

SUNOCO LOGISTICS PARTNERS LP

Form 10-Q

August 02, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-31219

**SUNOCO LOGISTICS PARTNERS L.P.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**23-3096839**  
(I.R.S. Employer  
Identification No.)

**Mellon Bank Center**  
**1735 Market Street, Suite LL, Philadelphia, PA**  
(Address of principal executive offices)

**19103-7583**  
(Zip Code)

Registrant's telephone number, including area code: (866) 248-4344

Former name, former address and formal fiscal year, if changed since last report: Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

At August 2, 2006, the number of the registrant's Common Units outstanding was 22,844,051, and its Subordinated Units outstanding was 5,691,819.

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PART I  
FINANCIAL INFORMATION

**Item 1. Financial Statements**

SUNOCO LOGISTICS PARTNERS L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(in thousands, except unit and per unit amounts)

|  | <b>Three Months Ended<br/>June 30,</b> |                  |
|--|--|------------------|
|  | <b>2006</b>                            | <b>2005</b>      |
| <b>Revenues</b>  |  |                  |
| Sales and other operating revenue:                                       |  |                  |
| Affiliates (Note 3)  | \$ 518,439                             | \$ 495,010       |
| Unaffiliated customers   | 973,057                                | 585,435          |
| Other income   | 3,872                                  | 4,089            |
| <b>Total Revenues</b>  | <b>1,495,368</b>                       | <b>1,084,534</b> |
| <b>Costs and Expenses</b>  |  |                  |
| Cost of products sold and operating expenses                             | 1,439,674                              | 1,041,388        |
| Depreciation and amortization  | 9,211                                  | 7,493            |
| Selling, general and administrative expenses                             | 13,522                                 | 12,507           |
| <b>Total Costs and Expenses</b>  | <b>1,462,407</b>                       | <b>1,061,388</b> |
| <b>Operating Income</b>  | <b>32,961</b>                          | <b>23,146</b>    |
| Net interest cost paid to affiliates (Note 3)                            | 414                                    | 87               |
| Other interest cost and debt expense, net                                | 7,416                                  | 5,265            |
| Capitalized interest   | (1,189)                                |                  |
| <b>Net Income</b>  | <b>\$ 26,320</b>                       | <b>\$ 17,794</b> |
| <b>Calculation of Limited Partners' interest in Net Income (Note 4):</b> |  |                  |
| Net Income   | \$ 26,320                              | \$ 17,794        |
| Less: General Partner's interest in Net Income                           | (4,101)                                | (1,156)          |
| <b>Limited Partners' interest in Net Income</b>                          | <b>\$ 22,219</b>                       | <b>\$ 16,638</b> |
| <b>Net Income per Limited Partner unit:</b>                              |  |                  |
| Basic  | \$ 0.81                                | \$ 0.69          |
| Diluted  | \$ 0.81                                | \$ 0.68          |

**Weighted average Limited Partners units outstanding (Note 4):**

|         |            |            |
|---------|------------|------------|
| Basic   | 27,466,092 | 24,144,043 |
| Diluted | 27,589,644 | 24,303,921 |

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(in thousands, except unit and per unit amounts)

|  | <b>Six Months Ended<br/>June 30,</b> |                  |
|--|--------------------------------------|------------------|
|  | <b>2006</b>                          | <b>2005</b>      |
| <b>Revenues</b>  |                                      |                  |
| Sales and other operating revenue:                                       |                                      |                  |
| Affiliates (Note 3)  | \$ 996,760                           | \$ 971,933       |
| Unaffiliated customers   | 1,755,707                            | 1,120,361        |
| Other income   | 6,263                                | 7,716            |
| <b>Total Revenues</b>  | <b>2,758,730</b>                     | <b>2,100,010</b> |
| <b>Costs and Expenses</b>  |                                      |                  |
| Cost of products sold and operating expenses                             | 2,654,460                            | 2,016,299        |
| Depreciation and amortization  | 18,157                               | 15,615           |
| Selling, general and administrative expenses                             | 28,525                               | 24,424           |
| <b>Total Costs and Expenses</b>  | <b>2,701,142</b>                     | <b>2,056,338</b> |
| <b>Operating Income</b>  | <b>57,588</b>                        | <b>43,672</b>    |
| Net interest cost paid to affiliates (Note 3)                            | 723                                  | 152              |
| Other interest cost and debt expense, net                                | 13,866                               | 10,428           |
| Capitalized interest   | (1,745)                              |                  |
| <b>Net Income</b>  | <b>\$ 44,744</b>                     | <b>\$ 33,092</b> |
| <b>Calculation of Limited Partners' interest in Net Income (Note 4):</b> |                                      |                  |
| Net Income   | \$ 44,744                            | \$ 33,092        |
| Less: General Partners' interest in Net Income                           | (5,445)                              | (2,078)          |
| <b>Limited Partners' interest in Net Income</b>                          | <b>\$ 39,299</b>                     | <b>\$ 31,014</b> |
| <b>Net Income per Limited Partner unit:</b>                              |                                      |                  |
| Basic  | \$ 1.48                              | \$ 1.29          |
| Diluted  | \$ 1.48                              | \$ 1.28          |
| <b>Weighted average Limited Partners' units outstanding (Note 4):</b>    |                                      |                  |
| Basic  | 26,499,007                           | 24,116,585       |

Diluted

26,623,554

24,295,440

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

|  | <b>June 30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|--|--------------------------|----------------------------------|
|  | (UNAUDITED)              |                                  |
| <b>Assets</b>                                      |                          |                                  |
| <b>Current Assets</b>                              |                          |                                  |
| Cash and cash equivalents                          | \$ 25,442                | \$ 21,645                        |
| Advances to affiliates (Note 3)                    | 7,754                    |                                  |
| Accounts receivable, affiliated companies (Note 3) | 165,344                  | 136,536                          |
| Accounts receivable, net                           | 808,126                  | 584,509                          |
| Inventories:                                       |                          |                                  |
| Crude oil  | 29,219                   | 27,561                           |
| Materials, supplies and other                      | 725                      | 700                              |
| <b>Total Current Assets</b>                        | <b>1,036,610</b>         | <b>770,951</b>                   |
| Properties, plants and equipment                   | 1,440,323                | 1,287,542                        |
| Less accumulated depreciation and amortization     | (481,895)                | (472,706)                        |
| Properties, plants and equipment, net              | 958,428                  | 814,836                          |
| Investment in affiliates (Note 5)                  | 69,071                   | 69,097                           |
| Deferred charges and other assets                  | 31,232                   | 25,801                           |
| <b>Total Assets</b>                                | <b>\$ 2,095,341</b>      | <b>\$ 1,680,685</b>              |
| <b>Liabilities and Partners' Capital</b>           |                          |                                  |
| <b>Current Liabilities</b>                         |                          |                                  |
| Accounts payable                                   | \$ 958,315               | \$ 720,127                       |
| Accrued liabilities                                | 28,489                   | 32,884                           |
| Accrued taxes other than income                    | 23,853                   | 20,986                           |
| Advances from affiliates (Note 3)                  |                          | 5,750                            |
| <b>Total Current Liabilities</b>                   | <b>1,010,657</b>         | <b>779,747</b>                   |
| Long-term debt (Note 6)                            | 423,813                  | 355,573                          |
| Other deferred credits and liabilities             | 23,343                   | 21,954                           |
| Commitments and contingent liabilities (Note 7)    |                          |                                  |
| <b>Total Liabilities</b>                           | <b>1,457,813</b>         | <b>1,157,274</b>                 |
| Partners' Capital:                                 |                          |                                  |
| Limited partners' interest                         | 627,027                  | 515,512                          |
| General partners' interest                         | 10,501                   | 7,899                            |
| <b>Total Partners' Capital</b>                     | <b>637,528</b>           | <b>523,411</b>                   |

|   |              |              |
|---|--------------|--------------|
| <b>Total Liabilities and Partners Capital</b> | \$ 2,095,341 | \$ 1,680,685 |
|---|--------------|--------------|

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(in thousands)

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30 ,</b>        |             |
|   | <b>2006</b>             | <b>2005</b> |
| <b>Cash Flows from Operating Activities:</b>  |                         |             |
| Net Income  | \$ 44,744               | \$ 33,092   |
| Adjustments to reconcile net income to net cash provided by operating activities:                               |                         |             |
| Depreciation and amortization   | 18,157                  | 15,615      |
| Restricted unit incentive plan expense  | 2,572                   | 1,642       |
| Changes in working capital pertaining to operating activities net of the effect of acquisitions:                |                         |             |
| Accounts receivable, affiliated companies   | (28,808)                | 2,512       |
| Accounts receivable, net  | (223,617)               | (167,205)   |
| Inventories   | 506                     | 2,347       |
| Accounts payable and accrued liabilities  | 233,554                 | 143,373     |
| Accrued taxes other than income   | 2,867                   | 1,034       |
| Other   | (3,762)                 | (2,533)     |
| Net cash provided by operating activities   | 46,213                  | 29,877      |
| <b>Cash Flows from Investing Activities:</b>  |                         |             |
| Capital expenditures  | (53,759)                | (17,930)    |
| Acquisitions  | (108,900)               |             |
| Net cash used in investing activities   | (162,659)               | (17,930)    |
| <b>Cash Flows from Financing Activities:</b>  |                         |             |
| Distributions paid to Limited Partners and General Partner  | (45,047)                | (32,013)    |
| Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan | (1,443)                 | (2,863)     |
| Net proceeds from issuance of Limited Partner units   | 110,357                 | 99,203      |
| Redemption of Limited Partner units from Sunoco   |                         | (99,203)    |
| Contributions from General Partner for Limited Partner unit transactions  | 2,426                   | 137         |
| Net proceeds from issuance of Senior Notes  | 173,307                 |             |
| Repayments from (advances to) affiliates, net   | (13,504)                | 14,449      |
| Borrowings under credit facility  | 109,500                 |             |
| Repayments under credit facility  | (216,100)               |             |
| Contributions from affiliate  | 747                     | 895         |
| Net cash provided by /(used in) financing activities  | 120,243                 | (19,395)    |
| Net change in cash and cash equivalents   | 3,797                   | (7,448)     |
| Cash and cash equivalents at beginning of year  | 21,645                  | 52,660      |

|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 25,442 | \$ 45,212 |
|--|-----------|-----------|

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

**1. Basis of Presentation**

Sunoco Logistics Partners L.P. (the Partnership) is a publicly traded Delaware limited partnership formed by Sunoco, Inc. (Sunoco) in October 2001 to acquire a substantial portion of Sunoco's logistics business. The Partnership owns and operates a geographically diverse portfolio of complementary assets, consisting of refined product pipelines, terminalling and storage assets, crude oil pipelines, and crude oil acquisition and marketing assets located in the Northeast, Midwest and South Central United States.

The consolidated financial statements reflect the results of Sunoco Logistics Partners L.P. and its wholly-owned partnerships, including Sunoco Logistics Partners Operations L.P. (the Operating Partnership). Equity ownership interests in corporate joint ventures, which are not consolidated, are accounted for under the equity method.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for the three and six months ended June 30, 2006 are not necessarily indicative of results for the full year 2006.

**2. Acquisitions****Millenium and Kilgore Pipeline Acquisition**

On March 1, 2006, the Partnership purchased a Texas crude oil pipeline system from affiliates of Black Hills Energy, Inc. for approximately \$40.9 million. The system consists of (a) the Millennium Pipeline, a 200-mile, 12-inch crude oil pipeline with 65,000 barrels per day operating capacity, originating near the Partnership's Nederland Terminal, and terminating at Longview Texas; (b) the Kilgore Pipeline, a 190-mile, 10-inch crude oil pipeline with 35,000 barrels per day capacity originating in Kilgore, Texas and terminating at refineries in the Houston, Texas region; (c) approximately 800,000 shell barrels of storage capacity at Kilgore, and Longview, Texas, 340,000 of which are active; (d) a crude oil sales and marketing business; and (e) crude oil line fill and working inventory.

The purchase price of the acquisition was initially funded with borrowings under the Partnership's Credit Facility, and has been allocated within the Western Pipeline System business segment to the assets acquired based on their relative fair values at the acquisition date. The following is a summary of the effects of the transaction on the Partnership's consolidated financial position (in thousands of dollars):

|                                       |               |
|---------------------------------------|---------------|
| Increase in:                          |               |
| Inventories                           | \$ 2,189      |
| Properties, plants and equipment, net | 38,711        |
| <br>                                  |               |
| Cash paid for acquisition             | <br>\$ 40,900 |

The results of the acquisition are included in the financial statements from the date of acquisition.

