

SUNOCO LOGISTICS PARTNERS L.P.

Form 10-Q

August 02, 2012

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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, 2012

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 June 30, 2012, the number of the registrant's Common Units and Class A Units outstanding were 99,622,862 and 3,939,435, respectively.

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****SUNOCO LOGISTICS PARTNERS L.P.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)****(in millions, except per unit amounts)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues				
Sales and other operating revenue:				
Unaffiliated customers	\$ 3,119	\$ 2,385	\$ 6,394	\$ 4,340
Affiliates (Note 3)	194	39	320	342
Other income	5	4	7	6
Gain on divestment and related matters (Note 2)			11	
Total Revenues	3,318	2,428	6,732	4,688
Costs and Expenses				
Cost of products sold and operating expenses	3,089	2,266	6,314	4,411
Depreciation and amortization expense	25	19	50	37
Impairment charge and related matters (Note 2)	(10)		(1)	
Selling, general and administrative expenses	30	22	56	44
Total Costs and Expenses	3,134	2,307	6,419	4,492
Operating Income	184	121	313	196
Interest cost and debt expense, net	23	21	49	42
Capitalized interest	(2)	(2)	(4)	(3)
Income Before Provision for Income Taxes	\$ 163	\$ 102	\$ 268	\$ 157
Provision for income taxes (Note 6)	8	6	16	11
Net Income	\$ 155	\$ 96	\$ 252	\$ 146
Net income attributable to noncontrolling interests	3	2	5	4
Net Income Attributable to Partners	\$ 152	\$ 94	\$ 247	\$ 142
Less: General Partner's interest	(19)	(14)	(34)	(26)
Limited Partners' interest	\$ 133	\$ 80	\$ 213	\$ 116
Net Income Attributable to Partners per Limited Partner unit (Note 4):				
Basic	\$ 1.29	\$ 0.80	\$ 2.06	\$ 1.17

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Diluted	\$ 1.28	\$ 0.80	\$ 2.05	\$ 1.16
Weighted average Limited Partners units outstanding:				
Basic	103.5	99.4	103.5	99.3
Diluted	103.9	99.8	103.9	99.8
Comprehensive Income	\$ 155	\$ 97	\$ 248	\$ 148
Comprehensive income attributable to noncontrolling interests	3	2	5	4
Comprehensive Income Attributable to Partners	\$ 152	\$ 95	\$ 243	\$ 144

(1) Includes interest in net income attributable to Class A units.
(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	June 30, 2012 (UNAUDITED)	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 2	\$ 5
Advances to affiliated companies (Note 3)	10	107
Accounts receivable, affiliated companies (Note 3)	8	
Accounts receivable, net	1,803	2,188
Inventories (Note 5)	315	206
Total Current Assets	2,138	2,506
Properties, plants and equipment	3,345	3,234
Less accumulated depreciation and amortization	(748)	(712)
Properties, plants and equipment, net	2,597	2,522
Investment in affiliates (Note 7)	75	73
Goodwill	77	77
Intangible assets, net	264	277
Other assets	37	22
Total Assets	\$ 5,188	\$ 5,477
Liabilities and Equity		
Accounts payable	\$ 1,862	\$ 2,111
Current portion of long-term debt (Note 8)		250
Accrued liabilities	108	112
Accrued taxes payable (Note 6)	49	62
Total Current Liabilities	2,019	2,535
Long-term debt (Note 8)	1,559	1,448
Other deferred credits and liabilities	62	78
Deferred income taxes (Note 6)	222	222
Commitments and contingent liabilities (Note 9)		
Total Liabilities	3,862	4,283
Total Equity	1,326	1,194
Total Liabilities and Equity	\$ 5,188	\$ 5,477

(See Accompanying Notes)

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

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net Income	\$ 252	\$ 146
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization expense	50	37
Impairment charge and related matters	(1)	
Deferred income tax expense		(1)
Amortization of financing fees and bond discount	1	1
Restricted unit incentive plan expense	5	4
Claim for recovery of environmental liability	(14)	
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	(8)	154
Accounts receivable, net	401	(373)
Inventories	(109)	(318)
Accounts payable and accrued liabilities	(273)	343
Accrued taxes	(13)	
Other	(9)	2
Net cash provided by / (used in) operating activities	282	(5)
Cash Flows from Investing Activities:		
Capital expenditures	(134)	(69)
Acquisitions		(99)
Proceeds from divestments and related matters	11	
Net cash used in investing activities	(123)	(168)
Cash Flows from Financing Activities:		
Distributions paid to limited and general partners	(112)	(103)
Distributions paid to noncontrolling interests	(3)	(2)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(5)	(3)
Repayments under credit facility	(176)	(63)
Borrowings under credit facility	287	297
Repayments of senior notes	(250)	
Advances to affiliated companies, net	97	51
Other		
Net cash (used in) / provided by financing activities	(162)	177
Net change in cash and cash equivalents	(3)	4
Cash and cash equivalents at beginning of year	5	2
Cash and cash equivalents at end of period	\$ 2	\$ 6

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(See Accompanying Notes)

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	Limited Partners Class		General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Common	A				
Balance at January 1, 2011	\$ 940	\$	\$ 28	\$ (3)	\$ 77	\$ 1,042
Comprehensive Income						
Net Income	116		26		4	146
Change in cash flow hedges				2		2
Total comprehensive income	116		26	2	4	148
Units issued under incentive plans	4					4
Distribution equivalent rights	(1)					(1)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(3)					(3)
Noncontrolling equity in joint venture acquisitions					18	18
Distributions paid to limited partners, general partner and noncontrolling interests	(79)		(24)		(2)	(105)
Other	1			(1)	1	1
Balance at June 30, 2011	\$ 978	\$	\$ 30	\$ (2)	\$ 98	\$ 1,104
	Limited Partners Class		General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Common	Class A				
Balance at January 1, 2012	\$ 1,039	\$ 22	\$ 34	\$ 1	\$ 98	\$ 1,194
Comprehensive Income						
Net Income	212	2	33		5	252
Change in cash flow hedges				(4)		(4)
Total comprehensive income	212	2	33	(4)	5	248
Units issued under incentive plans	5					5
Distribution equivalent rights	(1)					(1)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(5)					(5)
Distributions paid to limited partners, general partner and noncontrolling interests	(84)		(28)		(3)	(115)
Balance at June 30, 2012	\$ 1,166	\$ 24	\$ 39	\$ (3)	\$ 100	\$ 1,326

(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 products and crude oil pipelines, terminalling and storage assets, and refined products and crude oil acquisition and marketing assets. 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 29 states located throughout the United States. Sunoco, Inc. and its wholly-owned subsidiaries including Sunoco, Inc. (R&M) are collectively referred to as Sunoco. Sunoco accounted for 4.8 percent of the Partnership's total revenues for the six months ended June 30, 2012.

In April 2012, Sunoco entered into an agreement to be acquired by Energy Transfer Partners (ETP). In connection with this transaction, ETP will also become the owner of Sunoco's interest in the Partnership including the general partner and the incentive distribution rights, as well as Sunoco's 32.4 percent interest in the Partnership's limited partner units. The transaction is expected to close in the fourth quarter 2012, subject to approval of Sunoco's shareholders and customary regulatory approvals. In addition, under the merger agreement, Sunoco will continue its plan to exit its refining business, including the announced joint venture with the Philadelphia refinery. The Partnership does not expect that the proposed acquisition will have a material impact on its operations.

The consolidated financial statements reflect the results of Sunoco Logistics Partners L.P. and its wholly-owned subsidiaries, including Sunoco Logistics Partners Operations L.P., 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 percent or a risk and rewards model that identifies the Partnership or one of its subsidiaries as the primary beneficiary of a variable interest entity. The Partnership holds a controlling financial interest in Inland Corporation (Inland), Mid-Valley Pipeline Company (Mid-Valley) and West Texas Gulf Pipe Line Company (West Texas Gulf), and as such, these joint ventures are reflected as consolidated subsidiaries of the Partnership from the respective dates of acquisition. All significant intercompany accounts and transactions are eliminated in consolidation and noncontrolling interests in equity and net income are shown separately in the condensed consolidated balance sheets and statements of comprehensive income. 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.

In June 2011, the Financial Accounting Standards Board (FASB) codified guidance related to the presentation of comprehensive income. The guidance requires entities to present net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. For the six months ended June 30, 2012, the Partnership presents the components of net income and total comprehensive income in its consolidated statements of comprehensive income. The new guidance does not change the components that are recognized in net income and the components that are recognized in other comprehensive income. The revised presentation has been retroactively applied to all periods presented.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. The Partnership expects the interim increase in quantities of crude oil inventory to decline by year end and therefore has adjusted its interim LIFO calculation to produce a reasonable matching of the most recently incurred costs with current revenues. Results for the three and six months ended June 30, 2012 are not necessarily indicative of results for the full year 2012.

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2. Change in Business and Other Matters

In February 2012, the Partnership sold its refined product terminal and pipeline assets in Big Sandy, Texas for \$11 million. The buyer also assumed a \$1 million environmental liability associated with the assets. The net book value of the assets sold and liability transferred approximated the sale price. In connection with the sale, the Partnership also agreed to cancel existing throughput and deficiency agreements in exchange for cash payments of \$11 million. During the first quarter 2012, the Partnership recognized a total gain of \$11 million, which primarily related to the contract settlement. The gain was recorded as \$5 and \$6 million within the Refined Products Pipelines and Terminal Facilities segments, respectively.

