

PHILLIPS 66 PARTNERS LP  
Form 10-Q  
August 01, 2017  
Table of Contents

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 June 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

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

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Table of Contents

PHILLIPS 66 PARTNERS LP

TABLE OF CONTENTS

	Page
<u>Part I – Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Consolidated Statement of Income</u>	<u>1</u>
<u>Consolidated Statement of Comprehensive Income</u>	<u>2</u>
<u>Consolidated Balance Sheet</u>	<u>3</u>
<u>Consolidated Statement of Cash Flows</u>	<u>4</u>
<u>Consolidated Statement of Changes in Equity</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
<u>Part II – Other Information</u>	<u>39</u>
<u>Item 1. Legal Proceedings</u>	<u>39</u>
<u>Item 1A. Risk Factors</u>	<u>39</u>
<u>Item 6. Exhibits</u>	<u>40</u>
<u>Signatures</u>	<u>41</u>

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Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## Consolidated Statement of Income Phillips 66 Partners LP

	Millions of Dollars			
	Three Months Ended		Six Months Ended	
	June 30	2016*	2017	2016*
Revenues and Other Income				
Operating revenues—related parties	\$186	182	370	353
Operating revenues—third parties	11	7	21	15
Equity in earnings of affiliates	37	30	70	55
Other income	—	—	7	—
Total revenues and other income	234	219	468	423
Costs and Expenses				
Operating and maintenance expenses	57	58	119	108
Depreciation	26	23	52	46
General and administrative expenses	16	16	32	33
Taxes other than income taxes	7	10	16	20
Interest and debt expense	24	11	48	21
Total costs and expenses	130	118	267	228
Income before income taxes	104	101	201	195
Provision for income taxes	1	1	1	1
Net income	103	100	200	194
Less: Net income attributable to Predecessors	—	32	—	74
Net income attributable to the Partnership	103	68	200	120
Less: General partner's interest in net income attributable to the Partnership	37	21	69	37
Limited partners' interest in net income attributable to the Partnership	\$66	47	131	83
Net Income Attributable to the Partnership Per Limited Partner Unit—Basic and Diluted (dollars)	\$0.61	0.51	1.21	0.96
Cash Distributions Paid Per Limited Partner Unit (dollars)	\$0.58	0.481	1.144	0.939
Average Limited Partner Units Outstanding—Basic and Diluted (thousands)				
Common units—public	45,142	31,397	44,253	27,768
Common units—Phillips 66	64,047	59,562	64,047	59,026

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

See Notes to Consolidated Financial Statements.

Table of Contents

## Consolidated Statement of Comprehensive Income Phillips 66 Partners LP

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016*	2017	2016*
Net Income	\$ 103	100	200	194
Defined benefit plans				
Plan sponsored by equity affiliate, net of tax	—	—	—	1
Other comprehensive income	—	—	—	1
Comprehensive Income	\$ 103	100	200	195

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

See Notes to Consolidated Financial Statements.

Table of Contents

## Consolidated Balance Sheet Phillips 66 Partners LP

	Millions of Dollars	
	June 30 2017	December 31 2016
<b>Assets</b>		
Cash and cash equivalents	\$1	2
Accounts receivable—related parties	72	76
Accounts receivable—third parties	4	7
Materials and supplies	12	11
Prepaid expenses	5	4
Total current assets	94	100
Equity investments	1,212	1,142
Net properties, plants and equipment	2,670	2,675
Goodwill	185	185
Deferred rentals—related parties	5	5
Other assets	2	2
Total Assets	\$4,168	4,109
<b>Liabilities</b>		
Accounts payable—related parties	\$14	12
Accounts payable—third parties	27	31
Accrued property and other taxes	15	10
Accrued interest	27	26
Short-term debt	25	15
Deferred revenues—related parties	24	14
Other current liabilities	1	3
Total current liabilities	133	111
Long-term debt	2,227	2,396
Asset retirement obligations	10	9
Accrued environmental costs	2	2
Deferred income taxes	2	2
Deferred revenues and other—related parties—long-term	23	23
Total Liabilities	2,397	2,543
<b>Equity</b>		
Common unitholders—public (2017—46,458,478 units issued and outstanding; 2016—43,134,902 units issued and outstanding)	1,970	1,795
Common unitholder—Phillips 66 (2017 and 2016—64,047,024 units issued and outstanding)	480	476
General partner—Phillips 66 (2017 and 2016—2,187,386 units issued and outstanding)	(678)	(704)
Accumulated other comprehensive loss	(1)	(1)
Total Equity	1,771	1,566
Total Liabilities and Equity	\$4,168	4,109
See Notes to Consolidated Financial Statements.		

