

MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per unit amounts)
(Unaudited)

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2017	2018	2017	2018
Transportation and terminals revenue	\$ 458,930	\$ 486,028	\$ 1,731,775	\$ 1,878,988
Product sales revenue	209,572	374,428	758,206	927,220
Affiliate management fee revenue	4,797	5,227	17,680	20,365
Total revenue	<u>673,299</u>	<u>865,683</u>	<u>2,507,661</u>	<u>2,826,573</u>
Costs and expenses:				
Operating	135,724	174,180	577,978	649,436
Cost of product sales	194,947	230,532	635,617	704,313
Depreciation, amortization and impairment	50,527	103,351	196,630	265,077
General and administrative	44,841	47,048	165,717	194,283
Total costs and expenses	<u>426,039</u>	<u>555,111</u>	<u>1,575,942</u>	<u>1,813,109</u>
Earnings of non-controlled entities	42,821	50,274	120,994	181,117
Operating profit	290,081	360,846	1,052,713	1,194,581
Interest expense	56,045	52,444	210,698	220,979
Interest capitalized	(4,761)	(4,101)	(15,565)	(17,455)
Interest income	(627)	(1,550)	(1,415)	(3,010)
Gain on disposition of assets	—	—	(18,505)	(353,797)
Other expense	377	3,569	4,139	13,868
Income before provision for income taxes	<u>239,047</u>	<u>310,484</u>	<u>873,361</u>	<u>1,333,996</u>
Provision for income taxes	1,152	(3,588)	3,830	71
Net income	<u>\$ 237,895</u>	<u>\$ 314,072</u>	<u>\$ 869,531</u>	<u>\$ 1,333,925</u>
Basic net income per limited partner unit	<u>\$ 1.04</u>	<u>\$ 1.38</u>	<u>\$ 3.81</u>	<u>\$ 5.84</u>
Diluted net income per limited partner unit	<u>\$ 1.04</u>	<u>\$ 1.37</u>	<u>\$ 3.81</u>	<u>\$ 5.84</u>
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	<u>228,203</u>	<u>228,403</u>	<u>228,176</u>	<u>228,377</u>
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	<u>228,682</u>	<u>229,052</u>	<u>228,338</u>	<u>228,573</u>

MAGELLAN MIDSTREAM PARTNERS, L.P.
OPERATING STATISTICS

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2017	2018	2017	2018
Refined products:				
Transportation revenue per barrel shipped.....	\$ 1.512	\$ 1.652	\$ 1.495	\$ 1.556
Volume shipped (million barrels):				
Gasoline.....	76.8	67.9	295.5	286.9
Distillates.....	46.6	49.0	166.2	181.7
Aviation fuel.....	6.3	9.7	26.5	31.0
Liquefied petroleum gases.....	0.3	0.6	9.9	11.0
Total volume shipped.....	130.0	127.2	498.1	510.6
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped.....	\$ 1.199	\$ 0.945	\$ 1.348	\$ 1.208
Volume shipped (million barrels).....	59.4	74.4	196.4	242.8
Crude oil terminal average utilization (million barrels per month).....	15.0	17.6	15.3	16.5
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels) ⁽¹⁾	32.0	38.2	98.4	138.2
Saddlehorn - volume shipped (million barrels) ⁽²⁾	6.9	8.9	19.0	27.4
Marine storage:				
Marine terminal average utilization (million barrels per month).....	22.1	23.2	23.1	22.7

(1) These volumes reflect the total shipments for the BridgeTex pipeline, which was owned 50% by Magellan through September 28, 2018 and 30% thereafter.

(2) These volumes reflect the total shipments for the Saddlehorn pipeline, which is owned 40% by Magellan.

