

SUNOCO LOGISTICS PARTNERS L.P.

Form 10-Q

August 04, 2010

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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, 2010

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

1818 Market Street, Suite 1500, Philadelphia, PA
(Address of principal executive offices)

19103
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 Smaller reporting company

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 3, 2010, the number of the registrant's Common Units outstanding was 31,053,332.

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Table of Contents**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)**

	Three Months Ended June 30,	
	2010	2009
Revenues		
Sales and other operating revenue:		
Affiliates	\$ 214,039	\$ 217,560
Unaffiliated customers	1,814,832	1,065,137
Other income	9,390	7,774
Total Revenues	2,038,261	1,290,471
Costs and Expenses		
Cost of products sold and operating expenses	1,939,120	1,184,794
Depreciation and amortization	13,949	11,508
Selling, general and administrative expenses	15,584	15,842
Total Costs and Expenses	1,968,653	1,212,144
Operating Income	69,608	78,327
Net interest with affiliates	67	7
Other interest cost and debt expense, net	19,818	12,685
Capitalized interest	(1,176)	(1,008)
Net Income	\$ 50,899	\$ 66,643
Calculation of Limited Partners interest in Net Income:		
Net Income	\$ 50,899	\$ 66,643
Less: General Partner's interest in Net Income	(10,672)	(12,988)
Limited Partners interest in Net Income	\$ 40,227	\$ 53,655
Net Income per Limited Partner unit:		
Basic	\$ 1.30	\$ 1.76
Diluted	\$ 1.29	\$ 1.74
Weighted average Limited Partners units outstanding:		

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Basic	31,050,602	30,551,349
Diluted	31,215,638	30,756,024

(See Accompanying Notes)

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)****(in thousands, except unit and per unit amounts)**

	Six Months Ended June 30,	
	2010	2009
Revenues		
Sales and other operating revenue:		
Affiliates	\$ 387,427	\$ 416,404
Unaffiliated customers	3,321,952	1,904,326
Other income	17,153	12,539
Total Revenues	3,726,532	2,333,269
Costs and Expenses		
Cost of products sold and operating expenses	3,533,827	2,108,488
Depreciation and amortization	28,469	23,088
Selling, general and administrative expenses	36,170	32,916
Total Costs and Expenses	3,598,466	2,164,492
Operating Income	128,066	168,777
Net interest with affiliates	122	59
Other interest cost and debt expense, net	35,927	23,627
Capitalized interest	(1,964)	(2,458)
Net Income	\$ 93,981	\$ 147,549
Calculation of Limited Partners interest in Net Income:		
Net Income	\$ 93,981	\$ 147,549
Less: General Partner's interest in Net Income	(20,755)	(25,517)
Limited Partners interest in Net Income	\$ 73,226	\$ 122,032
Net Income per Limited Partner unit:		
Basic	\$ 2.36	\$ 4.12
Diluted	\$ 2.35	\$ 4.09
Weighted average Limited Partners units outstanding:		
Basic	31,034,160	29,628,856
Diluted	31,212,572	29,829,994

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2010 (UNAUDITED)	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,000	\$ 2,000
Advances to affiliates	4,067	8,691
Accounts receivable, affiliated companies	65,190	47,791
Accounts receivable, net	1,406,868	1,280,062
Inventories:		
Crude oil	363,165	82,511
Refined products	3,231	1,857
Refined product additives	1,739	1,765
Materials, supplies and other	841	841
Total Current Assets	1,847,101	1,425,518
Properties, plants and equipment	2,225,033	2,150,493
Less accumulated depreciation and amortization	(641,229)	(616,772)
Properties, plants and equipment, net	1,583,804	1,533,721
Investment in affiliates	95,032	88,286
Deferred charges and other assets	55,273	51,081
Total Assets	\$ 3,581,210	\$ 3,098,606
Liabilities and Partners' Capital		
Current Liabilities		
Accounts payable	\$ 1,577,204	\$ 1,253,742
Accrued liabilities	55,399	49,298
Accrued taxes other than income taxes	30,622	30,296
Total Current Liabilities	1,663,225	1,333,336
Long-term debt	1,213,262	868,424
Other deferred credits and liabilities	40,812	35,232
Commitments and contingent liabilities		
Total Liabilities	2,917,299	2,236,992
Partners' Capital:		
Limited partners' interest	645,421	837,120
General partner's interest	20,359	26,987
Accumulated other comprehensive loss	(1,869)	(2,493)
Total Partners' Capital	663,911	861,614

Total Liabilities and Partners' Capital	\$ 3,581,210	\$ 3,098,606
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(See Accompanying Notes)

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

	Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities:		
Net Income	\$ 93,981	\$ 147,549
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	28,469	23,088
Amortization of financing fees and bond discount	987	336
Restricted unit incentive plan expense	3,992	4,394
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	(17,399)	40,152
Accounts receivable, net	(126,806)	(530,779)
Inventories	(282,002)	(157,972)
Accounts payable and accrued liabilities	328,831	436,705
Accrued taxes other than income taxes	326	3,677
Other	(3,571)	(28,335)
Net cash provided by (used in) operating activities	26,808	(61,185)
Cash Flows from Investing Activities:		
Capital expenditures	(76,175)	(70,399)
Net cash used in investing activities	(76,175)	(70,399)
Cash Flows from Financing Activities:		
Distributions paid to Limited Partners and General Partner	(92,146)	(81,765)
Repayment of promissory note to General Partner	(201,282)	
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan	(2,541)	(2,149)
Contributions from General Partner for Limited Partner unit transactions	402	2,398
Advances (to)/from affiliates, net	4,624	(7,392)
Borrowings under credit facility	308,000	357,973
Repayments under credit facility	(461,723)	(420,385)
Net Proceeds from issuance of long term debt	494,033	173,388
Net Proceeds from issuance of Limited Partner units		109,516
Net cash provided by financing activities	49,367	131,584
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of year	2,000	2,000
Cash and cash equivalents at end of period	\$ 2,000	\$ 2,000

(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 that owns and operates a logistics business, consisting of refined product pipelines, terminalling and storage assets, crude oil pipelines, and crude oil acquisition and marketing assets. Sunoco, Inc. and its wholly-owned subsidiaries including Sunoco, Inc. (R&M) are collectively referred to as Sunoco. The Partnership is principally engaged in the transport, terminalling and storage of refined products and crude oil and the purchase and sale of crude oil in 13 states located in the northeast, midwest and southwest United States. Sunoco accounted for approximately 10 percent of the Partnership's total revenues for the three and six months ended June 30, 2010.

The condensed consolidated financial statements reflect the results of Sunoco Logistics Partners L.P. and its wholly-owned subsidiaries, including Sunoco Logistics Partners Operations L.P. (the Operating Partnership) and include the accounts of entities in which the Partnership has a controlling financial interest. A controlling financial interest is evidenced by either a voting interest greater than 50% or a risk and rewards model that identifies the Partnership or one of its subsidiaries as the primary beneficiary of a variable interest entity (VIE). On January 1, 2010, new accounting guidance became effective which, among other things, clarifies when a company is deemed to be the primary beneficiary and requires ongoing assessment of whether an entity is the primary beneficiary of a VIE. Adoption of this guidance has not impacted the Partnership's financial statements. Equity ownership interests in corporate joint ventures, in which the Partnership does not have a controlling financial interest, are accounted for under the equity method of accounting.

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. The Partnership expects the interim increase in quantities of inventory to significantly reduce by year end and therefore, has adjusted its interim LIFO calculation to produce a reasonable matching of most recently incurred costs with current revenues. All such adjustments are of a normal recurring nature. Results for the three and six months ended June 30, 2010 are not necessarily indicative of results for the full year 2010.

