

SUNOCO LOGISTICS PARTNERS L.P.
Form 10-K
February 23, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-31219

SUNOCO LOGISTICS PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

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

23-3096839
(I.R.S. Employer

Identification No.)

19103
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange
Common Units representing limited partnership interests	New York Stock Exchange
Senior Notes 7.25%, due February 15, 2012	New York Stock Exchange
Senior Notes 8.75%, due February 15, 2014	New York Stock Exchange
Senior Notes 6.125%, due May 15, 2016	New York Stock Exchange
Senior Notes 5.50%, due February 15, 2020	New York Stock Exchange
Senior Notes 6.85%, due February 15, 2040	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes No

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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 Small reporting company

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

The aggregate value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10 percent or more of the Common Units outstanding (including the General Partner of the registrant, Sunoco Partners LLC, as if they may be affiliates of the registrant)) was approximately \$1.5 billion as of June 30, 2010, based on \$72.00 per unit, the closing price of the Common Units as reported on the New York Stock Exchange on that date.

At February 22, 2011, the number of the registrant's Common Units outstanding was 33,128,767.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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Forward-Looking Statements

This annual report on Form 10-K discusses our goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or states other information relating to us, based on the current beliefs of our management as well as assumptions made by, and information currently available to, our management.

Words such as may, anticipates, believes, expects, estimates, planned, scheduled or similar phrases or expressions identify forward looking statements. 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 our existing business operations;

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

Changes in demand for, or supply of, crude oil 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;

An increase in the competition encountered by our terminals, pipelines and crude oil acquisition and marketing operations;

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

Changes in the general economic conditions in the United States;

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

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

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

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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;

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

Risks related to labor relations and workplace safety;

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

Changes in 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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PART I

As used in this document, unless the context otherwise indicates, the terms we, us, and our means Sunoco Logistics Partners L.P., one or more of our operating subsidiaries, or all of them as a whole.

ITEM 1. BUSINESS

(a) General Development of Business

We are a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of a geographically diverse portfolio of complementary pipeline, terminalling, and crude oil acquisition and marketing assets. The principal executive offices of Sunoco Partners LLC, our general partner, are located at 1818 Market Street, Suite 1500, Philadelphia, Pennsylvania 19103 (telephone (215) 977-3000). Our website address is www.sunocologistics.com.

Sunoco, Inc., and its wholly owned subsidiaries including Sunoco, Inc. (R&M), own approximately 31 percent of our partnership interests, including a 2 percent general partner interest. Sunoco, Inc. and Sunoco, Inc. (R&M) are collectively referred to as Sunoco.

(b) Financial Information about Segments

See Part II, Item 8. Financial Statements and Supplementary Data.

(c) Narrative Description of Business

We are principally engaged in the transport, terminalling and storage of refined products and crude oil and the purchase and sale of crude oil in 17 states located in the northeast, midwest, southeast and southwest United States. Sunoco accounted for approximately 14 percent of our total revenues for the year ended December 31, 2010. Our business is comprised of three segments:

The Refined Products Pipeline System serves Sunoco and selected other third parties and consists of approximately 2,200 miles of refined product pipelines, including a two-thirds undivided interest in the approximately 100-mile refined product Harbor pipeline and joint venture interests in four refined products pipelines in selected areas of the United States.

The Terminal Facilities consist of 42 active refined product terminals with an aggregate storage capacity of 7.2 million barrels, which provide storage, terminalling, blending and other ancillary services primarily to our Refined Products Pipeline System; the Nederland Terminal, a 20.2 million barrel marine crude oil terminal on the Texas Gulf Coast; a 2.0 million barrel refined product terminal serving Sunoco's Marcus Hook refinery near Philadelphia, Pennsylvania; one inland and two marine crude oil terminals with a

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combined capacity of 3.4 million barrels, and related pipelines, which serve Sunoco's Philadelphia refinery; and a 1.0 million barrel liquefied petroleum gas (LPG) terminal near Detroit, Michigan.

The *Crude Oil Pipeline System* gathers, purchases, sells, and transports crude oil principally in Oklahoma and Texas. The system consists of approximately 4,900 miles of crude oil trunk pipelines, including a 37 percent undivided interest in the approximately 100-mile Mesa Pipe Line system; approximately 500 miles of crude oil gathering lines that supply the trunk pipelines; approximately 110 crude oil transport trucks; and approximately 100 crude oil truck unloading facilities.

Our primary business strategies focus on generating stable cash flows, increasing pipeline and terminal throughput, pursuing strategic and accretive acquisitions that provide organic growth opportunities that will complement our existing asset base and improving operating efficiencies. We believe that these strategies will result in continued increases in distributions to our unitholders.

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For the year ended December 31, 2010, Sunoco accounted for approximately 56 percent of the Refined Products Pipeline System’s total revenues, approximately 46 percent of the Terminal Facilities’ total revenues, and approximately 12 percent of the Crude Oil Pipeline System’s total revenues. In the first quarter of 2011, Sunoco is expected to complete the sale of its Toledo, Ohio refinery to an affiliate of PBF Holding Company LLC (PBF). Effective with the closing of the sale, we expect to enter into agreements to provide products and services to PBF or its agents, comparable with those historically provided to Sunoco. As such, the portion of our revenues that relates to Sunoco are expected to decrease in the future. However, we do not anticipate that this change will result in a material impact to our financial results.

Refined Products Pipeline System

Refined Products Pipelines

We own and operate approximately 2,200 miles of refined products pipelines in selected areas of the United States. The refined products pipelines transport refined products from refineries in the northeast, midwest and southwest United States to markets in New York, New Jersey, Pennsylvania, Ohio, Michigan, Texas and Canada. The refined products transported in these pipelines include multiple grades of gasoline, middle distillates (such as heating oil, diesel and jet fuel) and LPGs (such as propane and butane). Rates for shipments on the Refined Products Pipeline System are regulated by the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (PA PUC). We also lease to Sunoco three bi-directional, interrefinery pipelines totaling approximately 50 miles, carrying feedstocks and jet fuel and a four-mile pipeline spur extending to the Philadelphia International Airport.

Since December 31, 2007, we completed the following acquisitions of refined products pipelines:

West Shore Pipe Line Company. In July 2010, we acquired from an affiliate of BP an additional 4.8 percent interest in West Shore Pipe Line Company (West Shore), a joint venture that owns approximately 650 miles of common carrier refined products pipelines, increasing our ownership interest from 12.3 percent to 17.1 percent. The system, which is operated by Buckeye, originates from the Chicago, Illinois refining center and extends to Madison and Green Bay, Wisconsin with delivery points along the way.

MagTex Refined Products Pipeline Acquisition. In November 2008, we acquired a refined products pipeline system and certain other real and personal property interests and assets located in Texas from an affiliate of Exxon Mobil Corporation. The system consists of approximately 500 miles of refined products pipelines originating in Beaumont and Port Arthur, Texas and terminating in Hearne and Waskom, Texas. The refined products transported in these pipelines include multiple grades of gasoline and middle distillates (such as diesel and jet fuel).