Table of Contents

## Consolidated Statement of Cash Flows Phillips 66 Partners LP

	Millions of Dollars	
	Six Months Ended	
	June 30	
	2017	2016*
Cash Flows From Operating Activities		
Net income	\$ 200	194
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	52	46
Adjustment to equity earnings for cash distributions received	2	(1 )
Deferred revenues and other—long-term	—	9
Other	5	3
Working capital adjustments		
Decrease (increase) in accounts receivable	6	(14 )
Decrease (increase) in materials and supplies	(1 )	(1 )
Decrease (increase) in prepaid expenses and other current assets	(1 )	(2 )
Increase (decrease) in accounts payable	(2 )	7
Increase (decrease) in accrued interest	1	(5 )
Increase (decrease) in deferred revenues	10	2
Increase (decrease) in other accruals	(2 )	5
Net Cash Provided by Operating Activities	270	243
Cash Flows From Investing Activities		
Cash capital expenditures and investments	(128 )	(174 )
Return of investment from equity affiliates	17	7
Net Cash Used in Investing Activities	(111 )	(167 )
Cash Flows From Financing Activities		
	—	60

Net contributions from Phillips 66 to Predecessors				
Acquisition of noncontrolling interest in Sweeny Frac LLC	—		(656)	)
Issuance of debt	1,103		178	
Repayment of debt	(1,263)	)	(234)	)
Issuance of common units	171		669	
Quarterly distributions to common unitholders—public	(50)	)	(23)	)
Quarterly distributions to common unitholder—Phillips 66	(73)	)	(55)	)
Quarterly distributions to General Partner—Phillips 66	(60)	)	(29)	)
Other cash contributions from Phillips 66	12		—	
Net Cash Used in Financing Activities	(160)	)	(90)	)
Net Change in Cash and Cash Equivalents	(1)	)	(14)	)
Cash and cash equivalents at beginning of period	2		50	
Cash and Cash Equivalents at End of Period	\$ 1		36	

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

See Notes to Consolidated Financial Statements.

Table of Contents

## Consolidated Statement of Changes in Equity Phillips 66 Partners LP

	Millions of Dollars		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	—	—	—	—	74	74
Net contributions from Phillips 66—Predecessors	—	—	—	—	104	104
Issuance of common units	669	—	—	—	—	669
Allocation of net investment to unitholders	—	233	33	—	(266)	—
Net income attributable to the Partnership	29	54	37	—	—	120
Other comprehensive income	—	—	—	1	—	1
Quarterly cash distributions to unitholders and General Partner	(23)	(55)	(29)	—	—	(107)
Other contributions from Phillips 66	—	—	4	—	—	4
June 30, 2016*	\$1,484	465	(605)	(1)	966	2,309
December 31, 2016	\$1,795	476	(704)	(1)	—	1,566
Issuance of common units	171	—	—	—	—	171
Net income attributable to the Partnership	54	77	69	—	—	200
Quarterly cash distributions to unitholders and General Partner	(50)	(73)	(60)	—	—	(183)
Other contributions from Phillips 66	—	—	17	—	—	17
June 30, 2017	\$1,970	480	(678)	(1)	—	1,771

\*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	12,912,858	—	—	12,912,858
Units issued associated with acquisitions	—	1,813,745	295,178	2,108,923
June 30, 2016	37,051,608	60,162,787	1,978,603	99,192,998

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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
June 30, 2017	46,458,478	64,047,024	2,187,386	112,692,888

See Notes to Consolidated Financial Statements.

5

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Table of Contents

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, 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 integral to the operation of, nine of Phillips 66’s owned or joint-venture refineries.

We primarily generate revenue by providing fee-based transportation, 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 within 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 allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and procurement; and operational support services such as engineering and logistics. 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.



## Table of Contents

### 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 six months ended June 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 the treatment of several cash flow categories. 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 third 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.

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

7

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Table of Contents

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.

Table of Contents

	Millions of Dollars		
	Three Months Ended June 30, 2016		
	Phillips		
	66		
	Partners	Acquired Eagle Assets	Consolidated
Consolidated Statement of Income	LP	Predecessor	Results
	(As		
	previously		
	reported)		
Revenues and Other Income			
Operating revenues—related parties	\$108	74	182
Operating revenues—third parties	2	5	7
Equity in earnings of affiliates	30	—	30
Total revenues and other income	140	79	219
Costs and Expenses			
Operating and maintenance expenses	27	31	58
Depreciation	15	8	23
General and administrative expenses	8	8	16
Taxes other than income taxes	5	5	10
Interest and debt expense	11	—	11
Total costs and expenses	66	52	118
Income before income taxes	74	27	101
Provision for income taxes	1	—	1
Net income	73	27	100
Less: Net income attributable to Predecessors	5	27	32
Net income attributable to the Partnership	68	—	68
Less: General partner's interest in net income attributable to the Partnership	21	—	21
Limited partners' interest in net income attributable to the Partnership	\$47	—	47