In July 2012, Sunoco announced that it has agreed to form Philadelphia Energy Solutions, a joint venture with The Carlyle Group, at its Philadelphia refinery, enabling the facility to continue operating. During the second quarter 2012, the Partnership reversed \$10 million of regulatory obligations for tank cleaning which was previously expected to be performed if the Philadelphia refinery was shut down.

3. Related Party Transactions

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 \$350 million Credit Facility (see Note 8).

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 certain 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 \$13 million for the year ended December 31, 2011. The fee increased to \$18 million for 2012 to cover additional consolidation of services provided by Sunoco that were previously provided by third parties and includes an allocation of certain senior management costs from Sunoco that were previously included in the Partnership's direct costs. This fee does not include the cost of shared insurance programs (which are allocated to the Partnership based upon its share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the general partner or the cost of their employee benefits. The Partnership has no employees, and reimburses Sunoco and its affiliates for these costs and other direct expenses incurred on the Partnership's behalf. 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.

In addition to the fees for the centralized corporate functions, selling, general and administrative expenses in the consolidated statements of comprehensive income include the allocation of shared insurance costs. The Partnership's share of allocated Sunoco employee benefit plan expenses, including noncontributory 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 are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the consolidated statements of comprehensive income.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

The Partnership is party to various agreements with Sunoco to supply crude oil and refined products and to provide pipeline and terminalling services. Affiliated revenues in the consolidated statements of comprehensive income consist of sales of refined products and crude oil as well as the related provision, and services including pipeline transportation, terminalling, and storage and blending for Sunoco. Affiliated revenues include sales of crude oil to Sunoco which were priced using market-based rates and sales of refined products which are priced using market based rates under agreements that are negotiated annually. Service revenues are recognized based on published tariffs or negotiated rates.

During 2011, Sunoco continued to execute its strategy to exit its refining operations which included selling its Toledo, Ohio refinery in March 2011 and announcing its intention to sell its remaining refineries located in Philadelphia and Marcus Hook, PA. In December 2011, Sunoco indefinitely idled the main processing units at its Marcus Hook refinery and is currently pursuing options for alternative uses of the facility. In July 2012 Sunoco announced that it has agreed to form Philadelphia Energy Solutions, a joint venture with The Carlyle Group, at its Philadelphia refinery, enabling the facility to continue operating.

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Management has continued to assess the impact that Sunoco's decision to exit its refining business in the northeast will have on the Partnership's assets that have historically served the refineries and determined that the Partnership's refined products pipeline and terminal assets continue to have expected future cash flows that support their carrying values. However, the Partnership recognized a \$42 million charge in the fourth quarter 2011 for certain crude oil terminal assets which would be negatively impacted if the Philadelphia refinery is permanently idled. This includes a \$31 million non-cash impairment for asset write-downs at the Fort Mifflin Terminal Complex and \$11 million for regulatory obligations which would be incurred if these assets are permanently idled. During the second quarter 2012, the Partnership recognized a \$10 million gain on the reversal of certain regulatory obligations for tank cleaning which will be delayed as a result of the announced joint venture with the Philadelphia refinery.

Capital Contributions

In the first six months of 2012 and 2011, the Partnership issued 0.2 million limited partnership units 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 limited partnership units, the general partner contributed less than \$1 million during the first six months of 2012 and 2011 to maintain its 2 percent general partner interest. The Partnership recorded these amounts as capital contributions to Equity within its condensed consolidated balance sheets.

4. Net Income Attributable to Sunoco Logistics Partners L.P. Per Limited Partner Unit Data

The general partner's interest in net income attributable to Sunoco Logistics Partners L.P. (net income attributable to Partners) consists of its 2 percent general partner interest and incentive distributions, which are increasing percentages, up to 50 percent of quarterly distributions in excess of \$0.1667 per common unit (see Note 11). The general partner was allocated net income attributable to Partners of \$19 and \$14 million (representing 13 and 15 percent respectively of total net income attributable to Partners) for the three months ended June 30, 2012 and 2011, respectively and \$34 and \$26 million (representing 14 and 18 percent of total net income attributable to Partners) for the six months ended June 30, 2012 and 2011, respectively. Diluted net income attributable to Partners per common unit is calculated by dividing net income attributable to Partners by the sum of the weighted average number of common and Class A units outstanding and the dilutive effect of incentive unit awards (see Note 12).

In July 2011, the Partnership issued 3.9 million Class A units to Sunoco in connection with the acquisition of the Eagle Point tank farm and related assets. These deferred distribution units represented a new class of units that were converted to common units in July 2012. The Class A units participated in the allocation of net income on a pro-rata basis with the common units.

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The following table sets forth the reconciliation of the weighted average number of common and Class A units used to compute basic net income attributable to Partners per common unit to those used to compute diluted net income attributable to Partners per common unit for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011	2012 (in millions)	2011
Weighted average number of common units outstanding - basic	103.5	99.4	103.5	99.3
Add effect of dilutive incentive awards	0.4	0.4	0.4	0.5
Weighted average number of common units - diluted	103.9	99.8	103.9	99.8

5. Inventories

The components of inventories are as follows:

	June 30,	December 31,
	2012	2011
	(in millions)	
Crude oil	\$ 264	\$ 142
Refined products	40	55
Refined products additives	9	2
Materials, supplies and other	2	7
	\$ 315	\$ 206

6. Income Taxes

The Partnership is not a taxable entity for U.S. federal income tax purposes, or for the majority of states that impose income taxes. Rather, income taxes are generally assessed at the partner level. There are some states in which the Partnership operates where it is subject to state and local income taxes. Substantially all of the income tax reflected in the Partnership's consolidated financial statements is derived from the operations of Inland, Mid-Valley and West Texas Gulf, all of which are entities subject to income taxes for federal and state purposes at the corporate level. The effective tax rates for these entities approximate the federal statutory rate of 35 percent.

In taxable jurisdictions, the Partnership records deferred income taxes on all significant temporary differences between the book basis and the tax basis of assets and liabilities. The net deferred tax liabilities reflected on the condensed consolidated balance sheets are derived principally from the difference in the book and tax bases of properties, plants and equipment associated with the Inland, Mid-Valley and West Texas Gulf acquisitions.

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The Partnership's corporate joint ventures own refined products pipeline systems. The Partnership's ownership percentages in corporate joint ventures as of June 30, 2012 and December 31, 2011 are as follows:

	Ownership percentage
Explorer Pipeline Company	9.4%
Yellowstone Pipe Line Company	14.0%
West Shore Pipe Line Company	17.1%
Wolverine Pipe Line Company	31.5%

The following table provides summarized, unaudited income statement information on a 100 percent basis for the Partnership's corporate joint ventures for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Income Statement Data:				
Total revenues	\$ 97	\$ 104	\$ 165	\$ 176
Income before income taxes	\$ 34	\$ 46	\$ 54	\$ 69
Net income	\$ 21	\$ 28	\$ 33	\$ 41

The following table provides summarized, unaudited balance sheet information on a 100 percent basis for the Partnership's corporate joint ventures as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in millions)	
Balance Sheet Data:		
Current assets	\$ 136	\$ 130
Non-current assets	\$ 646	\$ 648
Current liabilities	\$ 119	\$ 127
Non-current liabilities	\$ 545	\$ 549
Net equity	\$ 118	\$ 102

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The components of the Partnership's debt balances are as follows:

	June 30, 2012	December 31, 2011
	(in millions)	
Credit Facilities		
\$350 million Credit Facility, due August 2016	\$ 106	\$
\$35 million Credit Facility, due April 2015 ⁽¹⁾	5	
Senior Notes		
Senior Notes - 7.25%, due February 2012 ⁽²⁾		250
Senior Notes - 8.75%, due February 2014	175	175
Senior Notes - 6.125%, due May 2016	175	175
Senior Notes - 5.50%, due February 2020	250	250
Senior Notes - 4.65%, due February 2022	300	300
Senior Notes - 6.85%, due February 2040	250	250
Senior Notes - 6.10%, due February 2042	300	300
Total debt	1,561	1,700
Less:		
Unamortized bond discount	(2)	(2)
Current portion of long-term debt		(250)
Long-term debt, net of current portion	\$ 1,559	\$ 1,448

⁽¹⁾ The \$35 million Credit Facility is held by West Texas Gulf.

⁽²⁾ The 7.25 percent Senior Notes matured and were repaid in February 2012.

Credit Facilities

The Partnership maintains two credit facilities totaling \$550 million to fund the Partnership's working capital requirements, finance acquisitions and capital projects and for general partnership purposes. The credit facilities consist of a five-year \$350 million unsecured credit facility (the \$350 million Credit Facility) and a \$200 million 364-day unsecured credit facility (the \$200 million Credit Facility). Outstanding borrowings under these credit facilities were \$106 million at June 30, 2012. At December 31, 2011 there were no outstanding borrowings under these credit facilities.

The \$350 and \$200 million Credit Facilities contain various covenants limiting the Partnership's ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The credit facilities also limit the Partnership, on a rolling four-quarter basis, to a maximum total consolidated debt to consolidated EBITDA, as defined in the underlying credit agreements, ratio of 5.0 to 1, which can generally be increased to 5.5 to 1 during an acquisition period. The Partnership's ratio of total debt to EBITDA was 2.3 to 1 at June 30, 2012, as calculated in accordance with the credit agreements.

In April 2012, Sunoco announced that it has entered into a definitive merger agreement to be acquired by ETP. Successful completion of the acquisition would represent an event of default under the Partnership's credit facilities as the general partner interests would no longer be owned by Sunoco. The Partnership continues to monitor the progress of the proposed transaction and, as necessary, expects to amend this condition so that no event of default will occur if the acquisition is completed.

