2017 Plains All American Annual Unitholder Letter

February 27, 2018

Dear Fellow Unitholders,

2017 was a year of significant challenge and notable opportunity. What we termed as "a year of transition" for PAA was just that. 2017 marked the third full calendar year of a harsh downturn in the crude oil industry that started in mid-to-late 2014. This extended downturn has adversely impacted the upstream sector, which is a major driver for the midstream sector, as well as the midstream sector directly. However, the near-term and long-term implications for each of these sectors have varied.

For example, the upstream sector was severely impacted initially as crude oil prices decreased approximately 40-50% (at one point approximately 70%). However, improvements in drilling and completion technology, efficiency gains, compressed regional differentials and unit cost reductions substantially lowered the benchmark oil price level required to generate attractive returns. Accordingly, in a +/- $50 per barrel oil price environment, these advancements now allow for attractive investment returns in the upstream sector and provide long-term visibility for sustained U.S. onshore production levels generally and significant growth opportunities in several regions, particularly in the Permian Basin.

In the crude oil midstream sector, the initial adverse impacts of the downturn were somewhat muted as growth in production volumes continued through early-to-mid 2015. Soon thereafter the midstream sector was impacted by a variety of interrelated issues, most notably, production decreases in some regions and lower than anticipated growth in others occurring at the same time that multi-year midstream expansion projects came into service. Additionally, in this same timeframe, competition increased as affiliates of refiners and producers, as well as entities backed by aggressive private capital, entered the midstream space. Collectively, these factors resulted in excess takeaway capacity and compressed expected returns on capital invested. The resulting capacity-on-capacity competition was amplified by excess minimum volume commitments from shippers that dramatically compressed regional differentials and disrupted the flows of crude oil. The net effect of these developments decreased margins of many of the larger established businesses and also lowered minimum return thresholds and increased risk for incremental investments. As one of the largest crude oil midstream businesses in the U.S., PAA experienced all of these challenges and more. As discussed later in this letter, industry dynamics appear to have found bottom, competitive issues have level set and the outlook is much improved, both in general and for PAA.

PAA's 2017 Performance

PAA reported 2017 Adjusted Net Income Attributable to PAA, Adjusted EBITDA and Distributable Cash Flow of approximately $0.85 billion, $2.1 billion and $1.3 billion, respectively. Although meaningfully profitable in a challenging environment, PAA's overall financial and operating results fell short of our 2017 guidance. PAA's fee-based businesses performed slightly ahead of our 2017 guidance, growing approximately 12% over 2016 levels. However, PAA's margin-based activities came in +/- $300 million short of our 2017 guidance and prior-year results.

Acknowledging the shortfall in Supply & Logistics, PAA also reported multiple positive achievements. During 2017, and so far this year, PAA completed and placed in service several capital projects underpinned by long-term commitments, added to its leading Permian franchise through a large acquisition and several expansion projects, and completed several asset sales at attractive valuations. These 2017 achievements, along with some of our more recent 2018 project announcements, are summarized in Exhibit 1. Additionally, during 2017 PAA reduced total debt by $1.9 billion while maintaining a high level of liquidity and continuing to advance multi-year efforts to strengthen the overall organization – all during a challenging environment.

Assessing the Environment, Recalibrating and Positioning for the Long-Term

Despite the challenges highlighted above, we believe the long-term view for the crude oil midstream sector and for PAA is strong. Underpinned by technological advancements, U.S. Lower 48 crude oil production is positioned to grow significantly over the next several years, with the Permian Basin representing the most attractive and significant growth region in North America, if not the world. We believe PAA is well positioned to grow its fee-based businesses due to PAA's leading crude oil midstream presence in substantially all U.S. producing basins and regional crude oil hubs, highlighted by its premier Permian Basin gathering, marketing, pipeline and terminalling network. Furthermore, we have meaningful investments that were placed into service in late 2017 or will be placed into service in 2018 that are underpinned by customer commitments and will contribute to our forecasted growth in cash flow.

Notwithstanding this positive long-term outlook, over the last few years we have generated lower-than-expected growth in our fee-based segments, suffered reduced profitability in our margin-based activities and moderated our expectations for cash flow growth. As a result, our credit metrics are elevated relative to our targeted range and our distribution coverage has been below sustainable levels. Furthermore, conventional financial markets historically relied upon by MLPs to finance growth-oriented projects and manage debt levels have been challenging, with access limited and generally dilutive when available.

