

PHILLIPS 66 PARTNERS LP
Form 10-Q
October 28, 2016
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 September 30, 2016
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

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>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>Part II – Other Information</u>	<u>46</u>
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>47</u>
<u>Signatures</u>	<u>48</u>

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		Nine Months Ended	
	September 30 2016	2015*	September 30 2016	2015*
Revenues and Other Income				
Operating revenues—related parties	\$108,471.1		315.7	204.0
Operating revenues—third parties	1.8	0.7	5.9	2.7
Equity in earnings of affiliates	33.8	25.2	88.5	51.9
Other income	0.3	0.1	0.8	0.2
Total revenues and other income	144.3	97.1	410.9	258.8
Costs and Expenses				
Operating and maintenance expenses	25.5	20.3	76.4	56.3
Depreciation	15.1	6.1	43.5	16.8
General and administrative expenses	9.2	7.4	26.0	23.2
Taxes other than income taxes	1.2	3.1	12.3	8.9
Interest and debt expense	9.9	9.2	30.8	24.6
Other expenses	0.1	—	0.1	0.1
Total costs and expenses	61.0	46.1	189.1	129.9
Income before income taxes	83.3	51.0	221.8	128.9
Provision for income taxes	0.2	0.1	0.8	0.2
Net Income	83.1	50.9	221.0	128.7
Less: Net income (loss) attributable to Predecessors	—	(1.4)	18.1	(1.0)
Net income attributable to the Partnership	83.1	52.3	202.9	129.7
Less: General partner's interest in net income attributable to the Partnership	26.0	11.5	62.9	26.9
Limited partners' interest in net income attributable to the Partnership	\$57.1	40.8	140.0	102.8
Net Income Attributable to the Partnership Per Limited Partner Unit—Basic and Diluted (dollars)				
Common units	\$0.57	0.50	1.53	1.40
Subordinated units—Phillips 66	—	—	—	0.82
Cash Distributions Paid Per Limited Partner Unit (dollars)	\$0.50	0.400	1.444	1.110
Average Limited Partner Units Outstanding—Basic and Diluted (thousands)				
Common units—public	40,392	24,139	32,007	23,120
Common units—Phillips 66	60,163	57,743	59,408	40,366
Subordinated units—Phillips 66	—	—	—	17,028

*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 September 30		Nine Months Ended September 30	
	2016	2015*	2016	2015*
Net Income	\$83.1	50.9	221.0	128.7
Defined benefit plans				
Plan sponsored by equity affiliate, net of tax	(0.4)	—	0.3	—
Other Comprehensive Income	(0.4)	—	0.3	—
Comprehensive Income	\$82.7	50.9	221.3	128.7

*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	
	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 19.0	50.3
Accounts receivable—related parties	39.8	21.4
Accounts receivable—third parties	1.6	3.3
Materials and supplies	5.5	4.5
Prepaid expenses	3.8	1.9
Other current assets	0.4	2.3
Total Current Assets	70.1	83.7
Equity investments	1,103.4	944.9
Net properties, plants and equipment	1,674.3	1,644.1
Goodwill	2.5	2.5
Deferred rentals—related parties	5.3	5.6
Deferred tax assets	—	0.1
Other assets	24.9	0.7
Total Assets	\$2,880.5	2,681.6
Liabilities		
Accounts payable—related parties	\$ 7.3	3.9
Accounts payable—third parties	19.6	66.9
Payroll and benefits payable	—	0.7
Accrued property and other taxes	11.8	7.7
Accrued interest	5.1	22.2
Short-term debt	50.0	—
Deferred revenues—related parties	10.0	4.6
Other current liabilities	1.1	0.9
Total Current Liabilities	104.9	106.9
Notes payable—related party	—	964.0
Long-term debt	1,091.4	1,090.7
Asset retirement obligations	4.0	3.9
Accrued environmental costs	0.9	0.8
Deferred income taxes	1.0	0.3
Deferred revenues—related parties—long-term	19.9	11.0
Total Liabilities	1,222.1	2,177.6
Equity		
Net investment—Predecessors	—	113.9
Common unitholders—public (2016—43,134,902 units issued and outstanding; 2015—24,138,750 units issued and outstanding)	1,790.3	808.9
Common unitholder—Phillips 66 (2016—60,162,787 units issued and outstanding; 2015—58,349,042 units issued and outstanding)	468.9	233.0
General partner—Phillips 66 (2016—1,978,603 units issued and outstanding; 2015—1,683,425 units issued and outstanding)	(599.6)	(650.3)
Accumulated other comprehensive loss	(1.2)	(1.5)

Total Equity	1,658.4	504.0
Total Liabilities and Equity	\$2,880.5	2,681.6
See Notes to Consolidated Financial Statements.		

Table of Contents

Consolidated Statement of Cash Flows Phillips 66 Partners LP

	Millions of Dollars	
	Nine Months Ended	
	2016	2015*
Cash Flows From Operating Activities		
Net income	\$221.0	128.7
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	43.5	16.8
Deferred taxes	0.5	—
Deferred rentals	0.3	0.3
Accrued environmental costs	0.1	0.6
Undistributed equity earnings	(3.8)	(2.7)
Deferred revenues—long-term	8.9	3.3
Other	4.4	1.6
Working capital adjustments		
Decrease (increase) in accounts receivable	(16.2)	(4.1)
Decrease (increase) in materials and supplies	(1.0)	(1.8)
Decrease (increase) in prepaid expenses and other current assets	(2.0)	(2.1)
Increase (decrease) in accounts payable	2.8	(8.6)
Increase (decrease) in accrued interest	(17.1)	3.2
Increase (decrease) in deferred revenues	5.4	5.7
Increase (decrease) in other accruals	3.5	5.6
Net Cash Provided by Operating Activities	250.3	146.5
Cash Flows From Investing Activities		
Sand Hills/Southern Hills/Explorer equity investment acquisition	—	(734.3)
Cash capital expenditures and investments	(248.9)	(676.9)
Return of investment from equity affiliates	10.4	8.2
Other	(24.2)	—
Net Cash Used in Investing Activities	(262.7)	(1,403.0)
Cash Flows From Financing Activities		
Net contributions from Phillips 66 to Predecessors	89.2	36.1
Acquisition of noncontrolling interest in Sweeny Frac LLC	(655.6)	—
Issuance of debt	427.6	1,669.7
Repayment of debt	(686.0)	(498.6)
Issuance of common units	983.1	396.4
Offering costs	(11.3)	(12.5)
Debt issuance costs	—	(9.9)
Distributions to General Partner associated with acquisitions	—	(145.7)
Quarterly distributions to common unitholders—public	(41.4)	(25.0)
Quarterly distributions to common unitholder—Phillips 66	(85.4)	(38.5)
Quarterly distributions to subordinated unitholder—Phillips 66	—	(25.0)
Quarterly distributions to General Partner—Phillips 66	(50.0)	(18.8)
Other cash contributions from (to) Phillips 66	10.9	(0.2)
Net Cash Provided by (Used in) Financing Activities	(18.9)	1,328.0

Net Change in Cash and Cash Equivalents	(31.3)	71.5
Cash and cash equivalents at beginning of period	50.3	17.4
Cash and Cash Equivalents at End of Period	\$19.0	88.9

*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 Partnership							
	Common Unitholder Public	Common Unitholder Phillips 66	Subordinated Unitholder Phillips 66	General Partner Phillips 66	Accum. Other Comprehensive Loss	Net Investment Predecessors*	Total	
December 31, 2014	\$415.3	57.1	116.8	(517.0)	—	91.7	163.9	
Net income attributable to Predecessors	—	—	—	—	—	(1.0)	(1.0)	
Net contributions from Phillips 66—Predecessors	—	—	—	—	—	36.1	36.1	
Issuance of common units	383.9	—	—	—	—	—	383.9	
Conversion of subordinated units	—	105.8	(105.8)	—	—	—	—	
Deemed net distributions to General Partner associated with acquisitions	—	—	—	(145.0)	—	—	(145.0)	
Net income attributable to the Partnership	30.3	58.5	14.0	26.9	—	—	129.7	
Other comprehensive loss	—	—	—	—	(1.5)	—	(1.5)	
Quarterly cash distributions to unitholders and General Partner	(25.0)	(38.5)	(25.0)	(18.8)	—	—	(107.3)	
Other contributions from Phillips 66	—	—	—	4.1	—	—	4.1	
September 30, 2015	\$804.5	182.9	—	(649.8)	(1.5)	126.8	462.9	
December 31, 2015	\$808.9	233.0	—	(650.3)	(1.5)	113.9	504.0	
Net income attributable to Predecessors	—	—	—	—	—	18.1	18.1	
Net contributions from Phillips 66—Predecessors	—	—	—	—	—	134.5	134.5	
Issuance of common units	971.6	—	—	—	—	—	971.6	
Allocation of net investment to unitholders	—	232.5	—	34.0	—	(266.5)	—	

Edgar Filing: PHILLIPS 66 PARTNERS LP - Form 10-Q

Net income attributable to the Partnership	51.2	88.8	—	62.9	—	—	202.9
Other comprehensive income	—	—	—	—	0.3	—	0.3
Quarterly cash distributions to unitholders and General Partner	(41.4	)(85.4	)—	(50.0	)—	—	(176.8)
Other contributions from Phillips 66	—	—	—	3.8	—	—	3.8
September 30, 2016	\$1,790.3	468.9	—	(599.6	)(1.2	)—	1,658.4