The following table details the total shipments on the refined products pipelines in each of the years presented. Total shipments represent the total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped:

	Year Ended December 31,		
	2010	2009	2008
Total shipments (millions of barrel miles per day) ⁽¹⁾	50.8	57.7	46.9

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

The mix of refined products delivered varies seasonally, with gasoline demand peaking during the summer months, and demand for heating oil and other distillate fuels peaking in the winter. In addition, weather conditions in the areas served by the Refined Products Pipeline System affect both the demand for, and the mix of, the refined products delivered through the Refined Products Pipeline System, although historically any overall impact on the total volume shipped has been short-term.

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Explorer Pipeline

We own a 9.4 percent interest in Explorer Pipeline Company (Explorer), a joint venture that owns approximately 1,900 miles of common carrier refined products pipelines. The system, which is operated by Explorer employees, originates from the refining centers of Lake Charles, Louisiana and Beaumont, Port Arthur and Houston, Texas, and extends to Chicago, Illinois, with delivery points in the Houston, Dallas/Fort Worth, Tulsa, St. Louis, and Chicago areas. Explorer charges market-based rates for all its tariffs.

Yellowstone Pipe Line

We own a 14.0 percent interest in Yellowstone Pipe Line Company (Yellowstone), a joint venture that owns approximately 700 miles of common carrier refined products pipelines. The system, which is operated by ConocoPhillips, originates from the Billings, Montana refining center and extends to Moses Lake, Washington with delivery points along the way. Tariff rates are regulated by the FERC for interstate shipments and the Montana Public Service Commission for intrastate shipments in Montana.

West Shore Pipe Line

We own a 17.1 percent interest in West Shore Pipe Line Company (West Shore), a joint venture that owns approximately 650 miles of common carrier refined products pipelines. The system, which is operated by Buckeye, originates from the Chicago, Illinois refining center and extends to Madison and Green Bay, Wisconsin with delivery points along the way. West Shore charges market-based tariff rates in the Chicago area.

Wolverine Pipe Line

We own a 31.5 percent interest in Wolverine Pipe Line Company (Wolverine), a joint venture that owns approximately 700 miles of common carrier pipelines that transport primarily refined products. The system, which is operated by Wolverine employees, originates from Chicago, Illinois and extends to Detroit, Grand Haven, and Bay City, Michigan with delivery points along the way. Wolverine charges market-based rates for tariffs at the Detroit, Jackson, Niles, Hammond, and Lockport destinations.

Terminal Facilities

Refined Products Terminals

Our 42 active refined products terminals receive refined products from pipelines, barges, railcars, and trucks and distribute them to Sunoco and to third parties, who in turn deliver them to end-users and retail outlets. Terminals are facilities where refined products are transferred to or from storage or a transportation system, such as a pipeline, to another transportation system, such as trucks or another pipeline. The operation of these facilities is called terminalling. Terminals play a key role in moving product to the end-user market by providing the following services: storage;

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distribution; blending to achieve specified grades of gasoline and middle distillates; and other ancillary services that include the injection of additives and the filtering of jet fuel. Typically, our terminal facilities consist of multiple storage tanks and are equipped with automated truck loading equipment that is available 24 hours a day. This automated system provides controls over allocations, credit, and carrier certification.

We completed the following acquisitions since December 31, 2007:

Southwest Terminals In October 2010, we acquired a terminal located in Bay City, Texas and a terminal and pipeline segment located in Big Sandy, Texas that will provide crude oil and refined products terminalling services. The terminals have a total capacity of 0.3 million barrels. We are in the process of integrating these facilities into our existing asset base.

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Butane Blending In July 2010, we acquired a butane blending business from Texon L.P. The butane blending business generates profits by adding less expensive normal butane to higher priced gasoline, while complying with regional and seasonally variable specifications for maximum vapor pressure. The business provides terminal and pipeline operators with the use of proprietary automated blending systems and butane supply to optimize butane blending in pipelines and at gasoline terminals. We hold U.S. patents for these systems. In addition, we purchase and sell butane to fulfill users' blending requirements. Revenues from this business are generated through sales of butane, sales of gasoline generated through blending and profit-sharing arrangements pursuant to certain contracts.

Romulus Terminal In September 2009, we acquired a refined products terminal facility located in Romulus, Michigan. Total active terminal storage capacity for this facility is approximately 0.4 million barrels.

MagTex Terminals In November 2008, we acquired five active refined products terminal facilities located in Texas and Louisiana from affiliates of Exxon Mobil Corporation. Total active terminal storage capacity of these facilities is approximately 0.6 million barrels.

Our refined products terminals derive most of their revenues from terminalling fees paid by customers. A fee is charged for receiving refined products into the terminal and delivering them to trucks, barges, or pipelines. In addition to terminalling fees, we generate revenues by charging customers fees for blending services, including ethanol and biodiesel blending, injecting additives, and filtering jet fuel. Our refined products pipelines supply the majority of our refined products terminals, with third-party pipelines and barges supplying the remainder.

The table below sets forth the total average daily throughput for the refined products terminals in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Refined products throughput (thousands of barrels per day bpd)	488.5	462.2	436.2

The following table outlines the number of active terminals and storage capacity by state:

State	Number of Terminals	Storage Capacity (thousands of bbls)
Indiana	1	206.5
Maryland	1	717.1
Michigan	3	763.2
New Jersey	4	747.1
New York ⁽¹⁾	4	920.3
Ohio	7	915.4
Pennsylvania	15	1,856.3
Virginia	1	403.1
Louisiana	1	162.3
Texas	5	502.2
Total	42	7,193.5

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- ⁽¹⁾ We have a 45 percent ownership interest in a terminal at Inwood, New York and a 50 percent ownership interest in a terminal at Syracuse, New York. The storage capacities included in the table represents the proportionate share of capacity attributable to our ownership interest.

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Refined Products Acquisition and Marketing

Expanding our service platform to include butane blending increased our refined products acquisition and marketing activities during 2010 at locations where we have installed automated butane blending systems. Revenues from these activities are generated through sales of butane, sales of gasoline generated through blending and profit sharing arrangements pursuant to certain contracts. The operating results of our refined products acquisition and marketing activities are dependent on our ability to execute sales in excess of the aggregate cost, and therefore we structure our acquisition and marketing operations to optimize the sources and timing of purchases and minimize the transportation and storage costs. In order to manage exposure to volatility in refined products prices, our policy is to (i) only purchase 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. However, we do utilize a seasonal hedge program involving swaps, futures and other derivative instruments to mitigate the risk associated with unfavorable market movements in the price of refined products. These derivative contracts act as a hedging mechanism against the volatility of prices.

Nederland Terminal

The Nederland Terminal, which is located on the Sabine-Neches waterway between Beaumont and Port Arthur, Texas, is a large marine terminal providing storage and distribution services for refiners and other large transporters of crude oil. The terminal receives, stores, and distributes crude oil, feedstocks, lubricants, petrochemicals, and bunker oils (used for fueling ships and other marine vessels) and also blends lubricants. The terminal currently has a total storage capacity of approximately 20.2 million barrels in approximately 120 aboveground storage tanks with individual capacities of up to 660 thousand barrels. During 2011 and 2012, we expect to complete construction on four tanks, increasing the terminal's total storage capacity to 22.0 million barrels.