Table of Contents

	Millions of Dollars		
	Six Months Ended June 30, 2016		
	Phillips	Partners	
	66	LP	Acquired Eagle Assets
		(As	Predecessor
		previously	
		reported)	Consolidated
			Results
Consolidated Statement of Income			
Revenues and Other Income			
Operating revenues—related parties	\$207	146	353
Operating revenues—third parties	4	11	15
Equity in earnings of affiliates	55	—	55
Total revenues and other income	266	157	423
Costs and Expenses			
Operating and maintenance expenses	50	58	108
Depreciation	29	17	46
General and administrative expenses	17	16	33
Taxes other than income taxes	10	10	20
Interest and debt expense	21	—	21
Total costs and expenses	127	101	228
Income before income taxes	139	56	195
Provision for income taxes	1	—	1
Net income	138	56	194
Less: Net income attributable to Predecessors	18	56	74
Net income attributable to the Partnership	120	—	120
Less: General partner's interest in net income attributable to the Partnership	37	—	37
Limited partners' interest in net income attributable to the Partnership	\$83	—	83

Table of Contents

	Millions of Dollars			
	Six Months Ended June 30, 2016			
	Phillips	Partners	Acquired Eagle Assets	Consolidated
	66	LP	Predecessor	Results
	(As	(As		
	previously	previously		
	reported)	reported)		
<b>Cash Flows From Operating Activities</b>				
Net income	\$138	56		194
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	29	17		46
Adjustment to equity earnings for cash distributions received	(1	) —		(1
Deferred revenues and other—long-term	8	1		9
Other	4	(1		) 3
Working capital adjustments				
Decrease (increase) in accounts receivable	(15	) 1		(14
Decrease (increase) in materials and supplies	(1	) —		(1
Decrease (increase) in prepaid expenses and other current assets	(1	) (1		) (2
Increase (decrease) in accounts payable	4	3		7
Increase (decrease) in accrued interest	(5	) —		(5
Increase (decrease) in deferred revenues	2	—		2
Increase (decrease) in other accruals	4	1		5
Net Cash Provided by Operating Activities	166	77		243
<b>Cash Flows From Investing Activities</b>				
Cash capital expenditures and investments	(127	) (47		) (174
Return of investment from equity affiliates	7	—		7
Net Cash Used in Investing Activities	(120	) (47		) (167
<b>Cash Flows From Financing Activities</b>				
Net contributions from (to) Phillips 66 to (from) Predecessors	90	(30		) 60
Acquisition of noncontrolling interest in Sweeny Frac LLC	(656	) —		(656
Issuance of debt	178	—		178
Repayment of debt	(234	) —		(234
Issuance of common units	669	—		669
Quarterly distributions to common unitholders—public	(23	) —		(23
Quarterly distributions to common unitholder—Phillips 66	(55	) —		(55
Quarterly distributions to General Partner—Phillips 66	(29	) —		(29
Net Cash Used in Financing Activities	(60	) (30		) (90
Net Change in Cash and Cash Equivalents	(14	) —		(14
Cash and cash equivalents at beginning of period	50	—		50
Cash and Cash Equivalents at End of Period	\$36	—		36

Table of Contents

## Note 5—Equity Investments

The following table summarizes our equity investments.

	Percentage Ownership	Millions of Dollars Carrying Value	
		June 30 2017	December 31 2016
DCP Sand Hills Pipeline, LLC (Sand Hills)	33.34	% \$466	445
DCP Southern Hills Pipeline, LLC (Southern Hills)	33.34	210	212
Explorer Pipeline Company (Explorer)	21.94	124	126
Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal)	70.00	62	72
Paradigm Pipeline LLC (Paradigm)	50.00	114	117
Bayou Bridge Pipeline, LLC (Bayou Bridge)	40.00	160	115
STACK Pipeline LLC (STACK)	50.00	76	55
Total equity investments		\$1,212	1,142

Earnings from our equity investments were as follows:

	Millions of Dollars			
	Three Months Ended June 30 2017		Six Months Ended June 30 2016	
Sand Hills	\$2017	37	32	
Southern Hills	7	7	14	14
Explorer	6	6	11	9
Phillips 66 Partners Terminal	1	—	3	—
Paradigm	—	—	(1)	—
Bayou Bridge	2	—	4	—
STACK	1	—	2	—
Total equity in earnings of affiliates	\$3730	70	55	

Table of Contents

## Note 6—Properties, Plants and Equipment

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

	Millions of Dollars	
	June 30	December 31
	2017	2016
Land	\$19	19
Buildings and improvements	84	88
Pipelines and related assets*	1,349	1,335
Terminals and related assets*	628	610
Rail racks and related assets*	137	137
Fractionator and related assets*	616	615
Caverns and related assets*	581	569
Construction-in-progress	33	27
Gross PP&E	3,447	3,400
Less: Accumulated depreciation	777	725
Net PP&E	\$2,670	2,675

\*Assets for which we are the lessor.

