

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2018	2017	2018
Transportation and terminals revenue	\$ 433,239	\$ 472,248	\$ 825,910	\$ 904,185
Product sales revenue	182,004	166,797	427,624	408,389
Affiliate management fee revenue	4,197	5,046	7,980	10,296
Total revenue	<u>619,440</u>	<u>644,091</u>	<u>1,261,514</u>	<u>1,322,870</u>
Costs and expenses:				
Operating	145,294	159,845	276,886	303,141
Cost of product sales	145,975	153,679	318,851	353,271
Depreciation and amortization	48,896	53,619	96,194	105,498
General and administrative	43,393	53,290	83,674	99,846
Total costs and expenses	<u>383,558</u>	<u>420,433</u>	<u>775,605</u>	<u>861,756</u>
Earnings of non-controlled entities	25,576	42,510	47,022	77,048
Operating profit	<u>261,458</u>	<u>266,168</u>	<u>532,931</u>	<u>538,162</u>
Interest expense	51,546	56,750	102,758	113,402
Interest capitalized	(3,183)	(5,608)	(7,380)	(10,255)
Interest income	(256)	(380)	(548)	(959)
Other (income) expense	2,043	(119)	3,213	8,605
Income before provision for income taxes	<u>211,308</u>	<u>215,525</u>	<u>434,888</u>	<u>427,369</u>
Provision for income taxes	908	1,116	1,752	2,050
Net income	<u>\$ 210,400</u>	<u>\$ 214,409</u>	<u>\$ 433,136</u>	<u>\$ 425,319</u>
Basic net income per limited partner unit	<u>\$ 0.92</u>	<u>\$ 0.94</u>	<u>\$ 1.90</u>	<u>\$ 1.86</u>
Diluted net income per limited partner unit	<u>\$ 0.92</u>	<u>\$ 0.94</u>	<u>\$ 1.90</u>	<u>\$ 1.86</u>
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	<u>228,192</u>	<u>228,387</u>	<u>228,151</u>	<u>228,354</u>
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	<u>228,245</u>	<u>228,425</u>	<u>228,202</u>	<u>228,393</u>

MAGELLAN MIDSTREAM PARTNERS, L.P.
OPERATING STATISTICS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2018	2017	2018
Refined products:				
Transportation revenue per barrel shipped.....	\$ 1.481	\$ 1.503	\$ 1.472	\$ 1.485
Volume shipped (million barrels):				
Gasoline.....	76.7	78.0	142.9	145.6
Distillates.....	40.7	44.1	78.6	87.1
Aviation fuel.....	7.6	6.9	13.5	13.2
Liquefied petroleum gases.....	4.6	4.9	5.7	6.0
Total volume shipped.....	129.6	133.9	240.7	251.9
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped.....	\$ 1.380	\$ 1.492	\$ 1.456	\$ 1.360
Volume shipped (million barrels).....	47.3	49.9	88.6	105.6
Crude oil terminal average utilization (million barrels per month).....	15.2	16.6	15.9	16.1
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels) ⁽¹⁾	21.8	35.2	40.7	63.5
Saddlehorn - volume shipped (million barrels) ⁽²⁾	3.7	6.0	7.7	11.8
Marine storage:				
Marine terminal average utilization (million barrels per month).....	23.9	22.6	24.0	22.6

(1) These volumes reflect the total shipments for the BridgeTex pipeline, which is owned 50% by Magellan.