The Nederland Terminal can receive crude oil at each of its five ship docks and three barge berths. The five ship docks are capable of receiving over 1.0 million bpd of crude oil. In addition to our Crude Oil Pipeline System, the terminal can also receive crude oil through a number of other pipelines, including:

the Shell Houma to Houston pipeline from Louisiana;

the Cameron Highway pipeline, which is jointly owned by Enterprise Products and Genesis Energy;

the ExxonMobil Pegasus pipeline;

the Department of Energy (DOE) Big Hill pipeline; and

the DOE West Hackberry pipeline.

The DOE pipelines connect the terminal to the United States Strategic Petroleum Reserve's West Hackberry caverns at Hackberry, Louisiana and Big Hill near Winnie, Texas, which have an aggregate storage capacity of 370 million barrels.

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The Nederland Terminal can deliver crude oil and other petroleum products via pipeline, barge, ship, rail, or truck. In total, the terminal is capable of delivering over 2.1 million bpd of crude oil to our Crude Oil Pipeline System or a number of third party pipelines including:

the ExxonMobil pipeline to its Beaumont, Texas refinery;

the DOE pipelines to the Big Hill and West Hackberry Strategic Petroleum Reserve caverns;

the Valero pipeline to its Port Arthur, Texas refinery;

the Total pipelines to its Port Arthur, Texas refinery; and

the Shell pipeline to various refineries in Houston, Texas.

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The table below sets forth the total average daily throughput for the Nederland Terminal in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Crude oil and refined products throughput (thousands of bpd)	728.5	597.1	526.0

Revenues are generated at the Nederland Terminal primarily by providing term or spot storage services and throughput capability to a number of customers.

Fort Mifflin Terminal Complex

The Fort Mifflin Terminal Complex is located on the Delaware River in Philadelphia and supplies Sunoco's Philadelphia refinery with all of its crude oil. The complex includes the Fort Mifflin Terminal, the Hog Island Wharf, the Darby Creek Tank Farm and connecting pipelines. Revenues are generated from the Fort Mifflin Terminal Complex by charging fees based on throughput. Substantially all of the revenues from the Fort Mifflin Terminal Complex are derived from Sunoco.

The Fort Mifflin Terminal consists of two ship docks with 40-foot freshwater drafts and nine tanks with a total storage capacity of approximately 570 thousand barrels. Crude oil and some refined products enter the Fort Mifflin Terminal primarily from marine vessels on the Delaware River. One Fort Mifflin dock is designed to handle crude oil from very large crude carrier-class (VLCC) tankers and smaller crude oil vessels. The other dock can accommodate only smaller crude oil vessels.

The Hog Island Wharf is located next to the Fort Mifflin Terminal on the Delaware River and receives crude oil via two ship docks, one of which can accommodate crude oil tankers and smaller crude oil vessels and the other of which can accommodate some smaller crude oil vessels.

The Darby Creek Tank Farm is a primary crude oil storage terminal for Sunoco's Philadelphia refinery. This facility has 26 tanks with a total storage capacity of approximately 2.9 million barrels. Darby Creek receives crude oil from the Fort Mifflin Terminal and Hog Island Wharf via our pipelines. The tank farm then stores the crude oil and pumps it to the Philadelphia refinery via our pipelines.

The table below sets forth the average daily number of barrels of crude oil and refined products delivered to Sunoco's Philadelphia refinery in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Crude oil throughput (thousands of bpd)	267.5	266.2	284.8
Refined products throughput (thousands of bpd)	31.6	13.7	14.9
Total (thousands of bpd)	299.1	279.9	299.7

Marcus Hook Tank Farm

The Marcus Hook Tank Farm stores substantially all of the gasoline and middle distillates that Sunoco ships from its Marcus Hook refinery. This facility has 16 tanks with a total storage capacity of approximately 2.0 million barrels. After receipt of refined products from the Marcus Hook refinery, the tank farm either stores or delivers them to our Twin Oaks terminal, to the Twin Oaks pump station, an origin location for the Refined Products Pipeline System or to a third party terminal via pipeline.

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The table below sets forth the total average daily throughput for the Marcus Hook Tank Farm in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Refined products throughput (thousands of bpd)	151.9	129.9	127.7

Eagle Point Docks

The Eagle Point Docks are located on the Delaware River and are connected to the Sunoco Eagle Point refinery, which was permanently shut down in the fourth quarter 2009. The shutdown of the Eagle Point refinery did not have a material impact on our operating results, and we are currently operating under a cost-reimbursement agreement with Sunoco for their distribution of refined products through our Eagle Point terminal. The docks can accommodate three ships or barges to receive and deliver crude oil, intermediate products and refined products to outbound ships and barges.

The table below sets forth the total average daily throughput for the Eagle Point Docks in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Crude oil throughput (thousands of bpd)	13.8	99.1	132.4
Refined products throughput (thousands of bpd)	0.6	82.3	93.5
Total (thousands of bpd)	14.4	181.4	225.9

Inkster Terminal

The Inkster Terminal, located near Detroit, Michigan, consists of eight salt caverns with a total storage capacity of approximately 975 thousand barrels. We use the Inkster Terminal's storage in connection with our Toledo, Ohio to Sarnia, Canada pipeline system and for the storage of LPGs from Canada and Sunoco's Toledo refinery, which is expected to be sold to PBF in the first quarter of 2011. The terminal can receive and ship LPGs in both directions at the same time and has a propane truck loading rack.

Crude Oil Pipeline System*Crude Oil Pipelines*

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The crude oil pipelines consist of approximately 4,900 miles of crude oil trunk pipelines and approximately 500 miles of crude oil gathering pipelines in the southwest and midwest United States which primarily deliver crude oil and other feedstocks to refineries in those regions.

We completed the following acquisitions on our Crude Oil Pipeline System since December 31, 2007:

Mid-Valley Pipeline Company. In July 2010, we acquired an additional ownership interest in Mid-Valley Pipeline Company (Mid-Valley) from an affiliate of BP, increasing our ownership from 55.3 percent to 91.0 percent. We remain the operator of the pipeline and as we now have a controlling financial interest, Mid-Valley is reflected as a consolidated subsidiary within the Crude Oil Pipeline System from the date of acquisition. Mid-Valley owns approximately 1,000 miles of crude oil pipelines, which originate in Longview, Texas and terminate in Samaria, Michigan. Mid-Valley provides crude oil to a number of refineries, primarily in the midwest United States, including Sunoco's Toledo, Ohio refinery which is expected to be sold to PBF in the first quarter of 2011. Our crude oil pipeline operations are not expected to be materially impacted by the sale, as we expect to continue to provide services to the refinery.

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West Texas Gulf Pipe Line Company. In August 2010, we acquired an additional ownership interest in West Texas Gulf Pipe Line Company (West Texas Gulf) from an affiliate of BP, increasing our ownership from 43.8 percent to 60.3 percent. We remain the operator of the pipeline and as we now have a controlling financial interest, West Texas Gulf is reflected as a consolidated subsidiary within the Crude Oil Pipeline System from the date of acquisition. West Texas Gulf owns approximately 600 miles of common carrier crude oil pipelines, which originate from the West Texas oil fields at Colorado City and the Nederland Terminal and extend to Longview, Texas where deliveries are made to several pipelines, including the Mid-Valley pipeline.