## Note 7—Debt

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

	Millions of Dollars			
	June 30, 2017			
	Fair Value		Total Fair Value	Balance
	Hierarchy			Sheet
	Level			Carrying
	1	Level 2*	Level 3	Value
2.646% Senior Notes due 2020	\$300	—	300	300
3.605% Senior Notes due 2025	—494	—	494	500
3.550% Senior Notes due 2026	—485	—	485	500
4.680% Senior Notes due 2045	—284	—	284	300
4.900% Senior Notes due 2046	—616	—	616	625
Revolving credit facility at 2.34% at June 30, 2017	—50	—	50	50
Total	\$2,229	—	2,229	2,275
Net unamortized discounts and debt issuance costs				(23 )
Total debt				2,252
Short-term debt				(25 )
Long-term debt				\$ 2,227

\*Fair value was estimated using observable market prices.

Table of Contents

	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 June 30, 2017, and December 31, 2016, we had an aggregate of \$50 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, referred to as our ATM Program). For the three and six months ended June 30, 2017, on a settlement date basis, we issued 2,578,608 and 3,323,576 common units under the ATM Program, which generated net proceeds of \$131 million and \$171 million, respectively. For the three and six months ended June 30, 2016, on a settlement date basis, we issued 262,858 common units under our ATM Program, generating net proceeds of \$14 million. Since inception through June 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 Offering

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.



Table of Contents

## 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 June 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 June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
Net income attributable to the Partnership	\$103	68	200	120
Less: General partner's distribution declared (including IDRs)*	36	21	68	37
Limited partners' distribution declared on common units*	68	49	131	89
Distributions less than (in excess of) net income attributable to the Partnership	\$(1)	(2)	1	(6)

\*Distribution declared attributable to the indicated periods.

Table of Contents

	General Partner (including IDRs)	Limited Partners' Common Units	Total
Three Months Ended June 30, 2017			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 36	68	104
Distribution less than (in excess of) net income attributable to the Partnership	1	(2 )	(1 )
Net income attributable to the Partnership	\$ 37	66	103
Weighted average units outstanding—basic and diluted			
		109,189,217	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 0.61	
Three Months Ended June 30, 2016			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 21	49	70
Distribution in excess of net income attributable to the Partnership	—	(2 )	(2 )
Net income attributable to the Partnership	\$ 21	47	68
Weighted average units outstanding—basic and diluted			
		90,959,226	
Net income per limited partner unit—basic and diluted (dollars)			
		\$ 0.51	



Table of Contents

	General Partner (including IDRs)	Limited Partners' Common Units	Total
Six Months Ended June 30, 2017			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 68	131	199
Distribution less than net income attributable to the Partnership	1	—	1
Net income attributable to the Partnership	\$ 69	131	200
Weighted average units outstanding—basic and diluted		108,299,570	
Net income per limited partner unit—basic and diluted (dollars)		\$ 1.21	
Six Months Ended June 30, 2016			
Net income attributable to the Partnership (millions):			
Distribution declared	\$ 37	89	126
Distribution in excess of net income attributable to the Partnership	—	(6	) (6 )
Net income attributable to the Partnership	\$ 37	83	120
Weighted average units outstanding—basic and diluted		86,793,825	
Net income per limited partner unit—basic and diluted (dollars)		\$ 0.96	

On July 19, 2017, the Board of Directors of our General Partner declared a quarterly cash distribution of \$0.615 per limited partner unit which, combined with distributions to our General Partner, will result in total distributions of \$104 million attributable to the second quarter of 2017. This distribution is payable August 11, 2017, to unitholders of record as of July 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

17

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## Table of Contents

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 June 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 June 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).

Table of Contents

## 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  
Six Months  
Ended  
June 30  
2017 2016\*

## Capital Expenditures and Investments

Cash capital expenditures and investments	\$ 128 174
Change in capital expenditure accruals	— (12 )
Total capital expenditures and investments	\$ 128 162

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

Millions  
of Dollars  
Six  
Months  
Ended  
June 30  
2017 2016

## Capital Expenditures and Investments

Capital expenditures and investments attributable to the Partnership	\$ 128 95
Capital expenditures attributable to Predecessors*	— 67
Total capital expenditures and investments*	\$ 128 162

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

Millions  
of  
Dollars  
Six  
Months  
Ended  
June 30  
2017

## Other Noncash Investing and Financing Activities

Certain liabilities of acquired assets retained by Phillips 66 <sup>(1)</sup>	\$ 45
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<sup>(1)</sup>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 and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage, stevedoring, fractionation and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil, NGL and refined petroleum products or minimum monthly service fees. Under our transportation 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.