(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		Six Months Ended	
	June 30,		June 30,	
	2017	2018	2017	2018
Refined products:				
Transportation and terminals revenue	\$ 277,883	\$ 291,064	\$ 519,788	\$ 551,458
Affiliate management fee revenue.....	353	352	682	649
Earnings (losses) of non-controlled entities	422	(97)	533	2,221
Less: Operating expenses	100,713	113,342	194,246	207,391
Transportation and terminals margin	177,945	177,977	326,757	346,937
Product sales revenue	161,723	150,934	401,893	383,708
Less: Cost of product sales	125,220	137,543	292,901	327,876
Product margin.....	36,503	13,391	108,992	55,832
Operating margin.....	<u>\$ 214,448</u>	<u>\$ 191,368</u>	<u>\$ 435,749</u>	<u>\$ 402,769</u>
Crude oil:				
Transportation and terminals revenue	\$ 108,455	\$ 137,953	\$ 213,508	\$ 264,211
Affiliate management fee revenue.....	3,474	3,849	6,608	7,865
Earnings of non-controlled entities	24,494	41,851	45,144	73,459
Less: Operating expenses	31,410	31,177	58,828	64,768
Transportation and terminals margin	105,013	152,476	206,432	280,767
Product sales revenue	19,403	13,282	22,506	19,721
Less: Cost of product sales	18,607	13,761	21,184	20,811
Product margin.....	796	(479)	1,322	(1,090)
Operating margin.....	<u>\$ 105,809</u>	<u>\$ 151,997</u>	<u>\$ 207,754</u>	<u>\$ 279,677</u>
Marine storage:				
Transportation and terminals revenue	\$ 47,794	\$ 44,146	\$ 94,201	\$ 90,346
Affiliate management fee revenue.....	370	845	690	1,782
Earnings of non-controlled entities	660	756	1,345	1,368
Less: Operating expenses	15,375	17,693	28,030	35,657
Transportation and terminals margin	33,449	28,054	68,206	57,839
Product sales revenue	878	2,581	3,225	4,960
Less: Cost of product sales	2,148	2,375	4,766	4,584
Product margin.....	(1,270)	206	(1,541)	376
Operating margin.....	<u>\$ 32,179</u>	<u>\$ 28,260</u>	<u>\$ 66,665</u>	<u>\$ 58,215</u>
Segment operating margin.....	\$ 352,436	\$ 371,625	\$ 710,168	\$ 740,661
Add: Allocated corporate depreciation costs.....	1,311	1,452	2,631	2,845
Total operating margin.....	353,747	373,077	712,799	743,506
Less:				
Depreciation and amortization expense	48,896	53,619	96,194	105,498
General and administrative expense.....	43,393	53,290	83,674	99,846
Total operating profit.....	<u>\$ 261,458</u>	<u>\$ 266,168</u>	<u>\$ 532,931</u>	<u>\$ 538,162</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		
	June 30, 2018		
	Net Income	Basic Net Income Per Limited Partner Unit	Diluted Net Income Per Limited Partner Unit
As reported	\$ 214,409	\$ 0.94	\$ 0.94
Unrealized derivative losses associated with future physical product sales ⁽¹⁾	24,732		
Inventory valuation adjustments associated with future physical product transactions	1,729		
Excluding commodity-related adjustments ⁽²⁾	\$ 240,870	\$ 1.05	\$ 1.05
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	228,387		
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	228,425		

(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		Six Months Ended		2018 Guidance
	June 30,		June 30,		
	2017	2018	2017	2018	
Net income	\$ 210,400	\$ 214,409	\$ 433,136	\$ 425,319	\$ 936,000
Interest expense, net	48,107	50,762	94,830	102,188	212,000
Depreciation and amortization.....	48,896	53,619	96,194	105,498	214,000
Equity-based incentive compensation ⁽¹⁾	6,570	10,047	(3,158)	7,394	23,000
Loss on sale and retirement of assets.....	1,870	2,589	5,331	4,586	10,000
Commodity-related adjustments:					
Derivative (gains) losses recognized in the period associated with future product transactions ⁽²⁾	(5,955)	29,318	(7,312)	35,828	
Derivative losses recognized in previous periods associated with product sales completed in the period ⁽²⁾	(137)	(23,358)	(25,493)	(38,801)	
Inventory valuation adjustments ⁽³⁾	1,983	838	4,923	(260)	
Total commodity-related adjustments.....	(4,109)	6,798	(27,882)	(3,233)	(35,000)
Cash distributions received from non-controlled entities in excess of earnings	10,725	397	10,884	17,613	36,000
Other ⁽⁴⁾	1,450	—	2,900	3,644	4,000
Adjusted EBITDA	323,909	338,621	612,235	663,009	1,400,000
Interest expense, net, excluding debt issuance cost amortization.....	(47,279)	(49,928)	(93,176)	(100,514)	(210,000)
Maintenance capital ⁽⁵⁾	(26,266)	(22,100)	(41,095)	(36,960)	(90,000)
Distributable cash flow	\$ 250,364	\$ 266,593	\$ 477,964	\$ 525,535	\$ 1,100,000

- (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 equity-based compensation adjustment for the six months ended June 30, 2017 and 2018 was \$10.7 million and \$16.7 million, respectively. However, the figures above include adjustments of \$13.9 million and \$9.3 million, respectively, for cash payments associated with the equity-based incentive compensation plan, which primarily include tax withholdings.
- (2) 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.
- (3) 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.
- (4) Other adjustments in 2018 include a \$3.6 million one-time 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.
- (5) 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.