In May 2012, West Texas Gulf entered into a \$35 million revolving credit facility (the \$35 million Credit Facility), which matures in April 2015. The facility is available to fund West Texas Gulf's general corporate purposes including working capital and capital expenditures. The credit facility limits West Texas Gulf on a rolling four-quarter basis, to a minimum fixed charge coverage ratio, as defined in the underlying credit

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agreement. The ratio for the fiscal quarter ending June 30, 2012 shall not be less than 0.85 to 1. The minimum ratio fluctuates between 0.80 to 1 and 1.00 to 1 throughout the term of the revolver as specified in the credit agreement. In addition, the credit facility limits West Texas Gulf to a maximum leverage ratio of 2.00 to 1. West Texas Gulf's fixed charge coverage ratio and leverage ratio were 1.04 to 1 and 0.18 to 1, respectively, at June 30, 2012. Outstanding borrowings under this credit facility were \$5 million at June 30, 2012.

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9. 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 can result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third-party or formerly owned sites. At June 30, 2012 and December 31, 2011, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of \$4 million. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, since no unasserted claims are probable of settlement or reasonably estimable, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled \$1 million for the three months ended June 30, 2012 and 2011, respectively and \$5 and \$3 million for the six months ended June 30, 2012 and 2011, respectively. The Partnership maintains insurance programs that cover certain of its existing or potential environmental liabilities. Claims for recovery of environmental liabilities and previous expenditures that are probable of realization totaled \$14 million at June 30, 2012 and are included in other assets in the condensed consolidated balance sheets.

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.

Sunoco has indemnified the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed to the Partnership that arose from the operation of such assets prior to the closing of the February 2002 initial public offering (IPO). Sunoco has indemnified the Partnership for 100 percent of all losses asserted within the first 21 years of closing of the IPO. Sunoco's share of liability for claims asserted thereafter will decrease by 10 percent per year. For example, for a claim asserted during the twenty-third year after closing of the 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 IPO and for environmental and toxic tort liabilities to the extent Sunoco is not required to indemnify the Partnership.

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 results of operations, financial position or cash flows of the Partnership at June 30, 2012. There are certain other pending legal proceedings related to matters arising after the 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 Partnership's results of operations, financial position or cash flows at June 30, 2012.

Table of Contents**10. Equity**

The changes in the number of common units outstanding from January 1, 2011 through June 30, 2012 are as follows:

	Common Units	Class A Units (in millions)	Total Units
Balance at January 1, 2011	99.2		99.2
Units issued under incentive plans	0.2		0.2
Class A Units issued to Sunoco in July 2011 (Note 3)		3.9	3.9
Balance at December 31, 2011	99.4	3.9	103.3
Units issued under incentive plans	0.2		0.2
Balance at June 30, 2012	99.6	3.9	103.5

In July 2011, the Partnership issued 3.9 million Class A units to Sunoco in connection with the acquisition of the Eagle Point tank farm and related assets. These deferred distribution units represented a new class of units that were converted to common units in July 2012. The Class A units participated in the allocation of net income on a pro-rata basis with the common units.

11. 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 at 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 the establishment of cash reserves and the payment of fees and expenses, including payments to the general partner.

If cash distributions exceed \$0.1667 per unit in a quarter, the general partner will receive increasing percentages, up to 50 percent, of the cash distributed in excess of that amount. These distributions are referred to as "incentive distributions." The percentage interests 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.

The following table shows the target distribution levels and distribution splits between the general partner and the holders of the Partnership's common units:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		General Partner	Unitholders
Minimum Quarterly distribution	\$ 0.1500	2%	98%
First Target Distribution	up to \$0.1667	2%	98%
Second Target Distribution	above \$ 0.1667		
	up to \$0.1917	15%*	85%
Third Target Distribution	above \$ 0.1917		
	up to \$0.5275	37%*	63%
Thereafter	above \$ 0.5275	50%*	50%

* Includes 2 percent general partner interest.

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The distributions paid by the Partnership for the period from January 1, 2011 through June 30, 2012 are summarized below.

Date Cash Distribution Paid	Cash Distribution per Limited Partner Unit	Total Cash Distribution to the Limited Partners (in millions)	Total Cash Distribution to the General Partner (in millions)
May 15, 2012	\$ 0.4275	\$ 43	\$ 14
February 14, 2012	\$ 0.4200	\$ 41	\$ 14
November 14, 2011	\$ 0.4133	\$ 41	\$ 13
August 12, 2011	\$ 0.4050	\$ 40	\$ 13
May 13, 2011	\$ 0.3983	\$ 40	\$ 12

On August 2, 2012, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of \$0.4700 per common unit (\$1.88 annualized), representing the distribution for the second quarter 2012. The \$66 million distribution, including \$17 million to the general partner, will be paid on August 14, 2012 to common unitholders of record on August 8, 2012. The August 2012 payment will include distributions on the Class A units which were converted to common units in July 2012.

12. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC LTIP for directors, officers and employees 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 and officer 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 additional 0.7 million common units. Restricted unit awards may also include tandem distribution equivalent rights (DERs) at the discretion of the Compensation Committee.

During each of the six month periods ended June 30, 2012 and 2011, the Partnership issued 0.2 million common units, respectively, under the LTIP. The Partnership recognized share-based compensation expense of \$5 million and \$4 million for the six months ended June 30, 2012 and 2011, respectively. Each of the restricted unit grants also have tandem DERs which are recognized as a reduction of equity when earned.

13. Derivatives and Risk Management

The Partnership is exposed to various market risks, including volatility in crude oil and refined product prices, counterparty credit risk and interest rate risk. In order to manage such exposure, the Partnership's policy is to (i) only purchase crude oil and refined products for which sales contracts have been executed or for which ready markets exist, (ii) structure sales contracts so that price fluctuations do not materially impact the margins earned, and (iii) not acquire and hold physical inventory, futures contracts or other derivative instruments for the purpose of speculating on commodity price changes. Although the Partnership seeks to maintain a balanced inventory position within its commodity inventories, net unbalances may occur for short periods of time due to production, transportation and delivery variances. When temporary physical inventory builds or draws do occur, the Partnership continuously manages the variances to a balanced position over a period of time. Pursuant to the Partnership's approved risk management policy, derivative contracts may be used to hedge or reduce exposure to price risk associated with acquired inventory or forecasted physical transactions.

Price Risk Management

The Partnership is exposed to risks associated with changes in the market price of crude oil and refined products as a result of the forecasted purchase or sale of these products. These risks are primarily associated with price volatility related to pre-existing or anticipated purchases, sales and storage. Price changes are often caused by shifts in the supply and demand for these commodities, as well as their locations. The physical contracts related to the Partnership's crude oil and refined products businesses that qualify as derivatives have been designated as normal purchases and sales and are accounted for using traditional accrual accounting. The Partnership accounts for derivatives that do not qualify as normal purchases and sales at fair value. The Partnership does utilize derivatives such as swaps, futures and other derivative instruments to mitigate the risk associated with market movements in the price of refined products. These derivative contracts act as a hedging mechanism against the volatility of prices by allowing the Partnership to transfer this price risk to counterparties who are able and willing to bear it.

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While all derivative instruments utilized by the Partnership represent economic hedges, certain of these derivatives are not designated as hedges for accounting purposes. Such derivatives include certain contracts that were entered into and closed during the same accounting period and a limited number of contracts for which there is not sufficient correlation to the related items being economically hedged.

For refined product derivative contracts that are not designated as hedges for accounting purposes, all realized and unrealized gains and losses are recognized in the statement of comprehensive income during the current period. For refined product derivative contracts that are designated and qualify as cash flow hedges, the portion of the gain or loss on the derivative contract that is effective in offsetting the variable cash flows associated with the hedged forecasted transaction is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative contract in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in earnings during the current period. All realized gains and losses associated with refined product derivative contracts are recorded in earnings in the same line item as the forecasted transaction being hedged, either sales and other operating revenue or cost of products sold and operating expenses.

The Partnership had open derivative positions of approximately 3.0 and 1.5 million barrels of refined products at June 30, 2012 and December 31, 2011, respectively. The derivatives outstanding as of June 30, 2012 vary in duration but do not extend beyond one year. The Partnership records its derivatives at fair value based on observable market prices (levels 1 and 2). As of June 30, 2012 and December 31, 2011, the fair values of the Partnership's derivative assets and liabilities were:

	June 30, 2012	December 31, 2011
		(in millions)
Derivative assets	\$ 20	\$ 6
Derivative liabilities	(24)	(2)
	\$ (4)	\$ 4

Derivative asset and liability balances are recorded in accounts receivable and accrued liabilities, respectively, in the accompanying condensed consolidated balance sheets.