2. Acquisitions

In July 2010, the Partnership acquired a butane blending business from Texon L.P. for \$140.0 million plus inventory. The acquisition includes patented technology for sophisticated blending of butane into gasoline, contracts with customers currently utilizing the patented technology, butane inventories and other related assets. The acquisition was funded by a \$100.0 million note from Sunoco, Inc. and borrowings under the Operating Partnership's \$395.0 million Credit Facility. The acquisition will be included within the Terminal Facilities business segment beginning in the third quarter 2010.

In July 2010, the Partnership exercised certain rights to increase its ownership interests in Mid-Valley Pipeline Company, West Texas Gulf Pipe Line Company and West Shore Pipe Line Company (Note 5). All three transactions are expected to close within the next 30 days for an aggregate purchase price of approximately \$100 million, which will initially be financed with the Operating Partnership's \$395.0 million Credit Facility.

3. Related Party Transactions

Incentive Distribution Rights Exchange

In January 2010, the Partnership entered into a repurchase agreement with its general partner, whereby the Partnership agreed to repurchase from the general partner the existing incentive distribution rights (IDRs) for \$201.2 million and issue new incentive distribution rights. Pursuant to this transaction, the Partnership executed the Third Amended and Restated Agreement of Limited Partnership of Sunoco Logistics Partners L.P. (the new partnership agreement). The new partnership agreement reflects the cancellation of the original incentive distribution rights and the authorization and issuance of the new incentive distribution rights (Note 10).

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The Partnership initially financed this arrangement with a promissory note to the general partner that was due December 31, 2010. Proceeds from the February 2010 issuance of \$500.0 million in Senior Notes were used to repay this promissory note in full (Note 6). The transaction was accounted for as a reduction of the limited partners' and general partner's capital balances on the Partnership's balance sheet.

Loans from Affiliate

In July 2010, the Partnership acquired a butane blending business from Texon L.P. for \$140.0 million plus inventory. The acquisition was funded by a three-year, \$100.0 million note from Sunoco, Inc, which bears interest at three-month LIBOR plus 275 basis points per annum. The balance of the acquisition was funded with borrowings under the Operating Partnership's \$395.0 million Credit Facility.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Advances to/from Affiliate

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 Operating Partnership's \$395.0 million Credit Facility.

Administrative Services

Under the Omnibus Agreement, the Partnership pays Sunoco or the general partner an annual administrative fee that includes expenses incurred by Sunoco and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, engineering, information technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee was \$6.0 million for the year ended December 31, 2009. In addition, the Partnership has incurred additional general and administrative costs which it pays directly. 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) was extended by one year in January 2010. The 2010 annual fee is \$5.4 million. 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 2010, 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 other 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, including senior executives, 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 reimburses 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.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

The Partnership is party to various agreements with Sunoco to supply crude oil and provide pipeline and terminalling services. Affiliated revenues in the condensed consolidated statements of income consist of sales of crude oil as well as the provision of crude oil, sales of refined products, crude oil pipeline transportation and refined product pipeline transportation, terminalling, storage and blending services to Sunoco. Sales of crude oil are priced using market based rates under agreements which automatically renew on a monthly basis unless terminated by either party on 30 days written notice. Sales of refined product are priced using market based rates under agreements which can be terminated by either party on 90 days written notice.

Capital Contributions

In February 2009 and 2010 the Partnership issued 0.1 million common units, in each year, to participants in the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) upon completion of award vesting requirements. As a result of these 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.

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In April and May 2009 the Partnership completed a public offering of 2.25 million common units. Net proceeds of approximately \$109.5 million were used to reduce outstanding borrowings under the Operating Partnership's \$395.0 million Credit Facility and for general partnership purposes. As a result of this offering of common units, the general partner contributed \$2.3 million to the Partnership to maintain its 2.0 percent general partner interest.

4. Net Income Per Unit Data

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 \$10.7 million (representing 21.0 percent of total net income for the period) and \$13.0 million (representing 19.5 percent of total net income for the period) for the three months ended June 30, 2010 and 2009, respectively, and \$20.8 million (representing 22.1 percent of total net income for the period) and \$25.5 million (representing 17.3 percent of total net income for the period) for the six months ended June 30, 2010 and 2009, 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 units outstanding and the dilutive effect of incentive unit awards, as calculated by the treasury stock method.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

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, 2010 and 2009:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Weighted average number of limited partner units outstanding basic	31,050,602	30,551,349	31,034,160	29,628,856
Add effect of dilutive unit incentive awards	165,036	204,675	178,412	201,138
Weighted average number of limited partner units diluted	31,215,638	30,756,024	31,212,572	29,829,994

5. Investment in Affiliates

The Partnership's ownership percentages in corporate joint ventures as of June 30, 2010 and December 31, 2009 were as follows:

	Partnership Ownership Percentage
Explorer Pipeline Company	9.4%
West Shore Pipe Line Company	12.3%
Yellowstone Pipe Line Company	14.0%
Wolverine Pipe Line Company	31.5%
West Texas Gulf Pipe Line Company	43.8%
Mid-Valley Pipeline Company ⁽¹⁾	55.3%

⁽¹⁾ The Partnership's interest in the Mid-Valley Pipeline Company includes 50 percent voting rights.

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, 2010 and 2009 (in thousands of dollars):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Income Statement Data:				
Total revenues	\$ 122,120	\$ 113,847	\$ 218,217	\$ 225,265
Net income	\$ 36,023	\$ 29,393	\$ 61,312	\$ 58,306

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, 2010 and December 31, 2009 (in thousands of dollars):

	June 30, 2010	December 31, 2009
Balance Sheet Data:		
Current assets	\$ 138,187	\$ 126,330
Non-current assets	\$ 687,078	\$ 679,955
Current liabilities	\$ 120,620	\$ 123,506
Non-current liabilities	\$ 562,855	\$ 568,349
Net equity	\$ 141,790	\$ 114,430

The Partnership's investments in Wolverine, West Shore, Yellowstone, and West Texas Gulf at June 30, 2010 include an excess investment amount of approximately \$52.7 million, net of accumulated amortization of \$4.9 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.

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As owner of these corporate joint venture interests, the Partnership maintains certain rights providing it with the option to acquire additional ownership interests, should an owner elect to divest its interest in the corporate joint venture. In July 2010, the Partnership exercised certain rights to increase its ownership interests in Mid-Valley Pipeline Company, West Texas Gulf Pipe Line Company and West Shore Pipe Line Company in connection with another owner's divestiture of its interests. All three transactions are expected to close within the next 30 days for an aggregate purchase price of approximately \$100 million, which will initially be financed with the Operating Partnership's \$395.0 million Credit Facility.

6. Long-Term Debt

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

	June 30, 2010	December 31, 2009
\$62.5 million Credit Facility due September 2011	\$ 31,250	\$ 31,250
\$395.0 million Credit Facility due November 2012	84,000	237,722
Senior Notes 7.25%, due February 15, 2012	250,000	250,000
Senior Notes 8.75%, due February 15, 2014	175,000	175,000
Senior Notes 6.125%, due May 15, 2016	175,000	175,000
Senior Notes 5.50%, due February 15, 2020	250,000	
Senior Notes 6.85%, due February 15, 2040	250,000	
Less unamortized bond discount	(1,988)	(548)
	\$ 1,213,262	\$ 868,424

Senior Notes

In February 2010, the Operating Partnership issued \$250.0 million of 5.50 percent Senior Notes and \$250.0 million of 6.85 percent Senior Notes, due February 15, 2020 and February 15, 2040, respectively (2020 and 2040 Senior Notes). The 2020 and 2040 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2020 and 2040 Senior Notes contain various covenants limiting the Operating Partnership's ability to incur certain liens, engage in certain sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The net proceeds of \$494.0 million from the 2020 and 2040 Senior Notes, were used to repay the \$201.2 million promissory note issued in connection with the Partnership's repurchase and exchange of the general partner's IDRs, repay outstanding borrowings under the Operating Partnership's \$395.0 million Credit Facility and pre-fund future growth.