*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

	Common Units Public	Common Units Phillips 66	Subordinated Units Phillips 66	General Partner Units Phillips 66	Total Units
December 31, 2014	18,888,750	20,938,498	35,217,112	1,531,518	76,575,878
Units issued in public equity offerings	5,250,000	—	—	—	5,250,000
Units issued associated with Sand Hills/Southern Hills/Explorer equity investment acquisition	—	1,587,376	—	139,538	1,726,914
Subordinated unit conversion	—	35,217,112	(35,217,112)	—	—
September 30, 2015	24,138,750	57,742,986	—	1,671,056	83,552,792
December 31, 2015	24,138,750	58,349,042	—	1,683,425	84,171,217
Units issued in public equity offerings	18,996,152	—	—	—	18,996,152
Units issued in Initial Fractionator Acquisition*	—	412,823	—	8,425	421,248
Units issued in Subsequent Fractionator Acquisition*	—	1,400,922	—	286,753	1,687,675
September 30, 2016	43,134,902	60,162,787	—	1,978,603	105,276,292

*See Note 4—Fractionator Acquisitions, in the Notes to Consolidated Financial Statements.
See Notes to Consolidated Financial Statements.

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.

Business Description

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, seven of Phillips 66’s owned or joint-venture refineries.

We generate revenue primarily by providing fee-based transportation, terminaling, storage and NGL fractionation services to Phillips 66 and other customers. Our equity affiliates generate revenue primarily 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.

In March and May of 2016, in two separate transactions, we acquired an NGL fractionator and associated storage caverns from Phillips 66, along with a refined petroleum products pipeline system. See Note 4—Fractionator Acquisitions for additional information.

On May 10, 2016, we completed a public offering of 12,650,000 common units for total proceeds (net of underwriting discounts and commissions) of \$655.6 million (the First 2016 Unit Offering). The net proceeds from the First 2016 Unit Offering were used to repay a portion of the notes assumed as part of the consideration paid for the May acquisition described above. On August 12, 2016, we completed a public offering of 6,000,000 common units for total proceeds (net of underwriting discounts and commissions) of \$298.5 million (the Second 2016 Unit Offering). The net proceeds from the Second 2016 Unit Offering were used to repay the note assumed as part of the consideration paid for the March acquisition described above, as well as other short-term borrowings. See Note 8—Equity for additional information.

Other developments during the third quarter of 2016 included:

Formation of STACK Pipeline Joint Venture: On August 3, 2016, we and Plains All American Pipeline, L.P. (Plains) formed STACK Pipeline LLC (STACK Pipeline JV), a 50/50 joint venture that owns and operates a crude oil storage terminal and a common carrier pipeline that transports crude oil. Plains contributed the terminal and pipeline to the joint venture, and we contributed \$50.0 million in cash, which was distributed to Plains. See Note 5—Equity Investments for additional information.

Explorer Equity Investment Acquisition: On August 9, 2016, we acquired an additional 2.48 percent equity interest in Explorer Pipeline Company (Explorer). The acquisition increased our interest in Explorer from 19.46 percent to 21.94 percent. See Note 5—Equity Investments for additional information.

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.”

7

Table of Contents

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 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.

The presentation of prior-period prepaid expenses on the consolidated balance sheet has been recast to conform to the current year's presentation.

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 retrospectively adjusted consolidated financial statements and notes included in our Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (SEC) on August 1, 2016. The results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of the results to be expected for the full year.

Note 3—Changes in Accounting Principles

Effective January 1, 2016, we early adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." The new update simplified the presentation of deferred income taxes and required deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The classification was made at the taxpaying component level of an entity, after reflecting any offset of deferred tax liabilities, deferred tax assets and any related valuation allowances. We applied the amendments prospectively to all deferred tax liabilities and assets.

In June 2014, the FASB issued ASU No. 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities (VIE) Guidance in Topic 810, Consolidation." The new standard removes the definition of a development stage entity from the Master Glossary of the Accounting Standard Codification (ASC) and the related financial reporting requirements specific to development stage entities. This ASU is intended to reduce cost and complexity of financial reporting for entities that have not commenced planned principal operations. For financial reporting requirements other than the VIE guidance

in ASC Topic 810, "Consolidation," ASU No. 2014-10 was effective for annual and quarterly reporting periods of public entities beginning after December 15, 2014. For the financial reporting requirements related to VIEs in ASC Topic 810, "Consolidation," ASU No. 2014-10 was effective for annual and quarterly reporting periods of public entities beginning after December 15, 2015. We adopted the provisions of this ASU related to the financial reporting requirements other than the VIE guidance effective January 1, 2015. We adopted the remaining provisions effective January 1, 2016, and updated our disclosures about the risks and uncertainties related to our joint venture entities that have not commenced their principal operations.

Table of Contents

Note 4—Fractionator Acquisitions

During 2016, in two separate transactions, we acquired an NGL fractionator and associated storage caverns from Phillips 66, along with a refined petroleum products pipeline system. Details on each of these transactions follow.

Initial Fractionator Acquisition

On February 17, 2016, we entered into a Contribution, Conveyance and Assumption Agreement (CCAA) with subsidiaries of Phillips 66 to acquire a 25 percent controlling interest in Phillips 66 Sweeny Frac LLC (Sweeny Frac LLC) for total consideration of \$236 million (the Initial Fractionator Acquisition). Total consideration consisted of the assumption of a \$212 million note payable to a subsidiary of Phillips 66 and the issuance of 412,823 newly issued common units to Phillips 66 Project Development Inc. (P66 PDI) and 8,425 general partner units to Phillips 66 Partners GP LLC (our General Partner) to maintain its 2 percent general partner interest. The Initial Fractionator Acquisition closed on March 1, 2016. Total transaction costs of \$0.9 million were expensed as incurred. Because this acquisition was a transfer of businesses between entities under common control, we filed a Form 8-K on May 3, 2016, containing recasted financial statements and related notes, along with management's discussion and analysis of financial condition and results of operations, with retrospective adjustments to include the results of operations and financial position of the assets acquired for all periods presented in our 2015 Form 10-K.

Subsequent Fractionator Acquisition

On May 4, 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 newly issued common units to P66 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 First 2016 Unit Offering. The Subsequent Fractionator Acquisition closed on May 10, 2016. Total transaction costs of \$0.7 million were expensed as incurred. Because this acquisition was a transfer of businesses between entities under common control, we filed a Form 8-K on August 1, 2016, containing recasted financial statements and related notes, along with management's discussion and analysis of financial condition and results of operations, with retrospective adjustments to include the results of operations and financial position of the assets acquired for all periods presented in our 2015 Form 10-K.

Acquired Assets

Through the Initial Fractionator Acquisition and Subsequent Fractionator Acquisition (collectively, the Acquisitions), we acquired the following assets (the Acquired Assets):

Sweeny NGL Fractionator. This newly constructed NGL fractionator is located within Phillips 66's Sweeny refinery complex in Old Ocean, Texas, and has a processing capacity of 100,000 barrels per day. The NGL fractionator uses distillation to process a raw (Y-grade) NGL stream into its individual purity components, such as propane and butane.

Clemens Caverns. This newly constructed underground salt dome NGL storage facility is located near Brazoria, Texas. The Clemens Caverns facilitate handling of Y-grade NGL for input into the Sweeny NGL Fractionator, as well as storage of purity NGL products produced by the fractionator.

Standish Pipeline. This 92-mile refined petroleum product pipeline extends from Phillips 66's refinery in Ponca City, Oklahoma, to our terminal in Wichita, Kansas.

Construction activities on the Sweeny NGL Fractionator and Clemens Caverns began in 2013. Commercial operations at the Sweeny NGL Fractionator commenced in December 2015, and commercial operations at the Clemens Caverns commenced in September 2015.

Commercial Agreements with Phillips 66

In connection with the Acquisitions, we entered into the following arrangements with Phillips 66:

9

Table of Contents

A fractionation agreement under which Sweeny Frac LLC charges fees to Phillips 66 for the fractionation of Y-grade NGL into its purity components. Phillips 66 pays a monthly fee based on the volume of NGL fractionated, with minimum volume commitments.

An NGL storage agreement under which Sweeny Frac LLC charges fees to Phillips 66 for storing Y-grade and purity NGL in the Clemens Caverns. Phillips 66 pays a monthly fee based on minimum storage commitments, a deficiency payment if the actual volume stored is less than the minimum storage volume, and excess fees if the stored volume exceeds specified limits.

A fourth amendment to the Omnibus Agreement with Phillips 66 to, among other things, provide for additional services to be provided to us by Phillips 66 in connection with the Acquired Assets and increase the monthly operational and administrative support fee to \$3.0 million.

Third and fourth amendments to the Operational Services Agreement with Phillips 66 to, among other things, provide for additional services to be provided to us by Phillips 66 in support of the Acquired Assets.

See Note 12—Related Party Transactions for additional information on our commercial and support agreements with Phillips 66.