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The Partnership's derivative positions are comprised primarily of commodity contracts. The following tables set forth the impact of derivatives on the Partnership's financial performance for the three and six months ended June 30, 2012 and 2011:

	Pretax Gains (Losses) Recognized in Other Comprehensive Income (in millions)	Pretax Gains (Losses) Recognized in Earnings	Location of Gains (Losses) Recognized in Earnings
Three Months Ended June 30, 2012			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	\$	\$	Sales and other operating revenue
Commodity contracts			Cost of product sold and operating expenses
	\$	\$	
Derivatives not designated as hedging instruments:			
Commodity contracts		\$ 7	Sales and other operating revenue
Commodity contracts		(8)	Cost of product sold and operating expenses
		\$ (1)	
Three Months Ended June 30, 2011			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	\$ 1	\$ (1)	Sales and other operating revenue
Commodity contracts			Cost of product sold and operating expenses
	\$ 1	\$ (1)	
Derivatives not designated as hedging instruments:			
Commodity contracts		\$ 3	Sales and other operating revenue
Commodity contracts		(2)	Cost of product sold and operating expenses
		\$ 1	

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	Pretax Gains (Losses) Recognized in Other Comprehensive Income (in millions)		Pretax Gains (Losses) Recognized in Earnings	Location of Gains (Losses) Recognized in Earnings
Six Months Ended June 30, 2012				
Derivatives designated as cash flow hedging instruments:				
Commodity contracts	\$ (4)	\$	(3)	Sales and other operating revenue
Commodity contracts			1	Cost of product sold and operating expenses
	\$ (4)	\$	(2)	
Derivatives not designated as hedging instruments:				
Commodity contracts		\$	3	Sales and other operating revenue
Commodity contracts			(7)	Cost of product sold and operating expenses
		\$	(4)	
Six Months Ended June 30, 2011				
Derivatives designated as cash flow hedging instruments:				
Commodity contracts	\$ 2	\$	(4)	Sales and other operating revenue
Commodity contracts			1	Cost of product sold and operating expenses
	\$ 2	\$	(3)	
Derivatives not designated as hedging instruments:				
Commodity contracts		\$	2	Sales and other operating revenue
Commodity contracts			(2)	Cost of product sold and operating expenses
		\$		

Credit Risk Management

The Partnership faces counterparty credit risk as a result of our use of financial derivative contracts. The Partnership's counterparties consist primarily of financial institutions and major integrated oil companies. This concentration of counterparties may impact the Partnership's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

The Partnership maintains credit policies with regard to its counterparties that management believes minimize the overall credit risk. The credit positions of the Partnership's customers are analyzed prior to the extension of credit and periodically after credit has been extended. The Partnership manages its exposure to derivative counterparty credit risk through credit analysis, credit approvals, credit limits, and monitoring procedures. At June 30, 2012 and December 31, 2011, the Partnership did not hold any over-the-counter derivatives.

Interest Rate Risk Management

The Partnership has interest rate risk exposure for changes in interest rates related to its outstanding borrowings. The Partnership manages its exposure to changes in interest rates through the use of a combination of fixed-rate and variable-rate debt. At June 30, 2012, the Partnership had \$111 million of consolidated variable-rate borrowings under its revolving credit facilities. This includes \$5 million of outstanding borrowings on West Texas Gulf's revolving credit facility.

14. Fair Value Measurements

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The Partnership applies fair value accounting for all financial assets and liabilities that are required to be measured at fair value under current accounting rules, primarily derivatives. The assets and liabilities that are measured at fair value on a recurring basis are not material to the Partnership's condensed consolidated balance sheets.

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 FASB. The Partnership generally applies a 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 derivatives and inventories) and current liabilities are financial instruments and most of these items are recorded at cost in the condensed consolidated balance sheets. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature. The Partnership's derivatives are measured and recorded at fair value based on observable market prices (Note 13). The estimated fair values of the Senior Notes are determined using observable market prices, as these notes are actively traded. The estimated aggregate fair value of the Senior Notes at June 30, 2012 is \$1.56 billion, compared to the carrying amount of \$1.45 billion. The estimated aggregate fair value of the Senior Notes at December 31, 2011 was \$1.91 billion, compared to the carrying amount of \$1.70 billion.

In May 2011, the FASB issued a new accounting standard update, which amended the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for level 3 measurements based on unobservable inputs. The Partnership adopted the amended guidance on January 1, 2012. The adoption of the amended guidance did not have a material impact on the Partnership's consolidated financial statements and disclosures.

15. Business Segment Information

The following tables summarize condensed statement of income information concerning the Partnership's business segments and reconcile total segment operating income to net income attributable to Sunoco Logistics Partners L.P. for the three and six months ended June 30, 2012 and 2011, respectively.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011 (in millions)	2012 (in millions)	2011 (in millions)
Sales and other operating revenue ⁽¹⁾				
Crude Oil Pipelines	\$ 100	\$ 81	\$ 180	\$ 152
Crude Oil Acquisition and Marketing	3,056	2,259	6,248	4,357
Terminal Facilities	170	93	305	186
Refined Products Pipelines	32	29	63	56
Intersegment eliminations	(45)	(38)	(82)	(69)
Total sales and other operating revenue	\$ 3,313	\$ 2,424	\$ 6,714	\$ 4,682
Depreciation and amortization				
Crude Oil Pipelines	\$ 6	\$ 6	\$ 13	\$ 12
Crude Oil Acquisition and Marketing	5	1	10	1
Terminal Facilities	9	8	18	16
Refined Products Pipelines	5	4	9	8
Total depreciation and amortization	\$ 25	\$ 19	\$ 50	\$ 37
Impairment charge and related matters ⁽²⁾⁽³⁾				
Crude Oil Acquisition and Marketing	\$	\$	\$ 8	\$
Terminal Facilities	(10)		(10)	
Refined Products Pipelines			1	
Total impairment charge	\$ (10)	\$	\$ (1)	\$
Operating income				
Crude Oil Pipelines	\$ 64	\$ 47	\$ 116	\$ 86
Crude Oil Acquisition and Marketing	52	32	86	34
Terminal Facilities	61	34	98	63
Refined Products Pipelines	7	8	13	13
Total operating income	\$ 184	\$ 121	\$ 313	\$ 196
Net interest expense	21	19	45	39
Income before provision for income taxes	\$ 163	\$ 102	\$ 268	\$ 157
Provision for income taxes	8	6	16	11
Net Income	\$ 155	\$ 96	\$ 252	\$ 146
Net Income attributable to noncontrolling interests	3	2	5	4
Net Income Attributable to Partners	\$ 152	\$ 94	\$ 247	\$ 142

⁽¹⁾ Sales and other operating revenue includes amounts from Sunoco for the three and six months ended June 30, 2012 and 2011 of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011 (in millions)	2012 (in millions)	2011 (in millions)
Crude Oil Pipelines	\$	\$	\$	\$ 6

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Crude Oil Acquisition and Marketing	138	1	206	247
Terminal Facilities	45	24	90	58
Refined Products Pipelines	11	14	24	31
Total sales and other operating revenue from Sunoco	\$ 194	\$ 39	\$ 320	\$ 342

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- (2) In the first quarter 2012, the Partnership recognized a non-cash impairment charge related to a cancelled software project for the crude oil acquisition and marketing business and a refined products pipeline project in Texas. The impairment was recorded as \$8 and \$1 million within the Crude Oil Acquisition and Marketing and Refined Products Pipelines segments, respectively.
- (3) In the second quarter 2012, the Partnership recognized a \$10 million gain on the reversal of certain regulatory obligations for tank cleaning which was expected to be performed if Sunoco's Philadelphia refinery was shut down. In July 2012, Sunoco announced its intention to form a joint venture with The Carlyle Group at its Philadelphia refinery, enabling the facility to continue operating.

The following table provides the identifiable assets for each segment as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in millions)	
Crude Oil Pipelines	\$ 1,073	\$ 1,055
Crude Oil Acquisition and Marketing	2,217	2,469
Terminal Facilities	1,093	1,053
Refined Products Pipelines	746	736
Corporate and other ⁽¹⁾	59	164
 Total identifiable assets	 \$ 5,188	 \$ 5,477

- (1) Corporate and other assets consist primarily of cash and cash equivalents, advances to affiliates, deferred financing costs and properties, plants and equipment.

16. Supplemental Condensed Consolidating Financial Information

The Partnership serves as guarantor of the Senior Notes. 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. All other consolidated subsidiaries of the Partnership are collectively referred to as Non-Guarantor Subsidiaries.

The following supplemental condensed consolidating financial information 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**Consolidating Statement of Comprehensive Income****Three Months Ended June 30, 2012****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Unaffiliated customers	\$	\$	\$ 3,119	\$	\$ 3,119
Affiliates			194		194
Other income			5		5
Equity in earnings of subsidiaries	152	173		(325)	
Total Revenues	152	173	3,318	(325)	3,318
Costs and Expenses					
Cost of products sold and operating expenses			3,089		3,089
Depreciation and amortization expense			25		25
Impairment charge and related matters			(10)		(10)
Selling, general and administrative expenses			30		30
Total Costs and Expenses			3,134		3,134
Operating Income	152	173	184	(325)	184
Interest cost and debt expense, net		23			23
Capitalized interest		(2)			(2)
Income Before Provision for Income Taxes	152	152	184	(325)	163
Provision for income taxes			8		8
Net Income	152	152	176	(325)	155
Net income attributable to noncontrolling interests			3		3
Net Income attributable to Partners	\$ 152	\$ 152	\$ 173	\$ (325)	\$ 152
Comprehensive Income	\$ 152	\$ 152	\$ 176	\$ (325)	\$ 155
Comprehensive income attributable to noncontrolling interests			3		3
Comprehensive Income Attributable to Partners	\$ 152	\$ 152	\$ 173	\$ (325)	\$ 152