Credit Facilities

During the second quarter of 2010, the Operating Partnership amended its revolving credit facilities as follows.

In June 2010, Lehman Brothers (Lehman) was removed from the list of banks participating in the Operating Partnership's \$400.0 million Credit Facility. The removal relates to Lehman's September 2008 bankruptcy and failure to fund its \$5.0 million share of the Partnership's borrowings under the facility. Under the amended Credit Facility, the Operating Partnership has access to \$395.0 million, which is available to fund the Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes.

In April 2010, the Operating Partnership completed an amendment to the \$62.5 million Credit Facility, which increased the maximum debt to EBITDA ratio to 4.5 to 1, which can generally be increased to 5.0 to 1 during an acquisition period. The Partnership is in compliance with this covenant as of June 30, 2010.

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. At June 30, 2010 and December 31, 2009, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of \$2.3 million and \$2.8 million, respectively. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled \$0.6 million and \$1.8 million for the three-month periods ended June 30, 2010 and 2009, respectively, and \$1.1 million and \$2.5 million for the six-month periods ended June 30, 2010 and 2009, respectively.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 the 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 current and future costs have been and will be impacted by an indemnification from Sunoco.

The Partnership is a party to certain pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, it is reasonably possible that some portion of them could be resolved unfavorably to the Partnership. Management does not believe that any liabilities which may arise from such claims and the environmental matters discussed above would be material in relation to the financial position of the Partnership at June 30, 2010. Furthermore, management does not believe that the overall costs for such matters will have a material impact, over an extended period of time, on the Partnership's operations, cash flows or liquidity.

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 February 2002 IPO. Sunoco has indemnified the Partnership for 100 percent of all 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 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 also has 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 currently pending against Sunoco or its affiliates and 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 financial position of the Partnership at June 30, 2010. There are certain other pending legal proceedings related to matters arising after the February 2002 IPO that 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 financial position of the Partnership at June 30, 2010.

8. Fair Value Measurements

The Partnership applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. The Partnership's non-financial assets and liabilities that are recognized or disclosed at fair value consist principally of goodwill (for its annual impairment test) and asset retirement obligations.

The Partnership determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Partnership utilizes valuation techniques that maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy established by the Financial Accounting Standards Board (FASB). The Partnership generally applies the market approach to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety.

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The estimated fair value of financial instruments has been determined based on the Partnership's assessment of available market information and appropriate valuation methodologies. The Partnership's current assets (other than inventories) and current liabilities are financial instruments. At June 30, 2010, the fair values of the credit facilities approximates their carrying values since the interest rates charged reflect current market rates. The estimated fair value of senior notes is determined using observable market prices as these notes are actively traded. The estimated aggregate fair value of the 2012, 2014, 2016, 2020 and 2040 Senior Notes (Senior Notes) at June 30, 2010 is \$1.2 billion, compared to the carrying amount of \$1.1 billion.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****9. Management Incentive Plan**

Sunoco Partners LLC, the general partner of the Partnership, participates in 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 members. 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 may also include tandem distribution equivalent rights (DERs) at the discretion of the Compensation Committee.

The Partnership awarded 72,615 and 84,126 units under the LTIP, net of forfeitures, and recognized share-based compensation expense of \$4.0 million and \$4.4 million for the six-month periods ended June 30, 2010 and 2009, respectively. Each of the restricted unit grants also have tandem DERs which are recognized as a reduction of Partners' Capital when earned.

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.

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 \$0.70 per unit. These distributions are referred to as incentive distributions. 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.

In January 2010, the Partnership repurchased, and the general partner transferred and assigned to the Partnership for cancellation, the incentive distribution rights held by the general partner under the Second Amended and Restated Agreement of Limited Partnership, as amended, as consideration for (i) the Partnership's issuance to the general partner of new incentive distribution rights issued under the Third Amended and Restated Agreement of Limited Partnership and (ii) the Partnership's issuance to the general partner of a promissory note in the amount of \$201.2 million, which was repaid in full during the first quarter of 2010. The new incentive distribution rights provide for target distribution levels and distribution splits between the general partner and the holders of the Partnership's common units equal to those applicable to the cancelled incentive distribution rights, except that (i) the general partner's distribution split for distributions above the current second target distribution of \$0.575 per common unit per quarter (or \$2.30 per common unit on an annualized basis) and up to the third target distribution will increase to 37% from 25% (these percentages include the general partner's 2.0% interest); and (ii) the third target distribution will be increased from \$0.70 to \$1.5825 per common unit per quarter (or from \$2.80 to \$6.33 per common unit on an annualized basis).

The following table compares the target distribution levels and distribution splits between the general partner and the holders of the Partnership's common units under the cancelled incentive distribution rights and under the new incentive distribution rights. The new incentive distributions rights were utilized beginning with the determination of the distribution for the first quarter 2010.

Cancelled IDRs		New IDRs	
Total Quarterly Distribution	Marginal Percentage Interest in Distributions	Total Quarterly	Marginal Percentage Interest in Distributions

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	Target Amount	General Partner	Unitholders	Distribution Target Amount	General Partner	Unitholders
Minimum Quarterly Distribution	\$0.450	2%	98%			
First Target Distribution	up to \$0.500	2%	98%		No change	
Second Target Distribution	above \$0.500					
	up to \$0.575	15%*	85%			
Third Target Distribution	above \$0.575			above \$0.575		
	up to \$0.700	25%*	75%	up to \$1.5825	37%*	63%
Thereafter	above \$0.700	50%*	50%	above \$1.5825	50%*	50%

* Includes 2 percent general partner interest.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

Distributions paid by the Partnership for the period from January 1, 2009 through June 30, 2010 are summarized below. The distribution of \$201.2 million paid to the general partner in connection with the repurchase and exchange of the general partner's IDRs has been excluded.

Date Cash Distribution Paid	Cash Distribution per Limited Partner Unit	Total Cash Distribution to Limited Partners	Total Cash Distribution to the General Partner (\$ in millions)
		(\$ in millions)	(\$ in millions)
February 13, 2009	\$ 0.9900	\$ 28.4	\$ 10.2
May 15, 2009	\$ 1.0150	\$ 31.4	\$ 11.8
August 14, 2009	\$ 1.0400	\$ 32.2	\$ 12.6
November 14, 2009	\$ 1.0650	\$ 33.0	\$ 13.3
February 12, 2010	\$ 1.0900	\$ 33.8	\$ 13.6
May 14, 2010	\$ 1.1150	\$ 34.6	\$ 10.1

On July 27, 2010, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of \$1.14 per common partnership unit (\$4.56 annualized), representing the distribution for the second quarter 2010. The \$46.0 million distribution, including \$10.6 million to the general partner, will be paid on August 13, 2010 to unitholders of record at the close of business on August 9, 2010. The change in the distribution splits resulted in a \$4.6 million reduction of the general partner's cash distribution as compared to the previous methodology.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****11. Business Segment Information**

The Partnership operates in three principal business segments: Refined Products Pipeline System, Terminal Facilities, and Crude Oil Pipeline System.