Excel Pipeline LLC. In September 2009, we acquired a 100% membership interest in Excel Pipeline LLC (Excel) from affiliates of Gary-Williams Energy Corporation (Gary-Williams). The tangible assets of Excel consist of approximately 50 miles of a crude oil pipeline originating in Duncan, Oklahoma and terminating at Gary-Williams refinery in Wynnewood, Oklahoma. We were the operator of the pipeline prior to the acquisition. In connection with the transaction, we assumed a 20-year throughput and deficiency contract with Gary-Williams. Pursuant to this contract, Gary-Williams guarantees minimum amounts of crude oil throughput on the pipeline and we agree to provide transportation of such crude oil.

Our pipelines access several trading hubs, including the largest trading hub for crude oil in the United States located in Cushing, Oklahoma (Cushing), as well as other trading hubs located in Midland, Colorado City and Longview, Texas. Our crude oil pipelines also deliver to and connect with other pipelines that deliver crude oil to a number of third-party refineries. The table below sets forth the average daily number of barrels of crude oil and other feedstocks transported on our crude oil pipelines in each of the years presented:

	Year Ended December 31,		
	2010	2009	2008
Crude oil and other feedstocks throughput (thousands of bpd) ⁽¹⁾⁽²⁾	1,138.8	658.0	682.6

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

(2) Reflects total throughput by Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company from the dates of acquisition in 2010, divided by 365 days. From the dates of acquisition, these pipelines had actual throughput of approximately 585 thousand bpd for the twelve months ended December 31, 2010.

Southwest United States

Our pipelines in the southwest United States consist of approximately 2,950 miles of crude oil trunk pipelines and approximately 300 miles of crude oil gathering pipelines in Texas. The Texas system is connected to the Mid-Valley pipeline, other third-party pipelines and our Nederland Terminal.

Revenues are generated from tariffs paid by shippers utilizing our transportation services. These tariffs are filed with the Texas Rail Road Commission (Texas R.R.C.) and the FERC.

We also own and operate a crude oil pipeline and gathering system in Oklahoma. This system contains approximately 850 miles of crude oil trunk pipelines and approximately 200 miles of crude oil gathering pipelines. We have the ability to deliver substantially all of the crude oil gathered on our Oklahoma system to Cushing. During 2009, Sunoco completed the sale of its Tulsa refinery to an affiliate of Holly Corp. Effective with the closing of the sale, we entered into a long-term agreement with Holly Refining & Marketing MidCon, L.L.C. to sell crude oil to the Tulsa refinery in volumes that have been comparable with historical volumes supplied to Sunoco.

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Revenues are generated on our Oklahoma system from tariffs paid by shippers utilizing our transportation services. We file these tariffs with the Oklahoma Corporation Commission and the FERC. We are one of the largest purchasers of crude oil from producers in the state, and are the primary shipper on our Oklahoma system.

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Midwest United States

We are the majority owner of approximately 1,000 miles of crude oil pipeline that originates in Longview, Texas and passes through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky and Ohio, and terminates in Samaria, Michigan. This pipeline provides crude oil to a number of refineries, primarily in the midwest United States, including Toledo, Ohio.

In addition, we own approximately 100 miles of crude oil pipeline that runs from Marysville, Michigan to Toledo, Ohio, and a truck injection point for local production at Marysville. This pipeline receives crude oil from the Enbridge pipeline system for delivery to refineries located in Toledo, Ohio and to Marathon's Samaria, Michigan tank farm, which supplies its refinery in Detroit, Michigan.

Revenues are generated from tariffs paid by shippers utilizing our transportation services. These tariffs are filed with the FERC.

Crude Oil Acquisition and Marketing

In addition to receiving tariff revenues for transporting crude oil on the Crude Oil Pipeline System, we generate a substantial portion of our revenues through our crude oil acquisition and marketing activities. These activities are primarily in Oklahoma and Texas and include:

purchasing crude oil at the wellhead from producers and in bulk from aggregators at major pipeline interconnections and trading locations;

storing inventory during contango market conditions (price of crude oil for future delivery is higher than current prices);

buying and selling crude oil at different locations and for different grades in order to maximize profit;

transporting crude oil on our pipelines and trucks or, when necessary or cost effective, pipelines or trucks owned and operated by third parties; and

marketing crude oil to major integrated oil companies, independent refiners and resellers in various types of sale and exchange transactions.

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 for crude oil normally do not bear a relationship to gross margin, although these price levels significantly impact revenue and cost 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 operations. The operating results of the crude oil acquisition and marketing operations are dependent on our ability to sell crude oil at a price in excess of the aggregate cost. Our crude oil acquisition and marketing operations are affected by overall levels of supply and demand for crude oil and relative fluctuations in market-related indices. 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 Pipeline

System.

We mitigate most of our pricing risk on purchase contracts by selling crude oil for an equal term on a similar pricing basis. We also mitigate most of our volume risk by entering into sales agreements, generally at the same time that purchase agreements are executed, at similar volumes. As a result, volumes sold are generally equal to volumes purchased. We do not acquire and hold futures contracts or other derivative products for the purpose of speculating on crude oil price changes, as these activities could expose us to significant losses.

Crude Oil Purchases and Exchanges

In a typical producer's operation, crude oil flows from the wellhead to a separator where the petroleum gases are removed. After separation, the producer treats the crude oil to remove water, sediment, and other

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contaminants and then moves it to an on-site storage tank. When the tank is full, the producer contacts our field personnel to purchase and transport the crude oil to market. The crude oil in producers' tanks is then either delivered directly or transported via truck to our pipeline or to a third party's pipeline. The trucking services are performed either by our truck fleet or a third-party trucking operation.

Crude oil purchasers who buy from producers compete on the basis of price and highly responsive services. Our management believes that its ability to offer competitive pricing and high-quality field and administrative services to producers is a key factor in our ability to maintain our volume of lease purchased crude oil and to obtain new volume.

We also enter into exchange agreements to enhance margins throughout the acquisition and marketing process. When opportunities arise to increase our margin or to acquire a grade of crude oil that more nearly matches our delivery requirement or the preferences of our refinery customers, our physical crude oil is exchanged with third parties. Generally, we enter into exchanges to acquire crude oil of a desired quality in exchange for a common grade crude oil or to acquire crude oil at locations that are closer to our end-markets, thereby reducing transportation costs.

We enter into contracts with producers at market prices generally for a term of one year or less, with a majority of the transactions on a 30-day renewable basis. For the year ended December 31, 2010, we purchased approximately 181 thousand bpd from approximately 2,300 producers and from approximately 51 thousand leases, and undertook approximately 449 thousand bpd of exchanges and bulk purchases during the same period.

