

PHILLIPS 66 PARTNERS LP
Form 10-Q
October 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September 30, 2017
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from to
Commission file number: 001-36011

Phillips 66 Partners LP
(Exact name of registrant as specified in its charter)

Delaware 38-3899432
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2331 CityWest Blvd., Houston, Texas 77042
(Address of principal executive offices) (Zip Code)

(855) 283-9237
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 110,505,502 shares of common units outstanding as of September 30, 2017.

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PHILLIPS 66 PARTNERS LP

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income Phillips 66 Partners LP

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30 2017	2016*	September 30 2017	2016*
Revenues and Other Income				
Operating revenues—related parties	\$193	181	563	534
Operating revenues—third parties	11	7	32	22
Equity in earnings of affiliates	41	33	111	88
Other income	—	1	7	1
Total revenues and other income	245	222	713	645
Costs and Expenses				
Operating and maintenance expenses	69	54	188	162
Depreciation	30	25	82	71
General and administrative expenses	16	17	48	50
Taxes other than income taxes	7	4	23	24
Interest and debt expense	23	10	71	31
Other expenses	1	—	1	—
Total costs and expenses	146	110	413	338
Income before income taxes	99	112	300	307
Provision for income taxes	—	—	1	1
Net income	99	112	299	306
Less: Net income attributable to Predecessors	—	29	—	103
Net income attributable to the Partnership	99	83	299	203
Less: General partner's interest in net income attributable to the Partnership	43	26	112	63
Limited partners' interest in net income attributable to the Partnership	\$56	57	187	140
Net Income Attributable to the Partnership Per Limited Partner Unit—Basic and Diluted (dollars)	\$0.51	0.57	1.72	1.53
Cash Distributions Paid Per Limited Partner Unit (dollars)	\$0.6150	0.505	1.759	1.444
Weighted-Average Limited Partner Units Outstanding—Basic and Diluted (thousands)				
Common units—public	46,459	40,392	44,996	32,007
Common units—Phillips 66	64,047	60,163	64,047	59,408

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income Phillips 66 Partners LP

	Millions of Dollars			
	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30		30	
	2017		2016*	
	2016*		2015	
Net Income	\$99	112	299	306
Defined benefit plans				
Plan sponsored by equity affiliate, net of tax	—	—	—	1
Other comprehensive income	—	—	—	1
Comprehensive Income	\$99	112	299	307

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Phillips 66 Partners LP

	Millions of Dollars	
	September 30 2017	December 31 2016
Assets		
Cash and cash equivalents	\$2	2
Accounts receivable—related parties	66	76
Accounts receivable—third parties	4	7
Materials and supplies	12	11
Prepaid expenses	3	4
Total current assets	87	100
Equity investments	1,265	1,142
Net properties, plants and equipment	2,675	2,675
Goodwill	185	185
Deferred rentals and other	7	7
Total Assets	\$4,219	4,109
Liabilities		
Accounts payable—related parties	\$10	12
Accounts payable—third parties	31	31
Accrued property and other taxes	21	10
Accrued interest	29	26
Short-term debt	17	15
Deferred revenues	25	14
Other current liabilities	2	3
Total current liabilities	135	111
Long-term debt	2,273	2,396
Asset retirement obligations	10	9
Accrued environmental costs	2	2
Deferred income taxes	3	2
Deferred revenues and other	21	23
Total Liabilities	2,444	2,543
Equity		
Common unitholders—public (2017—46,458,478 units issued and outstanding; 2016—43,134,902 units issued and outstanding)	1,966	1,795
Common unitholder—Phillips 66 (2017 and 2016—64,047,024 units issued and outstanding)	472	476
General partner—Phillips 66 (2017 and 2016—2,187,386 units issued and outstanding)	(662)	(704)
Accumulated other comprehensive loss	(1)	(1)
Total Equity	1,775	1,566
Total Liabilities and Equity	\$4,219	4,109
See Notes to Consolidated Financial Statements.		

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Consolidated Statement of Cash Flows Phillips 66 Partners LP

Millions of Dollars
 Nine Months Ended
 September 30
 2017

2016*

Cash Flows From Operating Activities

Net income	\$	299		306
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	82			71
Deferred taxes	1			1
Adjustment to equity earnings for cash distributions received	2			(4)
Deferred revenues and other	(2	)		9
Other	9			4
Working capital adjustments				
Decrease (increase) in accounts receivable	13			(15)
Decrease (increase) in materials and supplies	(1	)		(1)
Decrease (increase) in prepaid expenses and other current assets	1			(2)
Increase (decrease) in accounts payable	—			7
Increase (decrease) in accrued interest	3			(17)
Increase (decrease) in deferred revenues	11			5
Increase (decrease) in other accruals	4			7
Net Cash Provided by Operating Activities	422			371

Cash Flows From Investing Activities

Cash capital expenditures and investments	(227	)		(321)
Return of investment from equity affiliates	28			10
Other	—			(24)
Net Cash Used in Investing Activities	(199	)		(335)

Cash Flows From Financing Activities

Net contributions from Phillips 66 to Predecessors	—		41	
Acquisition of noncontrolling interest in Sweeny Frac LLC	—		(656))
Issuance of debt	1,383		428	
Repayment of debt	(1,506)	)	(686))
Issuance of common units	171		972	
Quarterly distributions to common unitholders—public	(78)	)	(41))
Quarterly distributions to common unitholder—Phillips 66	(113)	)	(86))
Quarterly distributions to General Partner—Phillips 66	(96)	)	(50))
Other cash contributions from Phillips 66	16		11	
Net Cash Used in Financing Activities	(223)	)	(67))
Net Change in Cash and Cash Equivalents	—		(31))
Cash and cash equivalents at beginning of period	2		50	
Cash and Cash Equivalents at End of Period	\$ 2		19	

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity Phillips 66 Partners LP

	Millions of Dollars Partnership		General Partner Phillips 66	Accum. Other Comprehensive Loss	Net Investment— Predecessors*	Total
	Common Unitholder Public	Common Unitholder Phillips 66				
December 31, 2015	\$809	233	(650)	(2)	1,054	1,444
Net income attributable to Predecessors	—	—	—	—	103	103
Net contributions from Phillips 66—Predecessors	—	—	—	—	88	88
Issuance of common units	971	—	—	—	—	971
Allocation of net investment to unitholders	—	233	33	—	(266)	—
Net income attributable to the Partnership	51	89	63	—	—	203
Other comprehensive income	—	—	—	1	—	1
Quarterly cash distributions to unitholders and General Partner	(41)	(86)	(50)	—	—	(177)
Other contributions from Phillips 66	—	—	4	—	—	4
September 30, 2016*	\$1,790	469	(600)	(1)	979	2,637
December 31, 2016	\$1,795	476	(704)	(1)	—	1,566
Issuance of common units	171	—	—	—	—	171
Net income attributable to the Partnership	78	109	112	—	—	299
Quarterly cash distributions to unitholders and General Partner	(78)	(113)	(96)	—	—	(287)
Other contributions from Phillips 66	—	—	26	—	—	26
September 30, 2017	\$1,966	472	(662)	(1)	—	1,775