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, 2010 and 2009, respectively (in thousands of dollars). During the three-month period ending June 30, 2009, the Partnership recognized \$6.8 million of crude pipeline fees relating to the resolution of certain tariff adjustments from prior years. The amount is not considered material to the prior year results.

	Three Months Ended June 30,	
	2010	2009
Segment Operating Income		
Refined Products Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 19,039	\$ 18,410
Unaffiliated customers	12,401	12,806
Other income	3,584	3,030
Total Revenues	35,024	34,246
Operating expenses	13,442	15,349
Depreciation and amortization	3,572	3,182
Selling, general and administrative expenses	5,345	5,145
Total Costs and Expenses	22,359	23,676
Operating Income	\$ 12,665	\$ 10,570
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	\$ 31,404	\$ 23,977
Unaffiliated customers	27,122	22,927
Other income	671	1,391
Total Revenues	59,197	48,295
Cost of products sold and operating expenses	21,176	17,613
Depreciation and amortization	5,381	4,613
Selling, general and administrative expenses	4,793	4,878
Total Costs and Expenses	31,350	27,104

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Operating Income	\$ 27,847	\$ 21,191
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Crude Oil Pipeline System:

Sales and other operating revenue:

Affiliates	\$ 163,596	\$ 175,173
Unaffiliated customers	1,775,309	1,029,404
Other income	5,135	3,353

Total Revenues	1,944,040	1,207,930
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Cost of products sold and operating expenses	1,904,502	1,151,832
Depreciation and amortization	4,996	3,713
Selling, general and administrative expenses	5,446	5,819

Total Costs and Expenses	1,914,944	1,161,364
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Operating Income	\$ 29,096	\$ 46,566
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Reconciliation of Segment Operating Income to Net Income:

Operating Income:

Refined Products Pipeline System	\$ 12,665	\$ 10,570
Terminal Facilities	27,847	21,191
Crude Oil Pipeline System	29,096	46,566

Total segment operating income	69,608	78,327
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Net interest expense	18,709	11,684
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Net Income	\$ 50,899	\$ 66,643
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Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

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 six months ended June 30, 2010 and 2009, respectively (in thousands of dollars). During the six-month period ending June 30, 2009, the Partnership recognized \$6.8 million of crude pipeline fees relating to the resolution of certain tariff adjustments from prior years. The amount is not considered material to the prior year results.

	Six Months Ended June 30,	
	2010	2009
Segment Operating Income		
Refined Products Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 36,829	\$ 37,226
Unaffiliated customers	23,744	25,390
Other income	5,860	5,347
Total Revenues	66,433	67,963
Operating expenses	26,649	29,322
Depreciation and amortization	7,526	6,392
Selling, general and administrative expenses	12,046	11,087
Total Costs and Expenses	46,221	46,801
Operating Income	\$ 20,212	\$ 21,162
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	\$ 60,314	\$ 47,194
Unaffiliated customers	53,212	45,997
Other income	766	1,392
Total Revenues	114,292	94,583
Cost of products sold and operating expenses	41,201	32,724
Depreciation and amortization	11,297	9,338
Selling, general and administrative expenses	11,396	10,086
Total Costs and Expenses	63,894	52,148
Operating Income	\$ 50,398	\$ 42,435
Crude Oil Pipeline System:		
Sales and other operating revenue:		

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Affiliates	\$ 290,284	\$ 331,984
Unaffiliated customers	3,244,996	1,832,939
Other income	10,527	5,800
Total Revenues	3,545,807	2,170,723
Cost of products sold and operating expenses	3,465,977	2,046,442
Depreciation and amortization	9,646	7,358
Selling, general and administrative expenses	12,728	11,743
Total Costs and Expenses	3,488,351	2,065,543
Operating Income	\$ 57,456	\$ 105,180
Reconciliation of Segment Operating Income to Net Income:		
Operating Income:		
Refined Products Pipeline System	\$ 20,212	\$ 21,162
Terminal Facilities	50,398	42,435
Crude Oil Pipeline System	57,456	105,180
Total segment operating income	128,066	168,777
Net interest expense	34,085	21,228
Net Income	\$ 93,981	\$ 147,549

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The following table provides the identifiable assets for each segment as of June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010	December 31, 2009
Refined Products Pipeline System	\$ 514,019	\$ 476,484
Terminal Facilities	634,839	597,502
Crude Oil Pipeline System	2,386,962	1,988,065
Corporate and other	45,390	36,555
Total identifiable assets	\$ 3,581,210	\$ 3,098,606

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

12. Supplemental Condensed Consolidating Financial Information

The Partnership serves as guarantor of the Senior Notes and of any obligations under the \$395.0 million and \$62.5 million Credit Facilities. These guarantees are full and unconditional. For purposes of the following footnote, Sunoco Logistics Partners L.P. is referred to as Parent Guarantor and Sunoco Logistics Partners Operations L.P. is referred to as Subsidiary Issuer. Sunoco Partners Marketing and Terminals L.P., Sunoco Pipeline L.P., Sun Pipeline Company of Delaware LLC, Sunoco Pipeline Acquisition LLC, Sunoco Logistics Partners GP LLC, Sunoco Logistics Partners Operations GP LLC and Sunoco Partners Lease Acquisition & Marketing LLC, are collectively referred to as Non-Guarantor Subsidiaries.

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

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statement of Income****Three Months Ended June 30, 2010****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 214,039	\$	\$ 214,039
Unaffiliated customers			1,814,832		1,814,832
Equity in earnings of subsidiaries	50,895	68,779	7	(119,681)	
Other income			9,390		9,390
Total Revenues	50,895	68,779	2,038,268	(119,681)	2,038,261
Costs and Expenses					
Cost of products sold and operating expenses			1,939,120		1,939,120
Depreciation and amortization			13,949		13,949
Selling, general and administrative expenses			15,584		15,584
Total Costs and Expenses			1,968,653		1,968,653
Operating Income	50,895	68,779	69,615	(119,681)	69,608
Net interest with affiliates		(758)	825		67
Other interest cost and debt expenses, net		19,818			19,818
Capitalized interest		(1,176)			(1,176)
Net Income	\$ 50,895	\$ 50,895	\$ 68,790	\$ (119,681)	\$ 50,899

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statement of Income****Three Months Ended June 30, 2009****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 217,560	\$	\$ 217,560
Unaffiliated customers			1,065,137		1,065,137
Equity in earnings of subsidiaries	66,638	77,497	8	(144,143)	
Other income			7,774		7,774
Total Revenues	66,638	77,497	1,290,479	(144,143)	1,290,471
Costs and Expenses					
Cost of products sold and operating expenses			1,184,794		1,184,794
Depreciation and amortization			11,508		11,508
Selling, general and administrative expenses			15,842		15,842
Total Costs and Expenses			1,212,144		1,212,144
Operating Income	66,638	77,497	78,335	(144,143)	78,327
Net interest with affiliates		(818)	825		7
Other interest cost and debt expenses, net		12,685			12,685
Capitalized interest		(1,008)			(1,008)
Net Income	\$ 66,638	\$ 66,638	\$ 77,510	\$ (144,143)	\$ 66,643

