential Participant would be entitled to select (except the lump-sum settlement option) if such payments were to be paid to the Potential Participant under the Retirement Income Plan.
- (ii) Notwithstanding (i) above, a Potential Participant who is commencing retirement benefits at age 60 or older may, not later than 30 days prior to commencing retirement benefits, express preferences, in the manner prescribed by the Company, to have the payment of the amounts provided for hereunder converted in the manner provided by the Retirement Income Plan from a life annuity basis to one lump-sum payment of which all or part of the lump sum payment is either paid to the Potential Participant or credited to the Potential Participant's Deferred Compensation Account in this Plan as an Award. The Chief Executive Officer, with respect to Potential Participants who are not subject to Section 16 of the Exchange Act, and the Committee, with respect to Potential Participants who are subject to Section 16 of the Exchange Act, shall consider such indications of preference and shall respectively decide in the Chief Executive Officer's or the Committee's sole discretion whether to accept or reject one or more of the preferences expressed. In the event the Chief Executive Officer or the

21

Committee, as applicable, accepts such Potential Participant's preferences, part or all of the supplementary retirement benefit shall be paid in a lump sum as soon as practicable after the later of such acceptance or the Potential Participant's retirement benefit commencement date or credited as of the Potential Participant's retirement benefit commencement date to the Potential Participant's Deferred Compensation Account as applicable.

SECTION 9. Designation of Beneficiary

Each Participant shall designate a beneficiary or beneficiaries to receive the entire balance of the Participant's account by giving signed written notice of such designation to the Plan Administrator. The Participant may from time to time change or cancel any previous beneficiary designation in the same manner. The last beneficiary designation received by the Plan Administrator shall be controlling over any prior designation and over any testamentary or other disposition. After acceptance by the Plan Administrator of such written designation, it shall take effect as of the date on which it was signed by the Participant, whether the Participant is living at the time of such receipt, but without prejudice to the Company or the CEO on account of any payment made under this Plan before receipt of such designation.

22

SECTION 10. Nonassignability

The right of a Participant, or beneficiary, or other person who becomes entitled to receive payments under this Plan, shall not be assignable or subject to garnishment, attachment or any other legal process by the creditors of, or other claimants against, the Participant, beneficiary, or other such person.

SECTION 11. Administration.

The Chief Executive Officer may adopt such rules, regulations and forms as deemed desirable for administration of the Plan and shall have the discretionary authority to allocate responsibilities under the Plan to such other persons as may be designated, whether or not employee members of the Board of Directors, including the appointment of a person to be the Plan Administrator. The decision of the Chief Executive Officer with respect to any questions arising as to the interpretation of the Plan shall be final, conclusive and binding; provided, however that all such decisions, interpretations and actions which affect or have the potential to affect the benefits hereunder of any person who is, at the time of such decision, interpretation or action, subject to the provisions of Section 16 of the Exchange Act shall be referred by the CEO to the Committee, which shall in such case have sole power to make such decision or interpretation or to take or cause to be taken such action.

23

SECTION 12. Employment not Affected by Plan.

Participation or nonparticipation in this Plan shall neither adversely affect any person's employment status, or confer any special rights on any person other than those expressly stated in the Plan. Participation in the Plan by an employee of the Company or of a Participating Subsidiary shall not affect the Company's or the Participating Subsidiary's right to terminate the employee's employment or to change the employee's compensation or position.

SECTION 13. Determination of Recipients of Awards.

The determination of those persons who are entitled to Awards under the Incentive Compensation Plan and any other such plans shall be governed solely by the terms and provisions of the applicable plan, and the selection of an Employee as a Potential Participant or the acceptance of an indication of preference to defer an Award hereunder shall not in any way entitle such Potential Participant to an Award.

SECTION 14. Method of Providing Payments.

- (a) Nonsegregation. Amounts deferred pursuant to this Plan and the crediting of amounts to a Participant's Deferred Compensation Account shall represent the Company's unfunded and unsecured promise to pay compensation in the future. With respect to said amounts, the relationship of the Company and a Participant shall be that of debtor and general unsecured creditor. While the Company may make

24

investments for the purpose of measuring and meeting its obligations under this Plan such investments shall remain the sole property of the Company subject to claims of its creditors generally, and shall not be deemed to form or be included in any part of the Deferred Compensation Account.

- (b) Funding. It is the intention of the Company that this Plan shall be unfunded for federal tax purposes and for purposes of Title I of ERISA; provided, however, that the Company may establish a grantor trust to satisfy part or all of its Plan payment obligations so long as the Plan remains unfunded for federal tax purposes and for purposes of Title I of ERISA.

SECTION 15. Amendment or Termination of Plan.

The Company reserves the right to amend this Plan from time to time or to terminate the Plan entirely, provided, however, that no amendment may affect the balance in a Participant's account on the effective date of the amendment. No Participant shall participate in a decision to amend or terminate this Plan. In the event of termination of the Plan, the Chief Executive Officer, in his sole discretion, may elect to pay to the participant in one lump sum as soon as practicable after termination of the Plan, the balance then in the Participant's account.

25

SECTION 16. Miscellaneous Provisions.