Taking all these factors into account, in August 2017 we announced a number of significant actions to position PAA to deliver improved operating and financial performance and enhance the long-term franchise value for all our stakeholders. The cumulative effect of these actions will meaningfully reduce debt, improve our credit metrics, significantly reduce and/or eliminate the need to issue incremental common equity for routine expansion activities, and enhance PAA's ability to capitalize on attractive industry opportunities. These actions are consistent with our objectives to defend PAA's investment-grade credit metrics, restore strong distribution coverage and drive sustainable distribution growth capacity.

A recap of these actions and a status update as of year-end 2017 are provided below:

- Reset PAA's annualized distribution level to $1.20 per unit from the prior $2.20 level
  - The reduction of PAA's distribution commenced with the November 2017 distribution and will result in $1.1 billion in retained cash flow over a 6 quarter period (through the first quarter of 2019), together with substantial distribution coverage underpinned by predominantly fee-based sources
- Complete $700 million of identified non-core or strategic asset sales and evaluate potential additional dispositions
  - $700 million program substantially completed as of year-end 2017
  - Announced an additional $700 million asset sales program for 2018, of which we recently executed definitive agreements on three transactions representing slightly over half of the targeted amount
- Issue $600 million in Non-Convertible, Perpetual Preferred Equity
  - Offering executed in October 2017 at 6.125% yield and upsized to $800 million
- Reduce Short-Term Hedged Inventory debt by $300 million
  - Approximately $375 million reduction achieved as of year-end 2017

During the year, PAA also retired two series of senior notes in December 2017, totaling $950 million, while still exiting 2017 with approximately $3.0 billion of committed liquidity.

Looking Forward to 2018 and Beyond

We believe we have taken the appropriate steps to enable PAA to deliver on its operating and financial performance expectations and enhance the long-term franchise value for all of our stakeholders. We look forward to achieving our targets in the coming quarters and executing our broader growth plans over the next several years. With respect to 2018, we have characterized this as a "year of execution" underpinned by four specific goals that are outlined in the attached Exhibit 2. Additionally, we have provided 2018 adjusted EBITDA guidance of +/- $2.3 billion, with approximately 95% expected to be generated by our fee-based businesses. This represents an overall increase of approximately 11% above 2017 actual results. Relative to preliminary 2018 guidance provided in August 2017, this updated guidance incorporates the projected impacts of incremental asset sales, concessions to existing contracts to attract incremental commitments and changes to projected producer completion schedules on committed acreage.

One of our biggest forecasting challenges continues to be predicting the actual timing of producer completion activities on acreage committed to, or in close proximity of, our pipeline systems. These completion activities are impacted by many variables, including equipment and labor availability, weather and typical capital allocation / reallocation decisions. Importantly however, based on our assessments of individual well performance on acreage dedicated to PAA, we believe the overall outlook for volume capture on PAA assets remains as good as, if not better than, prior assessments. We expect our 2019 fee-based adjusted EBITDA to grow by approximately 14 to 15% over our 2018 guidance level, even after taking into account planned asset sales.

Execution of our business plan includes an intense focus on operational reliability, asset integrity, system optimization, cost management and an overall effort across PAA's management team to strengthen many aspects of the organization. Critical to the success of all of these efforts is a deep team of management talent with a well-defined succession plan.

As discussed on our November 2017 earnings call, Willie Chiang will succeed Greg Armstrong as CEO during the latter half of 2018. Harry Pefanis will continue as President and a Director and has taken on the newly created role of Chief Commercial Officer. Greg will remain as non-executive Chairman of the Board of Directors through 2019, at which point he will retire from the board.

Over the last 25 plus years, PAA has grown significantly – from an enterprise value of less than $50 million to over $25 billion – and these leadership changes represent several years of thoughtful preparation regarding the long-term leadership development and succession planning of the organization. This focus extends throughout the organization, and we believe PAA will continue to be a leader within the midstream sector for many years to come.

We believe PAA and PAGP represent an attractive business and investment proposition, particularly at current valuation levels. Highlights include:

- Consistent fee-based growth track record spanning two decades (10-year fee-based adjusted EBITDA CAGR of 16%);
- Attractive multi-year fee-based growth outlook driven by strong fundamentals, solid asset base and strong Permian Basin positioning;
- Significant operating leverage via available system capacity with strong positioning to execute new growth opportunities, particularly in the Permian;
- Our action plans improve PAA's long-term financial positioning, and expected future retained cash flow creates meaningful option value to make distribution increases, improve our financial positioning and/or make additional investments.