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statement of Income****Six Months Ended June 30, 2010****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 387,427	\$	\$ 387,427
Unaffiliated customers			3,321,952		3,321,952
Equity in earnings of subsidiaries	93,976	126,361	13	(220,350)	
Other income			17,153		17,153
Total Revenues	93,976	126,361	3,726,545	(220,350)	3,726,532
Costs and Expenses					
Cost of products sold and operating expenses			3,533,827		3,533,827
Depreciation and amortization			28,469		28,469
Selling, general and administrative expenses			36,170		36,170
Total Costs and Expenses			3,598,466		3,598,466
Operating Income	93,976	126,361	128,079	(220,350)	128,066
Net interest with affiliates		(1,578)	1,700		122
Other interest cost and debt expenses, net		35,927			35,927
Capitalized interest		(1,964)			(1,964)
Net Income	\$ 93,976	\$ 93,976	\$ 126,379	\$ (220,350)	\$ 93,981

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statement of Income****Six Months Ended June 30, 2009****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 416,404	\$	\$ 416,404
Unaffiliated customers			1,904,326		1,904,326
Equity in earnings of subsidiaries	147,537	167,115	17	(314,669)	
Other income			12,539		12,539
Total Revenues	147,537	167,115	2,333,286	(314,669)	2,333,269
Costs and Expenses					
Cost of products sold and operating expenses			2,108,488		2,108,488
Depreciation and amortization			23,088		23,088
Selling, general and administrative expenses			32,916		32,916
Total Costs and Expenses			2,164,492		2,164,492
Operating Income	147,537	167,115	168,794	(314,669)	168,777
Net interest with affiliates		(1,591)	1,650		59
Other interest cost and debt expenses, net		23,627			23,627
Capitalized interest		(2,458)			(2,458)
Net Income	\$ 147,537	\$ 147,537	\$ 167,144	\$ (314,669)	\$ 147,549

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Balance Sheet****June 30, 2010****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2,000	\$	\$	\$ 2,000
Advances to Affiliates	(388)	47,995	(43,540)		4,067
Accounts receivable, affiliated companies			65,190		65,190
Accounts receivable, net			1,406,868		1,406,868
Inventories					
Crude oil			363,165		363,165
Refined product			3,231		3,231
Refined product additives			1,739		1,739
Materials, supplies and other			841		841
Total Current Assets	(388)	49,995	1,797,494		1,847,101
Properties, plants and equipment, net			1,583,804		1,583,804
Investment in affiliates	568,531	1,755,137	95,207	(2,323,843)	95,032
Deferred charges and other assets		7,749	47,524		55,273
Total Assets	\$ 568,143	\$ 1,812,881	\$ 3,524,029	\$ (2,323,843)	\$ 3,581,210
Liabilities and Partners Capital					
Current Liabilities					
Accounts payable	\$	\$	\$ 1,577,204	\$	\$ 1,577,204
Accrued liabilities	887	12,882	41,630		55,399
Accrued taxes			30,622		30,622
Total Current Liabilities	887	12,882	1,649,456		1,663,225
Long-term debt		1,213,262			1,213,262
Other deferred credits and liabilities			40,812		40,812
Total Liabilities	887	1,226,144	1,690,268		2,917,299
Total Partners Capital	567,256	586,737	1,833,761	(2,323,843)	663,911

Total Liabilities and Partners	Capital	\$ 568,143	\$ 1,812,881	\$ 3,524,029	\$ (2,323,843)	\$ 3,581,210
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Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Balance Sheet****December 31, 2009**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2,000	\$	\$	\$ 2,000
Advances to affiliates	8,306	48,000	(47,615)		8,691
Accounts receivable, affiliated companies			47,791		47,791
Accounts receivable, net			1,280,062		1,280,062
Inventories					
Crude oil			82,511		82,511
Refined product			1,857		1,857
Refined products additives			1,765		1,765
Materials, supplies and other			841		841
Total Current Assets	8,306	50,000	1,367,212		1,425,518
Properties, plants and equipment, net			1,533,721		1,533,721
Investment in affiliates	603,959	1,428,508	88,432	(2,032,613)	88,286
Deferred charges and other assets		4,096	46,985		51,081
Total Assets	\$ 612,265	\$ 1,482,604	\$ 3,036,350	\$ (2,032,613)	\$ 3,098,606
Liabilities and Partners Capital					
Current Liabilities					
Accounts payable	\$	\$ 1	\$ 1,253,741	\$	\$ 1,253,742
Accrued liabilities	980	3,339	44,979		49,298
Accrued taxes other than income taxes			30,296		30,296
Total Current Liabilities	980	3,340	1,329,016		1,333,336
Long-term debt		868,424			868,424
Other deferred credits and liabilities			35,232		35,232
Total Liabilities	980	871,764	1,364,248		2,236,992
Total Partners Capital	611,285	610,840	1,672,102	(2,032,613)	861,614
Total Liabilities and Partners Capital	\$ 612,265	\$ 1,482,604	\$ 3,036,350	\$ (2,032,613)	\$ 3,098,606

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statement of Cash Flows****Six Months Ended June 30, 2010****(unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 93,883	\$ 99,865	\$ 53,410	\$ (220,350)	\$ 26,808
Cash Flows from Investing Activities:					
Capital expenditures			(76,175)		(76,175)
Intercompany	190,449	(440,180)	29,381	220,350	
	190,449	(440,180)	(46,794)	220,350	(76,175)
Cash Flows from Financing Activities:					
Distribution paid to Limited Partners and General Partner	(92,146)				(92,146)
Repayment of promissory note to General Partner	(201,282)				(201,282)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(2,541)		(2,541)
Contribution from General Partner for Limited Partner unit transactions	402				402
Advances (to)/from affiliates, net	8,694	5	(4,075)		4,624
Borrowings under credit facility		308,000			308,000
Repayments under credit facility		(461,723)			(461,723)
Net proceeds from issuance of senior notes		494,033			494,033
Net proceeds from issuance of Limited Partner units					
	(284,332)	340,315	(6,616)		49,367
Net change in cash and cash equivalents					
Cash and cash equivalents at beginning of period		2,000			2,000
Cash and cash equivalents at end of period	\$	\$ 2,000	\$	\$	\$ 2,000

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2009

(unaudited)

	Parent Guarantor	Subsidiary Issuer	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 206,570	\$ 208,568	\$ 15,457	\$ (491,780)	\$ (61,185)
Cash Flows from Investing Activities:					
Capital expenditures			(70,399)		(70,399)
Intercompany	(216,483)	(319,544)	44,247	491,780	
	(216,483)	(319,544)	(26,152)	491,780	(70,399)
Cash Flows from Financing Activities:					
Distribution paid to Limited Partners and General Partner	(81,765)				(81,765)
Net proceeds from issuance of Limited Partner units	109,516				109,516
Contribution from General Partner for Limited Partner unit transactions	2,398				2,398
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(2,149)		(2,149)
Advances (to)/from affiliates, net	(20,236)		12,844		(7,392)
Borrowings under credit facility		357,973			357,973
Repayments under credit facility		(420,385)			(420,385)
Net proceeds from issuance of senior notes		173,388			173,388
	9,913	110,976	10,695		131,584
Net change in cash and cash equivalents					
Cash and cash equivalents at beginning of period		2,000			2,000
Cash and cash equivalents at end of period	\$	\$ 2,000	\$	\$	\$ 2,000

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
*Results of Operations - Three Months Ended June 30, 2010 and 2009***Sunoco Logistics Partners L.P.****Operating Highlights****Three Months Ended June 30, 2010 and 2009**

	Three Months Ended June 30,	
	2010	2009
Refined Products Pipeline System:⁽¹⁾		
Total shipments (barrel miles per day) ⁽²⁾	51,666,714	58,066,789
Revenue per barrel mile (cents)	0.669	0.591
Terminal Facilities:		
Terminal throughput (bpd):		
Refined product terminals ⁽³⁾	487,401	463,611
Nederland terminal	683,698	646,368
Refinery terminals ⁽⁴⁾	471,164	599,503
Crude Oil Pipeline System:⁽¹⁾⁽⁵⁾		
Crude oil pipeline throughput (bpd)	905,997	670,133
Crude oil purchases at wellhead (bpd)	190,893	181,496
Gross margin per barrel of pipeline throughput (cents) ⁽⁶⁾	35.7	80.4

(1) Excludes amounts attributable to equity ownership interests in 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) Includes results of the Partnership's purchase of the Romulus, MI refined products terminal from the acquisition date.