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

	Common Units Public	Common Units Phillips 66	General Partner Units Phillips 66	Total Units
December 31, 2015	24,138,750	58,349,042	1,683,425	84,171,217
Units issued in public equity offerings	18,996,152	—	—	18,996,152
Units issued associated with acquisitions	—	1,813,745	295,178	2,108,923
September 30, 2016	43,134,902	60,162,787	1,978,603	105,276,292

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December 31, 2016	43,134,902	64,047,024	2,187,386	109,369,312
Units issued in public equity offerings	3,323,576	—	—	3,323,576
September 30, 2017	46,458,478	64,047,024	2,187,386	112,692,888

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements Phillips 66 Partners LP

Note 1—Business and Basis of Presentation

Unless otherwise stated or the context otherwise indicates, all references to “Phillips 66 Partners,” “the Partnership,” “us,” “our,” “we,” or similar expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to Phillips 66 may refer to Phillips 66 and/or its subsidiaries, depending on the context. References to our “General Partner” refer to Phillips 66 Partners GP LLC, and references to Phillips 66 PDI refer to Phillips 66 Project Development Inc., the Phillips 66 subsidiary that holds a limited partner interest in us.

Description of the Business

We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines, terminals and other transportation and midstream assets. Our common units trade on the New York Stock Exchange under the symbol PSXP.

Our assets consist of crude oil, refined petroleum products and NGL transportation, processing, terminaling and storage systems, as well as an NGL fractionator. We conduct our operations through both wholly owned and joint-venture operations. The majority of our wholly owned assets are associated with, and are integral to the operation of, nine of Phillips 66’s owned or joint-venture refineries.

We primarily generate revenue by providing fee-based transportation, processing, terminaling, storage and NGL fractionation services to Phillips 66 and other customers. Our equity affiliates primarily generate revenue from transporting and terminaling NGL, refined petroleum products and crude oil. Since we do not own any of the NGL, crude oil and refined petroleum products we handle and do not engage in the trading of NGL, crude oil and refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

Basis of Presentation

We have acquired assets from Phillips 66 that were considered transfers of businesses between entities under common control. This required the transactions to be accounted for as if the transfers had occurred at the beginning of the transfer period, with prior periods retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes have been retrospectively adjusted to include the historical results and financial position of these acquired businesses prior to the effective date of each acquisition. We refer to these pre-acquisition operations as those of our “Predecessors.”

The combined financial statements of our Predecessors were derived from the accounting records of Phillips 66 and reflect the combined historical results of operations, financial position and cash flows of our Predecessors as if such businesses had been combined for all periods presented.

All intercompany transactions and accounts of our Predecessors have been eliminated. The assets and liabilities of our Predecessors in these financial statements have been reflected on a historical cost basis because the transfer of the Predecessors to us took place within the Phillips 66 consolidated group. The consolidated statement of income also includes expense allocations for certain functions performed by Phillips 66, including operational support services such as engineering and logistics and allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and procurement. These allocations were based primarily on relative carrying values of properties, plants and equipment (PP&E) and equity-method investments, or number of terminals and pipeline miles, and secondarily on activity-based cost allocations. Our management believes the assumptions underlying the allocation of expenses from Phillips 66 are reasonable. Nevertheless, the financial results of our Predecessors may not include all of the actual expenses that would have been incurred had our Predecessors been a stand-alone publicly traded partnership during the periods presented.

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Note 2—Interim Financial Information

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

Note 3—Changes in Accounting Principles

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

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

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

Note 4—Acquisitions

River Parish Acquisition

In November 2016, we acquired the River Parish NGL System, a non-affiliated party’s NGL logistics assets located in southeast Louisiana, consisting of pipelines and storage caverns connecting multiple fractionation facilities, refineries and a petrochemical facility. At the acquisition date, we recorded \$183 million of PP&E and \$3 million of goodwill. Our acquisition accounting was finalized during the first quarter of 2017, with no change to the provisional amounts recorded in 2016.

During 2016, we completed three acquisitions that were considered transfers of businesses between entities under common control, and therefore the related acquired assets were transferred at historical carrying value. Because these acquisitions were common control transactions in which we acquired businesses, our historical financial statements

have been retrospectively adjusted as if we owned the acquired assets for all periods presented.

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Fractionator Acquisitions

Initial Fractionator Acquisition. In February 2016, we entered into a Contribution, Conveyance and Assumption Agreement (CCAA) with subsidiaries of Phillips 66 to acquire a 25 percent controlling interest in Phillips 66 Sweeny Frac LLC (Sweeny Frac LLC) for total consideration of \$236 million (the Initial Fractionator Acquisition). Total consideration consisted of the assumption of a \$212 million note payable to a subsidiary of Phillips 66 and the issuance of 412,823 common units to Phillips 66 PDI and 8,425 general partner units to our General Partner to maintain its 2 percent general partner interest. The Initial Fractionator Acquisition closed in March 2016.

Subsequent Fractionator Acquisition. In May 2016, we entered into a CCAA with subsidiaries of Phillips 66 to acquire the remaining 75 percent interest in Sweeny Frac LLC and 100 percent of the Standish Pipeline for total consideration of \$775 million (the Subsequent Fractionator Acquisition). Total consideration consisted of the assumption of \$675 million of notes payable to a subsidiary of Phillips 66 and the issuance of 1,400,922 common units to Phillips 66 PDI and 286,753 general partner units to our General Partner to maintain its 2 percent general partner interest in us after also taking into account the public offering we completed in May 2016. The Subsequent Fractionator Acquisition closed in May 2016.

Eagle Acquisition

In October 2016, we entered into a CCAA with subsidiaries of Phillips 66 to acquire certain pipeline and terminal assets supporting four Phillips 66-operated refineries (the Eagle Acquisition). We paid Phillips 66 total consideration of \$1,305 million, consisting of \$1,109 million in cash and the issuance of 3,884,237 common units to Phillips 66 PDI and 208,783 general partner units to our General Partner to maintain its 2 percent general partner interest. The Eagle Acquisition closed in October 2016.

The following tables present our previously reported results of operations and cash flows giving effect to the Eagle Acquisition. The results of operations and cash flows of the Initial Fractionator Acquisition and Subsequent Fractionator Acquisition are included in our previously reported consolidated statement of income and consolidated statement of cash flows for the periods presented, within the first column. The second column in all tables presents the retrospective adjustments made to our historical financial information for the related acquired assets prior to the effective date of acquisition. The third column in all tables presents our consolidated financial information as retrospectively adjusted.