Table of Contents**Consolidating Statement of Comprehensive Income****Three Months Ended June 30, 2011****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Unaffiliated customers	\$	\$	\$ 2,385	\$	\$ 2,385
Affiliates			39		39
Other income			4		4
Equity in earnings of subsidiaries	94	112		(206)	
Total Revenues	94	112	2,428	(206)	2,428
Costs and Expenses					
Cost of products sold and operating expenses			2,266		2,266
Depreciation and amortization expense			19		19
Selling, general and administrative expenses			22		22
Total Costs and Expenses			2,307		2,307
Operating Income	94	112	121	(206)	121
Interest cost and debt expense, net		20	1		21
Capitalized interest		(2)			(2)
Income Before Provision for Income Taxes	94	94	120	(206)	102
Provision for income taxes			6		6
Net Income	94	94	114	(206)	96
Net income attributable to noncontrolling interests			2		2
Net Income attributable to Partners	\$ 94	\$ 94	\$ 112	\$ (206)	\$ 94
Comprehensive Income	\$ 94	\$ 94	\$ 115	\$ (206)	\$ 97
Comprehensive income attributable to noncontrolling interests			2		2
Comprehensive Income Attributable to Partners	\$ 94	\$ 94	\$ 113	\$ (206)	\$ 95

Table of Contents**Consolidating Statement of Comprehensive Income****Six Months Ended June 30, 2012****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Unaffiliated customers	\$	\$	\$ 6,394	\$	\$ 6,394
Affiliates			320		320
Other income			7		7
Gain on sale and related matters			11		11
Equity in earnings of subsidiaries	247	290		(537)	
Total Revenues	247	290	6,732	(537)	6,732
Costs and Expenses					
Cost of products sold and operating expenses			6,314		6,314
Depreciation and amortization expense			50		50
Impairment charge and related matters			(1)		(1)
Selling, general and administrative expenses			56		56
Total Costs and Expenses			6,419		6,419
Operating Income	247	290	313	(537)	313
Interest cost and debt expense, net		47	2		49
Capitalized interest		(4)			(4)
Income Before Provision for Income Taxes	247	247	311	(537)	268
Provision for income taxes			16		16
Net Income	247	247	295	(537)	252
Net income attributable to noncontrolling interests			5		5
Net Income attributable to Partners	\$ 247	\$ 247	\$ 290	\$ (537)	\$ 247
Comprehensive Income	\$ 247	\$ 247	\$ 291	\$ (537)	\$ 248
Comprehensive income attributable to noncontrolling interests			5		5
Comprehensive Income Attributable to Partners	\$ 247	\$ 247	\$ 286	\$ (537)	\$ 243

Table of Contents**Consolidating Statement of Comprehensive Income****Six Months Ended June 30, 2011****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Unaffiliated customers	\$	\$	\$ 4,340	\$	\$ 4,340
Affiliates			342		342
Other income			6		6
Equity in earnings of subsidiaries	142	179		(321)	
Total Revenues	142	179	4,688	(321)	4,688
Costs and Expenses					
Cost of products sold and operating expenses			4,411		4,411
Depreciation and amortization expense			37		37
Selling, general and administrative expenses			44		44
Total Costs and Expenses			4,492		4,492
Operating Income	142	179	196	(321)	196
Interest cost and debt expense, net		40	2		42
Capitalized interest		(3)			(3)
Income Before Provision for Income Taxes	142	142	194	(321)	157
Provision for income taxes			11		11
Net Income	142	142	183	(321)	146
Net income attributable to noncontrolling interests			4		4
Net Income attributable to Partners	\$ 142	\$ 142	\$ 179	\$ (321)	\$ 142
Comprehensive Income	\$ 142	\$ 142	\$ 185	\$ (321)	\$ 148
Comprehensive income attributable to noncontrolling interests			4		4
Comprehensive Income Attributable to Partners	\$ 142	\$ 142	\$ 181	\$ (321)	\$ 144

Table of Contents**Condensed Consolidating Balance Sheet**

June 30, 2012

(in millions, unaudited)

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2	\$	\$	\$ 2
Advances to affiliated companies	(24)	48	(14)		10
Accounts receivable, affiliated companies			8		8
Accounts receivable, net			1,803		1,803
Inventories			315		315
Total Current Assets	(24)	50	2,112		2,138
Properties, plants and equipment, net			2,597		2,597
Investment in affiliates	1,251	2,774	75	(4,025)	75
Goodwill			77		77
Intangible assets, net			264		264
Other assets		11	26		37
Total Assets	\$ 1,227	\$ 2,835	\$ 5,151	\$ (4,025)	\$ 5,188
Liabilities and Equity					
Current Liabilities					
Accounts payable	\$	\$	\$ 1,862	\$	\$ 1,862
Accrued liabilities	1	30	77		108
Accrued taxes payable			49		49
Total Current Liabilities	1	30	1,988		2,019
Long-term debt		1,554	5		1,559
Other deferred credits and liabilities			62		62
Deferred income taxes			222		222
Total Liabilities	1	1,584	2,277		3,862
Total Equity	1,226	1,251	2,874	(4,025)	1,326
Total Liabilities and Equity	\$ 1,227	\$ 2,835	\$ 5,151	\$ (4,025)	\$ 5,188

Table of Contents**Condensed Consolidating Balance Sheet****December 31, 2011****(in millions)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2	\$ 3	\$	\$ 5
Advances to affiliated companies	90	48	(31)		107
Accounts receivable, net			2,188		2,188
Inventories			206		206
Total Current Assets	90	50	2,366		2,506
Properties, plants and equipment, net			2,522		2,522
Investment in affiliates	1,007	2,680	73	(3,687)	73
Goodwill			77		77
Intangible assets, net			277		277
Other assets		13	9		22
Total Assets	\$ 1,097	\$ 2,743	\$ 5,324	\$ (3,687)	\$ 5,477
Liabilities and Equity					
Accounts payable		1	2,110		2,111
Current portion of long-term debt		250			250
Accrued liabilities	1	37	74		112
Accrued taxes payable			62		62
Total Current Liabilities	1	288	2,246		2,535
Long-term debt		1,448			1,448
Other deferred credits and liabilities			78		78
Deferred income taxes			222		222
Total Liabilities	1	1,736	2,546		4,283
Total Equity	1,096	1,007	2,778	(3,687)	1,194
Total Liabilities and Equity	\$ 1,097	\$ 2,743	\$ 5,324	\$ (3,687)	\$ 5,477

Table of Contents**Consolidating Statement of Cash Flows****Six Months Ended June 30, 2012****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 247	\$ 241	\$ 331	\$ (537)	\$ 282
Cash Flows from Investing Activities:					
Capital expenditures			(134)		(134)
Proceeds from divestments and related matters			11		11
Intercompany	(246)	(97)	(194)	537	
Net cash used in investing activities	(246)	(97)	(317)	537	(123)
Cash Flows from Financing Activities:					
Distributions paid to limited and general partners	(112)				(112)
Distributions paid to noncontrolling interests	(3)				(3)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan			(5)		(5)
Repayments under credit facility		(176)			(176)
Borrowings under credit facility		282	5		287
Repayment of senior notes		(250)			(250)
Advances to affiliated companies, net	114		(17)		97
Net cash used in financing activities	(1)	(144)	(17)		(162)
Net change in cash and cash equivalents			(3)		(3)
Cash and cash equivalents at beginning of period		2	3		5
Cash and cash equivalents at end of period	\$	\$ 2	\$	\$	\$ 2

Table of Contents**Consolidating Statement of Cash Flows****Six Months Ended June 30, 2011****(in millions, unaudited)**

	Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 142	\$ 144	\$ 30	\$ (321)	\$ (5)
Cash Flows from Investing Activities:					
Capital expenditures			(69)		(69)
Acquisitions			(99)		(99)
Intercompany	(90)	(378)	147	321	
Net cash used in investing activities	(90)	(378)	(21)	321	(168)
Cash Flows from Financing Activities:					
Distributions paid to limited and general partners	(103)				(103)
Distributions paid to noncontrolling interests	(2)				(2)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan			(3)		(3)
Repayments under credit facility		(63)			(63)
Borrowings under credit facility		297			297
Advances to affiliated companies, net	53		(2)		51
Other					
Net cash provided by financing activities	(52)	234	(5)		177
Net change in cash and cash equivalents			4		4
Cash and cash equivalents at beginning of period		2			2
Cash and cash equivalents at end of period	\$	\$ 2	\$ 4	\$	\$ 6

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations

The following table presents our consolidated operating results for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011 (in millions)	2012 (in millions)	2011 (in millions)
Revenues				
Sales and other operating revenue:				
Unaffiliated customers	\$ 3,119	\$ 2,385	\$ 6,394	\$ 4,340
Affiliates	194	39	320	342
Other income	5	4	7	6
Gain on sale and related matters			11	
Total Revenues	3,318	2,428	6,732	4,688
Costs and Expenses				
Cost of products sold and operating expenses	3,089	2,266	6,314	4,411
Depreciation and amortization expense	25	19	50	37
Impairment charge and related matters	(10)		(1)	
Selling, general and administrative expenses	30	22	56	44
Total Costs and Expenses	3,134	2,307	6,419	4,492
Operating Income	184	121	313	196
Interest cost and debt expense, net	23	21	49	42
Capitalized interest	(2)	(2)	(4)	(3)
Income Before Provision for Income Taxes	\$ 163	\$ 102	\$ 268	\$ 157
Provision for income taxes	8	6	16	11
Net Income	\$ 155	\$ 96	\$ 252	\$ 146
Net income attributable to noncontrolling interests	3	2	5	4
Net income attributable to Partners	\$ 152	\$ 94	\$ 247	\$ 142
Net income attributable to Partners per Limited Partner unit:				
Basic	\$ 1.29	\$ 0.80	\$ 2.06	\$ 1.17
Diluted	\$ 1.28	\$ 0.80	\$ 2.05	\$ 1.16

Non-GAAP Financial Measures

To supplement our financial information presented in accordance with United States generally accepted accounting principles (GAAP), management uses additional measures that are known as non-GAAP financial measures in its evaluation of past performance and prospects for the future. The primary measures used by management are earnings before interest, taxes, depreciation and amortization expenses and other non-cash items (Adjusted EBITDA) and distributable cash flow (DCF).