MAGELLAN MIDSTREAM PARTNERS, L.P.
OPERATING MARGIN RECONCILIATION TO OPERATING PROFIT
(Unaudited, in thousands)

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2017	2018	2017	2018
Refined products:				
Transportation and terminals revenue	\$ 287,222	\$ 300,488	\$ 1,096,040	\$ 1,151,980
Affiliate management fee revenue.....	353	512	1,388	1,512
Earnings (losses) of non-controlled entities	(1,465)	10,425	(1,632)	16,039
Operating expenses.....	87,528	105,181	400,439	424,851
Transportation and terminals margin	198,582	206,244	695,357	744,680
Product sales revenue	208,072	358,510	717,140	872,144
Less: Cost of product sales	190,459	215,439	586,751	650,071
Product margin.....	17,613	143,071	130,389	222,073
Operating margin.....	<u>\$ 216,195</u>	<u>\$ 349,315</u>	<u>\$ 825,746</u>	<u>\$ 966,753</u>
Crude oil:				
Transportation and terminals revenue	\$ 128,642	\$ 140,520	\$ 458,455	\$ 549,849
Affiliate management fee revenue.....	3,639	3,504	13,950	14,832
Earnings of non-controlled entities	43,785	39,354	120,173	162,233
Less: Operating expenses	30,929	56,250	120,920	166,213
Transportation and terminals margin	145,137	127,128	471,658	560,701
Product sales revenue	177	14,380	35,053	46,767
Less: Cost of product sales	3,511	11,727	41,325	44,128
Product margin.....	(3,334)	2,653	(6,272)	2,639
Operating margin.....	<u>\$ 141,803</u>	<u>\$ 129,781</u>	<u>\$ 465,386</u>	<u>\$ 563,340</u>
Marine storage:				
Transportation and terminals revenue	\$ 43,981	\$ 45,958	\$ 180,683	\$ 180,850
Affiliate management fee revenue.....	805	1,211	2,342	4,021
Earnings of non-controlled entities	501	495	2,453	2,845
Less: Operating expenses	19,543	15,175	65,296	68,010
Transportation and terminals margin	25,744	32,489	120,182	119,706
Product sales revenue	1,323	1,538	6,013	8,309
Less: Cost of product sales	977	3,366	7,541	10,114
Product margin.....	346	(1,828)	(1,528)	(1,805)
Operating margin.....	<u>\$ 26,090</u>	<u>\$ 30,661</u>	<u>\$ 118,654</u>	<u>\$ 117,901</u>
Segment operating margin.....	\$ 384,088	\$ 509,757	\$ 1,409,786	\$ 1,647,994
Add: Allocated corporate depreciation costs.....	1,361	1,488	5,274	5,947
Total operating margin.....	385,449	511,245	1,415,060	1,653,941
Less:				
Depreciation, amortization and impairment expense.....	50,527	103,351	196,630	265,077
General and administrative expense.....	44,841	47,048	165,717	194,283
Total operating profit.....	<u>\$ 290,081</u>	<u>\$ 360,846</u>	<u>\$ 1,052,713</u>	<u>\$ 1,194,581</u>

Note: Amounts may not sum to figures shown on the consolidated statements of income due to intersegment eliminations and allocated corporate depreciation costs.

MAGELLAN MIDSTREAM PARTNERS, L.P.
RECONCILIATION OF NET INCOME AND NET INCOME PER LIMITED PARTNER UNIT
EXCLUDING COMMODITY-RELATED ADJUSTMENTS TO GAAP MEASURES
(Unaudited, in thousands except per unit amounts)

	Three Months Ended December 31, 2018		
	Net Income	Basic Net Income Per Limited Partner Unit	Diluted Net Income Per Limited Partner Unit
As reported	\$ 314,072	\$ 1.38	\$ 1.37
Unrealized derivative gains associated with future physical product sales ⁽¹⁾	(88,461)		
Inventory valuation adjustments associated with future physical product transactions	10,823		
Excluding commodity-related adjustments ⁽²⁾	\$ 236,434	\$ 1.04	\$ 1.03
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	228,403		
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	229,052		

(1) Includes our net share of unrealized derivative gains and losses from the partnership's non-controlled entities.

(2) Please see Distributable Cash Flow Reconciliation to Net Income for further descriptions of commodity-related adjustments.