The following table shows our average daily volume for crude oil lease purchases and sales and other exchanges and bulk purchases for the years presented:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands of bpd)		
Lease purchases:			
Available for sale	181	172	167
Exchanged	8	9	10
Other exchanges and bulk purchases	449	411	402
Total Purchases	638	592	579
Sales:			
Sunoco refineries⁽¹⁾:			
Toledo	30	9	8
Tulsa		17	63
Third parties	220	205	200
Exchanges:			
Purchased at the lease	8	9	10
Other	382	353	295
Total Sales	640	593	576

(1)

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In 2009, Sunoco sold its Tulsa refinery and in 2010 Sunoco announced its intention to sell its Toledo refinery, which is expected to occur in the first quarter of 2011. Changes associated with the sales of both refineries are not expected to have a material impact on our financial results.

Crude Oil Price Volatility

Crude oil commodity prices have historically been volatile and cyclical. Profitability from our crude oil acquisition and marketing operations is dependent on our ability to sell crude oil at prices in excess of our

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aggregate cost. Although margins may be impacted during transition periods, our operations are not directly affected by the absolute level of crude oil prices, but are affected by overall levels of supply and demand for crude oil and relative fluctuations in market related indices.

During periods when supply exceeds the demand for crude oil in the near term, the market for crude oil is often in contango, meaning that the price of crude oil for future deliveries is higher than current prices. A contango market generally has a negative impact on our lease gathering margins, but is favorable to commercial strategies associated with tankage. Access to crude oil storage during a contango market allows us to simultaneously purchase crude oil inventories at current prices for storage and sell forward at higher prices for future delivery.

When there is a higher demand than supply of crude oil in the near term, the market is backwardated, meaning that the price of crude oil for future deliveries is lower than current prices. A backwardated market has a positive impact on our lease gathering margins because crude oil gatherers can capture a premium for prompt deliveries. In this environment, there is little incentive to store crude oil as current prices are above delivery prices in the futures markets.

The periods between a backwardated market and a contango market are referred to as transition periods. Depending on the overall duration of these transition periods, how we have allocated our assets to particular strategies and the time length of our crude oil purchase and sale contracts and storage lease agreements, these transition periods may have either an adverse or beneficial effect on our aggregate segment profit. A prolonged transition from a backwardated market to a contango market, or vice versa (essentially a market that is neither in pronounced backwardation nor contango), represents the most difficult environment for our marketing activities.

When the market is in contango, we generally will use our storage capabilities to improve our lease gathering margins by storing crude oil we have purchased for delivery in future months that are selling at higher prices. In a backwardated market, increased lease gathering margins provide an offset to reduced use of storage capacity. This combination of lease gathering activities and integrated assets within the Crude Oil Pipeline System and Terminal Facilities segments improve our ability to generate ratable cash flows in various market conditions.

Crude Oil Trucking

We own approximately 100 crude oil truck unloading facilities in Oklahoma, Texas, and New Mexico, with the majority located on our pipeline system. Approximately 220 crude oil truck drivers are used by an affiliate of our general partner and approximately 110 crude oil transport trucks are owned. The crude oil truck drivers pick up crude oil at production lease sites and transport it to various truck unloading facilities on our pipelines and third-party pipelines. Third-party trucking firms are also retained to transport crude oil to certain facilities.

Pipeline and Terminal Control Operations

Almost all of our refined products and crude oil pipelines are operated via satellite, microwave, and frame relay communication systems from central control rooms located in Montello, Pennsylvania and Sugar Land, Texas. The Montello control center primarily monitors and controls our Refined Products Pipeline System, and the Sugar Land control center primarily monitors and controls our Crude Oil Pipeline System. The Nederland Terminal has its own control center.

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The control centers operate with Supervisory Control and Data Acquisition, or SCADA, systems that continuously monitor real time operational data, including refined product and crude oil throughput, flow rates, and pressures. In addition, the control centers monitor alarms and throughput balances. The control centers operate remote pumps, motors and valves associated with the delivery of refined products and crude oil. The computer systems are designed to enhance leak-detection capabilities, sound automatic alarms if operational

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conditions outside of pre-established parameters occur, and provide for remote-controlled shutdown of pump stations on the pipelines. Pump stations and meter-measurement points along our pipelines are linked by satellite or telephone communication systems for remote monitoring and control, which reduces the requirement for full-time on-site personnel at most of these locations.

Competition

As a result of the physical integration with Sunoco, we believe that we will not face significant competition for crude oil transported to the Philadelphia refinery, or refined products transported from the Philadelphia and Marcus Hook refineries. For further information on related party agreements, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Agreements with Sunoco. For the year ended December 31, 2010, Sunoco accounted for approximately 14 percent of our total revenues.

Refined Products Pipeline System

A substantial portion of the Refined Products Pipeline System located in the northeast United States is directly linked to refineries owned by Sunoco. These assets were constructed or acquired as the most cost-effective means to access raw materials and distribute refined products. Generally, pipelines are the lowest cost method for long-haul, overland movement of refined products. Therefore, the most significant competitors for large volume shipments in these areas served are other pipelines. Our management believes that high capital requirements, environmental considerations, and the difficulty in acquiring rights-of-way and related permits make it difficult for other companies to build competing pipelines in areas served by our pipelines. As a result, competing pipelines are likely to be built only in those cases in which strong market demand and attractive tariff rates support additional capacity in an area.

Although it is unlikely that a pipeline system comparable in size and scope to the northeast and midwest portion of the Refined Products Pipeline System will be built in the foreseeable future, new pipelines (including pipeline segments that connect with existing pipeline systems) could be built to effectively compete with it in particular locations.

In the southwest United States, our MagTex refined products pipeline system faces competition from existing third party owned and joint venture pipelines that have excess capacity. Gulf Coast refinery expansions could justify the construction of a new pipeline that would compete with our refined product pipeline system in the southwest, however, at this time, we believe the existing pipelines have the capacity to satisfy expected future demand.

In addition to competition from other pipelines, we face competition from trucks that deliver refined products in a number of areas that we serve. While their costs may not be competitive for longer hauls or large volume shipments, trucks compete effectively for incremental and marginal volume in many areas where such means of transportation are prevalent. The availability of truck transportation places a significant competitive constraint on our ability to increase tariff rates.

Terminal Facilities

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The majority of the throughput at our crude oil terminals is related to Sunoco, with the exception of the Nederland Terminal, which has a larger proportion of third-party customers. Due to the configuration of these terminals with respect to Sunoco's refineries and retail network, we expect to continue receiving a significant portion of the throughput at these facilities from Sunoco and do not anticipate significant competition from other service providers. The expected first quarter 2011 sale of Sunoco's Toledo, Ohio refinery to PBF is not expected to have a material impact on total throughput at the refined products terminals, as we expect to continue to provide services to the refinery comparable to those historically provided to Sunoco. The primary competitors of the Nederland Terminal are its refinery customers' docks and other terminal facilities, located in the Beaumont, Texas area.

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In terminalling and marketing, our 42 active refined product terminals located in the northeast, midwest and southwest compete with other independent terminals on price, versatility, and services provided. The competition primarily comes from integrated petroleum companies, refining and marketing companies, independent terminal companies, and distribution companies with marketing and trading activities. We are not aware of any direct competitors in the butane blending business in the United States and our patents provide us exclusive use and control over the distribution of our butane blending technology.