**Amdel and White Oil Pipeline Acquisition**

On March 1, 2006, the Partnership also acquired a Texas crude oil pipeline system from Alon USA Energy, Inc. for approximately \$68.0 million. The system consists of (a) the Amdel Pipeline, a 503-mile, 10-inch common carrier crude oil pipeline with 27,000 barrels per day operating capacity, originating at the Nederland Terminal, and terminating at Midland, Texas, and (b) the White Oil Pipeline, a 25-mile, 10-inch crude oil pipeline with 40,000 barrels per day operating capacity, originating at the Amdel Pipeline and terminating at Alon's Big Spring, Texas refinery. Alon has also agreed to ship a minimum of 15,000 barrels per day under a 10-year, throughput and deficiency agreement on the pipelines. The Partnership



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expects shipments on the Amdel pipeline to begin during the third quarter 2006. The pipelines were idle at the time of purchase and were re-commissioned by the Partnership during the second quarter 2006. The Partnership also began construction to expand capacity on the Amdel Pipeline from 27,000 to 40,000 barrels per day, which it expects to complete by the end of 2006, and to construct new tankage at the Nederland Terminal to service these new volumes more efficiently. This capital program, including re-commissioning and expansion of the pipeline and the new tankage, is expected to total approximately \$17 million. The purchase price of the acquisition was initially funded with borrowings under the Partnership's Credit Facility, and has been allocated to property, plants and equipment based on the relative fair value of the assets acquired on the acquisition date within the Western Pipeline System business segment.

**Mesa Pipe Line System Interest Acquisition**

On December 5, 2005, the Partnership purchased a subsidiary of Sunoco which owned a 7.2 percent undivided interest in the Mesa Pipe Line system for approximately \$1.3 million. The Mesa Pipe Line system consists of an 80-mile, 24-inch crude oil pipeline from Midland, Texas to Colorado City, Texas, with an operating capacity of 316,000 barrels per day, and approximately 800,000 barrels of tankage at Midland. The Mesa pipeline connects to the West Texas Gulf pipeline, which supplies crude oil to the Mid-Valley pipeline. On December 29, 2005, the Partnership purchased an additional 29.8 percent interest in Mesa from Chevron for \$5.3 million, increasing its combined interest to 37.0 percent. The purchase prices of the acquisitions were initially funded with \$6.6 million of borrowings under the Partnership's Credit Facility, and were allocated on a preliminary basis to property, plants and equipment within the Western Pipeline System business segment. The results of the acquisitions are included in the financial statements from the dates of acquisition.

The Partnership and Plains All American Pipeline are the owners of the undivided interest in Mesa. On April 21, 2006, the Partnership and Plains All American Pipeline agreed to extend the Mesa operating agreement, previously scheduled to expire on June 30, 2006, until December 31, 2009.

**Corsicana to Wichita Falls Pipeline Acquisition**

On August 1, 2005, the Partnership purchased, from an affiliate of Exxon Mobil Corporation, a crude oil pipeline system and storage facilities located in Texas for \$100.0 million. The pipeline system consists primarily of a 187-mile, 16-inch pipeline with an operating capacity of 125,000 barrels per day. It originates at a crude oil terminal in Corsicana, Texas and terminates at Wichita Falls, Texas. The storage facilities include the Corsicana terminal, which has 2.9 million barrels of shell capacity for crude oil, and the Ringgold, Texas terminal, which consists of 0.5 million barrels of shell capacity for crude oil. In addition, the Partnership invested approximately \$16.0 million in 2005 to construct a new 20-mile, 24-inch pipeline to connect the Corsicana to Wichita Falls pipeline to the West Texas Gulf pipeline, in which the Partnership has a 43.8% ownership interest. The purchase price of the acquisition was initially funded with \$75.0 million of borrowings under the Partnership's Credit Facility and \$25.0 million of cash on hand. In August 2005, \$56.5 million of proceeds were raised in an offering of common units (see Note 9), and were used to pay down a portion of these borrowings on the Credit Facility. The purchase price was allocated to property, plants and equipment within the Western Pipeline System business segment. The results of the acquisition are included in the financial statements from the date of acquisition.

**Syracuse Terminal Acquisition**

On April 17, 2006, the Partnership signed a definitive agreement to purchase a 50 percent interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation. Total terminal storage is approximately 550 thousand barrels. The transaction is subject to normal conditions to closing for assets of this nature. Closing is now expected to occur in the third quarter of 2006.

**3. Related Party Transactions***Advances To and From Affiliates*

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco's centralized cash management program. Under this program, all of the Partnership's cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco's cash accounts with a corresponding credit or charge to an intercompany account. The intercompany balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to

the average rate of the Partnership's third-party money market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate provided in the Partnership's revolving credit facility (see Note 6).

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Selling, general and administrative expenses in the condensed consolidated statements of income include costs incurred by Sunoco for the provision of certain centralized corporate functions such as legal, accounting, treasury, engineering, information technology, insurance and other corporate services, including the administration of employee benefit plans. These are provided to the Partnership under an omnibus agreement ( *Omnibus Agreement* ) with Sunoco for an annual administrative fee. The fee for the annual period ended December 31, 2005 was \$8.4 million. In January 2006, the parties extended the term of Section 4.1 of the *Omnibus Agreement* (which concerns the Partnership's obligation to pay the annual fee for provision of certain general and administrative services) by one year. The annual administrative fee applicable to this one-year extension is \$7.7 million, which reflects the Partnership directly incurring some of these general and administrative costs. These costs may be increased if the acquisition or construction of new assets or businesses requires an increase in the level of general and administrative services received by the Partnership. There can be no assurance that Section 4.1 of the *Omnibus Agreement* will be extended beyond 2006, or that, if extended, the administrative fee charged by Sunoco will be at or below the current administrative fee. In the event that the Partnership is unable to obtain such services from Sunoco or third parties at or below the current cost, the Partnership's financial condition and results of operations may be adversely impacted.

The annual administrative fee does not include the costs of shared insurance programs, which are allocated to the Partnership based upon its share of the cash premiums incurred. This fee also does not include salaries of pipeline and terminal personnel or other employees of the general partner, or the cost of their employee benefits. These employees are employees of the Partnership's general partner or its affiliates, which are wholly-owned subsidiaries of Sunoco. The Partnership has no employees. Allocated Sunoco employee benefit plan expenses for employees who work in the pipeline, terminalling, storage and crude oil gathering operations, including senior executives, include non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans, and other such benefits. The Partnership is reimbursing Sunoco for these costs and other direct expenses incurred on its behalf. These expenses are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the condensed consolidated statements of income.

*Accounts Receivable, Affiliated Companies*

Affiliated revenues in the condensed consolidated statements of income consist of sales of crude oil as well as the provision of crude oil and refined product pipeline transportation, terminalling and storage services to Sunoco, Inc. (R&M) ( *Sunoco R&M* ). Sales of crude oil are computed using the formula-based pricing mechanism of a supply agreement with Sunoco R&M. Management of the Partnership believes these terms in the aggregate to be comparable to those that could be negotiated with an unrelated third party. Pipeline revenues are generally determined using posted tariffs. The Partnership has throughput agreements with Sunoco R&M under which the Partnership is charging Sunoco R&M fees for services provided under these agreements comparable to those charged in arm's-length, third-party transactions. Under these agreements, Sunoco R&M has agreed to pay the Partnership a minimum level of revenues for transporting and terminalling refined products and crude oil for the period specified in the agreements.

Under other agreements between the parties, Sunoco R&M is, among other things, purchasing from the Partnership, at market-based rates, particular grades of crude oil that the Partnership's crude oil acquisition and marketing business purchases for delivery to certain pipelines. These agreements automatically renew on a monthly basis unless terminated by either party on 30 days written notice. Sunoco R&M also leases the Partnership's 58 miles of interrefinery pipelines between Sunoco R&M's Philadelphia and Marcus Hook refineries for a term of 20 years, ending in 2022.

*Capital Contributions*

The Partnership has agreements with Sunoco R&M which requires Sunoco R&M to, among other things, reimburse the Partnership for certain expenditures. These agreements include:

- the *Omnibus Agreement*, which requires Sunoco R&M to, among other things, reimburse the Partnership for up to \$10.0 million of expenditures required at the Marcus Hook Tank Farm and the Darby Creek Tank Farm to maintain compliance with existing industry standards and regulatory requirements. During the second quarter 2006, the Partnership received \$0.1 million under this arrangement and reached the \$10.0 million limit. The Partnership does not expect to receive any future reimbursements under this arrangement;

the Interrefinery Lease Agreement, which requires Sunoco R&M to reimburse the Partnership for any non-routine maintenance expenditures incurred, as defined, during the term of the agreement; and

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the Eagle Point purchase agreement, which requires Sunoco R&M to reimburse the Partnership for certain maintenance capital and expenses incurred regarding the assets acquired, as defined, up to \$5.0 million through March 2014. The Partnership has received \$0.6 million to date under this agreement.

These expenditures, which were recorded as maintenance capital and operating expenses, were as follows (in thousands of dollars):

|                     | <b>Six Months Ended<br/>June 30,</b> |             |
|---------------------|--------------------------------------|-------------|
|                     | <b>2006</b>                          | <b>2005</b> |
| Maintenance capital | \$ 747                               | \$ 895      |
| Operating expenses  |                                      |             |
|                     | \$ 747                               | \$ 895      |

The reimbursement of these amounts was recorded by the Partnership as capital contributions to Partners' Capital within the condensed consolidated balance sheet at June 30, 2006.

In May 2006, the Partnership sold 2.4 million common units in a public offering. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale (see Note 9). As a result of this issuance of 2.680 million common units, the general partner contributed \$2.4 million to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded this amount as a capital contribution to Partners' Capital within its condensed consolidated balance sheet.

In August 2005, the Partnership sold 1.5 million common units in a public offering. In September 2005, the Partnership sold an additional 125,000 common units to cover over-allotments in connection with the August 2005 sale. As a result of this issuance of 1.625 million common units, the general partner contributed \$1.3 million to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded this amount as a capital contribution to Partners' Capital within its condensed consolidated balance sheet.

In February 2006 and 2005, the Partnership issued 0.1 million and 0.2 million common units, respectively, to participants in the Sunoco Partners LLC Long-Term Incentive Plan ( LTIP ) upon completion of award vesting requirements. As a result of these net issuances of common units, the general partner contributed \$0.1 million in each period to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded these amounts as capital contributions to Partners' Capital within its condensed consolidated balance sheets.

*Asset Acquisition*

On December 5, 2005, the Partnership acquired a subsidiary of Sunoco, which owned a 7.2 percent undivided interest in the Mesa Pipe Line system for approximately \$1.3 million (see Note 2). Since the acquisition was from a related party, the interest in the entity was recorded by the Partnership at Sunoco's historical cost of \$0.2 million, and the \$1.1 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution.

*Redemption of Common Units*

In May and June 2005, the Partnership sold a total of 2.775 million common units in a public offering. The net proceeds from the sale were used to redeem 2.775 million common units owned by Sunoco for \$99.6 million. Also in connection with the equity offering, Sunoco agreed to reimburse the Partnership for transaction costs incurred by the Partnership. Reimbursement of these costs of \$0.4 million occurred during the third quarter of 2005 when the transaction costs were finalized, and the reimbursement was accounted for as an increase to Partners' Capital within the Partnership's condensed consolidated balance sheet.

*Conversion of Subordinated Units*

A total of 5,691,820 subordinated limited partner units, equal to one-half of the originally issued subordinated units held by the general partner, were converted to common units, 2,845,910 each on February 15, 2006 and February 15, 2005, as the Partnership met the requirements set forth in the partnership agreement (see Note 10).



**Table of Contents****4. Net Income Per Unit Data**

Except as discussed in the following paragraph, basic and diluted net income per limited partner unit is calculated by dividing net income, after deducting the amount allocated to the general partner's interest, by the weighted-average number of limited partner common and subordinated units outstanding during the period.

Emerging Issues Task Force Issue No. 03-06 ( EITF 03-06 ) Participating Securities and the Two-Class Method under FASB Statement No. 128 addresses the computation of earnings per share by entities that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the entity. EITF 03-06 provides that the general partner's interest in net income is to be calculated based on the amount that would be allocated to the general partner if all the net income for the period were distributed, and not on the basis of actual cash distributions for the period. The Partnership applied EITF 03-06 prospectively beginning with the third quarter of 2005. The application of EITF 03-06 may have an impact on earnings per limited partner unit in future periods if there are material differences between net income and actual cash distributions or if other participating securities are issued. The effect of applying EITF 03-06 to periods prior to the third quarter of 2005, however, would not have been material.