Common Control Transactions

The Acquisitions were considered transfers of businesses between entities under common control, and therefore the Acquired Assets were transferred at historical carrying value. The aggregated net book value of the Acquired Assets, at the time of acquisition, was \$1,154 million. Because the Acquisitions were common control transactions in which we acquired businesses, our historical financial statements have been retrospectively adjusted to reflect the results of operations, financial position, and cash flows of the Acquired Assets as if we owned the Acquired Assets for all periods presented.

The following tables present our results of operations and financial position giving effect to the Acquisitions. The first column presents our historical financial information prior to the retrospective adjustments, the second column presents the retrospective adjustments, and the third column presents our financial information as retrospectively adjusted. Results of the Acquired Assets after the effective date of each acquisition are presented in the first column.

Table of Contents

	Nine Months Ended September 30, 2016		
	Millions of Dollars		
Consolidated Statement of Income	Phillips 66 Partners LP	Acquired Assets Predecessor	Consolidated Results
Revenues and Other Income			
Operating revenues—related parties	\$291.4	24.3	315.7
Operating revenues—third parties	5.9	—	5.9
Equity in earnings of affiliates	88.5	—	88.5
Other income	0.6	0.2	0.8
Total revenues and other income	386.4	24.5	410.9
Costs and Expenses			
Operating and maintenance expenses	71.0	5.4	76.4
Depreciation	37.9	5.6	43.5
General and administrative expenses	25.1	0.9	26.0
Taxes other than income taxes	10.5	1.8	12.3
Interest and debt expense	30.8	—	30.8
Other expenses	0.1	—	0.1
Total costs and expenses	175.4	13.7	189.1
Income before income taxes	211.0	10.8	221.8
Provision for income taxes	0.8	—	0.8
Net Income	210.2	10.8	221.0
Less: Net income attributable to noncontrolling interests	7.3	(7.3)) —
Less: Net income attributable to Predecessors	—	18.1	18.1
Net Income Attributable to the Partnership	\$202.9	—	202.9

Table of Contents

	Three Months Ended September 30, 2015		
	Millions of Dollars		
	Phillips 66 Partners LP		Phillips 66 Partners LP
Consolidated Statement of Income	Acquired Assets Predecessor (As Previously Reported)		(As Currently Reported)
Revenues and Other Income			
Operating revenues—related parties	\$65.4	5.7	71.1
Operating revenues—third parties	0.7	—	0.7
Equity in earnings of affiliates	25.2	—	25.2
Other income	0.1	—	0.1
Total revenues and other income	91.4	5.7	97.1
Costs and Expenses			
Operating and maintenance expenses	15.5	4.8	20.3
Depreciation	5.7	0.4	6.1
General and administrative expenses	6.2	1.2	7.4
Taxes other than income taxes	2.4	0.7	3.1
Interest and debt expense	9.2	—	9.2
Total costs and expenses	39.0	7.1	46.1
Income (loss) before income taxes	52.4	(1.4)	) 51.0
Provision for income taxes	0.1	—	0.1
Net Income (Loss)	52.3	(1.4)	) 50.9
Less: Net loss attributable to Predecessors	—	(1.4)	) (1.4)
Net Income Attributable to the Partnership	\$52.3	—	52.3

Table of Contents

	Nine Months Ended September 30, 2015		
	Millions of Dollars		
	Phillips 66 Partners LP		Phillips 66 Partners LP
Consolidated Statement of Income	Acquired Assets Predecessor (As Previously Reported)		(As Currently Reported)
Revenues and Other Income			
Operating revenues—related parties	\$ 190.5	13.5	204.0
Operating revenues—third parties	2.7	—	2.7
Equity in earnings of affiliates	51.9	—	51.9
Other income	0.2	—	0.2
Total revenues and other income	245.3	13.5	258.8
Costs and Expenses			
Operating and maintenance expenses	47.8	8.5	56.3
Depreciation	16.1	0.7	16.8
General and administrative expenses	20.0	3.2	23.2
Taxes other than income taxes	6.8	2.1	8.9
Interest and debt expense	24.6	—	24.6
Other expenses	0.1	—	0.1
Total costs and expenses	115.4	14.5	129.9
Income (loss) before income taxes	129.9	(1.0)	) 128.9
Provision for income taxes	0.2	—	0.2
Net Income (Loss)	129.7	(1.0)	) 128.7
Less: Net loss attributable to Predecessors	—	(1.0)	) (1.0)
Net Income Attributable to the Partnership	\$ 129.7	—	129.7

Table of Contents

Note 5—Equity Investments

STACK Pipeline JV

On August 3, 2016, we and Plains formed STACK Pipeline JV, which owns and operates a crude storage terminal and a common carrier pipeline that transports crude oil from the Sooner Trend, Anadarko Basin, Canadian and Kingfisher Counties play in northwestern Oklahoma to Cushing, Oklahoma. Plains contributed the terminal and pipeline in exchange for its 50 percent interest in the joint venture. We contributed \$50.0 million in cash, which was distributed to Plains, in exchange for our 50 percent interest in the joint venture. Additionally, contingent upon execution of a commercial agreement, we would pay an additional \$4.0 million to Plains.

Bakken Joint Ventures

In January 2015, we closed on agreements with Paradigm Energy Partners, LLC (Paradigm) to form two joint ventures to develop midstream logistics infrastructure in North Dakota. At closing, we contributed our Palermo Rail Terminal project for a 70 percent ownership interest in Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal), and \$4.9 million in cash for a 50 percent ownership interest in Paradigm Pipeline LLC (Paradigm Pipeline). We account for both joint ventures under the equity method of accounting due to governance provisions that require supermajority voting on all decisions that significantly impact the governance, management and economic performance of the joint ventures.

As of September 30, 2016, the planned principal operations of Paradigm Pipeline had not commenced. Until the planned principal operations have commenced, Paradigm Pipeline does not have sufficient equity at risk to fully fund the construction of all assets required for principal operations, and thus represents a VIE in which we are not the primary beneficiary. Our maximum exposure to loss represented the carrying value of our investment of \$96.3 million.

Sand Hills/Southern Hills/Explorer Pipeline Joint Ventures

In February 2015, we entered into a CCAA with subsidiaries of Phillips 66 to acquire 100 percent of Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills) and its 19.46 percent equity interest in Explorer. The transaction closed in March 2015. Total consideration for the transaction was \$1.01 billion consisting in part of \$880 million in cash, funded by a portion of the proceeds from a public offering of unsecured senior notes and a public offering of common units. In addition, the Partnership issued 1,587,376 common units to P66 PDI and 139,538 general partner units to our General Partner to maintain its 2 percent interest. Total transaction costs of \$0.9 million were expensed as incurred in general and administrative expenses.

On August 9, 2016, we acquired an additional 2.48 percent equity interest in Explorer. The acquisition increased our interest in Explorer from 19.46 percent to 21.94 percent.

Bayou Bridge Pipeline

In October 2015, we entered into a CCAA with Phillips 66 to acquire its 40 percent interest in Bayou Bridge Pipeline, LLC (Bayou Bridge Pipeline), a joint venture in which Energy Transfer Partners, L.P. and Sunoco Logistics Partners L.P. (Sunoco Logistics) each hold a 30 percent interest, with Sunoco Logistics serving as the operator. Bayou Bridge Pipeline began operations on the segment of its pipeline from Nederland, Texas, to Lake Charles, Louisiana, in April. Development continues on the section from Lake Charles to St. James, Louisiana.

Total consideration for the transaction, which closed in December 2015, was \$69.6 million, consisting of the assumption of a \$34.8 million note payable to Phillips 66 that was immediately paid in full; the issuance of 606,056 common units to P66 PDI; and the issuance of 12,369 general partner units of the Partnership to our General Partner to maintain its 2 percent general partner interest.

The acquisitions of interests in the Sand Hills, Southern Hills, Explorer and Bayou Bridge Pipeline joint ventures represented transfers of investments between entities under common control. Accordingly, these equity investments were transferred at historical carrying value, but are included in the financial statements prospectively from the effective date of each acquisition.

Table of Contents

The following table summarizes our equity investments:

	Percentage Ownership	Millions of Dollars Carrying Value	
		September 30, 2016	December 31, 2015
Sand Hills	33.34	% \$439.6	430.5
Southern Hills	33.34	213.3	212.9
Explorer*	21.94	128.7	102.4
Phillips 66 Partners Terminal	70.00	73.8	77.0
Paradigm Pipeline	50.00	96.3	52.5
Bayou Bridge Pipeline	40.00	100.1	69.6
STACK Pipeline JV	50.00	51.6	—
Total equity investments		\$1,103.4	944.9

*Percentage ownership was 19.46% at December 31, 2015.

Earnings (losses) from our equity investments were as follows:

	Millions of Dollars			
	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Sand Hills	\$16.7	15.1	48.0	33.9
Southern Hills	7.2	3.5	21.3	8.7
Explorer	8.5	6.6	17.6	9.3
Phillips 66 Partners Terminal	(0.2)	—	0.1	—
Paradigm Pipeline	(0.2)	—	(0.4)	—
Bayou Bridge Pipeline	1.4	—	1.5	—
STACK Pipeline JV	0.4	—	0.4	—
Total equity in earnings of affiliates	\$33.8	25.2	88.5	51.9

Summarized 100 percent financial information for Sand Hills follows. Although the acquisition of Sand Hills closed on March 2, 2015, the entire nine-month period ended September 30, 2015, is presented in the table below, for enhanced comparability.