Our management believes Adjusted EBITDA and distributable cash flow information enhances an investor's understanding of a business's ability to generate cash for payment of distributions and other purposes. In addition, EBITDA calculations are also defined and used as a measure in determining our compliance with certain revolving credit facility covenants. However, there may be contractual, legal, economic or other

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reasons which may prevent us from satisfying principal and interest obligations with respect to indebtedness and may require us to allocate funds for other purposes. Adjusted EBITDA and distributable cash flow do not represent and should not be considered alternatives to net income or cash flows from operating activities as determined under GAAP and may not be comparable to other similarly titled measures of other businesses.

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The following table reconciles the difference between net income, as determined under GAAP, and Adjusted EBITDA and distributable cash flows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011 (in millions)	2012 (in millions)	2011 (in millions)
Net Income attributable to Partners	\$ 152	\$ 94	\$ 247	\$ 142
Interest cost, net	21	19	45	39
Depreciation and amortization expense	25	19	50	37
Impairment charge ⁽¹⁾			9	
Provision for income taxes	8	6	16	11
Adjusted EBITDA ⁽²⁾⁽³⁾	\$ 206	\$ 138	\$ 367	\$ 229
Interest cost, net	(21)	(19)	(45)	(39)
Maintenance capital expenditures	(11)	(7)	(18)	(10)
Provision for income taxes	(8)	(6)	(16)	(11)
Distributable cash flow ⁽³⁾	\$ 166	\$ 106	\$ 288	\$ 169

The following table reconciles the difference between net cash provided by operating activities and Adjusted EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions)	2011 (in millions)	2012 (in millions)	2011 (in millions)
Net cash provided by operating activities	\$ 143	\$ (12)	\$ 282	\$ (5)
Interest cost, net	21	19	45	39
Amortization and bond discount		(1)	(1)	(1)
Deferred income tax expense	1			1
Restricted unit incentive plan expense	(2)	(1)	(5)	(4)
Claim on recovery of environmental liability	2		14	
Gain on reversal of tank cleaning liability	10		10	
Net working capital pertaining to operating activities	24	129	2	194
Provision for income taxes	8	6	16	11
Net income attributable to noncontrolling interests	(3)	(2)	(5)	(4)
Other	2		9	(2)
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 206	\$ 138	\$ 367	\$ 229

- (1) In the first quarter 2012, the Partnership recognized a non-cash impairment charge related to a cancelled software project for the crude oil acquisition and marketing business and a refined products pipeline project in Texas. The impairment was recorded as \$8 and \$1 million within the Crude Oil Acquisition and Marketing and Refined Products Pipelines segments, respectively.
- (2) In the second quarter 2012, the Partnership recognized a \$10 million gain on the reversal of certain regulatory obligations for tank cleaning which was expected to be performed if Sunoco's Philadelphia refinery was shut down. In July 2012, Sunoco announced its intention to form a joint venture with The Carlyle Group at its Philadelphia refinery, enabling the facility to continue operating. This gain was included in the Partnership's Adjusted EBITDA, which is consistent with prior period presentation.
- (3) Management of the Partnership believes Adjusted EBITDA and distributable cash flow information enhances an investor's understanding of a business's ability to generate cash for payment of distributions and other purposes. Adjusted EBITDA and distributable cash flow do not represent and should not be considered an alternative to net income or cash flows from operating activities as determined under United States generally accepted accounting principles (GAAP) and may not be comparable to other similarly titled measures of other businesses.

Table of Contents**Analysis of Consolidated Operating Results**

Net income attributable to partners was \$152 and \$94 million for the three months ended June 30, 2012 and 2011, respectively. Net income attributable to partners for the second quarter 2012 increased \$58 million compared to the prior year period due primarily to improved operating performance which benefited from strong demand for crude oil transportation services and contributions from our 2011 acquisitions and organic projects. In addition, in the second quarter 2012, the Partnership recognized a \$10 million gain on the reversal of certain regulatory obligations for tank cleaning which was expected to be performed if Sunoco's Philadelphia refinery was shut down. In July 2012, Sunoco announced its intention to form a joint venture with The Carlyle Group at its Philadelphia refinery, enabling the facility to continue operating. Higher income from our operations was partially offset by higher interest expense related primarily to debt offerings in 2011 which were used to fund various growth initiatives.

Net income attributable to partners was \$247 and \$142 million for the six months ended June 30, 2012 and 2011, respectively. Net income attributable to partners for the six months ended June 30, 2012 increased \$105 million compared to the prior year period due primarily to improved operating performance which benefited from strong demand for crude oil transportation services and contributions from our 2011 acquisitions and organic projects. Higher income from our operations was partially offset by higher interest expense related to debt offerings in 2011 which were used to fund various growth initiatives.

Analysis of Segment Operating Income

We manage our operations through four operating segments: Crude Oil Pipelines, Crude Oil Acquisition and Marketing, Terminal Facilities and Refined Products Pipelines.

Crude Oil Pipelines

Our Crude Oil Pipelines consists of crude oil trunk and gathering pipelines in the southwest and midwest United States. Revenues are generated from tariffs and the associated fees paid by shippers utilizing our transportation services to deliver crude oil and other feedstocks to refineries within those regions. Rates for shipments on these pipelines are regulated by the FERC, Oklahoma Corporation Commission (OCC) and the Railroad Commission of Texas (Texas R.R.C.).

The following table presents the operating results and key operating measures for our Crude Oil Pipelines for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions, except for barrel amounts)		(in millions, except for barrel amounts)	
Sales and other operating revenue				
Unaffiliated customers	\$ 65	\$ 49	\$ 115	\$ 89
Affiliates				6
Intersegment revenue	35	32	65	57
Total sales and other operating revenue	\$ 100	\$ 81	\$ 180	\$ 152
Depreciation and amortization expense	\$ 6	\$ 6	\$ 13	\$ 12
Operating Income	\$ 64	\$ 47	\$ 116	\$ 86
Pipeline throughput (thousands of bpd)	1,571	1,641	1,519	1,568
Pipeline revenue per barrel (cents)	70.0	54.2	65.0	53.5

Operating income for the Crude Oil Pipelines increased \$17 million to \$64 million for the three months ended June 30, 2012, as compared to \$47 million for the three months ended June 30, 2011. The increase in operating income was driven primarily by higher pipeline fees which benefited from tariff increases relative to the prior year period and improved mix of pipeline movements which benefited from the demand for West Texas crude oil (\$23 million). Partially offsetting these improvements were overall volume reductions (\$4 million).

Operating income for the Crude Oil Pipelines increased \$30 million to \$116 million for the six months ended June 30, 2012, as compared to \$86 million for the six months ended June 30, 2011. The increase in operating income was driven primarily by higher pipeline fees which benefited

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from tariff increases relative to the prior year period and improved mix of pipeline movements which benefited from the demand for West Texas crude oil (\$32 million). Operating results were further improved by reduced operating

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expenses related primarily to increased pipeline operating gains (\$6 million) and lower environmental remediation expenses (\$2 million). Partially offsetting these improvements were overall volume reductions (\$4 million) and higher costs associated with operating supplies (\$2 million).

Crude Oil Acquisition and Marketing

Our Crude Oil Acquisition and Marketing segment reflects the sale of gathered and bulk purchased crude oil. The crude oil acquisition and marketing operations generate substantial revenue and cost of products sold as a result of the significant volume of crude oil bought and sold. However, the absolute price levels of crude oil normally do not bear a relationship to gross margin, although the price levels significantly impact revenue and costs of products sold. As a result, period-to-period variations in revenue and cost of products sold are not generally meaningful in analyzing the variation in gross margin for the Crude Oil Acquisition and Marketing segment. The operating results of the Crude Oil Acquisition and Marketing segment are affected by overall levels of supply and demand for crude oil and relative fluctuations in market related indices. Generally, we expect a base level of earnings from our Crude Oil Acquisition and Marketing segment that may be optimized and enhanced when there is a high level of market volatility, favorable basis differentials and/or a steep contango or backwardated structure. Our management believes gross margin, which is equal to sales and other operating revenue less cost of products sold, operating expenses and depreciation and amortization, is a key measure of financial performance for the Crude Oil Acquisition and Marketing segment. Although we employ risk management activities, these margins are not fixed and will vary from period-to-period.

The following table presents the operating results and key operating measures for our Crude Oil Acquisition and Marketing for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (in millions, except for barrel amounts)	2011 ⁽¹⁾	2012 (in millions, except for barrel amounts)	2011 ⁽¹⁾
Sales and other operating revenue				
Unaffiliated customers	\$ 2,918	\$ 2,258	\$ 6,042	\$ 4,109
Affiliates	138	1	206	247
Intersegment revenue				1
Total sales and other operating revenue	\$ 3,056	\$ 2,259	\$ 6,248	\$ 4,357
Depreciation and amortization expense	\$ 5	\$ 1	\$ 10	\$ 1
Impairment charge and related matters	\$	\$	\$ 8	\$
Operating Income	\$ 52	\$ 32	\$ 86	\$ 34
Crude oil purchases (thousands of bpd)	700	637	665	619
Gross margin per barrel purchased ⁽²⁾	88.7	61.6	84.7	35.9
Average crude oil price (per barrel)	\$ 93.50	\$ 102.55	\$ 98.22	\$ 98.42

(1) In August 2011, the Partnership acquired a crude oil acquisition and marketing business from Texon L.P. Results from the acquisition are included from the acquisition date.

