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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2017	2016	2017
Transportation and terminals revenue	$ 415,371	$ 458,930	$ 1,591,119	$ 1,731,775
Product sales revenue	195,995	209,572	599,602	758,206
Affiliate management fee revenue	3,549	4,797	14,689	17,680
Total revenue	614,915	673,299	2,205,410	2,507,661
Costs and expenses:				
Operating	136,661	135,724	528,672	577,978
Cost of product sales	165,808	194,947	493,338	635,617
Depreciation and amortization	44,005	50,527	178,142	196,630
General and administrative	36,351	44,841	147,165	165,717
Total costs and expenses	382,825	426,039	1,347,317	1,575,942
Earnings of non-controlled entities	27,153	42,821	78,696	120,994
Operating profit	259,243	290,081	936,789	1,052,713
Interest expense	51,614	56,045	194,187	210,698
Interest income	(335)	(627)	(1,402)	(1,415)
Interest capitalized	(6,232)	(4,761)	(27,375)	(15,565)
Gain on sale of asset	—	—	—	(18,505)
Gain on exchange of interest in non-controlled entity	—	—	(28,144)	—
Other (income) expense	(19)	377	(6,466)	4,139
Income before provision for income taxes	214,215	239,047	805,989	873,361
Provision for income taxes	924	1,152	3,218	3,830
Net income	$ 213,291	$ 237,895	$ 802,771	$ 869,531
Basic net income per limited partner unit	$ 0.94	$ 1.04	$ 3.52	$ 3.81
Diluted net income per limited partner unit	$ 0.93	$ 1.04	$ 3.52	$ 3.81
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	227,963	228,203	227,926	228,176
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	228,385	228,682	228,057	228,338

MAGELLAN MIDSTREAM PARTNERS, L.P.
OPERATING STATISTICS

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2017	2016	2017
Refined products:				
Transportation revenue per barrel shipped	$ 1.538	$ 1.512	$ 1.473	$ 1.495
Volume shipped (million barrels):				
Gasoline	70.5	76.8	275.4	295.5
Distillates	40.2	46.6	150.2	166.2
Aviation fuel	6.1	6.3	25.7	26.5
Liquefied petroleum gases	0.5	0.3	10.4	9.9
Total volume shipped	117.3	130.0	461.7	498.1
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped	$ 1.309	$ 1.199	$ 1.321	$ 1.348
Volume shipped (million barrels)	47.5	59.4	187.0	196.4
Crude oil terminal average utilization (million barrels per month)	15.8	15.0	15.0	15.3
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels)(1)	20.3	32.0	79.0	98.4
Saddlehorn - volume shipped (million barrels)(2)	4.0	6.9	5.2	19.0
Marine storage:				
Marine terminal average utilization (million barrels per month)	24.3	22.1	23.8	23.1

(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 and began operations in September 2016.

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

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017
Refined products:				
Transportation and terminals revenue	$ 262,437	$ 287,222	$ 1,002,368	$ 1,096,040
Affiliate management fee revenue	343	353	765	1,388
Losses of non-controlled entities	(616)	(1,465)	(968)	(1,632)
Less: Operating expenses	100,525	87,528	380,347	400,439
Transportation and terminals margin	161,639	198,582	621,818	695,357
Product sales revenue(1)	189,698	208,072	561,759	717,140
Less: Cost of product sales(1)	159,980	190,459	459,989	586,751
Product margin	29,718	17,613	101,770	130,389
Operating margin	$ 191,357	$ 216,195	$ 723,588	$ 825,746
Crude oil:				
Transportation and terminals revenue	$ 104,656	$ 128,642	$ 407,837	$ 458,455
Affiliate management fee revenue	2,847	3,639	12,533	13,950
Earnings of non-controlled entities	27,102	43,785	76,972	120,173
Less: Operating expenses	22,300	30,929	88,528	120,920
Transportation and terminals margin	112,305	145,137	408,814	471,658
Product sales revenue(1)	4,705	177	31,170	35,053
Less: Cost of product sales(1)	5,188	3,511	31,657	41,325
Product margin	(483)	(3,334)	(487)	(6,272)
Operating margin	$ 111,822	$ 141,803	$ 408,327	$ 465,386
Marine storage:				
Transportation and terminals revenue	$ 48,884	$ 43,981	$ 181,721	$ 180,683
Affiliate management fee revenue	359	805	1,391	2,342
Earnings of non-controlled entities	667	501	2,692	2,453
Less: Operating expenses	15,751	19,543	65,559	65,296
Transportation and terminals margin	34,159	25,744	120,245	120,182
Product sales revenue(1)	1,592	1,323	6,673	6,013
Less: Cost of product sales(1)	640	977	1,692	7,541
Product margin	952	346	4,981	(1,528)
Operating margin	$ 35,111	$ 26,090	$ 125,226	$ 118,654
Segment operating margin	$ 338,290	$ 384,088	$ 1,257,141	$ 1,409,786
Add: Allocated corporate depreciation costs	1,309	1,361	4,955	5,274
Total operating margin	339,599	385,449	1,262,096	1,415,060
Less:				
Depreciation and amortization expense	44,005	50,527	178,142	196,630
General and administrative expense	36,351	44,841	147,165	165,717
Total operating profit	$ 259,243	$ 290,081	$ 936,789	$ 1,052,713

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

(1) Includes gains and losses on related exchange-traded futures contracts.