	Millions of Dollars			
	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	

Revenues	\$71.963.8	200.8175.3
Income before income taxes	50.4 45.8	142.5122.1
Net income	50.0 45.4	141.6121.3

Table of Contents

Note 6—Properties, Plants and Equipment

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

	Millions of Dollars	
	September 30, 2016	December 31, 2015
Land	\$14.1	13.8
Buildings and improvements	58.2	30.0
Pipelines and related assets*	264.1	259.1
Terminals and related assets*	361.3	345.9
Rail racks and related assets*	136.5	136.3
Fractionator and related assets*	615.6	626.2
Caverns and related assets*	516.3	277.5
Construction-in-progress	33.8	237.7
Gross PP&E	1,999.9	1,926.5
Less: Accumulated depreciation	(325.6)	(282.4)
Net PP&E	\$1,674.3	1,644.1

*Assets for which we are the lessor. See Note 14—Leases.

Note 7—Debt

Debt at September 30, 2016, and December 31, 2015, was:

	Millions of Dollars			Total Fair Value	Balance Sheet Carrying Value
	September 30, 2016				
	Fair Value Hierarchy				
	Level 1	Level 2*	Level 3		
2.646% Senior Notes due 2020	\$—	302.0	—	302.0	300.0
3.605% Senior Notes due 2025	—	503.8	—	503.8	500.0
4.680% Senior Notes due 2045	—	286.0	—	286.0	300.0
Revolving credit facility	50.0	—	—	50.0	50.0
Debt at face value	\$50.0	1,091.8	—	1,141.8	1,150.0
Net unamortized discounts and debt issuance costs					(8.6)
Total debt					\$1,141.4

*The fair value was estimated using quoted market prices of comparable instruments.

Table of Contents

	Millions of Dollars			
	December 31, 2015			
	Fair Value			Balance
	Hierarchy			Sheet
	Level 1	Level 2*	Level 3	Carrying
	Total Fair Value			Value
2.646% Senior Notes due 2020	\$282.0	—	282.0	300.0
3.605% Senior Notes due 2025	—431.9	—	431.9	500.0
4.680% Senior Notes due 2045	—225.2	—	225.2	300.0
Notes payable to Phillips 66 due 2020 at 3.0%	—961.1	—	961.1	964.0
Debt at face value	\$1,900.2	—	1,900.2	2,064.0
Net unamortized discounts and debt issuance costs				(9.3)
Total debt				\$2,054.7

*The fair value was estimated using quoted market prices of comparable instruments.

Revolving Credit Facility

At September 30, 2016, we had an aggregate of \$50 million borrowed and outstanding under our \$500 million revolving credit facility established by our Credit Agreement dated June 7, 2013 (the Credit Agreement). No amounts were outstanding as of December 31, 2015.

In early October 2016, we entered into a Second Amendment (the Second Amendment) to our Credit Agreement. The Second Amendment increased the amount available under the Credit Agreement to \$750 million and extended the termination date to October 3, 2021.

We have the option to increase the overall capacity of the Credit Agreement by up to an additional \$250 million for a total of \$1.0 billion, subject to, among other things, the consent of the existing lenders whose commitments will be increased or any additional lenders providing such additional capacity. We also have the option to extend the Credit Agreement for two additional one-year terms after October 3, 2021, subject to, among other things, the consent of the lenders holding the majority of the commitments and of each lender extending its commitment.

Outstanding borrowings under the Credit Agreement bear interest, at our option, at either: (a) the Eurodollar rate in effect from time to time plus the applicable margin; or (b) the base rate (as described in the Credit Agreement) plus the applicable margin. The pricing levels for the commitment fee and interest-rate margins are determined based on our credit ratings in effect from time to time. The Credit Agreement requires that the Partnership's ratio of total debt to EBITDA for the prior four fiscal quarters must be no greater than 5.0 to 1.0 as of the last day of each fiscal quarter (and 5.5 to 1.0 during the period following certain specified acquisitions).

Notes Payable

On March 1, 2016, in connection with the Initial Fractionator Acquisition, we entered into an Assignment and Assumption of Note agreement with subsidiaries of Phillips 66, pursuant to which we assumed the obligations under a term promissory note (the Initial Note) with a \$212 million principal balance. In August 2016, using proceeds from the Second 2016 Unit Offering, we repaid the note in its entirety.

On May 10, 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 on May 10, 2016, using proceeds from the First 2016 Unit Offering, we repaid two of the Subsequent Notes in their entirety, and reduced the outstanding balance on the remaining Subsequent Note to \$19.4 million, which was

repaid on June 30, 2016.

Because the Initial Note and Subsequent Notes were held by entities we acquired in common control transactions, prior period debt balances have been recast as if we had held the notes since their inception in January 2014.

17

Table of Contents

Note 8—Equity

ATM Program

On June 6, 2016, we filed a prospectus supplement to the shelf registration statement for our continuous offering program that became effective with the SEC on May 13, 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). During the three and nine months ended September 30, 2016, on a settlement-date basis, we issued an aggregate of 83,294 and 346,152 common units, respectively, under our ATM Program, generating net proceeds of approximately \$4.5 million and \$18.7 million, respectively, after broker commissions of \$0.2 million for the nine months ended September 30, 2016. The net proceeds from sales under the ATM Program are used for general partnership purposes, which may include debt repayment, future acquisitions, capital expenditures and additions to working capital.

Common Unit Offerings

On August 12, 2016, we completed a public offering of 6,000,000 common units representing limited partner interests at a price of \$50.22 per common unit, for total proceeds (net of underwriting discounts and commissions) of \$298.5 million (Second 2016 Unit Offering). The net proceeds from the Second 2016 Unit Offering were used to repay the note assumed as part of the Initial Fractionator Acquisition, as well as other short-term borrowings incurred to fund our acquisition of an additional interest in Explorer and our contribution to the recently formed STACK Pipeline JV. See Note 4—Fractionator Acquisitions and Note 7—Debt for additional information.

On May 10, 2016, we completed the First 2016 Unit 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 \$655.6 million from the offering. We utilized the net proceeds to partially repay debt assumed as part of the Subsequent Fractionator Acquisition. See Note 4—Fractionator Acquisitions and Note 7—Debt for additional information.

In February 2015, we completed the public offering of an aggregate of 5,250,000 common units representing limited partner interests at a price of \$75.50 per common unit (the 2015 Unit Offering). We received proceeds (net of underwriting discounts and commissions) of \$384.5 million from the offering. We utilized a portion of the net proceeds to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments and to repay amounts outstanding under our revolving credit facility. We used the remaining proceeds to fund expansion capital expenditures and for general partnership purposes. See Note 5—Equity Investments for additional information on the Sand Hills, Southern Hills and Explorer acquisition.

Note 9—Net Income Per Limited Partner Unit

Net income per unit applicable to common and subordinated units (for the period subordinated units were outstanding) is computed by dividing these limited partners' respective interests in net income attributable to the Partnership by the weighted average number of common units and subordinated units, respectively, outstanding for the period. Because we have more than one class of participating securities, we use the two-class method to calculate the net income per unit applicable to the limited partners. The classes of participating securities as of September 30, 2016, included common units, general partner units and incentive distribution rights (IDRs). Basic and diluted net income per 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 IDR's) 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 IDR's. 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

Table of Contents

not change as a result of the dropdown. After the closing of a dropdown transaction, the earnings of the acquired business are allocated in accordance with our partnership agreement as previously described.

	Millions of Dollars			
	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income attributable to the Partnership	\$83.1	52.3	202.9	129.7
Less: General partner's distribution declared (including IDRs)*	25.6	11.1	62.0	26.3
Limited partners' distribution declared on common units*	56.9	35.1	145.9	85.1
Limited partner's distribution declared on subordinated units*	—	—	—	13.0
Distributions less than (in excess of) net income attributable to the Partnership	\$0.6	6.1	(5.0)	5.3

*Distribution declared attributable to the indicated periods.