The general partner's interest in net income consists of its 2.0 percent general partner interest and incentive distributions, which are increasing percentages, up to 50 percent of quarterly distributions in excess of \$0.50 per limited partner unit (see Note 10). The general partner was allocated net income of \$4.1 million (representing 15.6 percent of total net income for the period) and \$1.2 million (representing 6.5 percent of total net income for the period) for the three months ended June 30, 2006 and 2005, respectively, and \$5.4 million (representing 12.2 percent of total net income for the period) and \$2.1 million (representing 6.3 percent of total net income for the period) for the six months ended June 30, 2006 and 2005, respectively. Diluted net income per limited partner unit is calculated by dividing net income applicable to limited partners by the sum of the weighted-average number of common and subordinated units outstanding and the dilutive effect of incentive unit awards, as calculated by the treasury stock method.

The following table sets forth the reconciliation of the weighted average number of limited partner units used to compute basic net income per limited partner unit to those used to compute diluted net income per limited partner unit for the three and six months ended June 30, 2006 and 2005:

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| Weighted average number of limited partner units outstanding basic | 27,466,092                | 24,144,043  | 26,499,007              | 24,116,585  |
| Add effect of dilutive unit incentive awards                       | 123,552                   | 159,878     | 124,547                 | 178,855     |
| Weighted average number of limited partner units diluted           | 27,589,644                | 24,303,921  | 26,623,554              | 24,295,440  |

**5. Investment in Affiliates**

The Partnership's ownership percentages in corporate joint ventures as of June 30, 2006 and December 31, 2005 are as follows:

|                                   | <b>Equity<br/>Ownership<br/>Percentage</b> |
|-----------------------------------|--|
| Explorer Pipeline Company         | 9.4%                                       |
| Wolverine Pipe Line Company       | 31.5%                                      |
| West Shore Pipe Line Company      | 12.3%                                      |
| Yellowstone Pipe Line Company     | 14.0%                                      |
| West Texas Gulf Pipe Line Company | 43.8%                                      |

The following table provides summarized combined statement of income data on a 100 percent basis for the Partnership's corporate joint venture interests for the three and six months ended June 30, 2006 and 2005 (in thousands of dollars):

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|                        | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|------------------------|---------------------------|-------------|-------------------------|-------------|
|                        | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                        | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| Income Statement Data: |                           |             |                         |             |
| Total revenues         | \$ 96,497                 | \$ 99,219   | \$ 179,583              | \$ 186,240  |
| Net income             | \$ 24,162                 | \$ 28,797   | \$ 44,900               | \$ 53,234   |

The following table provides summarized combined balance sheet data on a 100 percent basis for the Partnership's corporate joint venture interests as of June 30, 2006 and December 31, 2005 (in thousands of dollars):

|                         | <b>June 30,</b> | <b>December</b>     |
|-------------------------|-----------------|---------------------|
|                         | <b>2006</b>     | <b>31,<br/>2005</b> |
| Balance Sheet Data:     |                 |                     |
| Current assets          | \$ 106,166      | \$ 100,241          |
| Non-current assets      | \$ 461,731      | \$ 468,994          |
| Current liabilities     | \$ 84,671       | \$ 80,054           |
| Non-current liabilities | \$ 425,889      | \$ 437,004          |
| Net equity              | \$ 57,337       | \$ 52,177           |

The Partnership's investments in Wolverine, West Shore, Yellowstone, and West Texas Gulf at June 30, 2006 include an excess investment amount of approximately \$55.3 million, net of accumulated amortization of \$2.3 million. The excess investment is the difference between the investment balance and the Partnership's proportionate share of the net assets of the entities. The excess investment was allocated to the underlying tangible and intangible assets. Other than land and indefinite-lived intangible assets, all amounts allocated, principally to pipeline and related assets, are amortized using the straight-line method over their estimated useful life of 40 years and included within depreciation and amortization in the condensed consolidated statements of income.

**6. Long-Term Debt**

The components of long-term debt are as follows (in thousands of dollars):

|   | <b>June 30,</b> | <b>December</b>     |
|---|-----------------|---------------------|
|   | <b>2006</b>     | <b>31,<br/>2005</b> |
| Credit Facility                           | \$              | \$ 106,600          |
| Senior Notes 7.25%, due February 15, 2012 | 250,000         | 250,000             |
| Senior Notes 6.125%, due May 15, 2016     | 175,000         |                     |
| Less unamortized bond discount            | (1,187)         | (1,027)             |
|   | \$ 423,813      | \$ 355,573          |

Sunoco Logistics Partners Operations L.P. (the Operating Partnership), a wholly-owned entity of the Partnership, has a \$300 million Credit Facility available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. It may also be used to fund the quarterly distribution to a maximum of \$20.0 million. Borrowing under this distribution sublimit must be reduced to zero each year for a 15-day period. The Credit Facility matures in November 2010 and may be prepaid at any time. It bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin or (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin). There were no borrowings outstanding under the Credit Facility at June 30, 2006. The Credit Facility contains various covenants limiting the Operating Partnership's ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; acquire another company; or enter into a merger or sale of assets,

including the sale or transfer of interests in the Operating Partnership's subsidiaries. The Credit Facility also contains covenants (each as defined in the credit agreement) requiring the Operating Partnership to maintain, on a rolling four-quarter basis, a maximum total debt to EBITDA ratio of 4.75 to 1, which can generally be increased to 5.25 to 1 during an acquisition period; and an interest coverage ratio of at least 3.0 to 1. The Operating Partnership is in compliance with these covenants as of June 30, 2006. The Partnership's ratio of total debt to EBITDA was 2.9 to 1 and the interest coverage ratio was 4.7 to 1 at June 30, 2006.

On March 1, 2006, the Partnership completed its acquisition of two Texas crude oil pipeline systems for approximately \$108.9 million (see Note 2). The Partnership initially financed these transactions with \$109.5 million of borrowings under the Credit Facility. All of the \$216.1 million in borrowings outstanding under the Credit Facility were repaid in May 2006 with



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proceeds from the Senior Notes offering described below, together with a portion of the net proceeds from the concurrent offering of 2.68 million limited partner common units (see Note 9).

During May 2006, the Operating Partnership issued \$175 million of 6.125 percent Senior Notes, due May 15, 2016 at 99.858 percent of the principal amount, for net proceeds of \$173.3 million after the underwriter's commission and legal, accounting and other transaction expenses. The discount is amortized on a straight-line basis over the term of the Senior Notes and is included within interest expense in the condensed consolidated statements of income. The Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The Senior Notes contain various covenants limiting the Operating Partnership's ability to incur certain liens, engage in sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The Operating Partnership is in compliance with these covenants as of June 30, 2006. In addition, the Senior Notes are also subject to repurchase by the Operating Partnership, at the option of the holders of the Senior Notes, at a price equal to 100 percent of their principal amount, plus accrued and unpaid interest upon a change of control to a non-investment grade entity. The net proceeds from the Senior Notes, together with the \$110.4 million in net proceeds from the concurrent offering of 2.68 million limited partner common units, were used to repay all of the \$216.1 million in outstanding borrowings under the Partnership's Credit Facility. The balance of the proceeds from the offerings are being used to fund the Partnership's organic growth program and for general Partnership purposes, including to finance pending and future acquisitions.

The Partnership and the operating partnerships of the Operating Partnership serve as joint and several guarantors of the Senior Notes and of any obligations under the Credit Facility. The guarantees are full and unconditional. See Note 13 for supplemental condensed consolidating financial information.

**7. Commitments and Contingent Liabilities**

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws and regulations result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third-party or formerly owned sites. The accrued liability for environmental remediation in the condensed consolidated balance sheets was \$0.6 million as of June 30, 2006 and December 31, 2005. There are no liabilities attributable to unasserted claims, nor have any recoveries from insurance been assumed.

Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites, the determination of the extent of any contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and extent of future environmental laws, inflation rates and the determination of the Partnership's liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability, and the number, participation levels and financial viability of other parties. As discussed below, the Partnership's future costs will also be impacted by an indemnification from Sunoco.

Sunoco has indemnified the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed to the Partnership that arise from the operation of such assets prior to the closing of the Partnership's initial public offering (IPO) on February 8, 2002. Sunoco has indemnified the Partnership for 100 percent of all such losses asserted within the first 21 years of closing of the February 2002 IPO. Sunoco's share of liability for claims asserted thereafter will decrease by 10 percent a year. For example, for a claim asserted during the twenty-third year after closing of the February 2002 IPO, Sunoco would be required to indemnify the Partnership for 80 percent of its loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. The Partnership has agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the Partnership's assets that occur on or after the closing of the February 2002 IPO and for environmental and toxic tort liabilities to the extent Sunoco is not required to indemnify the Partnership.

Sunoco has also indemnified the Partnership for liabilities, other than environmental and toxic tort liabilities related to the assets contributed to the Partnership, that arise out of Sunoco's ownership and operation of the assets prior to the closing of the February 2002 IPO and that are asserted within 10 years after closing of the February 2002 IPO. In addition, Sunoco has indemnified the Partnership from liabilities relating to certain defects in title to the assets contributed to the Partnership and associated with failure to obtain certain consents and permits necessary to conduct

its business that arise within 10 years after closing of the February 2002 IPO as well as from liabilities relating to legal actions pending against Sunoco or its affiliates as of February 2, 2002, or events and conditions associated with any assets retained by Sunoco or its affiliates.

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the consolidated financial position of the Partnership at June 30, 2006.

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There are certain other pending legal proceedings related to matters arising after the February 2002 IPO which are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material in relation to the consolidated financial position of the Partnership at June 30, 2006.

**8. Management Incentive Plan**

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC Long-Term Incentive Plan ( LTIP ) for employees and directors of the general partner who perform services for the Partnership. The LTIP is administered by the independent directors of the Compensation Committee of the general partner's board of directors with respect to employee awards, and by the non-independent members of the general partner's board of directors with respect to awards granted to the independent directors. The LTIP currently permits the grant of restricted units and unit options covering an aggregate of 1,250,000 common units. There have been no grants of unit options since the inception of the LTIP. Restricted unit awards under the Partnership's LTIP generally vest upon completion of a three-year service period. For performance-based awards, adjustments for attainment of performance targets can range from 0 to 200 percent of the award grant, and are payable in common units. Restricted unit awards may also include tandem distribution equivalent rights ( DERs ) at the discretion of the Compensation Committee. Subject to applicable vesting criteria, a DER entitles the grantee to a cash payment equal to cash distributions paid on an outstanding common unit during the period the restricted unit is outstanding. DERs are recognized as a reduction of Partners' Capital as they become vested.

As of June 30, 2006, there were approximately 0.2 million unvested restricted stock units outstanding with a weighted average grant-date fair value of \$39.71 per unit, and a contractual life of three years. As of June 30, 2006, total compensation cost related to non-vested awards not yet recognized was \$2.7 million, and the weighted-average period over which this cost is expected to be recognized in expense is 1.8 years. The number of restricted stock units outstanding and the total compensation cost related to non-vested awards not yet recognized reflect the Partnership's estimates of performance factors pertaining to performance-based restricted unit awards.

Effective January 1, 2006, the Partnership adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS No. 123R ), using the modified-prospective method. SFAS No. 123R revised the accounting for stock-based compensation required by Statement of Financial Accounting Standards No. 123

Accounting for Stock-Based Compensation ( SFAS No. 123 ). Among other things, SFAS No. 123R requires a fair-value-based method of accounting for share-based payment transactions, which is similar to the method followed by the Partnership under the provisions of SFAS No. 123.

SFAS No. 123R also requires the use of a non-substantive vesting period approach for new share-based payment awards that vest when an employee becomes retirement eligible, as is the case under the Partnership's Long-Term Incentive Plan (i.e., the vesting period cannot exceed the date an employee becomes retirement eligible). The effect will be to accelerate expense recognition compared to the vesting period approach that the Partnership previously followed under SFAS No. 123. As a result of adopting Statement 123(R) on January 1, 2006, the Partnership's net income is \$0.9 million lower for the three and six months ended June 30, 2006, than if it had continued to account for share-based compensation under SFAS No. 123. Basic and diluted earnings per unit are each \$0.01 lower for the three months ended June 30, 2006 and are \$0.02 and \$0.01 lower for the six months ended June 30, 2006, respectively, than if the Partnership had continued to account for share-based compensation under SFAS No. 123. The future impact of the non-substantive vesting period will be dependent upon the value of future stock-based awards granted to employees who are eligible to retire prior to the normal vesting periods of the awards.

The Partnership recognized share-based compensation expense related to the LTIP of approximately \$2.6 million in the first six months of 2006 under SFAS No. 123R and \$1.6 million for the first six months of 2005 under SFAS No. 123. During the year ended December 31, 2005, approximately 118,400 awards under the LTIP vested. During the first quarter of 2006, the Partnership issued 86,827 new common units (after netting for taxes of approximately \$1.4 million) and made DER-related payments of approximately \$0.7 million in connection with the vesting.