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, 2017		
	Net Income	Basic Net Income Per Limited Partner Unit	Diluted Net Income Per Limited Partner Unit
As reported	$ 237,895	$ 1.04	$ 1.04
Unrealized derivative (gains) losses associated with future physical product sales	32,347	0.14	0.14
Inventory valuation adjustments associated with future physical product transactions	1,961	0.01	0.01
Excluding commodity-related adjustments*	$ 272,203	$ 1.19	$ 1.19
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	228,203		
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	228,682		

* 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 December 31,		Year Ended December 31,		2018
	2016	2017	2016	2017	Guidance
Net income	$ 213,291	$ 237,895	$ 802,771	$ 869,531	$ 915,000
Interest expense, net	45,047	50,657	165,410	193,718	219,000
Depreciation and amortization	44,005	50,527	178,142	196,630	208,000
Equity-based incentive compensation(1)	4,622	6,458	4,982	6,766	13,000
Loss on sale and retirement of assets	5,793	5,789	11,190	13,370	10,000
Gain on sale of asset(2)	—	—	—	(18,505)	—
Gain on exchange of interest in non-controlled entity(3)	—	—	(28,144)	—	—
Commodity-related adjustments:					
Derivative (gains) losses recognized in the period associated with future product transactions(5)	23,943	32,347	21,837	37,624	
Derivative gains (losses) recognized in previous periods associated with product sales completed in the period(5)	(5,600)	(8,241)	45,218	(25,493)	
Inventory valuation adjustments(6)	—	(3,716)	(2,798)	332	
Total commodity-related adjustments	18,343	20,390	64,257	12,463	(35,000)
Cash distributions received from non-controlled entities in excess of earnings	6,290	5,697	9,293	25,216	25,000
Other(4)	1,450	—	5,341	3,749	—
Adjusted EBITDA	338,841	377,413	1,213,242	1,302,938	1,355,000
Interest expense, net, excluding debt issuance cost amortization	(44,222)	(49,824)	(162,251)	(190,403)	(215,000)
Maintenance capital(7)	(17,404)	(19,331)	(103,507)	(91,163)	(90,000)
Distributable cash flow	$ 277,215	$ 308,258	$ 947,484	$ 1,021,372	$ 1,050,000

(1) Because the partnership intends to satisfy vesting of units 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. Total equity-based incentive compensation expense for the year ended December 31, 2016 and 2017 was $19.4 million and $20.6 million, respectively. However, the figures above include adjustments of $14.4 million and $13.9 million in 2016 and 2017, respectively, for cash payments associated with its equity-based incentive compensation plan, which primarily include tax withholdings.

(2) 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.

(3) In February 2016, the partnership transferred its 50% membership interest in Osage Pipe Line Company, LLC ("Osage") to an affiliate of HollyFrontier Corporation ("HFC"). In conjunction with this transaction, the partnership entered into several commercial agreements with affiliates of HFC, which were recorded as intangible assets and other receivables in its consolidated balance sheets. The partnership recorded a $28.1 million non-cash gain in relation to this transaction.

(4) In conjunction with the February 2016 Osage transaction, HFC agreed to make certain payments to the partnership until HFC completes a connection to the partnership's El Paso terminal. The partnership recorded a receivable in the amount of $8.3 million in relation to this transaction, which was fully collected as of September 30, 2017. The purpose of these payments was to replace distributions the partnership would have received had the Osage transaction not occurred and, therefore, these payments are included in its calculation of DCF.

(5) Certain derivatives the partnership uses 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 earnings. In addition, the partnership has designated certain derivatives used to hedge its crude oil tank bottoms as fair value hedges, and the change in the differential between the current spot price and forward price on these hedges is recognized currently in earnings. The partnership excludes the net impact of both of these adjustments from its determination of DCF until the hedged products are physically sold. In the period in which these products are physically sold, the net impact of the associated hedges is included in the partnership's determination of DCF.

(6) The partnership adjusts DCF for lower of cost or net realizable value adjustments related to inventory and firm purchase commitments and valuations 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.

(7) Maintenance capital expenditure projects maintain the partnership's existing assets and do not generate incremental DCF (i.e. incremental returns to the partnership's unitholders). For this reason, the partnership deducts maintenance capital expenditures to determine DCF.