Table of Contents

## 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 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 will 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. The amount of any such reimbursement will be 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. 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 June 30		Six Months Ended June 30	
	2017	2016*	2017	2016*
Operating and maintenance expenses	\$29	26	57	51
General and administrative expenses	14	13	29	27
Interest and debt expense	—	1	—	2
Total	\$43	40	86	80

\*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. The operational and administrative support fee is for the provision of certain services, including: 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; corporate engineering services, including asset integrity and regulatory services; logistical services; asset oversight, such as operational management and supervision; business development 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 pipelines, rail racks, fractionator, and 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.

Table of Contents

Note 13—New Accounting Standards

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations: 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.

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 will also affect 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. Earlier 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

Table of Contents

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.

22

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Table of Contents

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 integral to the operation of, nine of Phillips 66's owned or joint-venture refineries.

We primarily generate revenue by providing fee-based transportation, 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.

## Table of Contents

### 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, 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 that 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; and
- 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.

24

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Table of Contents

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.

Table of Contents

## RESULTS OF OPERATIONS

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

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016*	2017	2016*
Revenues and Other Income				
Operating revenues—related parties	\$186	182	370	353
Operating revenues—third parties	11	7	21	15
Equity in earnings of affiliates	37	30	70	55
Other income	—	—	7	—
Total revenues and other income	234	219	468	423
Costs and Expenses				
Operating and maintenance expenses	57	58	119	108
Depreciation	26	23	52	46
General and administrative expenses	16	16	32	33
Taxes other than income taxes	7	10	16	20
Interest and debt expense	24	11	48	21
Total costs and expenses	130	118	267	228
Income before income taxes	104	101	201	195
Provision for income taxes	1	1	1	1
Net income	103	100	200	194
Less: Net income attributable to Predecessors	—	32	—	74
Net income attributable to the Partnership	103	68	200	120
Less: General partner's interest in net income attributable to the Partnership	37	21	69	37
Limited partners' interest in net income attributable to the Partnership	\$66	47	131	83
Net cash provided by operating activities	\$131	132	270	243
Adjusted EBITDA	\$170	97	325	171
Distributable cash flow	\$140	84	264	148

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

Table of Contents

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	Thousands of Barrels Daily			
Pipeline, Terminal and Storage Volumes				
Pipelines <sup>(1)</sup>				
Pipeline throughput volumes				
Wholly Owned Pipelines				
Crude oil*	938	1,024	939	1,024
Refined products and NGL*	977	852	956	827
Total	1,915	1,876	1,895	1,851
Select Joint Venture Pipelines <sup>(2)</sup>				
NGL	372	346	363	326
Terminals				
Terminal throughput and storage volumes <sup>(3)</sup>				
Crude oil* <sup>(4)</sup>	494	559	490	531
Refined products and NGL*	840	820	869	802
Total	1,334	1,379	1,359	1,333
Revenue Per Barrel (dollars)				
Average pipeline revenue per barrel <sup>(5)</sup>	\$0.61	0.61	0.62	0.61
Average terminaling and storage revenue per barrel	0.42	0.40	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.

Table of Contents

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 June 30		Six Months Ended June 30	
	2017	2016*	2017	2016*
Reconciliation to Net Income				
Net income	\$103	100	200	194
Plus:				
Depreciation	26	23	52	46
Net interest expense	24	11	48	21
Provision for income taxes	1	1	1	1
EBITDA	154	135	301	262
Plus:				
Distributions in excess of equity earnings	16	2	20	6
Expenses indemnified by Phillips 66	—	4	3	4
Transaction costs associated with acquisitions	—	1	1	2
Less:				
EBITDA attributable to Predecessors	—	45	—	103
Adjusted EBITDA	170	97	325	171
Plus:				
Deferred revenue impacts**	4	2	8	3
Less:				
Net interest expense	24	11	48	21
Maintenance capital expenditures	10	4	21	5
Distributable cash flow	\$140	84	264	148

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

\*\*Difference between cash receipts and revenue recognition.

Table of Contents

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016*	2017	2016*
Reconciliation to Net Cash Provided by Operating Activities				
Net Cash Provided by Operating Activities	\$131	132	270	243
Plus:				
Net interest expense	24	11	48	21
Provision for income taxes	1	1	1	1
Changes in working capital	6	(5)	(11)	8
Adjustment to equity earnings for cash distributions received	(6)	(2)	(2)	(1)
Other	(2)	(6)	(5)	(12)
EBITDA	154	135	301	262
Plus:				
Distributions in excess of equity earnings	16	2	20	6
Expenses indemnified by Phillips 66	—	4	3	4
Transaction costs associated with acquisitions	—	1	1	2
Less:				
EBITDA attributable to Predecessors	—	45	—	103
Adjusted EBITDA	170	97	325	171
Plus:				
Deferred revenue impacts**	4	2	8	3
Less:				
Net interest expense	24	11	48	21
Maintenance capital expenditures	10	4	21	5
Distributable cash flow	\$140	84	264	148

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

\*\*Difference between cash receipts and revenue recognition.