**9. Equity Offerings**

In May 2006, the Partnership sold 2.4 million common units in a public offering at a price of \$43.00 per unit. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale. The purchase price for the over allotment was equal to the offering price in the May 2006 sale. The

units were issued under the Partnership's Form S-3 shelf registration statement declared effective by the SEC in April 2006. The total sale of units resulted in gross proceeds of \$115.2 million, and net proceeds of \$110.4 million, after the underwriters' commission.

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and legal, accounting and other transaction expenses. Net proceeds of the offering, together with the \$173.3 million in net proceeds from the concurrent offering of Senior Notes (see Note 6), were used to repay \$216.1 million of the debt incurred under the revolving credit facility, to fund the Partnership's 2006 organic growth program, and for general partnership purposes. Also as a result of the issuance of these units, the general partner contributed \$2.4 million to the Partnership to maintain its 2.0 percent general partner interest.

At June 30, 2006, Sunoco's ownership in the Partnership, including its 2.0 percent general partner interest, was 43.4 percent.

**10. Cash Distributions**

Within 45 days after the end of each quarter, the Partnership distributes all cash on hand at the end of the quarter, less reserves established by the general partner in its discretion. This is defined as available cash in the partnership agreement. The general partner has broad discretion to establish cash reserves that it determines are necessary or appropriate to properly conduct the Partnership's business. The Partnership will make quarterly distributions to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner.

The Partnership had 5,691,819 subordinated units issued as of June 30, 2006, all of which were held by the general partner and for which there is no established public trading market.

The Partnership originally issued 11,383,639 subordinated units to its general partner in connection with the 2002 IPO. The subordination period is generally defined in the partnership agreement as the period that ends on the first day of any quarter beginning after December 31, 2006 if (1) the Partnership has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods; and (2) the adjusted operating surplus, as defined in the partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable the Partnership to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2 percent general partner interest during those periods. In addition, under the partnership agreement, one quarter of the subordinated units may convert to common units on a one-for-one basis after both December 31, 2004 and December 31, 2005, if the Partnership meets the required tests for the preceding three consecutive, non-overlapping four-quarter periods. When the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units.

During the subordination period, the Partnership will generally pay cash distributions each quarter in the following manner:

First, 98 percent to the holders of common units and 2 percent to the general partner, until each common unit has received a minimum quarterly distribution of \$0.45, plus any arrearages from prior quarters;

Second, 98 percent to the holders of subordinated units and 2 percent to the general partner, until each subordinated unit has received a minimum quarterly distribution of \$0.45; and

Thereafter, in the manner discussed below.

The Partnership has met the minimum quarterly distribution requirements on all outstanding units for each of the three consecutive, non-overlapping four-quarter periods ended December 31, 2004 and 2005. As a result, a total of 5,691,820 subordinated units were converted into common units on a one-for-one basis, 2,845,910 each on February 15, 2005 and February 15, 2006. As of June 30, 2006, there are 5,691,819 subordinated units outstanding, all of which may be converted in February 2007 as long as the Partnership continues to meet the financial tests noted above for each of the three consecutive, non-overlapping four-quarter periods ending December 31, 2006.

After the subordination period, the Partnership will, in general, pay cash distributions each quarter in the following manner:

| <b>Quarterly Cash Distribution Amount per Unit</b> | <b>Percentage of Distributions<br/>Unitholders</b> |
|--|--|
|--|--|

|  |     | <b>General<br/>Partner</b> |
|--|-----|----------------------------|
| Up to minimum quarterly distribution (\$0.45 per Unit) | 98% | 2%                         |
| Above \$0.45 per Unit up to \$0.50 per Unit            | 98% | 2%                         |
| Above \$0.50 per Unit up to \$0.575 per Unit           | 85% | 15%                        |
| Above \$0.575 per Unit up to \$0.70 per Unit           | 75% | 25%                        |
| Above \$0.70 per Unit                                  | 50% | 50%                        |

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If cash distributions exceed \$0.50 per unit in a quarter, the general partner will receive increasing percentages, up to 50 percent, of the cash distributed in excess of that amount. These distributions are referred to as incentive distributions. The amounts shown in the table under Percentage of Distributions are the percentage interests of the general partner and the unitholders in any available cash from operating surplus that is distributed up to and including the corresponding amount in the column Quarterly Cash Distribution Amount per Unit, until the available cash that is distributed reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

Distributions paid by the Partnership for the period from January 1, 2005 through June 30, 2006 were as follows:

| <b>Date Cash Distribution Paid</b> | <b>Cash</b>                                  | <b>Total Cash</b>                       | <b>Total Cash</b>                          |
|------------------------------------|--|---|--|
|                                    | <b>Distribution per Limited Partner Unit</b> | <b>Distribution to Limited Partners</b> | <b>Distribution to the General Partner</b> |
|                                    |  |   | <b>(\$ in millions)</b>                    |
| February 14, 2005                  | \$ 0.625                                     | \$ 15.0                                 | \$ 1.0                                     |
| May 13, 2005                       | \$ 0.625                                     | \$ 15.1                                 | \$ 1.0                                     |
| August 12, 2005                    | \$ 0.6375                                    | \$ 15.4                                 | \$ 1.1                                     |
| November 12, 2005                  | \$ 0.675                                     | \$ 17.4                                 | \$ 1.5                                     |
| February 14, 2006                  | \$ 0.7125                                    | \$ 18.4                                 | \$ 2.0                                     |
| May 15, 2006                       | \$ 0.75                                      | \$ 21.4                                 | \$ 3.3                                     |

On July 27, 2006, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of \$0.775 per common and subordinated partnership unit (\$3.10 annualized), representing the distribution for the second quarter of 2006. The \$26.1 million distribution, including \$4.0 million to the general partner, will be paid on August 14, 2006 to unitholders of record at the close of business on August 7, 2006.

**11. Exit Costs Associated with Western Pipeline Headquarters Relocation**

On June 10, 2005, the Partnership announced its intention to relocate its Western area headquarters operations from Tulsa, Oklahoma to the Houston, Texas area. The Partnership offered to relocate all affected employees. The Partnership substantially completed the relocation during the first quarter 2006.

The total non-recurring expenses incurred in connection with the relocation plan amounted to \$4.9 million, including \$2.9 recognized during the first quarter 2006. These costs consist primarily of employee relocation costs, one-time termination benefits and new hire expenses. These costs are included in selling, general and administrative expenses in the condensed statement of income, and are included in the operating results for the Western Pipeline System segment. In addition, the total capital expenditures associated with the move amounted to \$5.5 million, including \$2.8 million in the first quarter 2006. These capital expenditures include furniture and equipment, communication infrastructure and a pipeline control center. The Partnership did not incur any costs related to the move in the second quarter of 2006, and does not expect the remaining costs related to the relocation to be material.

**Table of Contents****12. Business Segment Information**

The following table sets forth condensed statement of income information concerning the Partnership's business segments and reconciles total segment operating income to net income for the three months ended June 30, 2006 and 2005, respectively (in thousands of dollars):

|  | <b>Three Months Ended<br/>June 30,</b> |                  |
|--|--|------------------|
|  | <b>2006</b>                            | <b>2005</b>      |
| <b>Segment Operating Income</b>              |  |                  |
| <b>Eastern Pipeline System:</b>              |  |                  |
| Sales and other operating revenue:           |  |                  |
| Affiliates                                   | \$ 18,949                              | \$ 18,305        |
| Unaffiliated customers                       | 6,274                                  | 5,136            |
| Other income                                 | 2,859                                  | 3,179            |
| <b>Total Revenues</b>                        | <b>28,082</b>                          | <b>26,620</b>    |
| Operating expenses                           | 9,583                                  | 11,119           |
| Depreciation and amortization                | 2,568                                  | 2,607            |
| Selling, general and administrative expenses | 4,604                                  | 4,740            |
| <b>Total Costs and Expenses</b>              | <b>16,755</b>                          | <b>18,466</b>    |
| <b>Operating Income</b>                      | <b>\$ 11,327</b>                       | <b>\$ 8,154</b>  |
| <b>Terminal Facilities:</b>                  |  |                  |
| Sales and other operating revenue:           |  |                  |
| Affiliates                                   | \$ 20,803                              | \$ 19,142        |
| Unaffiliated customers                       | 9,574                                  | 8,744            |
| <b>Total Revenues</b>                        | <b>30,377</b>                          | <b>27,886</b>    |
| Operating expenses                           | 12,739                                 | 11,751           |
| Depreciation and amortization                | 3,880                                  | 3,431            |
| Selling, general and administrative expenses | 3,883                                  | 3,454            |
| <b>Total Costs and Expenses</b>              | <b>20,502</b>                          | <b>18,636</b>    |
| <b>Operating Income</b>                      | <b>\$ 9,875</b>                        | <b>\$ 9,250</b>  |
| <b>Western Pipeline System:</b>              |  |                  |
| Sales and other operating revenue:           |  |                  |
| Affiliates                                   | \$ 478,687                             | \$ 457,563       |
| Unaffiliated customers                       | 957,209                                | 571,555          |
| Other income                                 | 1,013                                  | 910              |
| <b>Total Revenues</b>                        | <b>1,436,909</b>                       | <b>1,030,028</b> |



|  |           |           |
|--|-----------|-----------|
| Cost of products sold and operating expenses                     | 1,417,352 | 1,018,518 |
| Depreciation and amortization                                    | 2,763     | 1,455     |
| Selling, general and administrative expenses                     | 5,035     | 4,313     |
| Total Costs and Expenses   | 1,425,150 | 1,024,286 |
| Operating Income   | \$ 11,759 | \$ 5,742  |
| <b>Reconciliation of Segment Operating Income to Net Income:</b> |           |           |
| Operating Income:  |           |           |
| Eastern Pipeline System  | \$ 11,327 | \$ 8,154  |
| Terminal Facilities  | 9,875     | 9,250     |
| Western Pipeline System  | 11,759    | 5,742     |
| Total segment operating income                                   | 32,961    | 23,146    |
| Net interest expense   | 6,641     | 5,352     |
| Net Income   | \$ 26,320 | \$ 17,794 |

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|   | <b>Six Months Ended<br/>June 30,</b> |                  |
|---|--------------------------------------|------------------|
|   | <b>2006</b>                          | <b>2005</b>      |
| <b>Segment Operating Income</b>                     |                                      |                  |
| <b>Eastern Pipeline System:</b>                     |                                      |                  |
| Sales and other operating revenue:                  |                                      |                  |
| Affiliates  | \$ 37,387                            | \$ 36,366        |
| Unaffiliated customers                              | 13,112                               | 10,579           |
| Other income  | 4,831                                | 6,250            |
| <b>Total Revenues</b>                               | <b>55,330</b>                        | <b>53,195</b>    |
| Operating expenses                                  | 20,232                               | 21,736           |
| Depreciation and amortization                       | 5,218                                | 5,206            |
| Selling, general and administrative expenses        | 8,672                                | 9,399            |
| <b>Total Costs and Expenses</b>                     | <b>34,122</b>                        | <b>36,341</b>    |
| <b>Operating Income</b>                             | <b>\$ 21,208</b>                     | <b>\$ 16,854</b> |
| <b>Terminal Facilities:</b>                         |                                      |                  |
| Sales and other operating revenue:                  |                                      |                  |
| Affiliates  | \$ 39,959                            | \$ 38,455        |
| Unaffiliated customers                              | 19,531                               | 17,358           |
| Other Income  | 7                                    | 1                |
| <b>Total Revenues</b>                               | <b>59,497</b>                        | <b>55,814</b>    |
| Operating expenses                                  | 25,296                               | 22,790           |
| Depreciation and amortization                       | 7,580                                | 7,515            |
| Selling, general and administrative expenses        | 7,356                                | 6,722            |
| <b>Total Costs and Expenses</b>                     | <b>40,232</b>                        | <b>37,027</b>    |
| <b>Operating Income</b>                             | <b>\$ 19,265</b>                     | <b>\$ 18,787</b> |
| <b>Western Pipeline System:</b>                     |                                      |                  |
| Sales and other operating revenue:                  |                                      |                  |
| Affiliates  | \$ 919,414                           | \$ 897,112       |
| Unaffiliated customers                              | 1,723,064                            | 1,092,424        |
| Other income  | 1,425                                | 1,465            |
| <b>Total Revenues</b>                               | <b>2,643,903</b>                     | <b>1,991,001</b> |
| <b>Cost of products sold and operating expenses</b> | <b>2,608,932</b>                     | <b>1,971,773</b> |

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|  |           |           |
|--|-----------|-----------|
| Depreciation and amortization                | 5,359     | 2,894     |
| Selling, general and administrative expenses | 12,497    | 8,303     |
| Total Costs and Expenses                     | 2,626,788 | 1,982,970 |
| Operating Income                             | \$ 17,115 | \$ 8,031  |

**Reconciliation of Segment Operating Income to Net Income:**

|                                |           |           |
|--------------------------------|-----------|-----------|
| Operating Income:              |           |           |
| Eastern Pipeline System        | \$ 21,208 | \$ 16,854 |
| Terminal Facilities            | 19,265    | 18,787    |
| Western Pipeline System        | 17,115    | 8,031     |
| Total segment operating income | 57,588    | 43,672    |
| Net interest expense           | 12,844    | 10,580    |
| Net Income                     | \$ 44,744 | \$ 33,092 |

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The following table provides the identifiable assets for each segment as of June 30, 2006 and December 31, 2005 (in thousands):

|                           | <b>June 30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|---------------------------|--------------------------|----------------------------------|
| Eastern Pipeline System   | \$ 347,566               | \$ 343,591                       |
| Terminal Facilities       | \$ 321,328               | \$ 293,119                       |
| Western Pipeline System   | \$ 1,384,706             | \$ 1,016,915                     |
| Corporate and other       | \$ 41,741                | \$ 27,060                        |
| Total identifiable assets | \$ 2,095,341             | \$ 1,680,685                     |

Corporate and other assets consist primarily of cash and cash equivalents, advances to affiliates and deferred charges.