(2) Represents total segment sales and other operating revenue minus cost of products sold and operating expense and depreciation and amortization, divided by crude oil purchases.

Operating income for the Crude Oil Acquisition and Marketing segment increased \$20 million to \$52 million for the three months ended June 30, 2012, as compared to \$32 million for the three months ended June 30, 2011. The increase in operating income was driven primarily by expanded crude oil volumes and margins which were the result of expansion in our crude oil trucking fleet and market related opportunities in West Texas. Operating results were further improved by increased volumes from the crude oil acquisition and marketing assets acquired from Texon L.P. in the third quarter of 2011.

Operating income for the Crude Oil Acquisition and Marketing segment increased \$52 million to \$86 million for the six months ended June 30, 2012, as compared to \$34 million for the six months ended June 30, 2011. The increase in operating income was driven primarily by expanded crude oil volumes and margins which were the result of expansion in our crude oil trucking fleet and market related opportunities in West Texas. Operating results were further improved by increased volumes from the crude oil acquisition and marketing assets acquired from Texon L.P. in

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the third quarter of 2011. Partially offsetting these improvements was an \$8 million non-cash impairment charge related to a cancelled software project.

Table of Contents*Terminal Facilities*

Our Terminal Facilities segment consists primarily of crude oil and refined product terminals and a refined product acquisition and marketing business. The Terminal Facilities earn revenue by providing storage, terminalling, blending and other ancillary services to our customers, as well as through the sale of refined products.

The following table presents the operating results and key operating measures for our Terminal Facilities for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011 ⁽¹⁾	2012	2011 ⁽¹⁾
	(in millions, except for barrel amounts)		(in millions, except for barrel amounts)	
Sales and other operating revenue				
Unaffiliated customers	\$ 115	\$ 63	\$ 199	\$ 117
Affiliates	45	24	90	58
Intersegment revenue	10	6	16	11
Total sales and other operating revenue	\$ 170	\$ 93	\$ 305	\$ 186
Depreciation and amortization expense	\$ 9	\$ 8	\$ 18	\$ 16
Operating Income	\$ 61	\$ 34	\$ 98	\$ 63
Terminal throughput (thousands of bpd)				
Refined products terminals	515	479	501	479
Nederland terminal	690	771	694	734
Refinery terminals	345	393	364	391

⁽¹⁾ In July and August 2011, the Partnership acquired the Eagle Point tank farm and related assets and a refined products terminal located in East Boston, Massachusetts, respectively. Results from the acquisitions are included from their respective acquisition dates. Operating income for the Terminal Facilities increased \$27 million to \$61 million for the three months ended June 30, 2012, as compared to \$34 million for the three months ended June 30, 2011. The increase in operating income is due primarily to a gain recognized on the reversal of certain regulatory obligations for tank cleaning which will be delayed as a result of the announced joint venture of Sunoco's Philadelphia refinery (\$10 million). Also contributing to the increase were operating results from the Partnership's refined products acquisition and marketing activities (\$6 million), improved results from the Partnership's refined products and Nederland terminals (\$7 million) and contributions from the 2011 acquisitions of the Eagle Point tank farm and a refined products terminal in Boston, Massachusetts (\$5 million).

Operating income for the Terminal Facilities increased \$35 million to \$98 million for the six months ended June 30, 2012, as compared to \$63 million for the six months ended June 30, 2011. The increase in operating income is due primarily to a gain for the reversal of certain regulatory obligations discussed above (\$10 million) and a gain recognized on a contract settlement associated with the Partnership's sale of the Big Sandy terminal and pipeline assets (\$6 million). Also contributing to the increase were contributions from the 2011 acquisitions of the Eagle Point tank farm and a refined products terminal in Boston, Massachusetts (\$9 million), operating results from the Partnership's refined products acquisition and marketing activities (\$6 million) and improved results from the Partnership's refined products and Nederland terminals (\$7 million). Partially offsetting these increases were reduced volumes at the Partnership's refinery terminals related to the idling of Sunoco's Marcus Hook refinery in the fourth quarter 2011 (\$2 million).

Refined Products Pipelines

Our Refined Products Pipelines segment consists of refined products pipelines, including a two-thirds undivided interest in the Harbor pipeline and joint venture interests in four refined products pipelines in selected areas of the United States. The Refined Products Pipelines earn revenues by transporting refined products from refineries in the northeast, midwest and southwest United

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States to markets in 6 states and Canada. Rates for shipments on these pipelines are regulated by the Federal Energy Commission (FERC) and the Pennsylvania Public Utility Commission (PA PUC).

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The following table presents the operating results and key operating measures for our Refined Products Pipelines for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011 ⁽¹⁾	2012	2011 ⁽¹⁾
	(in millions, except for barrel amounts)		(in millions, except for barrel amounts)	
Sales and other operating revenue				
Unaffiliated customers	\$ 21	\$ 15	\$ 38	\$ 25
Affiliates	11	14	24	31
Intersegment revenue			1	
Total sales and other operating revenue	\$ 32	\$ 29	\$ 63	\$ 56
Depreciation and amortization expense	\$ 5	\$ 4	\$ 9	\$ 8
Impairment charge	\$	\$	\$ 1	\$
Operating Income	\$ 7	\$ 8	\$ 13	\$ 13
Pipeline throughput (thousands of barrels per day (bpd) ⁽²⁾)	591	471	559	441
Pipeline revenue per barrel (cents) ⁽²⁾	59.5	69.1	62.2	70.4

⁽¹⁾ In May 2011, the Partnership acquired a controlling financial interest in the Inland refined products pipeline. As a result of the acquisition, the Partnership accounted for the entity as a consolidated subsidiary. Results from the acquisition are included from the acquisition date.

⁽²⁾ Excludes amounts attributable to equity interests which are not consolidated.

Operating income for the Refined Products Pipelines decreased \$1 million to \$7 million for the three months ended June 30, 2012, as compared to \$8 million for the three months ended June 30, 2011. Contributions from the second quarter 2011 acquisition of a controlling financial interest in the Inland pipeline (\$1 million) were offset by lower pipeline volumes related to the idling of Sunoco's Marcus Hook refinery in the fourth quarter 2011 (\$2 million).

Operating income for the Refined Products Pipelines remained unchanged at \$13 million for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011. Contributions from the second quarter 2011 acquisition of a controlling financial interest in the Inland pipeline (\$4 million) and a gain recognized on a contract settlement associated with the sale of our Big Sandy refined products terminal and pipeline assets in Texas (\$5 million) were offset by lower pipeline volumes due to the idling of Sunoco's Marcus Hook refinery in the fourth quarter 2011 (\$5 million), and higher environmental remediation expenses (\$4 million).

Proposed Acquisition

In April 2012, Sunoco entered into an agreement to be acquired by Energy Transfer Partners (ETP). In connection with this transaction, ETP will also become the owner of Sunoco's interests which include the general partner and the incentive distribution rights, as well as Sunoco's 32.4 percent interest in the Partnership's limited partner units. The transaction is expected to close in the fourth quarter 2012, subject to approval of Sunoco's shareholders and customary regulatory approvals. In addition, under the merger agreement, Sunoco will continue its plan to exit its refining business, including the announced joint venture with the Philadelphia refinery. The Partnership does not expect that the proposed acquisition will have a material impact on its operations.

The transfer of Sunoco's interests in Sunoco Logistics to ETP in connection with the acquisition plus the transfers of common units of Sunoco Logistics by other unitholders in the public market may result in Sunoco Logistics terminating for tax purposes. Sunoco Logistics will be considered to have been terminated for tax purposes if there are sales or exchanges which, in the aggregate, constitute 50% or more of the total interests in Sunoco Logistics' capital and profits within a twelve-month period. Sunoco Logistics' termination currently would not affect its classification as a partnership for U.S. federal income tax purposes, but instead, Sunoco Logistics would be treated as a new partnership for tax purposes. A termination of Sunoco Logistics would result in a deferral of Sunoco Logistics' deductions for depreciation, which may affect the net taxable income allocated to a unitholder. The Partnership continues to assess how the proposed acquisition by ETP will impact its unitholders. For further discussion on the tax risks associated with the Partnership see Item 1A. Risk Factors of the Partnership's Form 10-K filed on February 24, 2012.

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Liquidity and Capital Resources

Liquidity

Cash generated from operations and borrowings under the \$585 million of credit facilities are our primary sources of liquidity. At June 30, 2012, we had net working capital of \$119 million and available borrowing capacity under credit facilities of \$474 million. Our working capital position reflects crude oil and refined products inventories based on historical costs under the last-in, first-out (LIFO) method of accounting. If the inventories had been valued at their current replacement cost, we would have had working capital of \$246 million at June 30, 2012. We periodically supplement our cash flows from operations with proceeds from debt and equity financing activities.

Credit Facilities

The Partnership maintains two credit facilities to fund the Partnership's working capital requirements, finance acquisition and capital projects and for general partnership purposes with total borrowing capacity of \$550 million. The credit facilities consist of a five-year \$350 million unsecured credit facility (the \$350 million Credit Facility) and a \$200 million 364 day unsecured credit facility (the \$200 million Credit Facility). Outstanding borrowings under these credit facilities were \$106 million at June 30, 2012. There were no borrowings outstanding at December 31, 2011.