Table of Contents

## Minimum Volume Commitments

Under certain of our transportation and terminal services agreements, if Phillips 66 fails to transport a minimum throughput volume during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in the agreement. Payments made by Phillips 66 for these shortfall volumes are initially recorded as “Deferred revenues—related parties” on our consolidated balance sheet, as Phillips 66 generally has the right to make up the shortfall volumes in the following four quarters. The deferred revenue is recognized at the earlier of the quarter in which Phillips 66 makes up the shortfall volumes or the expiration of the period in which Phillips 66 is contractually allowed to make up the shortfall volumes.

Detail on these transportation- and terminal-based deferred revenues follows:

	Millions of Dollars			
	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Deferred revenues—beginning of period	\$16	5	12	4
Quarterly deficiency payments <sup>(1)</sup>	8	2	13	4
Quarterly deficiency make-up/expirations <sup>(2)</sup>	(3)	(2)	(4)	(3)
Deferred revenues—end of period	\$21	5	21	5

<sup>(1)</sup> Cash received with deferred revenue recognition.

<sup>(2)</sup> Revenue recognized on cash previously received.

## Statement of Income Analysis

Operating revenues increased \$8 million, or 4 percent, and \$23 million, or 6 percent, in the second quarter and the six-month period of 2017, respectively. The increases were primarily attributable to additional revenues from the River Parish NGL System acquired in November 2016 and from additional storage capacity coming online at Clemens Caverns. The increases were partially offset by lower throughput volumes on the Gold Line Products System due to maintenance at Phillips 66’s Borger refinery and lower throughput volumes on the Billings and Clifton Ridge systems as a result of turnaround activity at Phillips 66’s Billings and Lake Charles refineries.

Equity in earnings of affiliates increased \$7 million, or 23 percent, and \$15 million, or 27 percent, in the second quarter and the six-month period of 2017, respectively. The increases were primarily attributable to higher earnings from DCP Sand Hills Pipeline, LLC (Sand Hills) and Explorer Pipeline Company (Explorer), primarily due to higher volumes. In addition, the increases also reflected earnings from Bayou Bridge Pipeline, LLC (Bayou Bridge), which began operations in April 2016, and STACK Pipeline LLC (STACK), which was acquired in August 2016.

Operating and maintenance expenses increased by \$11 million, or 10 percent, in the six-month period of 2017. The increase was primarily due to operating expenses associated with the River Parish NGL System, which was acquired in November 2016.

Depreciation increased \$3 million and \$6 million in the second quarter and the six-month period of 2017, respectively. The increases were mainly attributable to the River Parish NGL System acquired in November 2016 and additional storage capacity coming online at Clemens Caverns.

Taxes other than income taxes decreased \$3 million, or 30 percent, and \$4 million, or 20 percent, in the second quarter and the six-month period of 2017, respectively, primarily due to a decrease in property taxes.

Interest and debt expense increased \$13 million and \$27 million in the second quarter and the six-month period of 2017, respectively, due to higher average debt principal balances as a result of the issuance of \$1,125 million in aggregate principal amount of senior notes in October 2016.

Table of Contents

**CAPITAL RESOURCES AND LIQUIDITY**

**Significant Sources of Capital**

Our sources of liquidity include cash generated from operations, borrowings from related parties and under our revolving credit facility, and issuances of additional debt and equity securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements and our quarterly cash distributions.

**Operating Activities**

We generated \$270 million in cash from operations during the first six months of 2017, an improvement over cash from operations of \$243 million for the corresponding period of 2016. The improvement was mainly driven by working capital impacts.

**Common Units**

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 (2016 Unit Offering). We utilized the net proceeds to partially repay debt assumed as part of the Subsequent Fractionator Acquisition. See Note 4—Acquisitions in the Notes to Consolidated Financial Statements for additional information.

**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 (SEC) 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, referred to as our ATM Program). For the three and six months ended June 30, 2017, on a settlement date basis, we issued 2,578,608 and 3,323,576 common units under the ATM Program, which generated net proceeds of \$131 million and \$171 million, respectively. For the three and six months ended June 30, 2016, on a settlement date basis, we issued 262,858 common units under our ATM Program, generating net proceeds of \$14 million. Since inception through June 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.

Issuance of common units under the ATM Program can reduce our General Partner's interest to under 2 percent. We expect the General Partner's interest to be periodically restored to 2 percent in connection with dropdown transactions or through direct equity contributions. However, these future contributions from our General Partner cannot be assured. At June 30, 2017, our General Partner's interest was slightly less than 2 percent.