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	Millions of Dollars		
	Three Months Ended September 30, 2016		
	Phillips 66 Partners LP		Consolidated
Consolidated Statement of Income	(As previously reported)	Acquired Eagle Assets Predecessor	Results
Revenues and Other Income			
Operating revenues—related parties	\$108	73	181
Operating revenues—third parties	2	5	7
Equity in earnings of affiliates	33	—	33
Other income	1	—	1
Total revenues and other income	144	78	222
Costs and Expenses			
Operating and maintenance expenses	26	28	54
Depreciation	15	10	25
General and administrative expenses	9	8	17
Taxes other than income taxes	1	3	4
Interest and debt expense	10	—	10
Total costs and expenses	61	49	110
Income before income taxes	83	29	112
Provision for income taxes	—	—	—
Net income	83	29	112
Less: Net income attributable to Predecessors	—	29	29
Net income attributable to the Partnership	83	—	83
Less: General partner's interest in net income attributable to the Partnership	26	—	26
Limited partners' interest in net income attributable to the Partnership	\$57	—	57

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	Millions of Dollars		
	Nine Months Ended September 30, 2016		
	Phillips		
	66	Partners	
Consolidated Statement of Income	LP	Acquired Eagle Assets	Consolidated
	(As	Predecessor	Results
	previously	reported)	
Revenues and Other Income			
Operating revenues—related parties	\$315	219	534
Operating revenues—third parties	6	16	22
Equity in earnings of affiliates	88	—	88
Other income	1	—	1
Total revenues and other income	410	235	645
Costs and Expenses			
Operating and maintenance expenses	76	86	162
Depreciation	44	27	71
General and administrative expenses	26	24	50
Taxes other than income taxes	11	13	24
Interest and debt expense	31	—	31
Total costs and expenses	188	150	338
Income before income taxes	222	85	307
Provision for income taxes	1	—	1
Net income	221	85	306
Less: Net income attributable to Predecessors	18	85	103
Net income attributable to the Partnership	203	—	203
Less: General partner's interest in net income attributable to the Partnership	63	—	63
Limited partners' interest in net income attributable to the Partnership	\$140	—	140

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Millions of Dollars

Nine Months Ended September 30, 2016

Phillips

66

Partners

LP

(As

previously

reported)

Acquired Eagle Assets
PredecessorConsolidated
Results

Cash Flows From Operating Activities

Net income	\$221	85		306
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	44	27		71
Deferred taxes	1	—		1
Adjustment to equity earnings for cash distributions received	(4	)	—	(4
Deferred revenues and other	9	—		9
Other	4	—		4
Working capital adjustments				
Decrease (increase) in accounts receivable	(16	)	1	(15
Decrease (increase) in materials and supplies	(1	)	—	(1
Decrease (increase) in prepaid expenses and other current assets	(2	)	—	(2
Increase (decrease) in accounts payable	4	3		7
Increase (decrease) in accrued interest	(17	)	—	(17
Increase (decrease) in deferred revenues	5	—		5
Increase (decrease) in other accruals	3	4		7
Net Cash Provided by Operating Activities	251	120		371
Cash Flows From Investing Activities				
Cash capital expenditures and investments	(249	)	(72	) (321
Return of investment from equity affiliates	10	—		10
Other	(24	)	—	(24
Net Cash Used in Investing Activities	(263	)	(72	) (335
Cash Flows From Financing Activities				
Net contributions from (to) Phillips 66 to (from) Predecessors	89	(48	)	41
Acquisition of noncontrolling interest in Sweeny Frac LLC	(656	)	—	(656
Issuance of debt	428	—		428
Repayment of debt	(686	)	—	(686
Issuance of common units	972	—		972
Quarterly distributions to common unitholders—public	(41	)	—	(41
Quarterly distributions to common unitholder—Phillips 66	(86	)	—	(86
Quarterly distributions to General Partner—Phillips 66	(50	)	—	(50
Other cash contributions from Phillips 66	11	—		11
Net Cash Used in Financing Activities	(19	)	(48	) (67
Net Change in Cash and Cash Equivalents	(31	)	—	(31
Cash and cash equivalents at beginning of period	50	—		50
Cash and Cash Equivalents at End of Period	\$19	—		19

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Note 5—Equity Investments

The following table summarizes our equity investments.

	Percentage Ownership	Millions of Dollars Carrying Value	
		September 30, 2017	December 31, 2016
DCP Sand Hills Pipeline, LLC (Sand Hills)	33.34	% \$478	445
DCP Southern Hills Pipeline, LLC (Southern Hills)	33.34	208	212
Explorer Pipeline Company (Explorer)	21.94	124	126
Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal)	70.00	57	72
Paradigm Pipeline LLC (Paradigm)	50.00	130	117
Bayou Bridge Pipeline, LLC (Bayou Bridge)	40.00	171	115
STACK Pipeline LLC (STACK)	50.00	97	55
Total equity investments		\$1,265	1,142

Earnings from our equity investments were as follows:

	Millions of Dollars			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Sand Hills	\$21	16	58	48
Southern Hills	6	7	20	21
Explorer	7	8	18	17
Phillips 66 Partners Terminal	2	—	5	—
Paradigm	(1)	—	(2)	—
Bayou Bridge	4	2	8	2
STACK	2	—	4	—
Total equity in earnings of affiliates	\$41	33	111	88

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Note 6—Properties, Plants and Equipment

Our investment in PP&E, with the associated accumulated depreciation, was:

	Millions of Dollars	
	September 30, 2017	December 31, 2016
Land	\$19	19
Buildings and improvements	87	88
Pipelines and related assets*	1,352	1,335
Terminals and related assets*	631	610
Rail racks and related assets*	137	137
Fractionator and related assets*	616	615
Caverns and related assets*	583	569
Construction-in-progress	53	27
Gross PP&E	3,478	3,400
Less: Accumulated depreciation	803	725
Net PP&E	\$2,675	2,675

*Assets for which we are the lessor.

Note 7—Debt

Debt at September 30, 2017, and December 31, 2016, was:

	Millions of Dollars			Balance Sheet Carrying Value
	September 30, 2017			
	Fair Value Hierarchy			Total Fair Value
	Level 1	Level 2*	Level 3	
2.646% Senior Notes due 2020	\$302	—	302	300
3.605% Senior Notes due 2025	—499	—	499	500
3.550% Senior Notes due 2026	—490	—	490	500
4.680% Senior Notes due 2045	—291	—	291	300
4.900% Senior Notes due 2046	—631	—	631	625
Revolving credit facility at 2.45% at September 30, 2017	—87	—	87	87
Total	\$2,300	—	2,300	2,312
Net unamortized discounts and debt issuance costs				(22)
Total debt				2,290
Short-term debt				(17)
Long-term debt				\$ 2,273

*Fair value was estimated using observable market prices.