	General Partner (including IDRs)	Limited Partners' Common Units	Limited Partner's Units	Subordinated	Total
Three Months Ended September 30, 2016					
Net income attributable to the Partnership (millions):					
Distribution declared	\$ 25.6	56.9	—	—	82.5
Distribution less than net income attributable to the Partnership	0.4	0.2	—	—	0.6
Net income attributable to the Partnership	\$ 26.0	57.1	—	—	83.1
Weighted average units outstanding:					
Basic	1,978,603	100,555,277	—	—	102,533,880
Diluted	1,978,603	100,555,277	—	—	102,533,880
Net income per limited partner unit (dollars):					
Basic		\$ 0.57	—	—	
Diluted		0.57	—	—	
Three Months Ended September 30, 2015					
Net income attributable to the Partnership (millions):					
Distribution declared	\$ 11.1	35.1	—	—	46.2
Distribution less than net income attributable to the Partnership	0.4	5.7	—	—	6.1
Net income attributable to the Partnership	\$ 11.5	40.8	—	—	52.3
Weighted average units outstanding:					
Basic	1,671,056	81,881,736	—	—	83,552,792
Diluted	1,671,056	81,881,736	—	—	83,552,792

Net income per limited partner unit (dollars):

Basic	\$ 0.50	—
Diluted	0.50	—

19

Table of Contents

	General Partner (including IDRs)	Limited Partners' Common Units	Limited Partner's Subordinated Units	Total
Nine Months Ended September 30, 2016				
Net income attributable to the Partnership (millions):				
Distribution declared	\$ 62.0	145.9	—	207.9
Distribution less than (in excess of) net income attributable to the Partnership	0.9	(5.9)	—	(5.0)
Net income attributable to the Partnership	\$ 62.9	140.0	—	202.9
Weighted average units outstanding:				
Basic	1,840,707	91,414,459	—	93,255,166
Diluted	1,840,707	91,414,459	—	93,255,166
Net income per limited partner unit (dollars):				
Basic		\$ 1.53	—	
Diluted		1.53	—	
Nine Months Ended September 30, 2015				
Net income attributable to the Partnership (millions):				
Distribution declared	\$ 26.3	85.1	13.0	124.4
Distribution less than net income attributable to the Partnership	0.6	3.7	1.0	5.3
Net income attributable to the Partnership	\$ 26.9	88.8	14.0	129.7
Weighted average units outstanding:				
Basic	1,640,388	63,485,577	17,028,054	82,154,019
Diluted	1,640,388	63,485,577	17,028,054	82,154,019
Net income per limited partner unit (dollars):				
Basic		\$ 1.40	0.82	
Diluted		1.40	0.82	

On October 19, 2016, the Board of Directors of our General Partner declared a quarterly cash distribution of \$0.531 per common unit which, when combined with distributions to our General Partner, will result in total distributions of \$82.5 million attributable to the third quarter of 2016. This distribution is payable November 14, 2016, to unitholders of record as of November 2, 2016.

Table of Contents

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 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 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 September 30, 2016, we had \$1.4 million of environmental accruals. 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 determines if adjustment of existing accruals, or establishment of new accruals, is required. As of September 30, 2016, and December 31, 2015, we did not have any material accrued contingent liabilities associated with litigation matters.

Table of Contents

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

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 represents 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).

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).

Sand Hills, Southern Hills and Explorer Acquisition

Our 2015 acquisition of equity investments in Sand Hills, Southern Hills and Explorer had both cash and noncash elements. We attributed \$734 million of the total \$880 million cash consideration paid to the investment balance of the Sand Hills, Southern Hills and Explorer pipeline joint ventures acquired (an investing cash outflow). The remaining \$146 million of excess cash consideration was deemed a distribution to our General Partner (a financing cash outflow). The common and general partner units issued to Phillips 66 in the transaction were assigned no value, because the cash consideration exceeded the historical net book value of the acquired assets in the transaction. Accordingly, the units issued for these acquisitions had no impact on partner capital balances, other than changing ownership percentages.

Capital Expenditures

Our capital expenditures and investments consisted of:

Millions of
Dollars
Nine Months
Ended
September
30

2016 2015

Capital Expenditures and Investments

Capital expenditures attributable to Predecessors* \$22.5 531.7

Capital expenditures and investments attributable to the Partnership 206.9 137.7

Total capital expenditures and investments* \$229.4669.4

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

Table of Contents

	Millions of Dollars Nine Months Ended September 30 2016 2015*	
Capital Expenditures and Investments		
Cash capital expenditures and investments	\$248.9	676.9
Change in capital expenditure accruals	(19.5)	(7.5)
Total capital expenditures and investments	\$229.4	669.4

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

	Millions of Dollars Nine Months Ended September 30 2016	
Other Noncash Investing and Financing Activities		
Contributions of net assets into joint ventures	\$	43.3
Transfer of net liabilities to Phillips 66—Acquisitions	45.3	

Note 12—Related Party Transactions

Commercial Agreements

In connection with our Initial Public Offering (the Offering) and subsequent acquisitions from Phillips 66, we 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.

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, 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 annual 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 related to the assets we acquired in connection with the Offering, and the prefunding of certain projects by Phillips 66. Further, it addresses the granting of a license from Phillips 66 to us with respect to the use of certain Phillips 66 trademarks.

Table of Contents

Tax Sharing Agreement

In connection with the Offering, we 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 with respect to taxable periods including or beginning on or after the closing date of the Offering. 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, of which we may be a member for this purpose, to owe no tax. However, we would nevertheless reimburse Phillips 66 for the tax we would have owed had the attributes not been available or used for our benefit, 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	Nine		
	Months	Months		
	Ended	Ended		
	September	September		
	30	30		
	2016	2015*	2016	2015*
Operating and maintenance expenses	\$15.2	11.1	38.2	29.5
General and administrative expenses	6.3	6.4	19.9	19.5
Interest and debt expense	0.7	—	2.9	1.9
Total	\$22.2	17.5	61.0	50.9

*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 \$3.0 million. On October 14, 2016, in connection with the transaction described in Note 16—Subsequent Events, the omnibus agreement was amended and our monthly operational and administrative support fee was increased to \$6.9 million, going forward. 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 being 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.

During the third quarter of 2016, we paid \$24.2 million to Phillips 66 to assume Phillips 66's rights and obligations under an agreement to acquire a third-party NGL logistics system in southeast Louisiana. This amount is presented on the consolidated balance sheet under "Other assets." We have reflected our \$24.2 million payment to Phillips 66 in the third quarter as an "other" investing cash outflow in the consolidated statement of cash flows. In October 2016, we were successful in restructuring the transaction, and we now expect to close the acquisition with the third party later this year.

Table of Contents

Note 13—Income Taxes

Our effective tax rates were 0.2 percent and 0.4 percent for the three- and nine-month periods ended September 30, 2016, respectively, compared with 0.2 percent for both corresponding periods of 2015.

We are not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our net income generally are borne by our partners through the allocation of taxable income. Our income tax provision results from the laws of states, primarily Texas, that apply to entities organized as partnerships.

Note 14—Leases

We are the lessor under transportation service agreements, terminal services agreements, storage services agreements and a fractionation service agreement, in each case with Phillips 66 as lessee, that are considered operating leases under accounting principles generally accepted in the United States (GAAP). Certain of these agreements include escalation clauses to adjust transportation tariffs and terminaling and storage fees to reflect changes in price indices. Revenues from all of these agreements are recorded within “Operating revenues—related parties” on our consolidated statement of income.

As of September 30, 2016, future minimum payments to be received related to these agreements were estimated to be:

	Millions of Dollars
Remainder of 2016	\$80.0
2017	361.8
2018	343.0
2019	312.3
2020	308.8
2021	300.4
2022 and thereafter	928.6
Total	\$2,634.9

Note 15—New Accounting Standards

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which clarifies the treatment of several cash flow categories. In addition, ASU No. 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. Public business entities should apply the guidance in ASU No. 2016-15 for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the provisions of ASU No. 2016-15 and assessing the impact on our financial statements.

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 the previous 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 in the previous lease guidance. Under the new standard, recognition of 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

Table of Contents

should apply the guidance in ASU No. 2016-02 for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. 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).” The new standard converged guidance on recognizing revenues in contracts with customers under GAAP and International Financial Reporting Standards. This ASU is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. 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. Retrospective or modified retrospective application of the accounting standard is required. ASU No. 2014-09 was further amended in March 2016 by the provisions of ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” in April 2016 by the provisions of ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” and in May 2016 by the provisions of ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients.” We are currently evaluating the provisions of ASU No. 2014-09, as amended, and assessing the impact on our financial statements. As part of our assessment work-to-date, we have formed an implementation work team, completed training on the new ASU’s revenue recognition model and are continuing our contract review and documentation.

Table of Contents

Note 16— Subsequent Events

On October 11, 2016, we entered into a CCAA with subsidiaries of Phillips 66 for us to acquire certain pipeline and terminal assets supporting four Phillips 66 refineries (the Eagle Acquisition), as described in more detail below:

Ponca City Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for Phillips 66's Ponca City Refinery, consisting of 503 miles of pipeline and 1.7 million barrels of storage.

Ponca City Refinery Products Assets: A refined products and NGL pipeline and terminal system that provides product takeaway transportation services for Phillips 66's Ponca City Refinery, consisting of 524 miles of pipeline and 1.7 million barrels of storage.

Billings Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for Phillips 66's Billings Refinery, consisting of a 79 percent undivided interest in a 623-mile pipeline and 570,000 barrels of storage.

Billings Refinery Products Assets: A refined products pipeline and terminal system that provides product takeaway transportation services for Phillips 66's Billings Refinery, consisting of 342 miles of pipeline and 386,000 barrels of storage.

Bayway Refinery Products Assets: A refined products and NGL terminal system that provides storage services for Phillips 66's Bayway Refinery, consisting of 2.0 million barrels of storage.

Borger Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for the Phillips 66-operated Borger Refinery, consisting of 1,089 miles of pipeline and 400,000 barrels of storage.

Borger Refinery Products Assets: A refined products pipeline and terminal system that provides product takeaway transportation services for the Phillips 66-operated Borger Refinery, consisting of 93 miles of pipeline, a 33 percent undivided interest in a 102-mile segment and a 54 percent undivided interest in a 19-mile segment of a 121-mile pipeline, a 50 percent interest in a 293-mile pipeline and 700,000 barrels of storage.