(4) Consists of the Partnership's Fort Mifflin Terminal Complex, the Marcus Hook Tank Farm and the Eagle Point Dock.

(5) Includes results of the Partnership's purchase of the Excel pipeline from the acquisition date.

(6) Represents total segment sales 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 \$50.9 million for the second quarter 2010 as compared with \$66.6 million for the second quarter 2009. The \$15.7 million decrease in net income was primarily the result of the absence of a wide contango crude oil market structure along with the absence of a \$6.8 million non-recurring tariff adjustment in the second quarter of 2010. Also contributing to the decrease in net income was an increase in interest expense, related to the issuance of the \$500 million Senior Notes in the first quarter of 2010. The reduction in net income was partially offset by higher crude oil pipeline volumes and fees and improved operating performance at the Partnership's Nederland and the refined products terminals.

Analysis of Segment Operating Income

The Partnership operates in three principal business segments: Refined Products Pipeline System, Terminal Facilities and Crude Oil Pipeline System.

Refined Products Pipeline System

Operating income for the Refined Products Pipeline System increased \$2.1 million to \$12.7 million for the second quarter ended June 30, 2010 compared to the prior year's quarter. Sales and other operating revenue increased slightly to \$31.4 million compared to the prior year's quarter due primarily to higher pipeline volumes and fees which were partially offset by the permanent shut-down of Sunoco's Eagle Point refinery in the fourth quarter 2009. Operating expenses decreased \$1.9 million to \$13.4 million compared to the prior year's quarter due primarily to reduced

environmental remediation costs and increased pipeline operating gains which were favorably impacted by higher refined products prices.

Table of Contents*Terminal Facilities*

Operating income for the Terminal Facilities segment increased \$6.7 million to \$27.8 million for the second quarter ended June 30, 2010 compared to the prior year's quarter. Total revenues for the second quarter of 2010 increased \$10.9 million to \$59.2 million. Revenue increases during the quarter were due primarily to increased tank revenues and higher volumes at the Nederland facility, including the additional tankage to support Motiva's Port Arthur, TX refinery and additional volumes from a refined products terminal acquired in September 2009. Revenues and cost of products sold also increased compared to the prior year quarter as a result of the commencement of terminal optimization projects at the Partnership's refined products terminals during the fourth quarter of 2009. Depreciation and amortization expense increased \$0.8 million to \$5.4 million for the second quarter 2010 as a result of new tankage at the Partnership's Nederland facility and a refined products terminal acquired in September 2009.

Crude Oil Pipeline System

Operating income for the Crude Oil Pipeline System decreased \$17.5 million to \$29.1 million for the second quarter of 2010 compared to the prior year's quarter. This decrease in operating income was the result of a lower lease acquisition results and the absence of a non-recurring tariff adjustment recognized in 2009 related to prior period activity. Partially offsetting these reductions were higher pipeline revenues, which included revenues from a pipeline in Oklahoma which was acquired in 2009, and increased pipeline operating gains which were favorably impacted by higher crude oil prices. Other income increased \$1.8 million compared to the prior year's quarter due to increased equity income from the Partnership's joint venture interests. Depreciation and amortization expense increased \$1.3 million to \$5.0 million for the second quarter 2010 due primarily to the 2009 pipeline acquisition.

Higher crude oil prices were a key driver of the increase in total revenue and cost of products sold and operating expenses from the prior year's quarter. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma increased to \$77.99 per barrel for the second quarter of 2010 from \$59.61 per barrel for the second quarter of 2009.

Results of Operations – Six Months Ended June 30, 2010 and 2009**Sunoco Logistics Partners L.P.****Operating Highlights****Six Months Ended June 30, 2010 and 2009**

	Six Months Ended June 30,	
	2010	2009
Refined Products Pipeline System:⁽¹⁾		
Total shipments (barrel miles per day) ⁽²⁾	51,680,780	58,805,197
Revenue per barrel mile (cents)	0.648	0.586
Terminal Facilities:		
Terminal throughput (bpd): ⁽³⁾		
Refined product terminals	473,038	461,831
Nederland terminal	704,704	649,501
Refinery terminals ⁽⁴⁾	484,398	591,179
Crude Oil Pipeline System:⁽¹⁾⁽⁵⁾		
Crude oil pipeline throughput (bpd)	871,760	667,156
Crude oil purchases at wellhead (bpd)	187,711	186,302
Gross margin per barrel of pipeline throughput (cents) ⁽⁶⁾	37.8	92.0

(1) Excludes amounts attributable to equity ownership interests in 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) Includes results of the Partnership's purchase of the Romulus, MI refined products terminal from the acquisition date.

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- (4) Consists of the Partnership's Fort Mifflin Terminal Complex, the Marcus Hook Tank Farm and the Eagle Point Dock.
- (5) Includes results of the Partnership's purchase of the Excel pipeline from the acquisition date.
- (6) Represents total segment sales 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 \$94.0 million for the six-month period ended June 30, 2010 as compared with \$147.5 million for the comparable period in 2009. The \$53.6 million decrease in net income was primarily the result of the absence of a wide contango crude oil market structure along with the absence of a \$6.8 million non-recurring tariff adjustment in the second quarter of 2010. Also contributing to the decrease in net income was an increase in interest expense, related to the issuance of the \$500 million Senior Notes in the first quarter of 2010. The reduction in net income was partially offset by higher crude oil pipeline volumes and fees and improved operating performance at the Partnership's Nederland and the refined products terminals.

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Analysis of Segment Operating Income

Refined Products Pipeline System

Operating income for the Refined Products Pipeline System decreased \$1.0 million to \$20.2 million for the first half of 2010 compared to the prior year period. Sales and other operating revenue decreased \$2.0 million to \$60.6 million due primarily to the permanent shut-down of Sunoco's Eagle Point refinery in the fourth quarter 2009 and refinery maintenance activity during the first quarter of 2010, partially offset by higher pipeline fees. Operating expenses decreased \$2.7 million to \$26.6 million compared to the prior year period due primarily to the timing of maintenance activity, decreased utility costs, and increased pipeline operating gains which were favorably impacted by higher refined products prices. Selling, general and administrative expenses increased to \$12.0 million compared to \$11.1 million in the prior year period due primarily to the non-recurring expenses related primarily to the Partnership's incentive distribution rights repurchase and adjustments to compensation costs related to employee departures.

Terminal Facilities

Operating income for the Terminal Facilities segment increased \$8.0 million to \$50.4 million for the first half of 2010 compared to the prior year period. Total revenues increased \$19.7 million to \$114.3 million despite reduced volumes in the Partnership's refinery terminals which were negatively impacted by refinery maintenance activity in the first quarter and the permanent shut-down of the Eagle Point refinery. Revenue increases during the first six months of the year were due primarily to increased tank revenues and higher volumes at the Nederland facility, including the additional tankage to support Motiva's Port Arthur, TX refinery and additional volumes from the refined products terminal acquired in September 2009. Revenues and cost of products sold also increased compared to the prior year period as a result of the commencement of terminal optimization projects at the Partnership's refined products terminals during the fourth quarter of 2009. Depreciation and amortization expense increased \$2.0 million to \$11.3 million for the first half of 2010 as a result of increased tankage at the Partnership's Nederland facility and the acquisition of a refined products terminal previously mentioned. Selling, general and administrative expenses increased to \$11.4 million compared to \$10.1 million in the prior year period due primarily to the non-recurring expenses described above.