**13. Supplemental Condensed Consolidating Financial Information**

The Partnership and the operating subsidiaries of the Operating Partnership serve as joint and several guarantors of the 6.125% and 7.25% Senior Notes and of any obligations under the Credit Facility. The guarantees are full and unconditional. Given that certain, but not all subsidiaries of the Partnership are guarantors, the Partnership is required to present the following supplemental condensed consolidating financial information. For purposes of the following footnote, Sunoco Logistics Partners, L.P. is referred to as Parent and Sunoco Logistics Partners Operations L.P. is referred to as Subsidiary Issuer. Sunoco Partners Marketing and Terminals L.P. and Sunoco Pipeline L.P. are collectively referred to as the Guarantor Subsidiaries and Sunoco Logistics Partners GP LLC, Sunoco Logistics Partners Operations GP LLC and Sunoco Partners Lease Acquisition & Marketing LLC are referred to as

Non-Guarantor Subsidiaries. Sun Pipe Line Services (Out) LLC, previously considered a Non-Guarantor Subsidiary, was merged into Sunoco Pipeline L.P. in the second quarter 2006.

The following supplemental condensed consolidating financial information (in thousands) reflects the Parent's separate accounts, the Subsidiary Issuer's separate accounts, the combined accounts of the Guarantor Subsidiaries, the combined accounts of the Non-Guarantor Subsidiaries, the combined consolidating adjustments and eliminations and the Parent's consolidated accounts for the dates and periods indicated. For purposes of the following condensed consolidating information, the Parent's investments in its subsidiaries and the Subsidiary Issuer's investments in its subsidiaries are accounted for under the equity method of accounting.

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**Statement of Income**  
**Three Months Ended June 30, 2006**  
(unaudited)

|   | Parent    | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|---|-----------|----------------------|--------------------------|-----------------------------------|------------------------------|------------|
| <b>Revenues</b>                                       |           |                      |                          |                                   |                              |            |
| Sales and other operating revenue:                    |           |                      |                          |                                   |                              |            |
| Affiliates  | \$        | \$                   | \$ 518,197               | \$ 242                            | \$                           | \$ 518,439 |
| Unaffiliated customers                                |           |                      | 972,319                  | 738                               |                              | 973,057    |
| Equity in earnings of subsidiaries                    | 25,720    | 32,373               |                          | 3                                 | (58,096)                     |            |
| Other income  |           |                      | 3,872                    |                                   |                              | 3,872      |
| <b>Total Revenues</b>                                 | 25,720    | 32,373               | 1,494,388                | 983                               | (58,096)                     | 1,495,368  |
| <b>Costs and Expenses</b>                             |           |                      |                          |                                   |                              |            |
| Cost of products sold and operating expenses          |           |                      | 1,439,324                | 350                               |                              | 1,439,674  |
| Depreciation and amortization                         |           |                      | 9,181                    | 30                                |                              | 9,211      |
| Selling, general and administrative expenses          |           |                      | 13,519                   | 3                                 |                              | 13,522     |
| <b>Total Costs and Expenses</b>                       |           |                      | 1,462,024                | 383                               |                              | 1,462,407  |
| <b>Operating Income</b>                               | 25,720    | 32,373               | 32,364                   | 600                               | (58,096)                     | 32,961     |
| Net interest cost paid to/ (received from) affiliates |           | 426                  | (12)                     |                                   |                              | 414        |
| Other interest cost and debt expenses, net            |           | 7,416                |                          |                                   |                              | 7,416      |
| Capitalized interest                                  |           | (1,189)              |                          |                                   |                              | (1,189)    |
| <b>Net Income</b>                                     | \$ 25,720 | \$ 25,720            | \$ 32,376                | \$ 600                            | \$ (58,096)                  | \$ 26,320  |

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**Statement of Income**  
**Three Months Ended June 30, 2005**  
(unaudited)

|   | Parent    | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|---|-----------|----------------------|--------------------------|-----------------------------------|------------------------------|------------|
| <b>Revenues</b>                                       |           |                      |                          |                                   |                              |            |
| Sales and other operating revenue:                    |           |                      |                          |                                   |                              |            |
| Affiliates  | \$        | \$                   | \$ 495,010               | \$                                | \$                           | \$ 495,010 |
| Unaffiliated customers                                |           |                      | 585,435                  |                                   |                              | 585,435    |
| Equity in earnings of subsidiaries                    | 17,786    | 23,879               |                          | 2                                 | (41,667)                     |            |
| Other income  |           |                      | 4,089                    |                                   |                              | 4,089      |
| <b>Total Revenues</b>                                 | 17,786    | 23,879               | 1,084,534                | 2                                 | (41,667)                     | 1,084,534  |
| <b>Costs and Expenses</b>                             |           |                      |                          |                                   |                              |            |
| Cost of products sold and operating expenses          |           |                      | 1,041,393                | (5)                               |                              | 1,041,388  |
| Depreciation and amortization                         |           |                      | 7,493                    |                                   |                              | 7,493      |
| Selling, general and administrative expenses          |           |                      | 12,507                   |                                   |                              | 12,507     |
| <b>Total Costs and Expenses</b>                       |           |                      | 1,061,393                | (5)                               |                              | 1,061,388  |
| <b>Operating Income</b>                               | 17,786    | 23,879               | 23,141                   | 7                                 | (41,667)                     | 23,146     |
| Net interest cost paid to/ (received from) affiliates |           | 828                  | (741)                    |                                   |                              | 87         |
| Other interest cost and debt expenses, net            |           | 5,265                |                          |                                   |                              | 5,265      |
| <b>Net Income</b>                                     | \$ 17,786 | \$ 17,786            | \$ 23,882                | \$ 7                              | \$ (41,667)                  | \$ 17,794  |

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**Statement of Income**  
**Six Months Ended June 30, 2006**  
(unaudited)

|   | Parent    | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|---|-----------|----------------------|--------------------------|-----------------------------------|------------------------------|------------|
| <b>Revenues</b>                                       |           |                      |                          |                                   |                              |            |
| Sales and other operating revenue:                    |           |                      |                          |                                   |                              |            |
| Affiliates  | \$        | \$                   | \$ 996,298               | \$ 462                            | \$                           | \$ 996,760 |
| Unaffiliated customers                                |           |                      | 1,754,686                | 1,021                             |                              | 1,755,707  |
| Equity in earnings of subsidiaries                    | 43,891    | 57,237               |                          | 6                                 | (101,134)                    |            |
| Other income  |           |                      | 6,263                    |                                   |                              | 6,263      |
| <b>Total Revenues</b>                                 | 43,891    | 57,237               | 2,757,247                | 1,489                             | (101,134)                    | 2,758,730  |
| <b>Costs and Expenses</b>                             |           |                      |                          |                                   |                              |            |
| Cost of products sold and operating expenses          |           |                      | 2,653,888                | 572                               |                              | 2,654,460  |
| Depreciation and amortization                         |           |                      | 18,096                   | 61                                |                              | 18,157     |
| Selling, general and administrative expenses          |           |                      | 28,522                   | 3                                 |                              | 28,525     |
| <b>Total Costs and Expenses</b>                       |           |                      | 2,700,506                | 636                               |                              | 2,701,142  |
| <b>Operating Income</b>                               | 43,891    | 57,237               | 56,741                   | 853                               | (101,134)                    | 57,588     |
| Net interest cost paid to/ (received from) affiliates |           | 1,225                | (502)                    |                                   |                              | 723        |
| Other interest cost and debt expenses, net            |           | 13,866               |                          |                                   |                              | 13,866     |
| Capitalized interest                                  |           | (1,745)              |                          |                                   |                              | (1,745)    |
| <b>Net Income</b>                                     | \$ 43,891 | \$ 43,891            | \$ 57,243                | \$ 853                            | \$ (101,134)                 | \$ 44,744  |

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**Statement of Income**  
**Six Months Ended June 30, 2005**  
(unaudited)

|   | Parent    | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|---|-----------|----------------------|--------------------------|-----------------------------------|------------------------------|------------|
| <b>Revenues</b>                                       |           |                      |                          |                                   |                              |            |
| Sales and other operating revenue:                    |           |                      |                          |                                   |                              |            |
| Affiliates  | \$        | \$                   | \$ 971,933               | \$                                | \$                           | \$ 971,933 |
| Unaffiliated customers                                |           |                      | 1,120,361                |                                   |                              | 1,120,361  |
| Equity in earnings of subsidiaries                    | 33,082    | 44,922               |                          | 4                                 | (78,008)                     |            |
| Other income  |           |                      | 7,716                    |                                   |                              | 7,716      |
| <b>Total Revenues</b>                                 | 33,082    | 44,922               | 2,100,010                | 4                                 | (78,008)                     | 2,100,010  |
| <b>Costs and Expenses</b>                             |           |                      |                          |                                   |                              |            |
| Cost of products sold and operating expenses          |           |                      | 2,016,304                | (5)                               |                              | 2,016,299  |
| Depreciation and amortization                         |           |                      | 15,615                   |                                   |                              | 15,615     |
| Selling, general and administrative expenses          |           |                      | 24,424                   |                                   |                              | 24,424     |
| <b>Total Costs and Expenses</b>                       |           |                      | 2,056,343                | (5)                               |                              | 2,056,338  |
| <b>Operating Income</b>                               | 33,082    | 44,922               | 43,667                   | 9                                 | (78,008)                     | 43,672     |
| Net interest cost paid to/ (received from) affiliates |           | 1,412                | (1,260)                  |                                   |                              | 152        |
| Other interest cost and debt expenses, net            |           | 10,428               |                          |                                   |                              | 10,428     |
| <b>Net Income</b>                                     | \$ 33,082 | \$ 33,082            | \$ 44,927                | \$ 9                              | \$ (78,008)                  | \$ 33,092  |



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**Balance Sheet**  
**June 30, 2006**  
(unaudited)

|   | Parent     | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total        |
|---|------------|----------------------|--------------------------|-----------------------------------|------------------------------|--------------|
| <b>Assets</b>                             |            |                      |                          |                                   |                              |              |
| <b>Current Assets</b>                     |            |                      |                          |                                   |                              |              |
| Cash and cash equivalents                 | \$         | \$ 25,442            | \$                       | \$                                | \$                           | \$ 25,442    |
| Advances to affiliates                    | 8,515      |                      | (761)                    |                                   |                              | 7,754        |
| Accounts receivable, affiliated companies |            |                      | 165,344                  |                                   |                              | 165,344      |
| Accounts receivable, net                  |            |                      | 808,126                  |                                   |                              | 808,126      |
| Inventories                               |            |                      |                          |                                   |                              |              |
| Crude oil                                 |            |                      | 29,219                   |                                   |                              | 29,219       |
| Materials, supplies and other             |            |                      | 725                      |                                   |                              | 725          |
| <b>Total Current Assets</b>               | 8,515      | 25,442               | 1,002,653                |                                   |                              | 1,036,610    |
| Properties, plants and equipment, net     |            |                      | 958,428                  |                                   |                              | 958,428      |
| Investment in affiliates                  | 625,436    | 1,026,668            | 69,071                   | 100                               | (1,652,204)                  | 69,071       |
| Deferred charges and other assets         | (25)       | 3,755                | 27,502                   |                                   |                              | 31,232       |
| <b>Total Assets</b>                       | \$ 633,926 | \$ 1,055,865         | \$ 2,057,654             | \$ 100                            | \$ (1,652,204)               | \$ 2,095,341 |
| <b>Liabilities and Partners Capital</b>   |            |                      |                          |                                   |                              |              |
| <b>Current Liabilities</b>                |            |                      |                          |                                   |                              |              |
| Accounts payable                          | \$         | \$ 3                 | \$ 958,312               | \$                                | \$                           | \$ 958,315   |
| Accrued liabilities                       | 1,109      | 8,358                | 19,022                   |                                   |                              | 28,489       |
| Accrued taxes other than income           |            |                      | 23,853                   |                                   |                              | 23,853       |
| <b>Total Current Liabilities</b>          | 1,109      | 8,361                | 1,001,187                |                                   |                              | 1,010,657    |
| Long-term debt                            |            | 423,813              |                          |                                   |                              | 423,813      |
|   |            |                      | 23,343                   |                                   |                              | 23,343       |