In connection with the Eagle Acquisition, we and Phillips 66 entered into multiple throughput and deficiency and terminal services agreements, each with a 10-year term, that include minimum contract volume commitments from Phillips 66 on the acquired pipeline assets and at the acquired terminal assets, respectively.

The Eagle Acquisition closed on October 14, 2016, at which time we paid Phillips 66 total consideration of approximately \$1.3 billion, consisting of approximately \$1.1 billion in cash and the issuance of 4,093,020 newly issued units, which were allocated as 3,884,237 common units to P66 PDI and 208,783 general partner units to our General Partner to allow it to maintain its 2 percent general partner interest in us. The Eagle Acquisition increased our total assets by over \$1 billion, including approximately \$800 million of PP&E and \$180 million of goodwill.

To fund the cash portion of the Eagle Acquisition, on October 14, 2016, we closed on a public debt offering pursuant to our effective shelf registration statement and issued the following unsecured senior notes:

\$500 million aggregate principal amount of 3.55% Senior Notes due October 1, 2026.

\$625 million aggregate principal amount of 4.90% Senior Notes due October 1, 2046.

Total proceeds (net of underwriting discounts and commission) received from the notes offering were \$1,111.4 million. Interest on each series of senior notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2017.

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.

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, 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, seven of Phillips 66's owned or joint-venture refineries.

We generate revenue primarily by providing fee-based transportation, terminaling, storage and NGL fractionation services to Phillips 66 and other customers. Our equity affiliates generate revenue primarily from transporting and terminaling NGL, refined petroleum products and crude oil.

In March and May 2016, in two separate transactions, we acquired an NGL fractionator and associated storage caverns from Phillips 66, along with a refined petroleum products pipeline system (the Initial Fractionator Acquisition and Subsequent Fractionator Acquisition, respectively). See Note 4—Fractionator Acquisitions, in the Notes to Consolidated Financial Statements, for additional information.

On May 10, 2016, we completed a public offering of 12,650,000 common units for total proceeds (net of underwriting discounts and commissions) of \$655.6 million (the First 2016 Unit Offering). The net proceeds from the First 2016 Unit Offering were used to repay a portion of the notes assumed as part of the consideration paid for the May acquisition described above. On August 12, 2016, we completed a public offering of 6,000,000 common units for total proceeds (net of underwriting discounts and commissions) of \$298.5 million (the Second 2016 Unit Offering). The net proceeds from the Second 2016 Unit Offering were used to repay the note assumed as part of the consideration paid for the March acquisition described above, as well as other short-term borrowings. See Note 8—Equity, in the Notes to Consolidated Financial Statements for additional information.

Other developments during the third quarter of 2016 included:

Formation of STACK Pipeline Joint Venture: On August 3, 2016, we and Plains All American Pipeline, L.P. (Plains) formed STACK Pipeline LLC (STACK Pipeline JV), a 50/50 joint venture that owns and operates a crude oil storage terminal and a common carrier pipeline that transports crude oil. Plains contributed the terminal and pipeline to the joint venture, and we contributed \$50.0 million in cash, which was distributed to Plains. See Note 5—Equity Investments for additional information.

28

Table of Contents

Explorer Equity Investment Acquisition: On August 9, 2016, we acquired an additional 2.48 percent equity interest in Explorer Pipeline Company (Explorer). The acquisition increased our interest in Explorer from 19.46 percent to 21.94 percent. See Note 5—Equity Investments for additional information.

Basis of Presentation

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

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 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 performed regularly.

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

EBITDA, Adjusted EBITDA and Distributable Cash Flow

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

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

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

Transaction costs associated with acquisitions.

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

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

Table of Contents

EBITDA, adjusted EBITDA and distributable cash flow are not presentations made in accordance with accounting principles generally accepted in the United States (GAAP). EBITDA, adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that management and 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.
- 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 depend primarily 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 is 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. Our equity investment throughput volumes depend primarily 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 nine-month periods ended September 30, 2016, is based on a comparison with the corresponding periods of 2015.

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015*	2016	2015*
Revenues and Other Income				
Operating revenues—related parties	\$ 108.4	71.1	315.7	204.0
Operating revenues—third parties	1.8	0.7	5.9	2.7
Equity in earnings of affiliates	33.8	25.2	88.5	51.9
Other income	0.3	0.1	0.8	0.2
Total revenues and other income	144.3	97.1	410.9	258.8
Costs and Expenses				
Operating and maintenance expenses	25.5	20.3	76.4	56.3
Depreciation	15.1	6.1	43.5	16.8
General and administrative expenses	9.2	7.4	26.0	23.2
Taxes other than income taxes	1.2	3.1	12.3	8.9
Interest and debt expense	9.9	9.2	30.8	24.6
Other expenses	0.1	—	0.1	0.1
Total costs and expenses	61.0	46.1	189.1	129.9
Income before income taxes	83.3	51.0	221.8	128.9
Provision for income taxes	0.2	0.1	0.8	0.2
Net Income	83.1	50.9	221.0	128.7
Less: Net income (loss) attributable to Predecessors	—	(1.4)	18.1	(1.0)
Net income attributable to the Partnership	83.1	52.3	202.9	129.7
Less: General partner's interest in net income attributable to the Partnership	26.0	11.5	62.9	26.9
Limited partners' interest in net income attributable to the Partnership	\$ 57.1	40.8	140.0	102.8
Net cash provided by operating activities	\$ 84.3	49.0	250.3	146.5
Adjusted EBITDA	\$ 110.9	73.3	282.0	179.1
Distributable cash flow	\$ 101.9	64.5	250.4	154.2

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

Table of Contents

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Thousands of Barrels Daily				
Pipeline, Terminal and Storage Volumes				
Pipelines ⁽¹⁾				
Pipeline throughput volumes				
Wholly Owned Pipelines				
Crude oil	257	306	275	290
Refined products*	619	485	604	492
Total*	876	791	879	782
Selected Joint Venture Pipelines ⁽²⁾				
Natural gas liquids	346	280	333	221
Terminals				
Terminaling throughput and storage volumes ⁽³⁾				
Crude oil ⁽⁴⁾	541	536	534	537
Refined products	442	441	440	432
Total	983	977	974	969
Revenue Per Barrel (dollars)				
Average pipeline revenue ⁽⁵⁾	\$0.46	0.49	0.48	0.48
Average terminaling and storage revenue	0.39	0.39	0.39	0.39

* 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 post-acquisition pipeline system throughput volumes for the Sand Hills and Southern Hills pipelines (100 percent basis) per day for each period presented.

(3) Terminaling 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 average pipeline revenue per barrel from 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 September 30		Nine Months Ended September 30	
	2016	2015*	2016	2015*
Reconciliation to Net Income				
Net Income	\$83.1	50.9	221.0	128.7
Plus:				
Depreciation	15.1	6.1	43.5	16.8
Net interest expense	9.9	9.1	30.5	24.4
Provision for income taxes	0.2	0.1	0.8	0.2
EBITDA	108.3	66.2	295.8	170.1
Plus:				
Distributions in excess of equity earnings	0.3	4.6	6.6	5.5
Expenses indemnified or prefunded by Phillips 66	0.1	1.1	4.1	1.4
Transaction costs associated with acquisitions	2.2	0.4	3.9	1.8
Less:				
EBITDA attributable to Predecessors	—	(1.0)	28.4	(0.3)
Adjusted EBITDA	110.9	73.3	282.0	179.1
Plus:				
Deferred revenue impacts**	4.3	2.5	7.0	6.0
Less:				
Net interest	9.9	9.1	30.7	25.1
Income taxes paid	—	—	0.3	0.4
Maintenance capital expenditures	3.4	2.2	7.6	5.4
Distributable Cash Flow [†]	\$101.9	64.5	250.4	154.2

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

**Difference between cash receipts and revenue recognition.

†Although distributable cash flow is a liquidity measure, it is presented in this reconciliation to net income as supplemental information.

Table of Contents

	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30 2016	2015*	September 30 2016	2015*
Reconciliation to Net Cash Provided by Operating Activities				
Net Cash Provided by Operating Activities	\$84.3	49.0	250.3	146.5
Plus:				
Net interest expense	9.9	9.1	30.5	24.4
Provision for income taxes	0.2	0.1	0.8	0.2
Changes in working capital	12.0	13.9	24.6	2.1
Undistributed equity earnings	2.7	(0.9)	3.8	2.7
Accrued environmental costs	(0.2)	(0.5)	(0.1)	(0.6)
Other**	(0.6)	(4.5)	(14.1)	(5.2)
EBITDA	108.3	66.2	295.8	170.1
Plus:				
Distributions in excess of equity earnings	0.3	4.6	6.6	5.5
Expenses indemnified or prefunded by Phillips 66	0.1	1.1	4.1	1.4
Transaction costs associated with acquisitions	2.2	0.4	3.9	1.8
Less:				
EBITDA attributable to Predecessors	—	(1.0)	28.4	(0.3)
Adjusted EBITDA	110.9	73.3	282.0	179.1
Plus:				
Deferred revenue impacts [†]	4.3	2.5	7.0	6.0
Less:				
Net interest	9.9	9.1	30.7	25.1
Income taxes paid	—	—	0.3	0.4
Maintenance capital expenditures	3.4	2.2	7.6	5.4
Distributable Cash Flow	\$101.9	64.5	250.4	154.2

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

**Primarily deferred revenue.

[†]Difference between cash receipts and revenue recognition.