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	Millions of Dollars			
	December 31, 2016			
	Fair Value Hierarchy			Balance Sheet
	Level 1	Level 2*	Level 3	Carrying Value
2.646% Senior Notes due 2020	\$298	—	298	300
3.605% Senior Notes due 2025	—490	—	490	500
3.550% Senior Notes due 2026	—483	—	483	500
4.680% Senior Notes due 2045	—277	—	277	300
4.900% Senior Notes due 2046	—599	—	599	625
Revolving credit facility at 1.98% at December 31, 2016	—210	—	210	210
Total	\$2,357	—	2,357	2,435
Net unamortized discounts and debt issuance costs				(24)
Total debt				2,411
Short-term debt				(15)
Long-term debt				\$2,396

*Fair value was estimated using observable market prices.

Revolving Credit Facility

At September 30, 2017, and December 31, 2016, we had an aggregate of \$87 million and \$210 million, respectively, borrowed and outstanding under our \$750 million revolving credit facility.

Note 8—Equity

ATM Program

In June 2016, we filed a prospectus supplement to the shelf registration statement for our continuous offering program that became effective with the Securities and Exchange Commission in May 2016, related to the continuous issuance of up to an aggregate of \$250 million of common units, in amounts, at prices and on terms to be determined by market conditions and other factors at the time of our offerings (such continuous offering program, or at-the-market program, is referred to as our ATM Program). We did not issue any common units under the ATM Program during the three months ended September 30, 2017. For the nine months ended September 30, 2017, on a settlement date basis, we issued 3,323,576 common units under our ATM Program, which generated net proceeds of \$171 million. For the three and nine months ended September 30, 2016, on a settlement date basis, we issued 83,294 and 346,152 common units, respectively, under our ATM Program, generating net proceeds of \$5 million and \$19 million, respectively. Since inception through September 30, 2017, we have issued an aggregate of 3,669,728 common units under our ATM Program, generating net proceeds of \$190 million, after broker commissions of \$2 million. The net proceeds from sales under the ATM Program are used for general partnership purposes, which may include debt repayment, future acquisitions, capital expenditures and additions to working capital.

Common Unit Offerings

In August 2016, we completed a public offering of 6,000,000 common units representing limited partner interests at a price of \$50.22 per common unit. We received proceeds (net of underwriting discounts and commissions) of \$299 million from the offering. We utilized the net proceeds to repay the note assumed as part of the Initial Fractionator Acquisition and to repay other short-term borrowings incurred to fund our acquisition of an additional interest in Explorer and our contribution to form STACK Pipeline. See Note 4—Acquisitions for additional information.

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In May 2016, we completed a public offering, consisting of an aggregate of 12,650,000 common units representing limited partner interests at a price of \$52.40 per common unit. We received proceeds (net of underwriting discounts and commissions) of \$656 million from the offering. We utilized the net proceeds to partially repay debt assumed as part of the Subsequent Fractionator Acquisition. See Note 4—Acquisitions for additional information.

Note 9—Net Income Per Limited Partner Unit

Net income per limited partner unit is computed by dividing the limited partners' interest in net income attributable to the Partnership by the weighted-average number of common units outstanding for the period. The classes of participating securities as of September 30, 2017, included common units, general partner units and incentive distribution rights (IDRs). Basic and diluted net income per limited partner unit are the same because we do not have potentially dilutive instruments outstanding.

Net income earned by the Partnership is allocated between the limited partners and the General Partner (including the General Partner's IDRs) in accordance with our partnership agreement. First, earnings are allocated based on actual cash distributions made to our unitholders, including those attributable to the General Partner's IDRs. To the extent net income attributable to the Partnership exceeds or is less than cash distributions, this difference is allocated based on the unitholders' respective ownership percentages, after consideration of any priority allocations of earnings.

When our financial statements are retrospectively adjusted after a dropdown transaction, the earnings of the acquired business, prior to the closing of the transaction, are allocated entirely to our General Partner and presented as net income (loss) attributable to Predecessors. The earnings per unit of our limited partners prior to the close of the transaction do not change as a result of a dropdown transaction. After the closing of a dropdown transaction, the earnings of the acquired business are allocated in accordance with our partnership agreement as previously described.

	Millions of Dollars			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Net income attributable to the Partnership	\$99	83	299	203
Less: General partner's distribution declared (including IDRs)*	43	26	111	63
Limited partners' distribution declared on common units*	78	56	209	145
Distributions less than (in excess of) net income attributable to the Partnership	\$(22)	1	(21)	(5)

*Distribution declared attributable to the indicated periods.

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	General Partner (including IDRs)	Limited Partners' Common Units	Total
Three Months Ended September 30, 2017			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 43	78	121
Distribution in excess of net income attributable to the Partnership	—	(22	) (22)
Net income attributable to the Partnership	\$ 43	56	99
Weighted-average units outstanding—basic and diluted			
		110,505,502	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 0.51	
Three Months Ended September 30, 2016			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 26	56	82
Distribution less than net income attributable to the Partnership	—	1	1
Net income attributable to the Partnership	\$ 26	57	83
Weighted-average units outstanding—basic and diluted			
		100,555,277	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 0.57	

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	General Partner (including IDRs)	Limited Partners' Common Units	Total
Nine Months Ended September 30, 2017			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 111	209	320
Distribution less than (in excess of) net income attributable to the Partnership	1	(22	) (21)
Net income attributable to the Partnership	\$ 112	187	299
Weighted-average units outstanding—basic and diluted			
		109,042,961	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 1.72	
Nine Months Ended September 30, 2016			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 63	145	208
Distribution in excess of net income attributable to the Partnership	—	(5	) (5)
Net income attributable to the Partnership	\$ 63	140	203
Weighted-average units outstanding—basic and diluted			
		91,414,459	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 1.53	

On October 18, 2017, the Board of Directors of our General Partner declared a quarterly cash distribution of \$0.646 per limited partner unit which, combined with distributions to our General Partner, will result in total distributions of \$121 million attributable to the third quarter of 2017. This distribution is payable November 13, 2017, to unitholders of record as of October 31, 2017.

Note 10—Contingencies

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

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include any contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental

remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that

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of other potentially responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Environmental

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

At both September 30, 2017, and December 31, 2016, our total environmental accrual was \$2 million. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings

Under our amended omnibus agreement, Phillips 66 provides certain services for our benefit, including legal support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. The process facilitates the early evaluation and quantification of potential exposures in individual cases and enables tracking of those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, Phillips 66's legal organization regularly assesses the adequacy of current accruals and recommends if adjustment of existing accruals, or establishment of new accruals, is required. As of September 30, 2017, and December 31, 2016, we did not have any material accrued contingent liabilities associated with litigation matters.

