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EDITED TRANSCRIPT

PSXP - Q2 2014 Phillips 66 Partners LP Earnings Call

EVENT DATE/TIME: JULY 30, 2014 / 6:00PM GMT

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CORPORATE PARTICIPANTS

Rosy Zuklic *Phillips 66 Partners LP - Manager of IR*

Tim Taylor *Phillips 66 Partners LP - President*

Greg Maxwell *Phillips 66 Partners LP - VP & CFO*

Tom Liberti *Phillips 66 Partners LP - VP & COO*

CONFERENCE CALL PARTICIPANTS

Brian Zarahn *Barclays Capital - Analyst*

John Edwards *Credit Suisse - Analyst*

Jeremy Tonet *JPMorgan - Analyst*

Elvira Scotto *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Welcome to the second-quarter 2014 Phillips 66 Partners earnings conference call. My name is Christine and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Rosy Zuklic, Manager of Investor Relations.

Rosy Zuklic - *Phillips 66 Partners LP - Manager of IR*

Thank you, Christine. Good afternoon and welcome to the Phillips 66 Partners second-quarter earnings conference call. With me today are Tim Taylor, President of Phillips 66 Partners; Greg Maxwell, Vice President and CFO; Bob Herman, Senior Vice President, Operations; and Tom Liberti, Vice President and Chief Operating Officer.

The presentation materials we'll be using this afternoon can be found on the events section of the Phillips 66 Partners website, along with supplemental financial and operating information. We'll have time for questions at the end of the presentation.

Slide 2 contains our Safe Harbor statement. It is a reminder that we will be making forward-looking statements during the presentation and the question-and-answer session. Actual results may differ materially from what we present here today. And factors that could cause actual results to differ are included here as well in our filings with the SEC.

References in this presentation to our operational and financial results for the first quarter of 2014 exclude amounts from predecessors. These are non-GAAP financial measures, and the reconciliations to their GAAP counterparts, which include predecessor results, are included in the supplemental information accompanying our earnings release and posted on our website.

With that, I'll turn the call over to Tim Taylor for some opening remarks.

Tim Taylor - *Phillips 66 Partners LP - President*

Thanks, Rosy. Good afternoon, everyone. I'd like to start by highlighting several key take-aways from the quarter.

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First, and most importantly, we delivered on our commitment to safety and operating excellence with no major incidents or injuries. Second, we experienced higher throughput volumes in the second quarter, primarily reflecting the acquisition of the Gold Line products system and the Medford Spheres, as well as increases on our Clifton Ridge, Sweeny to Pasadena and Hartford systems.

Total pipeline volumes increased 28% over the prior quarter to 733,000 barrels per day. And terminal throughput volumes were up 23% to 910,000 barrels per day.

In addition to operating well, PSXP reported solid financial results for the quarter. And last week our Board of Directors approved a distribution increase of 10% over our prior quarterly distribution. This increase shows our strong commitment to delivering top quartile distribution growth to our unitholders.

Phillips 66 Partners continues to develop options for growth, including organic development opportunities, third-party acquisitions and dropdowns. Our sponsor, Phillips 66, is currently finalizing the purchase of the Beaumont crude and refined products terminal. This asset could potentially be added to the portfolio of qualifying assets at Phillips 66 that are candidates for dropdowns into PSXP. The terminal is strategically located in the Gulf Coast region and could provide the potential for organic logistics investments for Phillips 66 Partners.

Now I'll turn the call over to Greg Maxwell to provide a more detailed update on the financial results for the quarter.

Greg Maxwell - *Phillips 66 Partners LP - VP & CFO*

Thanks, Tim. Good afternoon, everyone. Beginning on slide 4, Phillips 66 Partners had second-quarter revenues of $56.9 million. This is up $20.9 million over the first quarter. The increase primarily reflects the full impact of the acquisition of the Gold Line System and the Medford Spheres.