Table of Contents

Minimum Volume Commitments

Under certain of our transportation 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-based deferred revenues follows:

	Millions of Dollars			
	Three Months Ended September 30 2016		Nine Months Ended September 30 2015	
Deferred revenues—beginning of period	\$5.2	3.8	4.4	0.6
Quarterly deficiency payments ⁽¹⁾	3.1	3.5	7.6	7.6
Quarterly deficiency make-up/expirations ⁽²⁾	(0.2)	(1.0)	(3.9)	(1.9)
Deferred revenues—end of period	\$8.1	6.3	8.1	6.3

⁽¹⁾ Cash received with deferred revenue recognition.

⁽²⁾ Revenue recognized on cash previously received.

Statement of Income Analysis

Operating revenues increased \$38.4 million, or 53 percent, and \$114.9 million, or 56 percent, in the third quarter and the nine-month period of 2016, respectively. The increases were primarily attributable to additional revenues from the Sweeny NGL Fractionator and Clemens Caverns, which fully commenced operations in the fourth quarter of 2015. In addition, the increases in both 2016 periods benefited from higher throughput volumes on our Gold Line Products System due to lower maintenance and turnaround activities at the Borger Refinery.

Equity in earnings of affiliates increased \$8.6 million and \$36.6 million in the third quarter and the nine-month period of 2016, respectively. The increases mainly resulted from higher earnings from our investments in Explorer, DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills) primarily due to higher volumes. In addition, Bayou Bridge Pipeline, LLC (Bayou Bridge) contributed to increased earnings as a result of the pipeline going into service in April of 2016. The increase in the nine-month period also reflected three full quarters of earnings in 2016 from our equity interests in Explorer, Sand Hills and Southern Hills, which we acquired in March 2015.

The increases in operating and maintenance expenses and depreciation in the third quarter and the nine-month period of 2016 were primarily due to the impact of the full commercial operation of the Sweeny NGL Fractionator and Clemens Caverns in the first nine months of 2016. These assets were under construction during most of 2015.

Taxes other than income taxes decreased \$1.9 million and increased \$3.4 million in the third quarter and the nine-month period of 2016, respectively. The increase in the nine-month period was due to the impact of the full

commercial operation of the Sweeny NGL Fractionator and Clemens Caverns. The decrease in the third quarter of 2016 was primarily attributable to favorable property tax adjustments recognized in the quarter.

Interest and debt expense increased \$6.2 million, or 25 percent, in the nine-month period of 2016. The increase mainly resulted from a higher average debt principal balance as a result of the issuance of \$1.1 billion in aggregate principal amount of Senior Notes in February 2015. See Note 7—Debt, in the Notes to Consolidated Financial Statements, for additional information.

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 and long-term capital expenditure requirements, and make our quarterly cash distributions.

Operating Activities

Our operations generated \$250.3 million in cash from operations during the first nine months of 2016, an improvement over cash from operations of \$146.5 million for the corresponding period of 2015. The improvement was mainly driven by earnings from the Sweeny NGL Fractionator and Clemens Caverns, which became fully operational in the fourth quarter of 2015. This increase was partially offset by higher operating and maintenance expenses and working capital impacts.

Common Units

On August 12, 2016, we completed a public offering of 6,000,000 common units representing limited partner interests at a price of \$50.22 per common unit, for total proceeds (net of underwriting discounts and commissions) of \$298.5 million (the Second 2016 Unit Offering). The net proceeds from the Second 2016 Unit Offering were used to repay the note assumed as part of the consideration paid for the Initial Fractionator Acquisition, as well as other short-term borrowings incurred to fund our acquisition of an additional interest in Explorer and our contribution to the recently formed STACK Pipeline JV. See Note 4—Fractionator Acquisitions and Note 7—Debt, in the Notes to Consolidated Financial Statements, for additional information.

On May 10, 2016, we completed the First 2016 Unit 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 \$655.6 million. We utilized the net proceeds to partially repay debt assumed as part of the Subsequent Fractionator Acquisition. See Note 4—Fractionator Acquisitions, and Note 7—Debt, in the Notes to Consolidated Financial Statements, for additional information on the acquisition transaction and debt assumed, respectively.

In February 2015, we completed the public offering of an aggregate of 5,250,000 common units representing limited partner interests at a price of \$75.50 per common unit (the 2015 Unit Offering). We received proceeds (net of underwriting discounts and commissions) of \$384.5 million from the 2015 Unit Offering. We utilized a portion of the net proceeds to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments and to repay amounts outstanding under our revolving credit facility. We used the remaining proceeds to fund expansion capital expenditures and for general partnership purposes. See Note 5—Equity Investments, in the Notes to Consolidated Financial Statements, for additional information on the Sand Hills, Southern Hills and Explorer acquisition.

Notes Payable

On March 1, 2016, in connection with the Initial Fractionator Acquisition, we entered into an Assignment and Assumption of Note agreement with subsidiaries of Phillips 66, pursuant to which we assumed the obligations under a term promissory note (the Initial Note) with a \$212 million principal balance. In August 2016, using proceeds from the Second 2016 Unit Offering, we repaid the note in its entirety.

On May 10, 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 on May 10, 2016, using proceeds from the First 2016 Unit Offering, we repaid two of the Subsequent Notes in their entirety, and reduced the outstanding balance on the remaining Subsequent Note to \$19.4 million, which was

repaid on June 30, 2016.

Because the Initial Note and Subsequent Notes were held by entities we acquired in common control transactions, prior period debt balances have been recasted as if we had held the notes since their inception in January 2014.

36

Table of Contents

Revolving Credit Facility

At September 30, 2016, we had an aggregate of \$50 million borrowed and outstanding under our \$500 million revolving credit facility established by our Credit Agreement dated June 7, 2013 (the Credit Agreement). No amounts were outstanding as of December 31, 2015.

In early October 2016, we entered into a Second Amendment (the Second Amendment) to our Credit Agreement. The Second Amendment increased the amount available under the Credit Agreement to \$750 million and extended the termination date to October 3, 2021.

We have the option to increase the overall capacity of the Credit Agreement by up to an additional \$250 million for a total of \$1.0 billion, subject to, among other things, the consent of the existing lenders whose commitments will be increased or any additional lenders providing such additional capacity. We also have the option to extend the Credit Agreement for two additional one-year terms after October 3, 2021, subject to, among other things, the consent of the lenders holding the majority of the commitments and of each lender extending its commitment.

Outstanding borrowings under the Credit Agreement bear interest, at our option, at either: (a) the Eurodollar rate in effect from time to time plus the applicable margin; or (b) the base rate (as described in the Credit Agreement) plus the applicable margin. The pricing levels for the commitment fee and interest-rate margins are determined based on our credit ratings in effect from time to time. The Credit Agreement requires that the Partnership's ratio of total debt to EBITDA for the prior four fiscal quarters must be no greater than 5.0 to 1.0 as of the last day of each fiscal quarter (and 5.5 to 1.0 during the period following certain specified acquisitions).

ATM Program

On June 6, 2016, we filed a prospectus supplement to the shelf registration statement for our continuous offering program that became effective with the SEC on May 13, 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). During the three and nine months ended September 30, 2016, on a settlement-date basis, we issued an aggregate of 83,294 and 346,152 common units, respectively, under our ATM Program, generating net proceeds of \$4.5 million and \$18.7 million, respectively, after broker commissions of \$0.2 million for the nine months ended September 30, 2016. 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 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 September 30, 2016, our General Partner's interest was 1.9 percent.

Senior Notes

In February 2015, we issued, through a public offering, \$1.1 billion of debt consisting of:

\$300 million of 2.646% Senior Notes due February 15, 2020.

\$500 million of 3.605% Senior Notes due February 15, 2025.

\$300 million of 4.680% Senior Notes due February 15, 2045.

Total proceeds (net of underwriting discounts) received from this offering were \$1,092.0 million. We utilized a portion of the net proceeds to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments. In addition, we used a portion of the proceeds to repay three notes payable to a subsidiary of Phillips 66. Interest on each series of senior notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on August 15, 2015. Our senior unsecured long-term debt has been rated investment grade by Standard & Poor's Rating Services (BBB) and Moody's Investor Services (Baa3).

See "Outlook" for information on \$1.1 billion of Senior Notes we issued in October 2016.

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 capital expenditures and expansion capital expenditures, including 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 other capital expenditures that are incurred in maintaining 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 nine months of 2016 and 2015 were:

	Millions of Dollars Nine Months Ended September 30	
	2016	2015*
Capital expenditures attributable to Predecessors	\$22.5	531.7
Capital expenditures and investments attributable to the Partnership		
Expansion	199.3	132.3
Maintenance	7.6	5.4
Total capital expenditures and investments	\$229.4	669.4

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

Our capital expenditures and investments for the first nine months of 2016 were \$229.4 million, primarily associated with the following activities:

- Investment in a 50 percent interest in STACK Pipeline JV, which owns and operates a crude storage terminal and a common carrier pipeline that transports crude oil from the Sooner Trend, Anadarko Basin, Canadian and Kingfisher Counties play in northwestern Oklahoma to Cushing, Oklahoma.