Indemnification and Excluded Liabilities

Under our amended omnibus agreement and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, Phillips 66 will indemnify us, or assume responsibility, for certain environmental liabilities, tax liabilities, litigation and any other liabilities attributable to the ownership or operation of the assets contributed to us and that arose prior to the effective date of each acquisition. These indemnifications and exclusions from liability have, in some cases, time limits and deductibles. When Phillips 66 performs under any of these indemnifications or exclusions from liability, we recognize a non-cash expense and an associated non-cash capital contribution from our General Partner, as these are considered liabilities paid for by a principal unitholder.

We have assumed, and have agreed to pay, discharge and perform as and when due, all liabilities arising out of or attributable to the ownership or operation of the assets, or other activities occurring in connection with and attributable to the ownership or operation of the assets, from and after the effective date of each acquisition.

Note 11—Cash Flow Information

2016 Subsequent Fractionator Acquisition

The Subsequent Fractionator Acquisition had both cash and noncash elements. The historical book value of the net assets acquired was \$871 million. Of this amount, \$656 million was a financing cash outflow, representing the acquisition of the noncontrolling interest in Sweeny Frac LLC, through the repayment of a portion of the debt assumed in the transaction. The remaining debt financing balance of \$19 million represented a noncash investing and

financing activity. The remaining \$196 million of book value was attributed to the common and general partner units issued (a noncash investing and financing activity).

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2016 Initial Fractionator Acquisition

The Initial Fractionator Acquisition was a noncash transaction. The historical book value of the net assets of our 25 percent interest acquired was \$283 million. Of this amount, \$212 million was attributed to the note payable assumed (a noncash investing and financing activity). The remaining \$71 million was attributed to the common and general partner units issued (a noncash investing and financing activity).

Capital Expenditures

Our capital expenditures and investments consisted of:

Millions of
Dollars
Nine Months
Ended
September 30
2017 2016*

Capital Expenditures and Investments

Cash capital expenditures and investments	\$227	321
Change in capital expenditure accruals	(2)	(23)
Total capital expenditures and investments	\$225	298

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

Millions
of Dollars
Nine
Months
Ended
September
30
2017 2016

Capital Expenditures and Investments

Capital expenditures and investments attributable to the Partnership	\$225	207
Capital expenditures attributable to Predecessors*	—	91
Total capital expenditures and investments*	\$225	298

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

Millions
of Dollars
Nine
Months
Ended
September
30
2017
2016

Other Noncash Investing and Financing Activities

Certain liabilities of acquired assets retained by Phillips 66 ⁽¹⁾	\$	45
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⁽¹⁾Certain liabilities of assets acquired from Phillips 66 were retained by Phillips 66, pursuant to the terms of various agreements under which we acquired those assets. See Note 10—Contingencies for additional information on excluded liabilities associated with acquisitions from Phillips 66.

Note 12—Related Party Transactions

Commercial Agreements

We have entered into multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements, stevedoring services agreements, a fractionation service agreement, a tolling services agreement, and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage, stevedoring, fractionation, processing, and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil, NGL, feedstock, and refined petroleum products or minimum monthly service fees. Under our transportation, processing, and terminaling services agreements, if Phillips 66 fails to transport, throughput or store its minimum throughput volume during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in the agreement.

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Amended Operational Services Agreement

Under our amended operational services agreement, we reimburse Phillips 66 for providing certain operational services to us in support of our pipelines and terminaling, processing, and storage facilities. These services include routine and emergency maintenance and repair services, routine operational activities, routine administrative services, construction and related services and such other services as we and Phillips 66 may mutually agree upon from time to time.

Amended Omnibus Agreement

The amended omnibus agreement addresses our payment of an operating and administrative support fee and our obligation to reimburse Phillips 66 for all other direct or allocated costs and expenses incurred by Phillips 66 in providing general and administrative services. Additionally, the omnibus agreement addresses Phillips 66's indemnification to us and our indemnification to Phillips 66 for certain environmental and other liabilities. Further, it addresses the granting of a license from Phillips 66 to us with respect to the use of certain Phillips 66 trademarks.

Tax Sharing Agreement

We have entered into a tax sharing agreement with Phillips 66 pursuant to which we reimburse Phillips 66 for our share of state and local income and other taxes incurred by Phillips 66 due to our results of operations being included in a combined or consolidated tax return filed by Phillips 66. Any reimbursement is limited to the tax that we (and our subsidiaries) would have paid had we not been included in a combined group with Phillips 66. Phillips 66 may use its tax attributes to cause its combined or consolidated group to owe no tax; however, we would nevertheless reimburse Phillips 66 for the tax we would have owed, even though Phillips 66 had no cash expense for that period.

Related Party Transactions

Significant related party transactions included in operating and maintenance expenses, general and administrative expenses and interest and debt expense were:

	Millions of Dollars			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016*	
	2017	2016	2017	2016
Operating and maintenance expenses	\$312	\$88	\$79	
General and administrative expenses	15	14	44	41
Interest and debt expense	—	1	—	3
Total	\$464	\$43	132	123

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

We pay Phillips 66 a monthly operational and administrative support fee under the terms of our amended omnibus agreement in the amount of \$7 million. On October 6, 2017, in connection with the transaction described in Note 14—Subsequent Events, the omnibus agreement was amended and our monthly operational and administrative support fee was increased to \$8 million prospectively. The operational and administrative support fee is for the provision of certain services, including: logistical services; asset oversight, such as operational management and supervision; corporate engineering services, including asset integrity and regulatory services; business development services; executive services; financial and administrative services (including treasury and accounting); information technology;

legal services; corporate health, safety and environmental services; facility services; human resources services; procurement services; investor relations; tax matters; and public company reporting services. We also reimburse Phillips 66 for all other direct or allocated costs incurred on behalf of us, pursuant to the terms of our amended omnibus agreement. The classification of these charges between operating and maintenance expenses and general and administrative expenses is based on the functional nature of the services performed for our operations. Under our amended operational services agreement, we reimburse Phillips 66 for the provision of certain operational services to us in support of our pipeline, rail rack, fractionator, processing, terminaling, and storage facilities. Additionally, we pay Phillips 66 for insurance services provided to us. Operating and maintenance expenses also include volumetric gain/loss associated with volumes transported by Phillips 66.

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During the third quarter of 2016, we paid \$24 million to Phillips 66 to assume Phillips 66's rights and obligations under an agreement to acquire the River Parish NGL System in southeast Louisiana. The payment to Phillips 66 is reflected as an "other" investing cash outflow in the consolidated statement of cash flows in 2016.