Crude Oil Pipeline System

The Crude Oil Pipeline System faces competition from a number of major oil companies and other smaller entities. Competition among common carrier pipelines is based primarily on transportation charges, access to crude oil supply and market demand. Our management believes that high capital costs make it unlikely that other companies will build new competing crude oil pipeline systems in the pipeline corridors served by the Crude Oil Pipeline System. However, changes in refiners' supply sources may negatively impact existing throughput on the Crude Oil Pipeline System. Crude oil purchasing and marketing competitive factors include price and contract flexibility, quantity and quality of services, and accessibility to end markets.

Safety Regulation

A majority of our pipelines are subject to United States Department of Transportation (DOT) regulations and to regulations under comparable state statutes relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities.

DOT regulations require operators of hazardous liquid interstate pipelines to develop and follow a program to assess the integrity of all pipeline segments that could affect designated high consequence areas, including: high population areas, drinking water and ecological resource areas that are unusually sensitive to environmental damage from a pipeline release, and commercially navigable waterways. We have prepared our own written Risk Based Integrity Management Program, identified the line segments that could impact high consequence areas and completed a full assessment of these segments as prescribed by the regulations.

Our management believes that our pipeline operations are in substantial compliance with applicable DOT regulations and comparable state requirements. However, an increase in expenditures may be needed in the future to comply with higher industry and regulatory safety standards. Such expenditures cannot be estimated accurately at this time, but our management does not believe they would likely have a material adverse effect relative to our financial position.

Environmental Regulation

General

Our operations are subject to complex federal, state, and local laws and regulations relating to the protection of health and the environment, including laws and regulations which govern the handling and release of crude oil and other liquid hydrocarbon materials, some of which are

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discussed below. Violations of environmental laws or regulations can result in the imposition of significant administrative, civil and criminal fines and penalties and, in some instances, injunctions banning or delaying certain activities. Our management believes we are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to frequent change at the federal, state and local levels, and the trend is to place increasingly stringent limitations on activities that may affect the environment.

There are also risks of accidental releases into the environment associated with our operations, such as releases of crude oil or hazardous substances from our pipelines or storage facilities. To the extent an event is not covered by our insurance policies, such accidental releases could subject us to substantial liabilities arising from

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environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for any related violations of environmental laws or regulations.

Sunoco indemnifies us 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, the date of our initial public offering (IPO). 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 IPO date. In addition, this indemnification applies to the interests in the Mesa Pipeline system and the Mid-Valley Pipeline purchased from Sunoco following the IPO. Any remediation liabilities not covered by this indemnity will be our responsibility.

We have agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the transferred assets occurring after the IPO date, and for environmental and toxic tort liabilities related to these assets to the extent Sunoco is not required to indemnify us. Total future costs for environmental remediation activities will depend upon, among other things, the extent of impact at each site, the timing and nature of required remedial actions, the technology available, and the determination of our liability at multi-party sites. As of December 31, 2010, all material environmental liabilities incurred by, and known to, us are either covered by the environmental indemnification or reserved for by us in our financial statements.

Air Emissions

Our operations are subject to the Clean Air Act, as amended, and comparable state and local statutes. We will be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining permits and approvals addressing air emission related issues. In addition, the federal government is currently reviewing various legislative and regulatory proposals relating to restrictions on emissions of greenhouse gases (GHGs). While the effect of these various proposals cannot be predicted, the adoption of any federal, regional or state laws or regulations limiting emissions of GHGs in the United States could adversely affect the demand for crude oil or refined products transportation and storage services as well as contribute to increased compliance costs or additional operating restrictions.

Our customers are also subject to, and similarly affected by, environmental regulations. These include federal and state actions to develop programs for the reduction of GHG emissions as well as proposals that would create a cap and trade system that would require companies to purchase carbon emission allowances for emissions at manufacturing facilities and emissions caused by the use of the fuels sold. In addition, during 2009, the Environmental Protection Agency (EPA) indicated that it intends to regulate carbon dioxide emissions. As a result of these regulations, our customers could be required to make significant capital expenditures, operate refineries at reduced levels, and pay significant penalties. It is uncertain what our customer's responses to these emerging issues will be. Those responses could reduce throughput in our pipelines and terminals, cash flow, and our ability to make distributions or satisfy debt obligations.

Hazardous Substances and Waste

In the course of ordinary operations, we may generate waste that falls within the Comprehensive Environmental Response, Compensation, and Liability Act's, referred to as CERCLA and also known as Superfund, definition of a hazardous substance and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been released into the environment. Costs for any such remedial actions, as well as any related claims, could have a material adverse effect on our maintenance capital expenditures and operating expenses to the extent not all are covered by the indemnity from Sunoco. For more information, please see Environmental Remediation.

We also generate solid wastes, including hazardous wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act, referred to as RCRA, and comparable state statutes. We are

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not currently required to comply with a substantial portion of the RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during our operating activities, will in the future be designated as hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could have a material adverse effect on our maintenance capital expenditures and operating expenses.

We currently own or lease properties where hydrocarbons are being or have been handled for many years. These properties and wastes disposed thereon may be subject to CERCLA, RCRA, and comparable state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent future contamination.

We have not been identified by any state or federal agency as a potentially responsible party in connection with the transport and/or disposal of any waste products to third party disposal sites.

Water

Our operations can result in the discharge of regulated substances, including crude oil or refined products. The Federal Water Pollution Control Act of 1972, also known as the Clean Water Act, and comparable state laws impose restrictions and strict controls regarding the discharge of regulated substances into state waters or waters of the United States. Where applicable, our facilities have the required discharge permits.

The Oil Pollution Act subjects owners of covered facilities to strict joint and potentially unlimited liability for removal costs and other consequences of a release of oil, where the release is into navigable waters, along shorelines or in the exclusive economic zone of the United States. Spill prevention control and countermeasure requirements of the Clean Water Act and some state laws require diking and similar structures to help prevent the impact on navigable waters in the event of a release. The Office of Pipeline Safety of the DOT, the EPA, or various state regulatory agencies, have approved our oil spill emergency response plans, and our management believes we are in substantial compliance with these laws.

In addition, some states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. Our management believes that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on its financial condition or results of operations.

Environmental Remediation

Contamination resulting from releases of refined products and crude oil is not unusual within the petroleum pipeline industry. Historic releases along our pipelines, gathering systems, and terminals as a result of past operations have resulted in impacts to the environment, including soils and groundwater. Site conditions, including soils and groundwater, are being evaluated at a number of properties where operations may have resulted in releases of hydrocarbons and other wastes. Sunoco has agreed to indemnify us from environmental and toxic tort liabilities related to the assets transferred to the extent such liabilities existed or arose from operation of these assets prior to the closing of the February 2002 IPO and are asserted within 30 years after the closing of the IPO. This indemnity will cover the costs associated with performance of the assessment, monitoring, and remediation programs, as well as any related claims and penalties. See *Environmental Regulation* General.