As one of the largest crude oil midstream providers throughout key growth areas, we are excited about the future and look forward to providing you updates on our progress throughout the year. On behalf of PAA, PAGP, our board of directors and more than 4,800 employees throughout North America, we appreciate your investment and sincerely thank you for your continued trust and support.

Greg L. Armstrong	Harry N. Pefanis	Willie C. Chiang
Chairman & CEO	President & CCO	EVP & COO

<u>Exhibit 1</u>

2017 Highlights & Recent 2018 Project Announcements

- **Permian Basin Production Growth** – PAA is one of the largest provider of midstream crude oil services in the Permian Basin, and the Permian is also the location of our largest asset concentration and most operating leverage to volume increases. From YE 2016 to YE 2017, aggregate Permian Basin crude oil production increased by approximately 700,000 barrels per day (or over 30%). Meanwhile, PAA grew Permian Transportation segment tariff volumes by over 1,000,000 barrels per day, or 47%.

- **Cactus II Pipeline System (Permian to Corpus Christi, TX)** – PAA announced that it is proceeding with the construction of a 585,000 barrel per day pipeline system to deliver crude oil from the Permian Basin to the Corpus Christi / Ingleside area. The project is fully committed with long-term third-party shipper contracts totaling 525,000 barrels per day and the remaining 60,000 barrels per day reserved for walk-up shippers. The project is expected to be owned in a JV partnership structure with certain affiliates of the contracted shippers. PAA will serve as operator and is expected to retain a 65% ownership interest in the project.

- **Sunrise Pipeline Extension & Loop (Permian to Cushing, OK)** – PAA secured long-term volume commitments to deliver crude oil from the Permian Basin to Cushing, underpinning the extension of the Sunrise Pipeline from Colorado City to Wichita Falls in addition to a loop of the existing pipeline segment from Midland to Colorado City.

- **ACC Acquisition** – PAA acquired the Alpha Crude Connector gathering system in 1Q17, a premier crude oil gathering system that extends PAA's reach in the Permian's Northern Delaware Basin (more than 300,000 dedicated acres with well-capitalized producers; system expandable to 350,000 barrels per day).

- **Permian Expansion Projects** – Long-haul pipeline expansions executed in 2017 include Cactus I pipeline to 390,000 barrels per day and the BridgeTex Pipeline (50% JV interest) to 400,000 barrels per day, recently announcing an additional potential expansion to 440,000 barrels per day. Also in 2017, PAA announced a 200,000 barrel per day capacity expansion on its Delaware Basin gathering system.

- **Advantage Pipeline Acquisition/JV –** PAA partnered with Noble Energy Partners and purchased a 150,000 barrel per day pipeline (expandable to 200,000 barrels per day) and approximately 500,000 barrels of storage capacity in the Delaware basin.

- **Diamond Pipeline** – PAA placed the Diamond Pipeline into service (50% JV interest) in December, delivering crude oil from Cushing to the Valero Memphis refinery (initial capacity of 200,000 barrels per day, expandable to 350,000 barrels per day if conditions warrant).

- **STACK JV Pipeline** – PAA executed a 50% JV with PSXP on the STACK JV Pipeline Expansion (250,000 barrels per day capacity) delivering crude oil from Oklahoma's STACK/SCOOP resources play to Cushing.

Exhibit 2
2018 Goals – A Year of Execution

1. Run a safe, reliable, environmentally and socially responsible operation – which includes driving operational excellence, cost savings, asset optimization and improved efficiencies throughout the organization.

2. Meet or exceed our 2018 operating and financial guidance – which includes growing our fee-based business by approximately $180 million, net of targeted asset sales.

3. Progress our deleveraging plan for a return to our targeted credit metrics.

4. Execute new projects to capture Permian growth opportunities, further enhancing PAA's positioning for 2019 and beyond.

Note: This letter contains forward looking statements, including statements about the plans, strategies and prospects of PAA and PAGP. Factors that could cause actual results to differ materially from management's expectations are disclosed in PAA's and PAGP's most recent filings with the Securities and Exchange Commission. This letter also contains non-GAAP financial measures. A reconciliation of these measures to the most directly comparable GAAP measures is available on our website at www.plainsallamerican.com (navigate to Investor Relations, select "PAA," navigate to "Financial Information" and select "Non-GAAP Reconciliations").