Other related party balances in our consolidated balance sheet consisted of the following, all of which were related to Phillips 66:

	Millions of Dollars
	September 30, 2016
	December 31, 2016
Deferred rentals and other	\$55
Deferred revenues	24 14
Deferred revenues and other	18 19

Note 13—New Accounting Standards

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business with the objective of adding guidance to assist in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The amendment provides a screen for determining when a transaction involves an acquisition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the transaction is not considered an acquisition of a business. If the screen is not met, then the amendment requires that, to be considered a business, the operation must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. The guidance may reduce the number of transactions accounted for as business acquisitions. Public business entities should apply the guidance in ASU No. 2017-01 to annual periods beginning after December 15, 2017, including interim periods within those periods, with early adoption permitted. The amendment should be applied prospectively, and no disclosures are required at the effective date. We are currently evaluating the provisions of ASU No. 2017-01.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." In the new standard, the FASB modified its determination of whether a contract is a lease rather than whether a lease is a capital or operating lease under current accounting principles generally accepted in the United States (GAAP). A contract represents a lease if a transfer of control occurs over an identified property, plant and equipment for a period of time in exchange for consideration. Control over the use of the identified asset includes the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct its use. The FASB continued to maintain two classifications of leases—financing and operating—which are substantially similar to capital and operating leases under current guidance. Under the new standard, assets and liabilities arising from operating leases will require recognition on the balance sheet. The effect of all leases in the statement of comprehensive income and the statement of cash flows will be largely unchanged. Lessor accounting will also be largely unchanged. Additional disclosures will be required for financing and operating leases for both lessors and lessees. Public business entities should apply the guidance in ASU No. 2016-02 for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. Entities are required to adopt the ASU using a modified retrospective approach, subject to certain optional practical expedients, and apply its provisions to leasing arrangements existing at or entered into after the earliest comparative period presented in the financial statements. We are currently evaluating the provisions of ASU No. 2016-02 and assessing its impact on our financial statements. As part of our assessment work-to-date, we have formed an implementation team, commenced identification of our lease population and are

evaluating lease software packages.

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In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” to meet its objective of providing more decision-useful information about financial instruments. The majority of this ASU’s provisions amend only the presentation or disclosures of financial instruments; however, one provision affects net income. Equity investments carried under the cost method or lower of cost or fair value method of accounting, in accordance with current GAAP, will have to be carried at fair value upon adoption of ASU No. 2016-01, with changes in fair value recorded in net income. For equity investments that do not have readily determinable fair values, a company may elect to carry such investments at cost less impairments, if any, adjusted up or down for price changes in similar financial instruments issued by the investee, when and if observed. Public business entities should apply the guidance in ASU No. 2016-01 for annual periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption prohibited. We are currently evaluating the provisions of ASU No. 2016-01. Our initial review indicates that ASU No. 2016-01 will have a limited impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU and other related updates issued are intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and expand disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” The amendment in this ASU defers the effective date of ASU No. 2014-09 for all entities for one year. Public business entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period. As part of our assessment work-to-date, we have formed an implementation team, completed training on the new ASU’s revenue recognition model and are continuing our contract review and documentation. Our expectation is to adopt the standard on January 1, 2018, using the modified retrospective application. Our evaluation of the new ASU is ongoing, which includes understanding the impact of adoption on earnings from equity method investments and revenue generated by lease arrangements. Based on our analysis to-date, we have not identified any material impact on our financial statements, other than disclosure.

Note 14— Subsequent Events

Bakken Pipeline/MSLP Acquisition

On September 19, 2017, we entered into a CCAA with subsidiaries of Phillips 66 for us to acquire an indirect 25 percent interest in each of Dakota Access, LLC and Energy Transfer Crude Oil Company, LLC (together, Dakota/ETCO) and a direct 100 percent interest in Merey Sweeny, L.P. (MSLP and the acquisitions pursuant to the CCAA, collectively, the Bakken Pipeline/MSLP Acquisition).

The assets owned by Dakota/ETCO and MSLP are described below:

Dakota/ETCO owns the Bakken Pipeline, which includes 1,926 combined pipeline miles which has 520,000 barrels per day (BPD) of crude oil capacity expandable to 570,000 BPD. There are receipt stations in North Dakota to access Bakken and Three Forks production, a delivery and receipt point in Patoka, Illinois, and delivery points in Nederland, Texas, including at the Phillips 66 Beaumont Terminal. The pipeline, which commenced commercial operations on June 1, 2017, is supported by long-term, fee-based contracts.

MSLP owns a 125,000 BPD capacity vacuum distillation unit and a 70,000 BPD capacity delayed coker unit. MSLP processes residue from heavy sour crude oil into liquid products and fuel-grade petroleum coke at the Phillips 66 Sweeny Refinery in Old Ocean, Texas.

In connection with the closing of the acquisition, MSLP and Phillips 66 entered into an amended and restated tolling services agreement, effective October 1, 2017, with a 15-year term that includes a base throughput fee and a minimum volume commitment from Phillips 66.

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The Bakken Pipeline/MSLP Acquisition closed on October 6, 2017. We paid Phillips 66 total consideration of \$1.65 billion, consisting of \$372 million in cash, the assumption of \$588 million of promissory notes payable to Phillips 66 and a \$450 million term loan under which Phillips 66 was the obligor, and the issuance of 5,005,778 newly issued units, which were allocated as 4,713,113 common units to P66 PDI and 292,665 general partner units to our General Partner to maintain its 2 percent general partner interest. After the closing of the Bakken Pipeline/MSLP Acquisition, we repaid the \$588 million of promissory notes and the \$450 million term loan using proceeds from the private placement and debt issuances described below. The Bakken Pipeline/MSLP Acquisition increased our total equity investments and net PP&E by approximately \$610 million and \$220 million, respectively.

Debt and Equity Issuances

Private Placement of Preferred and Common Units. In part to fund the cash portion of the Bakken Pipeline/MSLP Acquisition consideration, on October 6, 2017, we closed on a private placement and issued the following:

- 13,819,791 perpetual convertible preferred units generating gross proceeds of \$750 million.
- 6,304,204 common units generating gross proceeds of \$300 million.

Together, the units issued in the private placement resulted in net proceeds, after deducting offering and transaction expenses, of approximately \$1.03 billion.

We privately placed approximately 13.8 million Series A Perpetual Convertible Preferred Units (Preferred Units) representing limited partner interests for a price of \$54.27 per unit. The Preferred Units rank senior to all common units with respect to distributions and rights upon liquidation. The holders of the Preferred Units are entitled to receive cumulative quarterly distributions equal to \$0.678375 per unit, commencing for the quarter ended December 31, 2017, with a prorated amount from the date of issuance. Following the third anniversary of the issuance of the Preferred Units, the holders of the Preferred Units will receive as a quarterly distribution the greater of \$0.678375 per unit or the amount of per-unit distributions paid to common unitholders as if such Preferred Units had converted into common units immediately prior to the record date.