Other deferred  
credits and  
liabilities

|   |            |              |              |        |                |              |
|---|------------|--------------|--------------|--------|----------------|--------------|
| <b>Total Liabilities</b>                              | 1,109      | 432,174      | 1,024,530    |        |                | 1,457,813    |
| <b>Total Partners<br/>Capital</b>                     | 632,817    | 623,691      | 1,033,124    | 100    | (1,652,204)    | 637,528      |
| <b>Total Liabilities<br/>and Partners<br/>Capital</b> | \$ 633,926 | \$ 1,055,865 | \$ 2,057,654 | \$ 100 | \$ (1,652,204) | \$ 2,095,341 |

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**Balance Sheet**  
**December 31, 2005**

|   | <b>Parent</b> | <b>Subsidiary<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|---|---------------|------------------------------|----------------------------------|--|--------------------------------------|--------------|
| <b>Assets</b>                             |               |                              |                                  |  |                                      |              |
| <b>Current Assets</b>                     |               |                              |                                  |  |                                      |              |
| Cash and cash equivalents                 | \$            | \$ 21,645                    | \$                               | \$   | \$                                   | \$ 21,645    |
| Advances to affiliates                    |               |                              | 5,506                            |  | (5,506)                              |              |
| Accounts receivable, affiliated companies |               |                              | 136,536                          |  |                                      | 136,536      |
| Accounts receivable, net                  |               |                              | 584,509                          |  |                                      | 584,509      |
| Inventories                               |               |                              |                                  |  |                                      |              |
| Crude oil                                 |               |                              | 27,561                           |  |                                      | 27,561       |
| Materials, supplies and other             |               |                              | 700                              |  |                                      | 700          |
| <b>Total Current Assets</b>               |               | 21,645                       | 754,812                          |  | (5,506)                              | 770,951      |
| Properties, plants and equipment, net     |               |                              | 809,342                          | 5,494                                      |                                      | 814,836      |
| Investment in affiliates                  | 464,986       | 778,106                      | 69,291                           | (130)                                      | (1,243,156)                          | 69,097       |
| Deferred charges and other assets         |               | 2,459                        | 23,325                           | 17   |                                      | 25,801       |
| <b>Total Assets</b>                       | \$ 464,986    | \$ 802,210                   | \$ 1,656,770                     | \$ 5,381                                   | \$ (1,248,662)                       | \$ 1,680,685 |
| <b>Liabilities and Partners Capital</b>   |               |                              |                                  |  |                                      |              |
| <b>Current Liabilities</b>                |               |                              |                                  |  |                                      |              |
| Accounts payable                          | \$            | \$                           | \$ 720,127                       | \$   | \$                                   | \$ 720,127   |
| Accrued liabilities                       | 1,171         | 6,800                        | 24,913                           |  |                                      | 32,884       |
| Accrued taxes other than income           |               |                              | 20,986                           |  |                                      | 20,986       |
| Advances from affiliates                  | 5,945         |                              |                                  | 5,311                                      | (5,506)                              | 5,750        |
| <b>Total Current Liabilities</b>          | 7,116         | 6,800                        | 766,026                          | 5,311                                      | (5,506)                              | 779,747      |
| Long-term debt                            |               | 355,573                      |                                  |  |                                      | 355,573      |
|   |               |                              | 21,954                           |  |                                      | 21,954       |

Other deferred  
credits and  
liabilities

|   |            |            |              |          |                |              |
|---|------------|------------|--------------|----------|----------------|--------------|
| <b>Total Liabilities</b>                              | 7,116      | 362,373    | 787,980      | 5,311    | (5,506)        | 1,157,274    |
| <b>Total Partners<br/>Capital</b>                     | 457,870    | 439,837    | 868,790      | 70       | (1,243,156)    | 523,411      |
| <b>Total Liabilities<br/>and Partners<br/>Capital</b> | \$ 464,986 | \$ 802,210 | \$ 1,656,770 | \$ 5,381 | \$ (1,248,662) | \$ 1,680,685 |

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**Statement of Cash Flows**  
**Six Months Ended June 30, 2006**  
(unaudited)

|  | Parent    | Subsidiary<br>Issuer | Subsidiary<br>Guarantors | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total     |
|--|-----------|----------------------|--------------------------|-----------------------------------|------------------------------|-----------|
| <b>Net Cash Flows<br/>from Operating<br/>Activities</b>  | \$ 43,829 | \$ 44,152            | \$ 58,452                | \$ 914                            | \$ (101,134)                 | \$ 46,213 |
| <b>Cash Flows from<br/>Investing Activities:</b>   |           |                      |                          |                                   |                              |           |
| Capital expenditures   |           |                      | (53,759)                 |                                   |                              | (53,759)  |
| Acquisitions   |           |                      | (108,900)                |                                   |                              | (108,900) |
| Intercompany   | (97,103)  | (107,062)            | 103,945                  | (914)                             | 101,134                      |           |
|  | (97,103)  | (107,062)            | (58,714)                 | (914)                             | 101,134                      | (162,659) |
| <b>Cash Flows from<br/>Financing<br/>Activities:</b>   |           |                      |                          |                                   |                              |           |
| Distribution paid to<br>Limited Partners and<br>General Partner  | (45,047)  |                      |                          |                                   |                              | (45,047)  |
| Payments of statutory<br>withholding on net<br>issuance of Limited<br>Partner units under<br>restricted unit<br>incentive plan |           |                      | (1,443)                  |                                   |                              | (1,443)   |
| Net proceeds from<br>issuance of Limited<br>Partner units  | 110,357   |                      |                          |                                   |                              | 110,357   |
| Net contribution<br>from General Partner<br>for Limited Partner<br>unit transactions   | 2,426     |                      |                          |                                   |                              | 2,426     |
| Net proceeds from<br>issuance of Senior<br>Notes   |           | 173,307              |                          |                                   |                              | 173,307   |
| Advances to<br>affiliates, net   | (14,462)  |                      | 958                      |                                   |                              | (13,504)  |
| Borrowings under<br>credit facility  |           | 109,500              |                          |                                   |                              | 109,500   |
| Repayments under<br>credit facility  |           | (216,100)            |                          |                                   |                              | (216,100) |
|  |           |                      | 747                      |                                   |                              | 747       |

Contributions from  
affiliate

|        |        |     |         |
|--------|--------|-----|---------|
| 53,274 | 66,707 | 262 | 120,243 |
|--------|--------|-----|---------|

Net change in cash  
and cash equivalents

|       |       |
|-------|-------|
| 3,797 | 3,797 |
|-------|-------|

Cash and cash  
equivalents at  
beginning of year

|        |        |
|--------|--------|
| 21,645 | 21,645 |
|--------|--------|

Cash and cash  
equivalents at end of  
period

|    |           |    |    |    |           |
|----|-----------|----|----|----|-----------|
| \$ | \$ 25,442 | \$ | \$ | \$ | \$ 25,442 |
|----|-----------|----|----|----|-----------|

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**Statement of Cash Flows**  
**Six Months Ended June 30, 2005**  
(unaudited)

|  | <b>Parent</b> | <b>Subsidiary<br/>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|------------------------------|----------------------------------|--|--------------------------------------|--------------|
| <b>Net Cash Flows from<br/>Operating Activities</b>  | \$ 33,365     | \$ 33,278                    | \$ 41,233                        | \$ 9                                       | \$ (78,008)                          | \$ 29,877    |
| <b>Cash Flows from<br/>Investing Activities:</b>   |               |                              |                                  |  |                                      |              |
| Capital expenditures   |               |                              | (17,930)                         |  |                                      | (17,930)     |
| Intercompany   | (20,671)      | (40,726)                     | (16,602)                         | (9)  | 78,008                               |              |
|  | (20,671)      | (40,726)                     | (34,532)                         | (9)  | 78,008                               | (17,930)     |
| <b>Cash Flows from<br/>Financing Activities:</b>   |               |                              |                                  |  |                                      |              |
| Distribution paid to<br>Limited Partners and<br>General Partner  | (32,013)      |                              |                                  |  |                                      | (32,013)     |
| Payments of statutory<br>withholding on net<br>issuance of Limited<br>Partner units under<br>restricted unit<br>incentive plan |               |                              | (2,863)                          |  |                                      | (2,863)      |
| Net proceeds from<br>issuance of Limited<br>Partner units  | 99,203        |                              |                                  |  |                                      | 99,203       |
| Redemption of<br>Limited Partner units<br>from Sunoco  | (99,203)      |                              |                                  |  |                                      | (99,203)     |
| Net contribution from<br>General Partner for<br>Limited Partner unit<br>transactions   | 137           |                              |                                  |  |                                      | 137          |
| Advances to affiliates,<br>net   | 19,182        |                              | (4,733)                          |  |                                      | 14,449       |
| Contributions from<br>affiliate  |               |                              | 895                              |  |                                      | 895          |
|  | (12,694)      |                              | (6,701)                          |  |                                      | (19,395)     |
|  |               | (7,448)                      |                                  |  |                                      | (7,448)      |

|  |    |           |    |    |           |
|--|----|-----------|----|----|-----------|
| Net change in cash and cash equivalents        |    |           |    |    |           |
| Cash and cash equivalents at beginning of year |    | 52,660    |    |    | 52,660    |
| Cash and cash equivalents at end of period     | \$ | \$ 45,212 | \$ | \$ | \$ 45,212 |

#### 14. Subsequent Event

On July 27, 2006, the Partnership announced that it has executed a purchase agreement with Sunoco, Inc. to acquire a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest in Mid-Valley Pipeline Company ( Mid-Valley ) for \$65 million, subject to certain adjustments five years following the date of closing. Closing is expected within the next 30 days, subject to expiration of the Hart-Scott-Rodino waiting period. The purchase will initially be financed with the Partnership's revolving credit facility and cash on hand. Mid-Valley owns a 994-mile pipeline, which originates in Longview, Texas and terminates in Samaria, Michigan, and has operating capacity of 238,000 barrels per day and 4.2 million barrels of shell storage capacity. Mid-Valley provides crude oil to a number of refineries, primarily in the Midwest United States. The Partnership will continue to be the operator of the Mid-Valley pipeline.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Results of Operations – Three Months Ended June 30, 2006 and 2005**  
**Sunoco Logistics Partners L.P.**  
**Operating Highlights**  
**Three Months Ended June 30, 2006 and 2005**

|   | <b>Three Months Ended<br/>June 30,</b> |             |
|---|--|-------------|
|   | <b>2006</b>                            | <b>2005</b> |
| <b>Eastern Pipeline System: <sup>(1)</sup></b>                        |  |             |
| Total shipments (barrel miles per day) <sup>(2)</sup>                 | 58,451,104                             | 55,429,896  |
| Revenue per barrel mile (cents)                                       | 0.474                                  | 0.465       |
| <b>Terminal Facilities:</b>   |  |             |
| Terminal throughput (bpd):  |  |             |
| Refined product terminals   | 390,341                                | 383,286     |
| Nederland terminal  | 449,176                                | 452,571     |
| Refinery terminals <sup>(3)</sup>                                     | 713,407                                | 709,023     |
| <b>Western Pipeline System:<sup>(1)(4)</sup></b>                      |  |             |
| Crude oil pipeline throughput (bpd)                                   | 519,808                                | 320,243     |
| Crude oil purchases at wellhead (bpd)                                 | 201,975                                | 191,820     |
| Gross margin per barrel of pipeline throughput (cents) <sup>(5)</sup> | 33.4                                   | 31.4        |

(1) Excludes amounts attributable to equity ownership interests in the corporate joint ventures.

(2) Represents total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped.

(3) Consists of the Partnership's Fort Mifflin Terminal Complex, the Marcus Hook

Tank Farm and the Eagle Point Dock.

(4) Includes results from the Partnership's purchases of an undivided joint interest in the Mesa Pipe Line system, the Corsicana to Wichita Falls, Texas pipeline system, and the Millennium and Kilgore pipeline system from the acquisition dates.

(5) Represents total segment sales and other operating revenue minus cost of products sold and operating expenses and depreciation and amortization divided by crude oil pipeline throughput.

#### **Analysis of Consolidated Net Income**

Net income was \$26.3 million for the second quarter 2006 as compared with \$17.8 million for the second quarter 2005, an increase of \$8.5 million. This increase was due mainly to higher Western Pipeline System lease acquisition margins, an increase in total shipments in the Eastern Pipeline System, and operating results from the acquisitions completed in 2005 and 2006 in the Western Pipeline System. These increases were partially offset by higher interest expense related to financing of the recent acquisitions and the Partnership's internal expansion capital program, as well as higher selling, general and administrative costs related to the acquired assets.