We have experienced several petroleum and refined product releases for which we are not covered by an indemnity from Sunoco, and for which we are responsible for necessary assessment, remediation, and/or

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monitoring activities. Our management estimates that the total aggregate cost of performing the currently anticipated assessment, monitoring, and remediation activities at these sites is not material in relation to our financial position at December 31, 2010. We have implemented an extensive inspection program to prevent releases of refined products or crude oil into the environment from our pipelines, gathering systems, and terminals. Any damages and liabilities incurred due to future environmental releases from our assets have the potential to substantially affect our business and our ability to generate the cash flow necessary to make distributions or satisfy debt obligations.

Rate Regulation

General Interstate Regulation

Interstate common carrier pipeline operations are subject to rate regulation by the FERC under the Interstate Commerce Act, the Energy Policy Act of 1992, and related rules and orders. The Interstate Commerce Act requires that tariff rates for petroleum pipelines be just and reasonable and not unduly discriminatory. This statute also permits interested persons to challenge proposed new or changed rates and authorizes the FERC to suspend the effectiveness of such rates for up to seven months and to investigate such rates. If, upon completion of an investigation, the FERC finds that the new or changed rate is unlawful, it is authorized to require the carrier to refund revenues in excess of the prior tariff during the term of the investigation. The FERC also may investigate, upon complaint or on its own motion, rates that are already in effect and may order a carrier to change its rates prospectively. Upon an appropriate showing, a shipper may obtain reparations for damages sustained for a period of up to two years prior to the filing of a complaint.

The FERC generally has not investigated interstate rates on its own initiative when those rates, like the Partnership's, have not been the subject of a protest or a complaint by a shipper. However, the FERC could investigate our rates at the urging of a third party if the third party is either a current shipper or has a substantial economic interest in the tariff rate level. Although no assurance can be given that the tariffs charged by us ultimately will be upheld if challenged, management believes that the tariffs now in effect for our pipelines are within the maximum rates allowed under current FERC guidelines.

We have been approved by the FERC to charge market-based rates in most of the refined products locations served by our pipeline systems. In those locations where market-based rates have been approved, we are able to establish rates that are based upon competitive market conditions.

Intrastate Regulation

Some of our pipeline operations are subject to regulation by the Texas R.R.C., the Pennsylvania Public Utility Commission, and the Oklahoma Corporation Commission. The operations of our joint venture interests are also subject to regulation in the states in which they operate. The applicable state statutes require that pipeline rates be nondiscriminatory and provide no more than a fair return on the aggregate value of the pipeline property used to render services. State commissions generally have not been aggressive in regulating common carrier pipelines or investigating rates or practices of petroleum pipelines in the absence of shipper complaints. Complaints to state agencies have been infrequent and are usually resolved informally. Although management cannot be certain that our intrastate rates ultimately would be upheld if challenged, we believe that, given this history, the tariffs now in effect are not likely to be challenged or, if challenged, are not likely to be ordered to be reduced.

Title to Properties

Substantially all of our pipelines were constructed on rights-of-way granted by the apparent record owners of the property and in limited instances these rights-of-way are revocable at the election of the grantor. Several

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rights-of-way for the pipelines and other real property assets are shared with other pipelines and other assets owned by affiliates of Sunoco and by third parties. In many instances, lands over which rights-of-way have been obtained are subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained permits from public authorities to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, and state highways and, in some instances, these permits are revocable at the election of the grantor. We have also obtained permits from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election. In some cases, property for pipeline purposes was purchased in fee. In some states and under some circumstances, we have the right of eminent domain to acquire rights-of-way and lands necessary for the common carrier pipelines. The previous owners of the applicable pipelines may not have commenced or concluded eminent domain proceedings for some rights-of-way.

Some of the leases, easements, rights-of-way, permits, and licenses acquired by us or transferred to us upon the closing of the IPO require the consent of the grantor to transfer these rights, which in some instances is a governmental entity. We have obtained or are in the process of obtaining third-party consents, permits, and authorizations sufficient for the transfer of the assets necessary to operate the business in all material respects. In our opinion, with respect to any consents, permits, or authorizations that have not been obtained, the failure to obtain them will not have a material adverse effect on the operation of our business.

We have satisfactory title to substantially all of the assets contributed in connection with the IPO. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens for environmental contamination, taxes and other burdens, easements, or other restrictions, management believes that none of these burdens materially detract from the value of the properties or will materially interfere with their use in the operation of our business.

Employees

We have no employees. To carry out the operations of Sunoco Logistics Partners L.P., our general partner and its affiliates employed approximately 1,400 people at December 31, 2010 who provide direct support to the operations. Labor unions or associations represent approximately 600 of these employees at December 31, 2010.

(d) Financial Information about Geographical Areas

We have no significant amount of revenue or segment profit or loss attributable to international activities.

(e) Available Information

We make available, free of charge on our website, www.sunocologistics.com, all materials that we file electronically with the Securities Exchange Commission, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC.

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ITEM 1A. RISK FACTORS

We believe that the following risk factors address the known material risks related to our business, partnership structure and debt obligations, as well as the material tax risks to our common unitholders. If any of the following risks were to actually occur, our business, results of operations, cash flows and financial condition, as well as any related benefits of owning our securities, could be materially and adversely affected.

RISKS RELATED TO OUR BUSINESS

If we are unable to generate sufficient cash flow, our ability to pay quarterly distributions to our common unitholders at current levels or to increase our quarterly distributions in the future, could be materially impaired.

Our ability to pay quarterly distributions depends primarily on cash flow, including cash flow from financial reserves and credit facilities, and not solely on profitability, which is affected by non-cash items. As a result, we may pay cash distributions during periods when we record net losses and may be unable to pay cash distributions during periods when we record net income. Our ability to generate sufficient cash from operations is largely dependent on our ability to successfully manage our business which may also be affected by economic, financial, competitive, and regulatory factors that are beyond our control. To the extent we do not have adequate cash reserves, our ability to pay quarterly distributions to our common unitholders at current levels could be materially impaired.

We depend upon Sunoco, Inc. (Sunoco) for a substantial portion of the refined products and crude oil transported on our pipelines and handled at our terminals, and if Sunoco were to significantly reduce the volumes transported through our pipelines or handled at our terminals it could materially and adversely affect our financial condition, results of operations or cash flows.

For the year ended December 31, 2010, Sunoco accounted for approximately 56 percent of our Refined Products Pipeline System total revenues, 46 percent of our Terminal Facilities total revenues, and 12 percent of our Crude Oil Pipeline System total revenues. The balance of our revenues was received from unaffiliated customers. We expect to continue to derive a substantial portion of our revenues from Sunoco for the foreseeable future.