The holders of the Preferred Units may convert their Preferred Units into common units, on a one-for-one basis, at any time after the second anniversary of the issuance date, in full or in part, subject to minimum conversion amounts and conditions. After the third anniversary of the issuance date, we may convert the Preferred Units into common units at any time, in whole or in part, subject to certain minimum conversion amounts and conditions, if the arithmetic average of the volume-weighted trading price of our common units is greater than \$73.2645 per unit for the 20 day trading period immediately preceding the conversion notice date and the average trading volume of the common units is at least 100,000 for the preceding 20 trading days. The conversion rate for the Preferred Units shall be the quotient of (a) the sum of (i) \$54.27, plus (ii) any unpaid cash distributions on the applicable Preferred Unit, divided by (b) \$54.27. The holders of the Preferred Units are entitled to vote on an as-converted basis with the common unitholders and have certain other class voting rights with respect to any amendment to our partnership agreement that would adversely affect any rights, preferences or privileges of the Preferred Units. In addition, upon certain events involving a change in control, the holders of Preferred Units may elect, among other potential elections, to convert their Preferred Units to common units at the then change of control conversion rate.

Debt Issuances. On October 13, 2017, we closed on a public debt offering and issued \$500 million aggregate principal amount of 3.750% Senior Notes due 2028 and an additional \$150 million aggregate principal amount of our outstanding 4.680% Senior Notes due 2045. Interest on the Senior Notes due 2028 is payable semiannually in arrears on March 1 and September 1 of each year, commencing on March 1, 2018. The Senior Notes due 2045 are an additional issuance of our existing Senior Notes due 2045, and interest is payable semiannually in arrears on February 15 and August 15 of each year. The proceeds from the public debt offering have been applied to repay the remaining balances on the promissory notes and term loan assumed in the Bakken Pipeline/MSLP Acquisition and also will be

used for general partnership purposes, including funding of future acquisitions and organic projects and the repayment of outstanding indebtedness under our revolving credit facility.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise stated or the context otherwise indicates, all references to "Phillips 66 Partners," "the Partnership," "us," "our," "we" or similar expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to Phillips 66 may refer to Phillips 66 and/or its subsidiaries, depending on the context. References to our "General Partner" refer to Phillips 66 Partners GP LLC, and references to Phillips 66 PDI refer to Phillips 66 Project Development Inc., the Phillips 66 subsidiary that holds a limited partner interest in us.

Management's Discussion and Analysis is the Partnership's analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this report. It contains forward-looking statements including, without limitation, statements relating to the Partnership's plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions identify forward statements. The Partnership does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Partnership's disclosures under the heading: "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS."

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

Partnership Overview

We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines and terminals, and other transportation and midstream assets. Our common units trade on the New York Stock Exchange under the symbol PSXP.

Our assets consist of crude oil, refined petroleum products and NGL transportation, terminaling and storage systems, as well as an NGL fractionator. We conduct our operations through both wholly owned and joint-venture operations. The majority of our wholly owned assets are associated with, and are integral to the operation of, nine of Phillips 66's owned or joint-venture refineries.

We primarily generate revenue by providing fee-based transportation, processing, terminaling, storage and NGL fractionation services to Phillips 66 and other customers. Our equity affiliates primarily generate revenue from transporting and terminaling NGL, refined petroleum products and crude oil. Since we do not own any of the NGL, crude oil and refined petroleum products we handle and do not engage in the trading of NGL, crude oil and refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

Basis of Presentation

We have acquired assets from Phillips 66 that were considered transfers of businesses between entities under common control. This required the transactions to be accounted for as if the transfers had occurred at the beginning of the transfer period, with prior periods retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes have been retrospectively adjusted to include the historical results and financial position of these acquired businesses prior to the effective date of each acquisition. We refer to these pre-acquisition operations as those of our "Predecessors."

See the “Basis of Presentation” section of Note 1—Business and Basis of Presentation, in the Notes to Consolidated Financial Statements, for additional information on the content and comparability of our historical financial statements.

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How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance, including: (1) volumes handled (including pipeline throughput, terminaling throughput and storage volumes); (2) operating and maintenance expenses; (3) net income (loss) before net interest expense, income taxes, depreciation and amortization (EBITDA); (4) adjusted EBITDA; and (5) distributable cash flow.

Volumes Handled

The amount of revenue we generate primarily depends on the volumes of crude oil, refined petroleum products and NGL that we handle in our pipeline, terminal, rail rack, processing, storage and NGL fractionator systems. In addition, our equity affiliates generate revenue from transporting and terminaling NGL, crude oil and refined petroleum products. These volumes are primarily affected by the supply of, and demand for, NGL, crude oil and refined petroleum products in the markets served directly or indirectly by our assets, as well as the operational status of the refineries served by our assets. Phillips 66 has committed to minimum throughput volumes under many of our commercial agreements.

Operating and Maintenance Expenses

Our management seeks to maximize the profitability of our operations by effectively managing operating and maintenance expenses. These expenses primarily consist of labor expenses (including contractor services), utility costs, and repair and maintenance expenses. These expenses generally remain relatively stable across broad ranges of throughput volumes, but can fluctuate from period to period depending on the mix of activities, particularly maintenance activities, performed during the period. Although we seek to manage our maintenance expenditures on our facilities to avoid significant variability in our quarterly cash flows, we balance this approach with our high standards of safety and environmental stewardship, such that critical maintenance is regularly performed.

Our operating and maintenance expenses are also affected by volumetric gains/losses resulting from variances in meter readings and other measurement methods, as well as volume fluctuations due to pressure and temperature changes. Under certain commercial agreements with Phillips 66, the value of any NGL, crude oil, or refined petroleum product volumetric gain/loss is determined by reference to the monthly average reference price for the applicable commodity. Any gains and losses under these provisions decrease or increase, respectively, our operating and maintenance expenses in the period in which they are realized. These contractual volumetric gain/loss provisions could increase variability in our operating and maintenance expenses.

EBITDA, Adjusted EBITDA and Distributable Cash Flow

We define EBITDA as net income (loss) plus net interest expense, income taxes, depreciation and amortization attributable to both the Partnership and our Predecessors.

Adjusted EBITDA is the EBITDA directly attributable to the Partnership after deducting the EBITDA attributable to our Predecessors, further adjusted for:

• The difference between cash distributions received and equity earnings from our affiliates.

• Transaction costs associated with acquisitions.