Net interest expense increased \$1.3 million to \$6.6 million for the second quarter 2006 from \$5.3 million for the prior year's quarter due to increased borrowings and higher interest rates, partially offset by an increase of \$1.2 million in capitalized interest.

#### **Analysis of Segment Operating Income**

##### *Eastern Pipeline System*

Operating income for the Eastern Pipeline System increased \$3.2 million to \$11.3 million for the second quarter 2006 from \$8.1 million for the second quarter 2005. This increase was primarily the result of a \$1.8 million increase

in sales and other operating revenue and a \$1.5 million decrease in operating expenses, partially offset by a \$0.3 million decrease in other

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income. Sales and other operating revenue increased from \$23.4 million for the prior year's quarter to \$25.2 million for the second quarter 2006 mainly due to an increase in total shipments, as well as higher revenue per barrel mile. The increase in shipments was due principally to higher throughput on the Marysville, Michigan to Toledo, Ohio crude oil pipeline due to resumed production at two third-party Canadian synthetic crude oil plants which experienced reduced production in 2005 as a result of fire damage, and higher demand due to expansion of a Detroit refinery served by the Marysville pipeline. Operating expenses decreased to \$9.6 million in the second quarter 2006 from \$11.1 million in the second quarter 2005 due mainly to product operating gains, partially offset by increased utility and operating supply costs. Other income decreased due to a reduction in equity income from the Partnership's joint venture interests.

*Terminal Facilities*

The Terminal Facilities business segment had operating income of \$9.9 million for the second quarter 2006, as compared to \$9.3 million for the prior year's second quarter. Total revenues increased \$2.5 million from the prior year's second quarter to \$30.4 million for the second quarter 2006 due primarily to increased revenues associated with the addition of ethanol blending at the balance of the Partnership's refined product terminals in May 2006, an increase in revenues at the Partnership's Nederland Terminal, as well as increased volumes at the refined product terminals. Operating expenses increased \$1.0 million from the prior year's second quarter to \$12.7 million for the second quarter 2006 due principally to timing of scheduled maintenance activity and higher utility costs.

*Western Pipeline System*

Operating income for the Western Pipeline System increased \$6.0 million to \$11.8 million for the second quarter 2006 from \$5.8 million for the second quarter 2005. The increase was primarily the result of higher lease acquisition margins, and higher crude oil pipeline volumes, mainly from the Corsicana to Wichita Falls, Texas crude oil pipeline acquired in August 2005, the 37.0 percent undivided interest in the Mesa Pipe Line System acquired in December 2005, and the Millennium and Kilgore pipelines acquired in March 2006. Total revenues and cost of products sold and operating expenses increased in the second quarter 2006 compared with the prior year's quarter due principally to an increase in the price of crude oil. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma, increased to \$70.70 per barrel for the second quarter 2006 from \$53.13 per barrel for the second quarter 2005. Operating expenses were higher also as a result of increased costs associated with the acquired assets and higher utility costs. Depreciation and amortization increased by \$1.3 million due principally to the 2005 and 2006 acquisitions described earlier.

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**Results of Operations Six Months Ended June 30, 2006 and 2005**  
**Sunoco Logistics Partners L.P.**  
**Operating Highlights**  
**Six Months Ended June 30, 2006 and 2005**

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2006</b>                          | <b>2005</b> |
| <b>Eastern Pipeline System:</b> <sup>(1)</sup>                        |                                      |             |
| Total shipments (barrel miles per day) <sup>(2)</sup>                 | 59,713,014                           | 55,514,812  |
| Revenue per barrel mile (cents)                                       | 0.467                                | 0.467       |
| <b>Terminal Facilities:</b>   |                                      |             |
| Terminal throughput (bpd):  |                                      |             |
| Refined product terminals   | 386,807                              | 389,619     |
| Nederland terminal  | 469,309                              | 472,133     |
| Refinery terminals <sup>(3)</sup>                                     | 703,597                              | 699,459     |
| <b>Western Pipeline System:</b> <sup>(1)(4)</sup>                     |                                      |             |
| Crude oil pipeline throughput (bpd)                                   | 502,503                              | 319,113     |
| Crude oil purchases at wellhead (bpd)                                 | 191,751                              | 193,325     |
| Gross margin per barrel of pipeline throughput (cents) <sup>(5)</sup> | 31.0                                 | 25.7        |

**Analysis of Consolidated Net Income**

Net income was \$44.7 million for the six month period ended June 2006 as compared with \$33.1 million for the comparable period in 2005, an increase of \$11.6 million. This increase was due mainly to higher Western Pipeline System lease acquisition margins, an increase in total shipments in the Eastern Pipeline System, and operating results from the acquisitions completed in 2005 and 2006 in the Western Pipeline System. These increases were partially offset by higher interest expense related to financing of the recent acquisitions and the Partnership's internal expansion capital program, and higher selling, general and administrative costs as a result of \$2.9 million in costs related to the Western area headquarters relocation, which was completed in the first quarter 2006.

Net interest expense increased \$2.3 million to \$12.8 million for the first half of 2006 from \$10.5 million for the first half of 2005 due to increased borrowings and higher interest rates, partially offset by an increase of \$1.7 million in capitalized interest.

**Analysis of Segment Operating Income***Eastern Pipeline System*

Operating income for the Eastern Pipeline System increased \$4.4 million to \$21.2 million for the first half of 2006 from \$16.8 million for the first half of 2005. Sales and other operating revenue increased from \$46.9 million for the prior year's period to \$50.5 million for the six months ended 2006 mainly due to an increase in total shipments. This increase was principally the result of higher throughput on the Marysville to Toledo crude oil pipeline as a result of the prior year production issues previously discussed. Other income decreased to \$4.8 million for the first half of 2006 from \$6.3 million for the prior year period due primarily to a decrease in joint venture equity income mainly as a result of reduced pipeline volumes experienced by the Partnership's joint venture interests. Operating expenses decreased from \$21.7 million in the first half of 2005 to \$20.2 million for the first half of 2006 due mainly to product operating gains, partially offset by increased utility and operating supply costs.

*Terminal Facilities*

The Terminal Facilities business segment had operating income of \$19.3 million for the six months ended June 2006, as compared to \$18.8 million for the prior year's corresponding period. Total revenues increased \$3.7 million from the prior year's first half to \$59.5 million for the first half of 2006 due primarily to an increase in revenues at the Partnership's Nederland Terminal, as well as increased revenues associated with the addition of ethanol blending at the balance of the



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Partnership's refined product terminals in May 2006. Operating expenses increased \$2.5 million from the prior year's first half to \$25.3 million for the first half of 2006 due to the timing of scheduled maintenance activity and higher utility costs.

*Western Pipeline System*

Operating income for the Western Pipeline System increased \$9.1 million to \$17.1 million for the first half of 2006 from \$8.0 million for the first half of 2005. The increase was primarily the result of higher lease acquisition margins, and higher crude oil pipeline volumes, mainly from the acquisitions previously discussed. Total revenues and cost of products sold and operating expenses increased in the first half of 2006 compared with the prior year period due principally to an increase in the price of crude oil. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma, increased to \$67.13 per barrel for the six months ended June 2006 from \$51.53 per barrel for the six months ended June 2005. Depreciation and amortization increased by \$2.4 million due principally to the 2005 and 2006 acquisitions discussed earlier. Selling, general and administrative expenses increased \$4.2 million due principally to \$2.9 million of costs related to the Western area headquarters relocation from Tulsa, Oklahoma to Sugar Land, Texas, as well as increased costs associated with the acquired assets. The relocation to Sugar Land was completed in the first quarter 2006.

**Liquidity and Capital Resources***Liquidity*

Cash generated from operations and borrowings under the Credit Facility are the Partnership's primary sources of liquidity. At June 30, 2006, the Partnership had working capital of \$26.0 million and available borrowing capacity under the Credit Facility of \$300.0 million. The Partnership's working capital position also reflects crude oil inventories based on historical costs under the LIFO method of accounting. If the inventories had been valued at their current replacement cost, the Partnership would have had working capital of \$146.6 million at June 30, 2006.

*Capital Resources*

The Partnership periodically supplements its cash flows from operations with proceeds from debt and equity financing activities.

**Credit Facility**

Sunoco Logistics Partners Operations L.P., a wholly-owned subsidiary of the Partnership (the Operating Partnership), has a \$300 million Credit Facility available to fund working capital requirements, to finance future acquisitions, and for general partnership purposes. The Credit Facility matures in November 2010. It also includes a \$20.0 million distribution sublimit that is available for distributions, and may be used to fund the quarterly distributions, provided the total outstanding borrowings for distributions do not at any time exceed \$20.0 million. The Partnership will be required to reduce to zero all borrowings under the distribution sublimit under the Credit Facility each year for 15 days.

At December 31, 2005, there was \$106.6 million outstanding under the Credit Facility. On March 1, 2006, an additional \$109.5 million was drawn against the Credit Facility to fund the acquisitions of the Millennium and Kilgore pipeline system and the Amdel pipeline system. During the second quarter 2006, the Partnership completed an offering of 2.68 million limited partner common units and the Operating Partnership completed an offering of \$175 million of 6.125 percent Senior Notes. A portion of the net proceeds of \$283.7 million from these offerings were utilized to repay all of the \$216.1 million outstanding under the Credit Facility. The balance of the proceeds is being used to fund a portion of the Partnership's internal expansion capital program, and for general Partnership purposes, including to finance pending and future acquisitions.

**Senior Notes**

During May 2006, the Operating Partnership issued \$175 million of 6.125 percent Senior Notes, due May 15, 2016 at 99.858 percent of the principal amount, for net proceeds of \$173.3 million after the underwriter's commission and legal, accounting and other transaction expenses. The discount is amortized on a straight-line basis over the term of the Senior Notes and is included within interest expense in the condensed consolidated statements of income. The Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The Senior Notes contain various covenants limiting the Operating Partnership's ability to incur certain liens, engage in sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The Operating Partnership is in

compliance with these covenants as of June 30, 2006. In addition, the Senior Notes are also subject to repurchase by the Operating Partnership, at the option of the holders of the Senior Notes, at a price equal to 100 percent of their principal amount, plus accrued and unpaid interest at any



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time. The net proceeds from the Senior Notes, together with the \$110.4 million in net proceeds from the concurrent offering of 2.68 million limited partner common units, were used to repay of all of the \$216.1 million in outstanding borrowings under the Partnership's Credit Facility. The balance of the proceeds from the offerings are being used to fund the Partnership's organic growth program and for general Partnership purposes, including to finance pending and future acquisitions.

**Equity Offerings**

In May 2006, the Partnership sold 2.4 million common units in a public offering. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale. The total sale of units resulted in gross proceeds of \$115.2 million, and net proceeds of \$110.4 million, after the underwriters' commission and legal, accounting and other transaction expenses. Net proceeds of the offering were used to repay a portion of the \$216.1 million of the debt incurred under the revolving Credit Facility. As a result of this issuance of 2.68 million common units, the general partner contributed \$2.4 million to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded this amount as a capital contribution to Partners' Capital within its condensed consolidated balance sheet.

In August 2005, the Partnership sold 1.5 million common units in a public offering. In September 2005, the Partnership sold an additional 125,000 common units to cover over-allotments in connection with the August 2005 sale. The total sale of units resulted in total gross proceeds of \$63.4 million, and net proceeds of \$60.4 million, after the underwriters' commission and legal, accounting and other transaction expenses. Net proceeds of the sale were used to repay \$56.5 million of the debt incurred to finance the August 2005 purchase of the Corsicana to Wichita Falls, Texas crude oil pipeline system and storage facilities, with the balance for general partnership purposes. As a result of this issuance of 1.625 million common units, the general partner contributed \$1.3 million to the Partnership to maintain its 2.0 percent general partner interest.

In May 2005, the Partnership sold 2.5 million common units in a public offering. In June 2005, the Partnership sold an additional 275,000 common units to cover over-allotments in connection with the May 2005 sale. The purchase price for the over-allotment was equal to the offering price in the May 2005 sale. The sale of units resulted in total gross proceeds of \$104.1 million, and net proceeds of \$99.2 million, after underwriters' commissions and legal, accounting and other transaction expenses. Net proceeds from the sale were used to redeem 2.775 million common units owned by Sunoco at a redemption price per unit equal to the public offering price per unit after the underwriters' commissions.