The Partnership's credit facilities contains various covenants limiting the Partnership's ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The credit facilities also limit the Partnership, on a rolling four-quarter basis, to a maximum total consolidated debt to consolidated EBITDA, as defined in the underlying credit agreement, ratio of 5.0 to 1, which can generally be increased to 5.5 to 1 during an acquisition period. The Partnership's ratio of total debt to EBITDA was 2.3 to 1 at June 30, 2012, as calculated in accordance with the bank covenants.

Successful completion of ETP's acquisition of Sunoco would represent an event of default under the Partnership's credit facilities as the general partner interests would no longer be owned by Sunoco. The Partnership continues to monitor the progress of the proposed transaction and, as necessary, expects to amend this condition so that no event of default will occur if the acquisition is completed.

In May 2012, West Texas Gulf Pipe Line Company, one of the Partnership's consolidated joint ventures, entered into a \$35 million revolving credit facility (the \$35 million Credit Facility), which matures in April 2015. The facility is available to fund West Texas Gulf's general corporate purposes including working capital and capital expenditures. The credit facility limits West Texas Gulf on a rolling four-quarter basis, to a minimum fixed charge coverage ratio, as defined in the underlying credit agreement. The ratio for the fiscal quarter ending June 30, 2012 shall not be less than 0.85 to 1. The minimum ratio fluctuates between 0.80 to 1 and 1.00 to 1 throughout the term of the revolver as specified in the credit agreement. In addition, the credit facility limits West Texas Gulf to a maximum leverage ratio of 2.00 to 1. West Texas Gulf's fixed charge coverage ratio and leverage ratio were 1.04 to 1 and 0.18 to 1, respectively, at June 30, 2012. Outstanding borrowings under this credit facility were \$5 million at June 30, 2012.

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Cash Flows and Capital Expenditures

Net cash provided by operating activities for the six months ended June 30, 2012 was \$282 million compared with net cash used in operating activities of \$5 million for the first six months of 2011. Net cash provided by operating activities in 2012 related primarily to net income of \$252 million and non-cash charges for depreciation and amortization of \$50 million partially offset by \$14 million in spending for environmental liabilities which are expected to be recovered under the Partnership's insurance programs. The net cash used in operating activities in 2011 related primarily to a net increase in working capital of \$194 million, partially offset by net income of \$146 million and non-cash charges of depreciation and amortization of \$37 million. The increase in working capital was primarily the result of the Partnership's contango inventory positions and the associated effect on accounts receivable and accounts payable.

Net cash used in investing activities for the first six months of 2012 was \$123 million compared with \$168 million for the first six months of 2011. Net cash used in investing activities in 2012 consisted primarily of maintenance capital and projects to expand upon the Partnership's refined products acquisition and marketing activities, upgrade the service capacity at the Eagle Point terminal, invest in the Partnership's crude oil infrastructure by increasing its pipeline capabilities in West Texas and expanding the trucking fleet, increase service capabilities at the Partnership's Nederland terminal and conversion of certain refined products pipelines as part of the Mariner West Project. These uses were partially offset by \$11 million of proceeds received for the sale of the Big Sandy terminal and pipeline assets and the settlement of related throughput and deficiency contracts. Net cash used in investing activities in 2011 consisted of the acquisition of the Inland refined products pipeline system in Ohio for \$99 million, capital expenditures to expand upon the Partnership's existing refined products acquisition and marketing business, the increase in tankage at the Nederland facility and the expansion of the Partnership's refined products platform in the southwest United States, as well as maintenance capital associated with the Partnership's existing assets.

Net cash used in financing activities for the first six months of 2012 was \$162 million compared with \$177 million provided by financing activities for the first six months of 2011. Net cash used in financing activities for the first six months of 2012 resulted from the \$250 million repayment of 7.25% senior notes in February 2012 and \$112 million in distributions paid to limited partners and the general partner. The 2012 cash used in financing was offset by \$111 million of net credit facility borrowings and \$97 million decrease in advances to affiliates. Net cash provided by financing activities for the first six months of 2011 resulted from \$234 million in net borrowings under the Partnership's revolving credit facility and a \$51 million decrease in advances to affiliates. The 2011 sources of cash were partially offset by \$103 million in distributions paid to limited and general partners.

Capital Requirements

Our operations are capital intensive, requiring significant investment to maintain, upgrade and enhance existing assets and to meet environmental and operational regulations. The capital requirements have consisted, and are expected to continue to consist, primarily of:

Maintenance capital expenditures that extend the usefulness of existing assets, such as those required to maintain equipment reliability, tankage and pipeline integrity and safety, and to address environmental regulations,

Expansion capital expenditures to acquire and integrate complementary assets to improve operational efficiencies or reduce costs and to expand existing and construct new facilities, such as projects that increase storage or throughput volume and,

Major acquisitions to acquire and integrate complementary assets to grow the business, to improve operational efficiencies or reduce costs.

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The following table summarizes maintenance and expansion capital expenditures, including amounts paid for acquisitions, for the periods presented:

	Six Months Ended June 30,	
	2012	2011
	(in millions)	
Maintenance	\$ 18	\$ 10
Expansion	116	59
Major Acquisitions		99
Total	\$ 134	\$ 168

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. The Partnership expects its maintenance capital spending to be approximately \$50 million in 2012.

Expansion capital expenditures for the six months ended June 30, 2012 were \$116 million compared to \$59 million for the first six months of 2011. Expansion capital for the six months ended June 30, 2012 includes the projects defined above and the Partnership expects total expansion capital of approximately \$350 to \$400 million for 2012, excluding major acquisitions.

During the six months ended June 30, 2011, the Partnership acquired an 83.8 percent equity interest in Inland Corporation for \$99 million, which owns a refined products pipeline system in Ohio.

We expect to fund capital expenditures, including any additional acquisitions, from cash provided by operations and, to the extent necessary, from the proceeds of borrowings under our 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 changing interest rates and volatility in crude oil and refined products commodity prices. To manage such exposure, interest rates, inventory levels and expectations of future commodity prices are monitored when making decisions with respect to risk management.

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-rate and variable-rate debt. At June 30, 2012, we had \$111 million of variable rate borrowings under the revolving credit facilities. Outstanding borrowings bear interest cost of LIBOR plus an applicable margin. Our weighted average interest rate on our variable-rate borrowings was approximately 2 percent at June 30, 2012. A one percent change in the weighted average rate would have impacted annual interest expense by approximately \$1 million.

At June 30, 2012, we had \$1.45 billion of fixed-rate borrowings, which had a fair value of \$1.56 billion at June 30, 2012. A hypothetical one-percent decrease in interest rates would increase the fair value of our fixed-rate borrowings at June 30, 2012 by approximately \$186 million.

Commodity Market Risk

We are exposed to volatility in crude oil and refined products 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. 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. When unscheduled physical inventory builds or draws do occur, they are monitored and managed to a balanced position over a reasonable period of time.

We do not use futures or other derivative instruments to speculate on crude oil or refined products prices, as these activities could expose us to significant losses. We do use derivative contracts as economic hedges against price changes related to our forecasted refined products purchase and sale activities. These derivatives are intended to have equal and opposite effects of the purchase and sale activities. At June 30, 2012, the fair market value of our open derivative positions was a net liability of \$4 million on 3 million barrels of refined products. These derivative positions vary in length but do not extend beyond one year.

For additional information concerning our commodity market risk activities, see Note 13 to the Condensed Consolidated Financial Statements.

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 current beliefs of our management as well as assumptions made by, and information currently available to, our management.

Forward-looking statements discuss expected future results based on current and pending business operations, and may be identified by words such as may, anticipates, believes, expects, estimates, planned, scheduled or similar phrases or expressions. Although we believe 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. These statements are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results projected, forecasted, estimated or budgeted, including, but not limited to the following:

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 and petroleum products that impact demand for our pipeline, terminalling and storage services;

Changes in the short-term and long-term demand for crude oil, refined petroleum products and natural gas liquids we buy and sell;

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

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An increase in the competition encountered by our terminals, pipelines and crude oil and refined products 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 the 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;

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

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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;

Restrictive covenants in our credit agreements;

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;

The effectiveness of our risk management activities, including the use of derivative financial instruments to hedge commodity risks;

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 we have 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 we have an ownership interest, are 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

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Partnership reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Partnership reports under the Exchange Act is accumulated and communicated to management, including the President and Chief Executive Officer and Interim Chief Financial Officer of Sunoco Partners LLC (the Partnership's general partner), as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2012, the Partnership carried out an evaluation, under the supervision and with the participation of the management of the general partner (including the President and Chief Executive Officer and the Interim 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 President and Chief Executive Officer, and its Interim Chief Financial Officer, concluded that the Partnership's disclosure controls and procedures are effective.

No change in the Partnership's internal control over financial reporting has occurred during the fiscal quarter ended June 30, 2012 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 initial public offering (IPO) pending against our Sunoco-affiliated predecessors and us (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 our responsibility. In addition, Sunoco is obligated to indemnify us under certain other agreements executed after the IPO.

There are certain other pending legal proceedings related to matters arising after the IPO that are not indemnified by Sunoco. Our management believes that any liabilities that may arise from these legal proceedings will not be material to our results of operations, cash flows or financial position at June 30, 2012.

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, 2011, filed on February 23, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

- 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, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Comprehensive Income; (ii) the Condensed Consolidated Balance Sheets; (iii) the Consolidated Statement of Cash Flows; (iv) the Consolidated Statements of Equity; and (v) the Notes to Condensed Consolidated Financial Statements.

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/ Michael J. Colavita*
Michael J. Colavita
Interim Chief Financial Officer

Date: August 2, 2012