As Tim mentioned, we also had higher throughput volumes on our other systems compared to the first quarter. Total costs and expenses were $24.6 million. This is up $7.2 million from the prior quarter, driven primarily by a full quarter of increased operating costs associated with the acquisition.

The General Partner's Board recently declared our second-quarter cash distribution of $0.3017 per limited partner unit, payable on August 13 to unitholders of record on August 4. This distribution is 10% higher than our previous quarter's distribution of $0.2743 per unit, and it's 42% higher than the Partnership's minimum quarterly distribution of $0.2125 per unit.

Turning to slide 5, EBITDA for the quarter was $37.6 million and distributable cash flow was $34.3 million. During the quarter, PSXP provided a $700,000 credit to Phillips 66. This credit covered a portion of the prior quarter's minimum volume commitment deficiency payments on the Gold Line products system.

We had maintenance capital expenditures of $3.4 million during the quarter. And this is consistent with our maintenance capital budget for the year of approximately $12 million. Total cash distributions for the quarter will be $23.9 million, resulting in a 1.44 coverage ratio.

Slide 6 shows that we ended the quarter with $35 million of cash and cash equivalents. We currently have outstanding debt of $160 million in the form of a note payable to Phillips 66. Additionally, we have access to a $250 million revolving credit facility that has a $250 million accordion feature. This facility remains undrawn.

Looking forward, we intend to position PSXP to achieve an investment grade credit rating to enhance its financial flexibility and facilitate low-cost financing that will efficiently fund our future growth plans.

This concludes our prepared remarks. We'll now open the line for questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Brian Zarahn of Barclays.

Brian Zarahn - *Barclays Capital - Analyst*

Good afternoon. Given the Commerce Department's ruling on condensate exports, how do you view the opportunity to transport, store and export condensate which could eventually make its way down to the MLP?

Tim Taylor - *Phillips 66 Partners LP - President*

Brian, this is Tim. I think, fundamentally, we still see that condensate will continue to increase in production. And, really, I think the opportunity to export is still there.

So, I just think it continues to highlight the need to build systems, to be able to transport to market center, process it, take it across the dock and then export that. So we still like that as an opportunity and we're continuing to work that. That would clearly lend itself to a fee-based structure that could be appropriate for the MLP.

Brian Zarahn - *Barclays Capital - Analyst*

Okay. And then, now that you have your full-quarter contribution from your first dropdown, how should we think about the next transaction from a size and timing perspective?

Tim Taylor - *Phillips 66 Partners LP - President*

We've continued to guide that distribution growth should be top quartile long term. For us, that's 15%, 20% annual growth. Short-term, in the shorter period, we thought, with the inventory that we have and our opportunities in midstream, would be above that.

But we haven't been specific on timing, and we won't be. But, clearly, we see the opportunity set to grow, either organically, dropdowns or acquisitions, and this will play a key part in that. So, I think we're still -- we look at it, we're very consistent with what we said in our plan.

Brian Zarahn - *Barclays Capital - Analyst*

Given if you don't do another transaction, you will meet your objective of top-quartile, top-tier growth. So is it reasonable that that next transaction more likely would be in 2015?

Tim Taylor - *Phillips 66 Partners LP - President*

I just think we've got a lot of flexibility around that and we have a lot of opportunity to grow the midstream. I think that all ties into that, so, that's why we don't get into specific timing on that.

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Brian Zarahn - *Barclays Capital - Analyst*

Okay. And then on the Beaumont terminal acquisition at the PSX level, any update to the dropdown inventory or midstream EBITDA that you provided at your Analyst Day was about $1.5 billion? How should we think about the Beaumont terminal's incremental?

Tim Taylor - *Phillips 66 Partners LP - President*

I think there's several increments around Beaumont. First, it's the base asset today. But, clearly, we've talked about the potential here to grow that and use that as a centerpiece, so to speak, on the Gulf Coast for our system and other parties, as well. So a lot of growth potential with that.