MAGELLAN MIDSTREAM PARTNERS, L.P.
DISTRIBUTABLE CASH FLOW RECONCILIATION TO NET INCOME
(Unaudited, in thousands)

	Three Months Ended		Year Ended		2019 Guidance
	December 31,		December 31,		
	2017	2018	2017	2018	
Net income	\$ 237,895	\$ 314,072	\$ 869,531	\$ 1,333,925	\$ 870,000
Interest expense, net	50,657	46,793	193,718	200,514	194,000
Depreciation, amortization and impairment	50,527	103,351	196,630	265,077	230,000
Equity-based incentive compensation ⁽¹⁾	6,458	7,441	6,766	22,768	15,000
Loss on sale and retirement of assets ⁽²⁾	5,789	1,189	13,370	7,445	10,000
Gain on disposition of assets ⁽³⁾	—	—	(18,505)	(351,215)	—
Commodity-related adjustments:					
Derivative (gains) losses recognized in the period associated with future product transactions ⁽⁴⁾	32,347	(81,930)	37,624	(71,548)	
Derivative losses recognized in previous periods associated with product sales completed in the period ⁽⁴⁾	(8,241)	(24,315)	(25,493)	(39,646)	
Inventory valuation adjustments ⁽⁵⁾	(3,716)	9,011	332	9,207	
Total commodity-related adjustments	20,390	(97,234)	12,463	(101,987)	60,000
Distributions from operations of non-controlled entities in excess of (less than) earnings	5,697	(1,523)	25,216	15,584	38,000
Other ⁽⁶⁾	—	—	3,749	3,644	8,000
Adjusted EBITDA	377,413	374,089	1,302,938	1,395,755	1,425,000
Interest expense, net, excluding debt issuance cost amortization.....	(49,824)	(46,019)	(190,403)	(197,274)	(190,000)
Maintenance capital ⁽⁷⁾	(19,331)	(25,633)	(91,163)	(88,736)	(95,000)
Distributable cash flow	<u>\$ 308,258</u>	<u>\$ 302,437</u>	<u>\$ 1,021,372</u>	<u>\$ 1,109,745</u>	<u>\$ 1,140,000</u>

- (1) Because the partnership intends to satisfy vesting of unit awards under its equity-based incentive compensation plan with the issuance of limited partner units, expenses related to this plan generally are deemed non-cash and added back for DCF purposes. The figures above include adjustments of \$13.9 million and \$9.3 million, respectively, for cash payments associated with the plan, which are primarily related to tax withholdings.
- (2) Losses on sale and retirement of assets are excluded from DCF to the extent they represent a non-cash expense.
- (3) In September 2018, the partnership recognized a \$353.8 million gain from the sale of a portion of its interest in BridgeTex Pipeline Company, LLC, of which \$351.2 million has been deducted from the calculation of DCF, as it is not related to the partnership's ongoing operations. The remaining \$2.6 million represents a purchase price adjustment related to operations, and as such is included in DCF.
- In September 2017, the partnership recognized an \$18.5 million gain in connection with the sale of an inactive terminal along the partnership's refined products pipeline system, which has been deducted from the calculation of DCF because it is not related to the partnership's ongoing operations.
- (4) Certain derivatives used by the partnership as economic hedges have not been designated as hedges for accounting purposes and the mark-to-market changes of these derivatives are recognized currently in net income. The partnership excludes the net impact of these hedges from its determination of DCF until the related products are physically sold. In the period in which these hedged products are physically sold, the net impact of the associated hedges is included in its determination of DCF.
- (5) The partnership adjusts DCF for lower of average cost or net realizable value adjustments related to inventory and firm purchase commitments as well as market valuation of short positions recognized each period as these are non-cash items. In subsequent periods when the partnership physically sells or purchases the related products, it adjusts DCF for the valuation adjustments previously recognized.
- (6) Other adjustments in 2018 include a \$3.6 million adjustment recorded to partners' capital as required by the partnership's adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. The amount represents cash that the partnership had previously received for deficiency payments but did not yet recognize in net income under the previous revenue recognition standard. Other adjustments in 2017 include payments received from HollyFrontier Corporation in conjunction with the February 2016 Osage Pipe Line Company, LLC ("Osage") exchange transaction. These payments replaced distributions the partnership would have received had the Osage transaction not occurred and are, therefore, included in the partnership's calculation of DCF.
- (7) Maintenance capital expenditures maintain existing assets of the partnership and do not generate incremental DCF (i.e. incremental returns to the unitholders). For this reason, the partnership deducts maintenance capital expenditures to determine DCF.