Crude Oil Pipeline System

Operating income for the Crude Oil Pipeline System decreased \$47.7 million to \$57.5 million for the first half of 2010 compared to the prior year period. This decrease in operating income was the result of a reduced level of market related income driven primarily by the contraction of the contango market structure in 2010 and the absence of a favorable non-recurring tariff adjustment recognized in 2009. Partially offsetting these reductions were higher pipeline revenues, which included revenues from a crude oil pipeline in Oklahoma acquired in 2009, and increased pipeline operating gains which were favorably impacted by higher crude oil prices. Other income increased \$4.7 million compared to the prior year period due primarily to increased equity income from the Partnership's joint venture interests. Depreciation and amortization expense increased \$2.3 million to \$9.6 million for the first half of 2010 due primarily to the 2009 crude oil pipeline acquisition. Selling, general and administrative expenses increased to \$12.7 million compared to \$11.7 million in the prior year period primarily as a result of the non-recurring expenses described above.

Higher crude oil prices were a key driver of the increase in total revenue and cost of products sold and operating expenses from the prior year's period. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma increased to \$78.39 per barrel for the six months ended June 30, 2010 from \$51.46 per barrel for the six months ended June 30, 2009.

Liquidity and Capital Resources

Liquidity

Cash generated from operations and borrowings under the \$395.0 million Credit Facility and the \$62.5 million Credit Facility are our primary sources of liquidity. At June 30, 2010, we had net working capital of \$183.9 million and available borrowing capacity under the credit facilities of \$342.2 million. Our working capital position reflects crude oil and refined products inventories based on historical costs under the LIFO method of accounting. If the inventories had been valued at their current replacement cost, we would have had working capital of \$316.6 million at June 30, 2010. We periodically supplement our cash flows from operations with proceeds from debt and equity financing activities.

In February 2010, the Operating Partnership issued \$250.0 million of 5.50 percent Senior Notes and \$250.0 million of 6.85 percent Senior Notes, due February 15, 2020 and February 15, 2040, respectively ("2020 and 2040 Senior Notes"). The 2020 and 2040 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2020 and 2040 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

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substantially all of its assets. The net proceeds from the 2020 and 2040 Senior Notes were used to repay in full the \$201.2 million promissory note issued in connection with our repurchase and exchange of our general partner's IDR interests, to repay outstanding borrowings under the \$395.0 million Credit Facility and to pre-fund future growth projects.

Table of Contents*Capital Resources**Credit Facilities*

The Operating Partnership has a five-year \$400.0 million Credit Facility, which is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The \$400.0 million Credit Facility was amended in June 2010 to \$395.0 million, related to the removal of Lehman Brothers as a participant. The \$395.0 million Credit Facility matures in November 2012. At June 30, 2010, there was \$84.0 million outstanding under this credit facility.

The \$395.0 million Credit Facility bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin, (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin), or (iii) the federal funds rate plus an applicable margin.

The \$395.0 million Credit Facility contains various covenants limiting the Operating Partnership's ability to a) incur indebtedness, b) grant certain liens, c) make certain loans, acquisitions and investments, d) make any material change to the nature of its business, e) acquire another company, or f) enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The \$395.0 million Credit Facility also limits the Operating Partnership, on a rolling four-quarter basis, to 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. The Operating Partnership was in compliance with this requirement as of June 30, 2010.

In March 2009, the Operating Partnership entered into a \$62.5 million revolving credit facility (\$62.5 million Credit Facility) with 2 participating financial institutions. The \$62.5 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. The \$62.5 million Credit Facility matures in September 2011 and may be repaid 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 (a) the federal funds rate plus 0.50 percent plus an applicable margin, (b) Toronto Dominion's prime rate plus an applicable margin, or (c) LIBOR plus 1.0 percent plus an applicable margin. The \$62.5 million Credit Facility contains various covenants similar to the \$395.0 million credit facility and was amended in April 2010 to require the Operating Partnership to maintain, on a rolling four-quarter basis, a maximum total debt to EBITDA ratio of 4.5 to 1, which can generally be increased to 5.0 to 1 during an acquisition period. The Operating Partnership was in compliance with this requirement as of June 30, 2010. At June 30, 2010, there was \$31.3 million outstanding under this credit facility.

Cash Flows and Capital Expenditures

Net cash provided by operating activities for the six months ended June 30, 2010 was \$26.8 million compared with \$61.2 million of net cash used in operating activities for the first six months of 2009. Net cash provided by operating activities in 2010 related primarily to net income of \$94.0 million and depreciation and amortization of \$28.5 million offset by a \$97.1 million increase in working capital. The increase in working capital was the result of increases in accounts receivable and contango inventory positions partially offset by an increase in accounts payable. The net cash used in operating activities in 2009 related to a \$208.2 million increase in working capital, partially offset by net income of \$147.5 million and depreciation and amortization of \$23.1 million. The increase in working capital was the result of increases in accounts receivable and contango inventory positions partially offset by an increase in accounts payable.

Net cash used in investing activities for the six months of 2010 was \$76.2 million compared with \$70.4 million for the first six months of 2009.

Net cash provided by financing activities for the first six months of 2010 was \$49.4 million compared with \$131.6 million net cash provided by financing activities for the first six months of 2009. Net Cash provided by financing activities for the first six months of 2010 resulted from the \$500 million issuance of senior notes, net of \$6.0 million of note discounts and debt issuance costs. This source of cash was partially offset by \$201.2 million in distributions to repay in full the promissory notes issued in connection with the repurchase and exchange of the general partner's incentive distribution rights, \$153.7 million net repayment of the Partnership's credit facilities and \$92.1 million in quarterly distributions to the limited partners and general partner. Net cash provided by financing activities for the first six months of 2009 resulted from \$173.4 million issuance of senior notes and \$109.5 million public offering completed in April and May of 2009. The net proceeds from these sources were partially offset by \$62.4 million net repayment of the Partnership's credit facilities, and \$81.8 million in distributions paid to limited partners and the general partner. Net cash provided by financing activities was utilized to finance operating and investing activities, including contango inventory positions.

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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, 2010 and December 31, 2009 represent amounts due from 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):

	Six Months Ended	
	June 30,	
	2010	2009
Maintenance	\$ 14,278	\$ 9,022
Expansion	61,897	61,377
	\$ 76,175	\$ 70,399

Management continues to expect maintenance capital expenditures to be approximately \$32.0 million for the year ended December 31, 2010, excluding acquisitions and reimbursements from Sunoco in accordance with the terms of certain agreements. 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 for the six months ended June 30, 2010 were \$61.9 million compared to \$61.4 million for the first six months of 2009. Expansion capital for 2010 includes construction projects to expand services at the Partnership's refined products terminals, increase tankage at the Nederland facility and to expand upon the Partnership's refined products platform in the southwest United States. Management continues to expect to invest approximately \$175.0 million to \$200.0 million in expansion capital projects in 2010, excluding acquisitions.

In July 2010, the Partnership acquired a butane blending business from Texon L.P for \$140.0 million plus inventory. The acquisition includes patented technology for sophisticated blending of butane into gasoline, contracts with customers currently utilizing the patented technology, butane inventories and other related assets. The acquisition was funded in part by a three-year, \$100.0 million note from Sunoco, Inc, which will bear interest at three-month LIBOR plus 275 basis points per annum. The balance was funded under the Operating Partnership's \$395.0 million Credit Facility. The acquisition will be included within the Terminal Facilities business segment beginning in the third quarter 2010.