And we'll be giving an update on that at a conference later this fall about our midstream EBITDA. But, fundamentally, we believe that not only is there today some additional EBITDA, but then there is significant opportunity to build around that, and really around the entire midstream segment that we have.

Brian Zarahn - *Barclays Capital - Analyst*

Okay, we'll stay tuned. Thank you.

Operator

Our next question is from John Edwards of Credit Suisse.

John Edwards - *Credit Suisse - Analyst*

Just to clarify -- the last EBITDA inventory you gave out was about $1.5 billion. And I guess there's some other projects that are underway at PSX directly. So, I guess longer term, would it be better to think about that to be somewhere in the $2 billion range? Is that the right way to think about it? Or is that not it?

Tim Taylor - *Phillips 66 Partners LP - President*

You hit it. I think we're continuing to see opportunities and moving out forward on execution. We haven't given a specific number in the guidance on that, but it is upward from that number.

John Edwards - *Credit Suisse - Analyst*

Okay, great. That's all I had. Thanks.

Operator

(Operator Instructions)

Our next question is from Jeremy Tonet of JPMorgan.

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Jeremy Tonet - *JPMorgan - Analyst*

Good afternoon. Congratulations on the strong quarter there. Just a quick question. You talked about, you mentioned third-party acquisitions as potential going forward. I was just wondering if you could provide any updated thoughts on how you think about that.

I think in the past you talked about asset values being fairly rich there. But just wondering about NC level consolidation or any other thoughts on third-party acquisitions, how that stacks up given everything that you have upstairs, and how that's just a great fit for you guys to continue executing on those dropdowns.

Tim Taylor - *Phillips 66 Partners LP - President*

I think that assets are very fully valued in the midstream space today. We continue to look at assets or things that would be accretive, number one; number two, offer the potential for significant growth beyond that initial piece.

And, so, that's how we've approached that. I think that's why we keep a very open mind. And I think that the Beaumont terminal's an example of something that we feel has tremendous potential as we think about how we can utilize that asset.

Jeremy Tonet - *JPMorgan - Analyst*

That makes sense. Thank you.

Operator

We do have a question Elvira Scotto from RBC Markets.

Elvira Scotto - *RBC Capital Markets - Analyst*

Hi. Good afternoon. Just a follow-up question. How do you decide, when you're looking at the third-party acquisitions, whether you're going to do them at the top or at the MLP?

Tim Taylor - *Phillips 66 Partners LP - President*

I think fundamentally we have to start with the size and scale. So, that starts it. But, fundamentally, we still anticipate we'll be able to execute larger and more transactions at PSXP over time. But the beauty with a sponsor like Phillips 66 is you have a way to manage that. So I think it's both a size, scale and timing issue in terms of how we look at that.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. Great. That helps. And my other question is on your distribution coverage ratio. Just remind us again what your long-term target is, because you have a pretty healthy coverage ratio now.

Tom Liberti - *Phillips 66 Partners LP - VP & COO*

Elvira, this is Tom. We've talked about the coverage ratio target of being 1.1 times. We've also stated in the past we'll fluctuate that from quarter to quarter given where the operations are and anything that we have coming up for a quarter or happened in that current quarter.

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Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. Great. And just my last question, can you break out the contribution from the dropdown in terms of the contribution to the volumes?

Tom Liberti - *Phillips 66 Partners LP - VP & COO*

I can tell you the increase in the second quarter versus the [first] quarter (corrected by company after the call). About 85% to 90% of that increase is attributable to the Gold Line/Medford drop.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great. Thanks. That's all I had.

Operator

Thank you. I will now turn the call back over to Rosy.

Rosy Zuklic - *Phillips 66 Partners LP - Manager of IR*

Okay. Thank you very much for joining us this afternoon. And if you have any additional questions, Tom, William or I am available, so please feel free to give us a call. Bye.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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