**Shelf Registration Statement**

On April 7, 2006, the Partnership, the Operating Partnership, and the Operating Partnership's wholly-owned subsidiaries, as co-registrants, filed a shelf registration statement with the Securities and Exchange Commission. This shelf registration permits the periodic offering and sale of up to \$500 million of equity securities by the Partnership or debt securities of the Operating Partnership (guaranteed by the Partnership). At June 30, 2006, \$209.8 million remains available for issuance under the shelf registration statement. The shelf registration also covers the resale of up to five million common units by the Partnership's general partner. The amount, type and timing of any offerings will depend upon, among other things, the funding requirements of the Partnership, prevailing market conditions, and compliance with covenants in applicable debt obligations of the Operating Partnership (including the Credit Facility).

***Cash Flows and Capital Expenditures***

Net cash provided by operating activities for the six months ended June 30, 2006 was \$46.2 million compared with \$29.9 million for the first six months of 2005. Net cash provided by operating activities for the first six months of 2006 was primarily generated by net income of \$44.7 million, depreciation and amortization of \$18.2 million, partially offset by a \$15.5 million increase in working capital. Working capital increased primarily due to increases in accounts receivable balances. Net cash provided by operating activities for the first six months of 2005 was principally generated by net income of \$33.1 million and depreciation and amortization of \$15.6 million, partially offset by a \$17.9 million increase in working capital.

Net cash used in investing activities for the first six months of 2006 was \$162.7 million compared with \$17.9 million for the first six months of 2005. The increase between periods is due primarily to the acquisitions of the Millennium and Kilgore pipelines and the Amdel pipeline in March 2006, and the Partnership's investment in its

internal expansion capital program, as further discussed below in the *Capital Requirements* section of this document.

Net cash provided by financing activities for the first six months of 2006 was \$120.2 million compared with \$19.4 million net cash used in financing activities for the first six months of 2005. Net cash provided by financing activities for the

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first six months of 2006 was the result of \$110.4 million of net proceeds from the offering of 2.68 million limited partner common units and \$173.3 million of net proceeds received from the issuance of 6.125 percent Senior Notes in May 2006. This increase was partially offset by \$45.0 million in distributions paid to limited partners and the general partner, and a net repayment of \$106.6 million of outstanding borrowings under the Partnership's Credit Facility.

Under a treasury services agreement with Sunoco, the Partnership participates in Sunoco's centralized cash management program. Advances to affiliates in the Partnership's condensed consolidated balance sheets at June 30, 2006 represent amounts due from Sunoco under this agreement. Advances from affiliates at December 31, 2005 represent amounts due to Sunoco under this agreement.

**Capital Requirements**

The pipeline, terminalling, and crude oil transport operations are capital intensive, requiring significant investment to maintain, upgrade or enhance existing operations and to meet environmental and operational regulations. The capital requirements have consisted, and are expected to continue to consist, primarily of:

Maintenance capital expenditures, such as those required to maintain equipment reliability, tankage and pipeline integrity and safety, and to address environmental regulations; and

Expansion capital expenditures to acquire assets to grow the business and to expand existing and construct new facilities, such as projects that increase storage or throughput volume.

The following table summarizes maintenance and expansion capital expenditures, including net cash paid for acquisitions, for the periods presented (in thousands of dollars):

|             | <b>Six Months Ended<br/>June 30,</b> |                  |
|-------------|--------------------------------------|------------------|
|             | <b>2006</b>                          | <b>2005</b>      |
| Maintenance | \$ 10,297                            | \$ 10,904        |
| Expansion   | 150,169                              | 7,026            |
|             | <b>\$ 160,466</b>                    | <b>\$ 17,930</b> |

Maintenance capital expenditures, including \$2.8 million related to the Western area headquarters relocation in the six months ended June 30, 2006, decreased \$0.6 million from the six months ended June 30, 2005. Excluding the relocation costs, maintenance capital expenditures decreased \$3.4 million in the first half of 2006 from the first half of 2005 due mainly to the differences in timing of scheduled maintenance activity between the periods. Management anticipates maintenance capital expenditures to be approximately \$25.0 million for the year ended December 31, 2006, excluding the \$2.8 million related to the Western area headquarters' relocation and amounts reimbursable under agreements with Sunoco. Maintenance capital expenditures for both periods presented include recurring expenditures such as pipeline integrity costs, pipeline relocations, repair and upgrade of field instrumentation, including measurement devices, repair and replacement of tank floors and roofs, upgrades of cathodic protection systems, crude trucks and related equipment, and the upgrade of pump stations.

Expansion capital expenditures in the six months ended June 30, 2006 include \$106.7 million related to the acquisitions of properties, plants and equipment associated with the Millennium and Kilgore pipeline system and the Amdel pipeline system on March 1, 2006 (see Note 2 to the condensed consolidated financial statements).

Expansion capital expenditures also include the Partnership's investments in its internal expansion capital program, including expansion of the Marysville crude oil pipeline and the Amdel pipeline purchased in March 2006, the construction at Nederland of six new crude oil storage tanks with a total capacity of approximately 3.6 million shell barrels, installation of ethanol blending facilities at the balance of the Partnership's refined product terminals, as well as capitalized interest of \$1.7 million. The Partnership's internal expansion capital program is expected to total approximately \$135 million in projects in 2006 and 2007, and will also include construction of additional new tanks at the Nederland Terminal and pipeline connections to service the Millennium pipeline purchased in March 2006, construction of new tanks and pipeline connections in the Eastern and Western Pipeline systems, and installation of

ultra-low sulfur diesel infrastructure at certain refined product terminals.

The Partnership expects to fund capital expenditures, including pending and future acquisitions, from both cash provided by operations and, to the extent necessary, from the proceeds of borrowings under the Credit Facility, other borrowings and the issuance of additional common units.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Partnership is exposed to various market risks, including volatility in crude oil commodity prices and interest rates. To manage such exposures, inventory levels and expectations of future commodity prices and interest rates are monitored when making decisions with respect to risk management. The Partnership has not entered into derivative transactions that would expose it to price risk.

The \$300 million Credit Facility generally exposes the Partnership to interest rate risk since it bears interest at a variable rate, however there were no outstanding borrowings under the Credit Facility at June 30, 2006.

**Forward-Looking Statements**

Some of the information included in this quarterly report on Form 10-Q contains forward-looking statements, as such term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, and information relating to the Partnership that is based on the beliefs of its management as well as assumptions made by and information currently available to management.

Forward-looking statements discuss expected future results based on current and pending business operations, and may be identified by words such as anticipates, believes, expects, planned, scheduled or similar expressions. Although management of the Partnership believes these forward-looking statements are reasonable, they are based upon a number of assumptions, any or all of which may ultimately prove to be inaccurate. Statements made regarding future results are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document.

The following are among the important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted:

Our ability to successfully consummate announced acquisitions or expansions and integrate them into our existing business operations;

Delays related to construction of, or work on, new or existing facilities and the issuance of applicable permits;

Changes in demand for, or supply of, crude oil, refined petroleum products and natural gas liquids that impact demand for the Partnership's pipeline, terminalling and storage services;

Changes in the demand for crude oil we both buy and sell;

The loss of Sunoco R&M as a customer or a significant reduction in its current level of throughput and storage with the Partnership;

An increase in the competition encountered by the Partnership's petroleum products terminals, pipelines and crude oil acquisition and marketing operations;

Changes in the financial condition or operating results of joint ventures or other holdings in which the Partnership has an equity ownership interest;

Changes in the general economic conditions in the United States;

Changes in laws and regulations to which the Partnership is subject, including federal, state, and local tax, safety, environmental and employment laws;

Changes in regulations concerning required composition of refined petroleum products, that result in changes in throughput volumes, pipeline tariffs and/or terminalling and storage fees;

Improvements in energy efficiency and technology resulting in reduced demand for petroleum products;

The Partnership's ability to manage growth and/or control costs;

The effect of changes in accounting principles and tax laws and interpretations of both;

Global and domestic economic repercussions, including disruptions in the crude oil and petroleum products markets, from terrorist activities, international hostilities and other events, and the government's response thereto;

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Changes in the level of operating expenses and hazards related to operating facilities (including equipment malfunction, explosions, fires, spills and the effects of severe weather conditions);

The occurrence of operational hazards or unforeseen interruptions for which the Partnership may not be adequately insured;

The age of, and changes in the reliability and efficiency of the Partnership's operating facilities;

Changes in the expected level of capital, operating, or remediation spending related to environmental matters;

Changes in insurance markets resulting in increased costs and reductions in the level and types of coverage available;

Risks related to labor relations and workplace safety;

Non-performance by or disputes with major customers, suppliers or other business partners;

Changes in the Partnership's tariff rates implemented by federal and/or state government regulators;

The amount of the Partnership's indebtedness, which could make the Partnership vulnerable to adverse general economic and industry conditions, limit the Partnership's ability to borrow additional funds, place it at competitive disadvantages compared to competitors that have less debt, or have other adverse consequences;

Restrictive covenants in the Partnership's or Sunoco, Inc.'s credit agreements;

Changes in the Partnership's or Sunoco, Inc.'s credit ratings, as assigned by ratings agencies;

The condition of the debt capital markets and equity capital markets in the United States, and the Partnership's ability to raise capital in a cost-effective way;

Changes in interest rates on the Partnership's outstanding debt, which could increase the costs of borrowing;

Claims of the Partnership's non-compliance with regulatory and statutory requirements; and

The costs and effects of legal and administrative claims and proceedings against the Partnership or any entity in which it has an ownership interest, and changes in the status of, or the initiation of new litigation, claims or proceedings, to which the Partnership, or any entity in which it has an ownership interest, is a party.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Partnership's forward-looking statements. Other factors could also have material adverse effects on future results. The Partnership undertakes no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

**Item 4. Controls and Procedures**

(a) As of the end of the fiscal quarter covered by this report, the Partnership carried out an evaluation, under the supervision and with the participation of the management of Sunoco Partners LLC, the Partnership's general partner (including the President and Chief Executive Officer of Sunoco Partners LLC and the Vice President and Chief Financial Officer of Sunoco Partners LLC), of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the President and Chief Executive Officer of Sunoco Partners LLC and the Vice President and Chief Financial Officer of Sunoco Partners LLC concluded that the Partnership's disclosure controls and procedures are effective.

(b) No change in the Partnership's internal controls over financial reporting has occurred during the fiscal quarter covered by this report that has materially affected, or that is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

(c) Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Partnership reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Partnership reports under the Exchange Act is accumulated and communicated to management, including the President



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and Chief Executive Officer of Sunoco Partners LLC and the Vice President and Chief Financial Officer of Sunoco Partners LLC, as appropriate, to allow timely decisions regarding required disclosure.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Partnership's Sunoco Pipeline L.P. subsidiary operates the Mid-Valley Pipeline on behalf of Mid-Valley Pipeline Company (an affiliate of Sunoco, Inc.) and its third-party shareholders pursuant to an Operating Agency Agreement. In June 2005, Sunoco Pipeline L.P. and Mid-Valley Pipeline Company received a letter from the U.S. Department of Justice, indicating its intent to initiate a civil action on behalf of the U.S. Environmental Protection Agency against Sunoco Pipeline L.P. and Mid-Valley Pipeline Company, for alleged violations of the Clean Water Act arising from a January 2005 crude oil release by Mid-Valley Pipeline into the Kentucky River near Worthville, Kentucky. According to the letter, the government could seek civil penalties of up to the statutory maximum under the Clean Water Act, which are substantially in excess of \$100,000. However, the Partnership does not expect any penalties or fines that may be paid to have a material adverse effect on the Partnership. Also, the Operating Agency Agreement obligates Mid-Valley Pipeline Company and its shareholders to indemnify and hold-harmless the operator from and against any claims arising out of its actions or omissions, including negligence, taken in good faith performance of the agreement. As a result, the Partnership expects to be fully indemnified for costs associated with the January 2005 release.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors described previously in Part I, Item 1A of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 1, 2006.

**Item 2. Unregistered Sales of Equity Securities and Uses of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

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**Item 6. Exhibits**

Exhibits

- 10.1 : Membership Interest Purchase Agreement effective as of July 27, 2006 between Sunoco, Inc. and Sunoco Pipeline Acquisition LLC
- 12.1 : Statement of Computation of Ratio of Earnings to Fixed Charges
- 31.1 : Chief Executive Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(a)
- 31.2 : Chief Financial Officer Certification of Periodic Report Pursuant to Exchange act Rule 13a-14(a)
- 32 : Chief Executive Officer and Chief Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350

We are pleased to furnish this Form 10-Q to unitholders who request it by writing to:

Sunoco Logistics Partners L.P.

Investor Relations

Mellon Bank Center

1735 Market Street

Philadelphia, PA 19103-7583

or through our website at [www.sunocologistics.com](http://www.sunocologistics.com).

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sunoco Logistics Partners L.P.

By: /s/ Colin A. Oerton

**Colin A. Oerton**  
**Vice President &**  
**Chief Financial Officer**

Date: August 2, 2006