**Revolving Credit Facility**

At June 30, 2017, and December 31, 2016, we had an aggregate of \$50 million and \$210 million, respectively, borrowed and outstanding under our \$750 million revolving credit facility.

**Note Payable**

In May 2016, in connection with the Subsequent Fractionator Acquisition, we entered into three separate Assignment and Assumption of Note agreements with subsidiaries of Phillips 66, pursuant to which we assumed the obligations under three term promissory notes (the Subsequent Notes), each with a \$225 million principal balance. Also in May 2016, using proceeds from the 2016 Unit Offering, we repaid two of the Subsequent Notes in their entirety and reduced the outstanding balance on the remaining Subsequent Note to \$19 million, which was repaid in June 2016.

### Shelf Registration

We have a universal shelf registration statement on file with the SEC under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of common units representing limited partner interests, preferred units representing limited partner interests, and debt securities.

31

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Table of Contents

## Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

## Capital Requirements

## Capital Expenditures and Investments

Our operations can be capital intensive, requiring investments to expand, upgrade, maintain or enhance existing operations and to meet environmental and operational requirements of our wholly owned and joint venture entities. Our capital requirements consist of maintenance and expansion capital expenditures, as well as contributions to our joint ventures. Examples of maintenance capital expenditures are those made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or to maintain existing system volumes and related cash flows. In contrast, expansion capital expenditures are those made to expand and upgrade our systems and facilities and to construct or acquire new systems or facilities to grow our business, including contributions to joint ventures that are using the contributed funds for such purposes.

Our capital expenditures and investments for the first six months of 2017 and 2016 were:

	Millions of Dollars Six Months Ended June 30 2017 2016
Capital expenditures and investments attributable to the Partnership	
Expansion	\$ 107 90
Maintenance	21 5
Total	128 95
Capital expenditures attributable to Predecessors*	— 67
Total capital expenditures and investments	\$ 128 162
*Prior-period financial information has been retrospectively adjusted for acquisitions of businesses under common control.	

Our capital expenditures and investments for the first six months of 2017 were \$128 million, primarily associated with the following activities:

• Contributions to Bayou Bridge to continue progress on its pipeline segment from Lake Charles, Louisiana, to St. James, Louisiana.

• Contributions to STACK to extend the origination point of its pipeline system to access additional area producers and increase capacity.

• Contributions to Sand Hills to increase capacity on its NGL pipeline system.

• Reactivation and upgrading of various tanks at the Bayway Products System to facilitate additional storage and gasoline blending.

Various upgrades and replacements of assets.

32

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## Table of Contents

### Cash Distribution

On July 19, 2017, the Board of Directors of our General Partner declared a quarterly cash distribution of \$0.615 per common unit which, combined with distributions to our General Partner, will result in a total distribution of \$104 million, payable on August 11, 2017, to unitholders of record as of July 31, 2017.

Cash distributions will be made to our General Partner in respect of its general partner interest and its ownership of all incentive distribution rights (IDRs), which entitle our General Partner to receive increasing percentages, up to 50 percent, of quarterly cash distributions in excess of \$0.244375 per unit. Accordingly, based on the per-unit distribution declared on July 19, 2017, our General Partner will receive 35 percent of the second-quarter 2017 cash distributions in respect of its general partner interest and its ownership of all IDRs.

### 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 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.

### Regulatory Matters

Our interstate common carrier crude oil and refined petroleum products pipeline operations are subject to rate regulation by the Federal Energy Regulatory Commission under the Interstate Commerce Act and Energy Policy Act of 1992, and certain of our pipeline systems providing intrastate service are subject to rate regulation by applicable state authorities under their respective laws and regulations. Our pipeline, rail rack and terminal operations are also subject to safety regulations adopted by the Department of Transportation, as well as to state regulations.

### Legal and Tax Matters

Under our amended omnibus agreement, Phillips 66 provides certain services for our benefit, including legal and tax support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal and tax organizations apply their knowledge, experience and professional judgment to the specific characteristics of our cases and uncertain tax positions. Phillips 66's legal organization employs 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 June 30, 2017, and December 31, 2016, we did not have any material accrued contingent liabilities associated with litigation matters.

## Table of Contents

### Environmental

We are subject to extensive federal, state and local environmental laws and regulations. These requirements, which frequently change, regulate the discharge of materials into the environment or otherwise relate to protection of the environment. Compliance with these laws and regulations may require us to remediate environmental damage from any discharge of petroleum or chemical substances from our facilities or require us to install additional pollution control equipment at or on our facilities. Our failure to comply with these or any other environmental or safety-related regulations could result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of governmental orders that may subject us to additional operational constraints. Future expenditures may be required to comply with the Federal Clean Air Act and other federal, state and local requirements in respect of our various sites, including our pipelines and storage assets. The impact of legislative and regulatory developments, if enacted or adopted, could result in increased compliance costs and additional operating restrictions on our business, each of which could have an adverse impact on our financial position, results of operations and liquidity.