- (a) Except as otherwise provided herein, the Plan shall be binding upon the Company, its successors and assigns, including but not limited to any corporation which may acquire all or substantially all of the Company's assets and business or with or into which the Company may be consolidated or merged.
- (b) This Plan shall be construed, regulated, and administered in accordance with the laws of the State of Oklahoma except to the extent that said laws have been preempted by the laws of the United States.

26

PHILLIPS PETROLEUM COMPANY AND CONSOLIDATED SUBSIDIARIES
TOTAL ENTERPRISE
Computation of Ratio of Earnings to Fixed Charges

	Millions of Dollars				
	Years Ended December 31				
	1993	1992	1991	1990	1989
	(Unaudited)				
Earnings Available for Fixed Charges:					
Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles	\$538	511	451	1,187	536
Equity in undistributed earnings of less-than-fifty-percent- owned companies	9	(3)	1	7	(6)
Fixed charges, excluding capitalized interest and the portion of the preferred dividend requirements of a subsidiary not previously deducted from income*	358	438	631	665	758
	\$905	946	1,083	1,859	1,288
Fixed Charges:					
Interest and expense on indebtedness, excluding capitalized interest	\$289	392	460	622	647
Capitalized interest	10	16	37	17	4
Preferred dividend requirements of a subsidiary	71	3	-	-	-
One-third of rental expense, net of subleasing income, for operating leases	26	34	34	29	25
	\$396	445	531	668	676

=====
Ratio of Earnings to Fixed Charges 2.3 2.1 2.0 2.8 1.9

- -----
*Includes amortization of capitalized interest totaling approximately \$11 million, \$10 million, \$137 million, \$14 million and \$86 million in 1993, 1992, 1991, 1990 and 1989, respectively. For 1991 and 1989, the amount includes approximately \$120 million and \$71 million, respectively, of capitalized interest associated with the writedown of offshore California investments.

Earnings available for fixed charges include, if any, the company's equity in losses of companies owned less than fifty percent and having debt for which the company is contingently liable. Fixed charges include the company's proportionate share, if any, of interest relating to the contingent debt.

In 1990 and 1988, respectively, the company guaranteed a \$400 million bank loan and \$250 million of notes payable for the Long-Term Stock Savings Plan (LTSSP), an employee benefit plan. Consolidated interest expense includes interest attributable to the LTSSP borrowings of \$1 million, \$1 million, \$13 million, \$10 million and \$7 million in 1993, 1992, 1991, 1990 and 1989, respectively.

LIST OF SUBSIDIARIES OF PHILLIPS PETROLEUM COMPANY

Listed below are subsidiaries of the registrant at December 31, 1993. Certain subsidiaries are omitted since such companies considered in the aggregate do not constitute a significant subsidiary.

Name of Company -----	State or Jurisdiction in Which Subsidiary was Incorporated or Organized -----
American Olefins, Inc.	Delaware
Catalyst Resources, Inc.	Delaware
GPM Gas Corporation	Delaware
Phillips Alaska Natural Gas Corporation	Delaware
Phillips Alaska Pipeline Corporation	Delaware
Phillips Coal Company	Nevada
Phillips Driscopipe, Inc.	Delaware
Phillips Fruitland Gas Corporation	Nevada
Phillips Gas Company	Delaware
Phillips Investment Company	Nevada
Phillips Natural Gas Company	Delaware
Phillips Oil Company (Nigeria) Limited	Nigeria
Phillips Petroleum Canada Ltd.	Canada
Phillips Petroleum Chemicals	Belgium
Phillips Petroleum Company Bolivia	Delaware
Phillips Petroleum Company Cote d'Ivoire	Delaware
Phillips Petroleum Company Europe-Africa	Delaware
Phillips Petroleum Company Ghana	Delaware
Phillips Petroleum Company Indonesia	Delaware
Phillips Petroleum Company Norway	Delaware
Phillips Petroleum Company Overseas Investments	Delaware
Phillips Petroleum Company Paraguay	Delaware
Phillips Petroleum Company United Kingdom Limited	England
Phillips Petroleum Company Western Hemisphere	Delaware
Phillips Petroleum International Corporation	Panama
Phillips Petroleum International Corporation Asia	Liberia
Phillips Petroleum International Investment Company	Delaware
Phillips Petroleum Resources, Ltd.	Delaware
Phillips Petroleum Singapore Chemicals (Private) Limited	Singapore

Phillips Puerto Rico Core Inc.
Phillips-San Juan Partners, L.P.
Provesta Corporation
Seagas Pipeline Company
Sooner Insurance Company
The Largo Company

Delaware
Delaware
Delaware
Delaware
Vermont
Delaware

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference of our report dated March 8, 1994, with respect to the consolidated financial statements and schedules of Phillips Petroleum Company included in this Annual Report (Form 10-K) for the year ended December 31, 1993, in the following registration statements and related prospectuses.

Phillips Petroleum Company	Form S-3	File No. 33-51559
Thrift Plan of Phillips Petroleum Company	Form S-8	File No. 33-50134
Long-Term Stock Savings Plan of Phillips Petroleum Company	Form S-8	File No. 33-50283
Retirement Savings Plan of Phillips Petroleum Company Subsidiaries	Form S-8	File No. 33-28669

ERNST & YOUNG

ERNST & YOUNG

Tulsa, Oklahoma
March 14, 1994