Increased storage capacity at Clemens Caverns.

Construction costs of the joint venture project with Paradigm, including the Sacagawea Pipeline, a crude oil storage terminal and central delivery facility in North Dakota.

•

Investment in construction of Bayou Bridge pipeline, which will transport crude from Nederland, Texas, to St. James, Louisiana. The initial segment of the pipeline to the Phillips 66 refinery in Lake Charles, Louisiana, was placed in service in April 2016.

Contributions to our Sand Hills joint venture.

Investment in an additional 2.48 percent equity interest in Explorer.

Table of Contents

Acquisitions

During the first nine months of 2016, we closed four acquisitions:

• The March 2016 acquisition of a 25 percent controlling interest in Phillips 66 Sweeny Frac LLC (Sweeny Frac LLC).

• The May 2016 acquisition of the remaining 75 percent interest in Sweeny Frac LLC and 100 percent of the Standish Pipeline.

• The August 2016 acquisition of a 50 percent interest in STACK Pipeline JV.

• The August 2016 acquisition of an additional 2.5 percent equity interest in Explorer.

See Note 4—Fractionator Acquisitions, and Note 11—Cash Flow Information, in the Notes to Consolidated Financial Statements, for additional information on our acquisitions, including consideration paid and the cash and noncash elements of the transactions.

Cash Distribution

On October 19, 2016, the Board of Directors of our General Partner declared a quarterly cash distribution of \$0.531 per common unit which, combined with distributions to our General Partner, will result in a total distribution of \$82.5 million, payable on November 14, 2016, to unitholders of record as of November 2, 2016.

Cash distributions will be made to our General Partner in respect of its 2 percent 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 October 19, 2016, our General Partner will receive approximately 31 percent of the total cash distributions for the third quarter.

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.

Table of Contents

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 determines if adjustment of existing accruals, or establishment of new accruals, is required. As of September 30, 2016, and December 31, 2015, we did not have any material accrued contingent liabilities associated with litigation matters. In the case of income-tax-related contingencies, Phillips 66's tax organization monitors tax legislation and court decisions, the status of tax audits and the statute of limitations within which a taxing authority can assert a liability.

Environmental

We are subject to extensive federal, state and local environmental laws and regulations. These requirements, which change frequently, 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 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.

At September 30, 2016, we had \$1.4 million of environmental accruals. In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Table of Contents

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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which clarifies the treatment of several cash flow categories. In addition, ASU No. 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. Public business entities should apply the guidance in ASU No. 2016-15 for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the provisions of ASU No. 2016-15 and assessing the impact on our financial statements.

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 the previous 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 in the previous lease guidance. Under the new standard, recognition of 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. Early adoption is permitted. 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).” The new standard converged guidance on recognizing revenues in contracts with customers under GAAP and International Financial Reporting Standards. This ASU is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. 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. Retrospective or modified retrospective application of the accounting standard is required. ASU No. 2014-09 was further amended in March 2016 by the provisions of ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross

versus Net),” in April 2016 by the provisions of ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” and in May 2016 by the provisions of ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients.” We are currently evaluating the provisions of ASU No. 2014-09, as amended, and assessing the impact on our financial statements. As part of our assessment work-to-date, we have formed an implementation work team, completed training on the new ASU’s revenue recognition model and are continuing our contract review and documentation.

Table of Contents

OUTLOOK

On October 11, 2016, we entered into a Contribution, Conveyance and Assumption Agreement (CCAA) with subsidiaries of Phillips 66 for us to acquire certain pipeline and terminal assets supporting four Phillips 66 refineries (the Eagle Acquisition), as described in more detail below:

Ponca City Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for Phillips 66's Ponca City Refinery, consisting of 503 miles of pipeline and 1.7 million barrels of storage.

Ponca City Refinery Products Assets: A refined products and NGL pipeline and terminal system that provides product takeaway transportation services for Phillips 66's Ponca City Refinery, consisting of 524 miles of pipeline and 1.7 million barrels of storage.

Billings Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for Phillips 66's Billings Refinery, consisting of a 79 percent undivided interest in a 623-mile pipeline and 570,000 barrels of storage.

Billings Refinery Products Assets: A refined products pipeline and terminal system that provides product takeaway transportation services for Phillips 66's Billings Refinery, consisting of 342 miles of pipeline and 386,000 barrels of storage.

- **Bayway Refinery Products Assets:** A refined products and NGL terminal system that provides storage services for Phillips 66's Bayway Refinery, consisting of 2.0 million barrels of storage.

Borger Refinery Crude Assets: A crude pipeline and terminal system that provides crude supply for the Phillips 66-operated Borger Refinery, consisting of 1,089 miles of pipeline and 400,000 barrels of storage.

Borger Refinery Products Assets: A refined products pipeline and terminal system that provides product takeaway transportation services for the Phillips 66-operated Borger Refinery, consisting of 93 miles of pipeline, a 33 percent undivided interest in a 102-mile segment and a 54 percent undivided interest in a 19-mile segment of a 121-mile pipeline, a 50 percent interest in a 293-mile pipeline and 700,000 barrels of storage.

In connection with the Eagle Acquisition, we and Phillips 66 entered into multiple throughput and deficiency and terminal services agreements, each with a 10-year term, that include minimum contract volume commitments from Phillips 66 on the acquired pipeline assets and at the acquired terminal assets, respectively.

The Eagle Acquisition closed on October 14, 2016, at which time we paid Phillips 66 total consideration of approximately \$1.3 billion, consisting of approximately \$1.1 billion in cash and the issuance of 4,093,020 newly issued units, which were allocated as 3,884,237 common units to P66 PDI and 208,783 general partner units to our General Partner to allow it to maintain its 2 percent general partner interest in us. The Eagle Acquisition increased our total assets by over \$1 billion, including approximately \$800 million of PP&E and \$180 million of goodwill.

To fund the cash portion of the Eagle Acquisition, on October 14, 2016, we closed on a public debt offering pursuant to our effective shelf registration statement and issued the following unsecured senior notes:

\$500 million aggregate principal amount of 3.55% Senior Notes due October 1, 2026.

\$625 million aggregate principal amount of 4.90% Senior Notes due October 1, 2046.

Total proceeds (net of underwriting discounts and commission) received from the notes offering were \$1,111.4 million. Interest on each series of senior notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2017.

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, rail cars 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 2015 Annual Report on Form 10-K filed with the SEC on February 12, 2016.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

Our commodity price risk at September 30, 2016, did not differ materially from that disclosed in Exhibit 99.2 of our Current Report on Form 8-K filed with the SEC on August 1, 2016.

Interest Rate Risk

During the third quarter of 2016, we repaid the \$212 million note payable to a subsidiary of Phillips 66.

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 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 September 30, 2016, 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 September 30, 2016.

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 September 30, 2016, 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 are, from time to time, involved in litigation and claims arising out of our operations in the normal course of business, we are not a party to any litigation or governmental or other proceeding that we believe will have a material adverse impact on our consolidated financial condition or results of operations. In addition, under our amended omnibus agreement, Phillips 66 indemnifies us, subject to an aggregate deductible of no more than \$0.2 million, for liabilities relating to litigation and environmental matters attributable to the ownership or operation of the assets contributed to us in connection with our Initial Public Offering (the Offering) prior to the closing of the Offering. Pursuant to the terms of the various agreements under which we acquired assets from Phillips 66 since the Offering (the Acquired Assets), Phillips 66 assumed the responsibility for liabilities relating to litigation and environmental matters attributable to the ownership and operation of the Acquired Assets prior to our acquisition of those assets.

Item 1A. RISK FACTORS

Except as noted below, there have been no material changes from the risk factors disclosed in “Item 1A. Risk Factors” in our 2015 Annual Report on Form 10-K.

Risks related to the Eagle Acquisition

Failure to successfully combine our business with the pipeline and terminal assets recently acquired from Phillips 66 (the “Eagle Acquisition”), or an inaccurate estimate by us of the benefits to be realized from the Eagle Acquisition, may adversely affect our future results.

The Eagle Acquisition involves potential risks, including:

- the failure to realize expected profitability, growth or accretion;
- environmental or regulatory compliance matters or liabilities;
- title or permit issues;
- the diversion of management's attention from our existing businesses;
- the incurrence of significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges; and
- the incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate.

The expected benefits from the Eagle Acquisition may not be realized if our estimates of the potential net cash flows associated with the assets acquired by us in the Eagle Acquisition are materially inaccurate or if we failed to identify operating problems or liabilities associated with the assets prior to the October 14, 2016, closing of the Eagle Acquisition. The accuracy of our estimates of the potential net cash flows attributable to the assets is inherently uncertain. If problems are identified after closing of the Eagle Acquisition, the Contribution Agreement provides for limited recourse against Phillips 66.

If any of these risks or unanticipated liabilities or costs were to materialize, any desired benefits of the Eagle Acquisition may not be fully realized, if at all, and our future financial performance, results of operations and cash available for distribution could be negatively impacted.

Table of Contents

Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form Number	Filing Date	SEC File No.
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.			

* Filed herewith.

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)

October 28, 2016