As with all costs, if these expenditures are not ultimately reflected in the tariffs and other fees we receive for our services, our operating results will be adversely affected. We believe that substantially all similarly situated parties and holders of comparable assets must comply with similar environmental laws and regulations. However, the specific impact on each may vary depending on a number of factors, including, but not limited to, the age and location of its operating facilities.

We accrue for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs can be reasonably estimated. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. New or expanded environmental requirements, which could increase our environmental costs, may arise in the future. We believe we are in substantial compliance with all legal obligations regarding the environment and have established the environmental accruals that are currently required; however, it is not possible to predict all of the ultimate costs of compliance, including remediation costs that may be incurred and penalties that may be imposed, because not all of the costs are fixed or presently determinable (even under existing legislation) and the costs may be affected by future legislation or regulations.

### Paradis Pipeline Station Incident

On February 9, 2017, a fire occurred at the Paradis Pipeline Station on the River Parish NGL System. There was one Phillips 66 employee fatality and other workers injured. We continue to cooperate with regulatory agencies investigating this incident. We do not currently expect claims related to this incident, individually or in the aggregate, to have a material impact on our results of operations.

### 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.



Table of Contents

NEW ACCOUNTING STANDARDS

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-01, “Business Combinations: 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.

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 will also affect 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. Earlier 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

Table of Contents

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.

36

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Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. You can identify our forward-looking statements by the words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “show,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about us and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- The continued ability of Phillips 66 to satisfy its obligations under our commercial and other agreements.
- The volume of crude oil, NGL and refined petroleum products we transport, fractionate, terminal and store.
- The tariff rates with respect to volumes that we transport through our regulated assets, which rates are subject to review and possible adjustment by federal and state regulators.
- Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.
- Fluctuations in the prices for crude oil, NGL and refined petroleum products.
- Changes in global economic conditions and the effects of a global economic downturn on the business of Phillips 66 and the business of its suppliers, customers, business partners and credit lenders.
- Liabilities associated with the risks and operational hazards inherent in transporting, fractionating, terminaling and storing crude oil, NGL and refined petroleum products.
- Curtailment of operations due to severe weather disruption; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.
  - Inability to timely obtain or maintain permits, including those necessary for capital projects; comply with government regulations; or make capital expenditures required to maintain compliance.
- Failure to timely complete construction of announced and future capital projects.
- The operation, financing and distribution decisions of our joint ventures.
  - Costs or liabilities associated with federal, state, and local laws and regulations relating to environmental protection and safety, including spills, releases and pipeline integrity.
- Costs associated with compliance with evolving environmental laws and regulations on climate change.
- Costs associated with compliance with safety regulations, including pipeline integrity management program testing and related repairs.
- Changes in the cost or availability of third-party vessels, pipelines, railcars and other means of delivering and transporting crude oil, NGL and refined petroleum products.
- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.
- The factors generally described in “Item 1A. Risk Factors” in our 2016 Annual Report on Form 10-K filed with the SEC on February 17, 2017.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our commodity price risk and interest rate risk at June 30, 2017, did not differ materially from that disclosed under Item 7A of our 2016 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in U.S. Securities and Exchange Commission (the SEC) rules and forms, and that such information is accumulated and communicated to our General Partner's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. As of June 30, 2017, our General Partner's Chairman and Chief Executive Officer and its Vice President and Chief Financial Officer, with the participation of the General Partner's management, carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our General Partner's Chairman and Chief Executive Officer and its Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of June 30, 2017.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the quarterly period ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not a party to any reportable litigation or governmental or other proceeding, including those involving governmental authorities under federal, state and local laws regulating the discharge of materials into the environment, that we believe will have a material adverse impact on our consolidated financial position. In addition, as discussed in Note 10—Contingencies, in the Notes to Consolidated Financial Statements, under our amended omnibus agreement, and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, Phillips 66 indemnifies us or assumes responsibility for certain liabilities relating to litigation and environmental matters attributable to the ownership or operation of our assets prior to their contribution to us from Phillips 66.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed under Item 1A of our 2016 Annual Report on Form 10-K.

Table of Contents

Item 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1	Sixth Amendment to the Operational Services Agreement, dated as of November 17, 2016, by and among Phillips 66 Carrier LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Pipeline LLC.
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32	Certifications pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.LAB	XBRL Labels Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.

Table of Contents

SIGNATURES

Pursuant to the requirements 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 66 PARTNERS LP

By: Phillips 66 Partners GP LLC, its general partner

/s/ Chukwuemeka A. Oyolu  
Chukwuemeka A. Oyolu  
Vice President and Controller  
(Chief Accounting and Duly Authorized Officer)

Date: August 1, 2017