In July 2010, the Partnership exercised certain rights to increase its ownership interests in Mid-Valley Pipeline Company, West Texas Gulf Pipe Line Company and West Shore Pipe Line Company. All three transactions are expected to close in the third quarter 2010 and to be immediately accretive. These acquisitions are anticipated to be purchased for an aggregate purchase price of approximately \$100 million and will initially be financed with the Operating Partnership's \$395.0 million Credit Facility pending more permanent financing.

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 its credit facilities, other borrowings and the issuance of additional common units.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

We have interest-rate risk exposure for changes in interest rates relating to our outstanding borrowings. We manage our exposure to changing interest rates through the use of a combination of fixed- and variable-rate debt. At June 30, 2010, we had \$115.3 million of variable-rate borrowings under our revolving credit facilities. The outstanding borrowings bear interest cost of LIBOR plus an applicable margin. An increase in short-term interest rates will have a negative impact on funds borrowed under variable debt arrangements. Our weighted average interest rate on our variable-rate borrowings was 1.25 percent at June 30, 2010. A one percent change in the weighted average rate would have impacted annual interest expense by approximately \$1.2 million.

At June 30, 2010, we had \$1.1 billion of fixed-rate senior notes. A hypothetical one-percent decrease in interest rates would increase the fair value of our fixed-rate borrowings at June 30, 2010 by approximately \$87.8 million.

Commodity Market Risk

We generally do not acquire and hold futures contracts or other derivative products for the purpose of speculating on crude oil price changes, as these activities could expose us to significant losses. We are exposed to volatility in crude oil commodity prices. To manage such exposures, inventory levels and expectations of future commodity prices are monitored when making decisions with respect to risk management and inventory carried. Our policy is to purchase only commodity products for which we have a market and to structure our sales contracts so that price fluctuations for those products do not materially affect the margin we receive. We also seek to maintain a position that is substantially balanced within our various commodity purchase and sales activities. In the ordinary course of doing business, we enter into crude purchase contracts with third parties generally for a term of one year or less, with a majority of the transactions on a 30-day renewable basis. Simultaneously, we enter into contracts for the future physical sale and delivery on a specified date of the related crude purchased. Contracts that qualify as derivatives have been designated as normal purchases and sales and are accounted for using traditional accrual accounting. We may experience net unbalanced positions for short periods of time as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions.

Forward-Looking Statements

Some of the information included in this quarterly report on Form 10-Q contains forward-looking statements and information relating to Sunoco Logistics Partners L.P. 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 its existing business operations;

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

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

Changes in the short-term and long-term demand for crude oil we both buy and sell;

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The loss of Sunoco as a customer or a significant reduction in its current level of throughput and storage with us;

An increase in the competition encountered by our 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 we have an equity ownership interest;

Changes in the general economic conditions in the United States;

Changes in laws and regulations to which we are subject, including federal, state, and local tax, safety, environmental and employment laws;

Changes in regulations governing composition of refined petroleum products, that we transport, terminal and store;

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

Our 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;

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 we may not be adequately insured;

The age of, and changes in the reliability and efficiency of our 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;

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

Changes in our tariff rates implemented by federal and/or state government regulators;

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

Changes in our or Sunoco's credit ratings, as assigned by ratings agencies;

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

Performance of financial institutions impacting our liquidity, including those supporting our credit facilities;

Changes in interest rates on our outstanding debt, which could increase the costs of borrowing and;

The costs and effects of legal and administrative claims and proceedings against us 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 we, 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 our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

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Item 4. Controls and Procedures

(a) 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 Chief Executive Officer of Sunoco Partners LLC (the Partnership's general partner) and the Vice President and Chief Financial Officer of the general partner, as appropriate, to allow timely decisions regarding required disclosure.

(b) As of June 30, 2010, the Partnership carried out an evaluation, under the supervision and with the participation of the management of the general partner (including the Chief Executive Officer and the Vice President and Chief Financial Officer), 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 general partner's Chief Executive Officer, and its Vice President and Chief Financial Officer, concluded that the Partnership's disclosure controls and procedures are effective.

(c) No change in the Partnership's internal control over financial reporting has occurred during the fiscal quarter ended June 30, 2010 that has materially affected, or that is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

There are certain legal and administrative proceedings arising prior to the February 2002 IPO pending against the Partnership's Sunoco-affiliated predecessors and the Partnership (as successor to certain liabilities of those predecessors). Although the ultimate outcome of these proceedings cannot be ascertained at this time, it is reasonably possible that some of them may be resolved unfavorably. Sunoco has agreed to indemnify the Partnership for 100 percent of all losses from environmental liabilities related to the transferred assets arising prior to, and asserted within 21 years of February 8, 2002. There is no monetary cap on this indemnification from Sunoco. Sunoco's share of liability for claims asserted thereafter will decrease by 10 percent each year through the thirtieth year following the February 8, 2002 date. Any remediation liabilities not covered by this indemnity will be the Partnership's responsibility. In addition, Sunoco is obligated to indemnify the Partnership under certain other agreements executed after the February 2002 IPO.

There are certain other pending legal proceedings related to matters arising after the February 2002 IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material to the Partnership's financial position at June 30, 2010.

Item 1A. Risk Factors

There have been no material changes from the risk factors described previously in Part I, Item IA of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 23, 2010.

Item 2. Unregistered Sales of Equity Securities and Use 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

- 2.1: Asset and Membership Interest Purchase and Sale Agreement between Texon Distributing L.P. and Butane Acquisition I LLC, dated as of June 25, 2010
- 2.1.1: Schedules and Exhibits to Asset and Membership Interest Purchase and Sale Agreement omitted from this filing. Registrant hereby undertakes, pursuant to Regulation S-K Item 601(2) to furnish any such schedules and exhibits to the SEC supplementally, upon request
- 10.1: Sunoco Partners LLC Executive Involuntary Severance Plan, as amended and restated as of July 27, 2010
- 10.2: Sunoco Partners LLC Long-Term Incentive Plan, as amended and restated as of July 27, 2010
- 10.2.1: Form of Restricted Unit Agreement (Performance) under the Sunoco Partners LLC Long-Term Incentive Plan
- 10.2.2: Form of Restricted Unit Agreement (Time) under the Sunoco Partners LLC Long-Term Incentive Plan
- 10.3: Sunoco Partners LLC Annual Incentive Plan, as amended and restated as of July 27, 2010
- 10.4: Sunoco Partners LLC Directors' Deferred Compensation Plan, as amended and restated as of July 27, 2010
- 10.5: Sunoco Partners LLC Special Executive Severance Plan, as amended and restated as of July 27, 2010
- 10.6: Sunoco Partners LLC Independent Director Compensation Summary
- 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)
- 32.1: Chief Executive Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350
- 32.2: Chief Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350
- 101.1: The following financial statements from Sunoco Logistics Partners L.P.'s Quarterly Report on Form 10-Q for the three and six months ended June 30, 2010, filed with the Securities and Exchange Commission on August 4, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations; (ii) the Condensed Consolidated Balance Sheets; (iii) the Condensed Consolidated Statement of Cash Flows; and, (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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

Sunoco Logistics Partners L.P.

Investor Relations

1818 Market Street

Suite 1500

Philadelphia, PA 19103

or through our website at 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/ **BRIAN P. MACDONALD**
Brian P. MacDonald
Vice President and Chief Financial Officer

Date: August 4, 2010