• Certain other noncash items, including expenses indemnified by Phillips 66.

Distributable cash flow is defined as adjusted EBITDA less net interest expense, maintenance capital expenditures and income taxes paid, plus adjustments for deferred revenue impacts and prefunded maintenance capital expenditures.

EBITDA, adjusted EBITDA and distributable cash flow are not presentations made in accordance with accounting principles generally accepted (GAAP) in the United States. EBITDA, adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that management believes external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may find useful to assess:

•

Our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of EBITDA and adjusted EBITDA, financing methods.

•The ability of our business to generate sufficient cash to support our decision to make distributions to our unitholders.

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Our ability to incur and service debt and fund capital expenditures.

The viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

The GAAP performance measure most directly comparable to EBITDA and adjusted EBITDA is net income. The GAAP liquidity measure most directly comparable to EBITDA and distributable cash flow is net cash provided by operating activities. These non-GAAP financial measures should not be considered alternatives to GAAP net income or net cash provided by operating activities. They have important limitations as analytical tools because they exclude some but not all items that affect net income and net cash provided by operating activities. Additionally, because EBITDA, adjusted EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definition of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Business Environment

Since we do not own any of the NGL, crude oil and refined petroleum products we handle and do not engage in the trading of NGL, crude oil and refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

Our throughput volumes primarily depend on the volume of crude oil processed and refined petroleum products produced at Phillips 66's owned or operated refineries with which our assets are integrated, which in turn are primarily dependent on Phillips 66's refining margins and maintenance schedules. Refining margins depend on the cost of crude oil or other feedstocks and the price of refined petroleum products. These prices are affected by numerous factors beyond our or Phillips 66's control, including the domestic and global supply of and demand for crude oil and refined petroleum products. Throughput volumes of our equity affiliates primarily depend on upstream drilling activities, refinery performance and product supply and demand.

While we believe we have substantially mitigated our indirect exposure to commodity price fluctuations through the minimum volume commitments in our commercial agreements with Phillips 66 during the respective terms of those agreements, our ability to execute our growth strategy in our areas of operation will depend, in part, on the availability of attractively priced crude oil in the areas served by our crude oil pipelines and rail racks, demand for refined petroleum products in the markets served by our refined petroleum product pipelines and terminals, and the general demand for midstream services, including NGL transportation and fractionation.

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RESULTS OF OPERATIONS

Unless otherwise indicated, discussion of results for the three- and nine-month periods ended September 30, 2017, is based on a comparison with the respective corresponding periods of 2016.

	Millions of Dollars			
	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30	30	30	30
	2017	2016*	2017	2016*
Revenues and Other Income				
Operating revenues—related parties	\$193	181	563	534
Operating revenues—third parties	11	7	32	22
Equity in earnings of affiliates	41	33	111	88
Other income	—	1	7	1
Total revenues and other income	245	222	713	645
Costs and Expenses				
Operating and maintenance expenses	69	54	188	162
Depreciation	30	25	82	71
General and administrative expenses	16	17	48	50
Taxes other than income taxes	7	4	23	24
Interest and debt expense	23	10	71	31
Other expenses	1	—	1	—
Total costs and expenses	146	110	413	338
Income before income taxes	99	112	300	307
Provision for income taxes	—	—	1	1
Net income	99	112	299	306
Less: Net income attributable to Predecessors	—	29	—	103
Net income attributable to the Partnership	99	83	299	203
Less: General partner's interest in net income attributable to the Partnership	43	26	112	63
Limited partners' interest in net income attributable to the Partnership	\$56	57	187	140
Net cash provided by operating activities	\$152	128	422	371
Adjusted EBITDA	\$168	111	493	282
Distributable cash flow	\$136	102	400	250

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

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	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Pipeline, Terminal and Storage Volumes Pipelines ⁽¹⁾				
Pipeline throughput volumes Wholly Owned Pipelines				
Crude oil*	1,015	981	965	1,010
Refined products and NGL*	920	855	944	836
Total	1,935	1,836	1,909	1,846
Select Joint Venture Pipelines ⁽²⁾				
NGL	387	346	371	333
Terminals				
Terminal throughput and storage volumes ⁽³⁾				
Crude oil* ⁽⁴⁾	586	541	522	534
Refined products and NGL*	828	822	855	809
Total	1,414	1,363	1,377	1,343
Revenue Per Barrel (dollars)				
Average pipeline revenue per barrel ⁽⁵⁾	\$0.63	0.59	0.62	0.60
Average terminaling and storage revenue per barrel	0.41	0.41	0.42	0.41

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

(1) Represents the sum of volumes transported through each separately tariffed pipeline segment.

(2) Total pipeline system throughput volumes for the Sand Hills and Southern Hills pipelines (100 percent basis) per day for each period presented.

(3) Terminal throughput and storage volumes include leased capacity converted to a MBD-equivalent based on capacity divided by days in the period.

(4) Crude oil terminals include Bayway and Ferndale rail rack volumes.

(5) Excludes equity affiliates.

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The following tables present reconciliations of EBITDA and adjusted EBITDA to net income and EBITDA and distributable cash flow to net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

	Millions of Dollars			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016*	
Reconciliation to Net Income				
Net income	\$99	112	299	306
Plus:				
Depreciation	30	25	82	71
Net interest expense	23	10	71	31
Provision for income taxes	—	—	1	1
EBITDA	152	147	453	409
Plus:				
Distributions in excess of equity earnings	10	1	30	7
Expenses indemnified by Phillips 66	4	—	7	4
Transaction costs associated with acquisitions	2	2	3	4
Less:				
EBITDA attributable to Predecessors	—	39	—	142
Adjusted EBITDA	168	111	493	282
Plus:				
Deferred revenue impacts**	1	4	9	7
Less:				
Net interest expense	23	10	71	31
Maintenance capital expenditures	10	3	31	8
Distributable cash flow	\$136	102	400	250

*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.

**Difference between cash receipts and revenue recognition.

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	Millions of Dollars			
	Three Months Ended September 30 2017		Nine Months Ended September 30 2016*	
Reconciliation to Net Cash Provided by Operating Activities				
Net Cash Provided by Operating Activities	\$ 152	128	422	371
Plus:				
Net interest expense	23	10	71	31
Provision for income taxes	—	—	1	1
Changes in working capital	(20)	8	(31)	16
Adjustment to equity earnings for cash distributions received	—	3	(2)	4
Other	(3)	(2)	(8)	(14)
EBITDA	152	147	453	409
Plus:				
Distributions in excess of equity earnings	10	1	30	7
Expenses indemnified by Phillips 66	4	—	7	4
Transaction costs associated with acquisitions	2	2	3	4
Less:				
EBITDA attributable to Predecessors	—	39	—	142
Adjusted EBITDA	168	111		