Sunoco is a refiner and marketer of petroleum and petrochemical products that is operated and managed separately from us and is subject to different business and operational risks than us. Sunoco actively manages its assets and operations independently of ours, and therefore, changes of some nature, possibly material to our business relationship, may occur at some point in the future. Because several of our terminal facilities are located at, and dedicated to, refineries that are owned and operated by Sunoco, if Sunoco were to significantly decrease throughput volumes at these terminals, because of business or operational difficulties or strategic decisions by its management, it is unlikely that we would be able to utilize any additional capacity at these terminal facilities to service third party customers without substantial capital outlays and delays, if at all, which could materially and adversely affect our financial condition, results of operations and cash flows. Further, if Sunoco were to significantly decrease the throughput transported on our pipelines or the volumes of crude oil or refined products handled at our other terminals, our financial condition, results of operations, and cash flows could be materially and adversely affected. Sunoco does not have any minimum throughput obligations at our refined products terminals or the Marcus Hook Tank Farm. Sunoco currently has minimum storage and throughput obligation at our Fort Mifflin Terminal Complex and at our Inkster Terminal. Because our facilities are well situated to handle Sunoco's refining and marketing supply chain needs we expect that Sunoco will continue to utilize our pipelines and terminals. However, if Sunoco reduces its use of our facilities, it could materially and adversely affect our financial condition, results of operations or cash flows.

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A sustained decrease in demand for refined products in the markets served by our pipelines and terminals could materially and adversely affect our financial condition, results of operations, or cash flows.

The following are material factors that could lead to a sustained decrease in market demand for refined products:

a sustained recession or other adverse economic condition that results in lower purchases of refined petroleum products;

higher refined products prices due to an increase in the market price of crude oil, changes in economic conditions, or other factors;

higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasoline or other refined products;

a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy, whether as a result of technological advances by manufacturers, pending legislation proposing to mandate higher fuel economy, or otherwise; and

a temporary or permanent material increase in the price of refined products as compared to alternative sources of refined products available to our customers.

A material decrease in demand or distribution of crude oil available for transport through our Crude Oil Pipeline System or Terminal Facilities could materially and adversely affect our financial position, results of operations or cash flows.

The volume of crude oil transported through our crude oil pipelines and terminal facilities depends on the availability of attractively priced crude oil produced or received in the areas serviced by our assets. A period of sustained crude oil price declines could lead to a decline in drilling activity, production and import levels in these areas. Similarly, a period of sustained increases in the price of crude oil supplied from any of these areas, as compared to alternative sources of crude oil available to our customers, could materially reduce demand for crude oil in these areas. In either case, the volumes of crude oil transported in our crude oil pipelines and terminal facilities could decline, and it could likely be difficult to secure alternative sources of attractively priced crude oil supply in a timely fashion or at all. If we are unable to replace any significant volume declines with additional volumes from other sources, our financial position, results of operations or cash flows could be materially and adversely affected.

Any reduction in the capability of our shippers to utilize either our pipelines or interconnecting third-party pipelines could cause a reduction of volumes transported in our pipelines and through our terminals.

Sunoco and the other users of our pipelines and terminals are dependent upon our pipelines, as well as connections to third-party pipelines, to receive and deliver crude oil and refined products. Any interruptions or reduction in the capabilities of our pipelines or these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes would result in reduced volumes transported in our pipelines or through our terminals. Similarly, if additional shippers begin transporting volume over interconnecting pipelines, the allocations to our existing shippers on these interconnecting pipelines could be reduced, which also could reduce volumes transported in our pipelines or through our terminals. Allocation reductions of this nature are not infrequent and are beyond our control. Any such interruptions or allocation reductions that, individually or in the aggregate, are material or continue for a sustained period of time could have a material adverse effect on our financial position, results of operations or cash flows.

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If we are unable to complete capital projects at their expected costs and/or in a timely manner, or if the market conditions assumed in our project economics deteriorate, our financial condition, results of operations or cash flows could be affected materially and adversely.

Delays or cost increases related to capital spending programs involving construction of new facilities (or improvements and repairs to our existing facilities) could adversely affect our ability to achieve forecasted operating results. Although we evaluate and monitor each capital spending project and try to anticipate difficulties that may arise, such delays or cost increases may arise as a result of factors that are beyond our control, including:

denial or delay in issuing requisite regulatory approvals and/or permits;

unplanned increases in the cost of construction materials or labor;

disruptions in transportation of modular components and/or construction materials;

severe adverse weather conditions, natural disasters, or other events (such as equipment malfunctions explosions, fires, spills) affecting our facilities, or those of vendors and suppliers;

shortages of sufficiently skilled labor, or labor disagreements resulting in unplanned work stoppages;

market-related increases in a project's debt or equity financing costs; and

nonperformance by, or disputes with, vendors, suppliers, contractors, or sub-contractors involved with a project.

Our forecasted operating results also are based upon our projections of future market fundamentals that are not within our control, including changes in general economic conditions, availability to our customers of attractively priced alternative supplies of crude oil and refined products and overall customer demand.

Potential future acquisitions and expansions may increase substantially the level of our indebtedness and contingent liabilities, and we may be unable to integrate them effectively into our existing operations.

From time to time, we evaluate and acquire assets and businesses that we believe complement or diversify our existing assets and businesses. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. If we consummate any future material acquisitions, our capitalization and results of operations may change significantly.

Acquisitions and business expansions involve numerous risks, including difficulties in the assimilation of the assets and operations of the acquired businesses, inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas. Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined and we may experience unanticipated delays in realizing the benefits of an acquisition. In some cases, we have indemnified the

previous owners and operators of acquired assets.

Following an acquisition, we may discover previously unknown liabilities associated with the acquired business for which we have no recourse under applicable indemnification provisions. In addition, the terms of an acquisition may require us to assume certain prior known or unknown liabilities for which we may not be indemnified or have adequate insurance.

Our operations are subject to operational hazards and unforeseen interruptions for which we may not be adequately insured.

Our operations and those of our customers and suppliers may be subject to operational hazards or unforeseen interruptions such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, and other events beyond our control. If one or more of the facilities that we own or any third-party facilities that we receive from or deliver to, are damaged by any disaster, accident, catastrophe or other

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event, our operations could be significantly interrupted. These interruptions might involve a loss of equipment or life, injury, extensive property damage, or maintenance and repair outages. The duration of the interruption will depend on the seriousness of the damages or required repairs. We may not be able to maintain or obtain insurance to cover these types of interruptions, or in coverage amounts desired, at reasonable rates. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. Any event that interrupts the revenues generated by our operations, or which causes us to make significant expenditures not covered by insurance, could materially and adversely affect our financial condition, results of operations or cash flows.

We are exposed to the credit and other counterparty risk of our customers in the ordinary course of our business.

We have various credit terms with virtually all of our customers, and our customers have varying degrees of creditworthiness. Although we evaluate the creditworthiness of each of our customers, we may not always be able to fully anticipate or detect deterioration in their creditworthiness and overall financial condition, which could expose us to an increased risk of nonpayment or other default under our contracts and other arrangements with them. In the event that a material customer or customers default on their payment obligations to us, this could materially adversely affect our financial condition, results of operations or cash flows.

Mergers among our customers and competitors could result in lower volumes being shipped on our pipelines or products stored in or distributed through our terminals, or reduced crude oil marketing margins or volumes.

Mergers between existing customers could provide strong economic incentives for the combined entities to utilize their existing systems instead of ours in those markets where the systems compete. As a result, we could lose some or all of the volumes and associated revenues from these customers and we could experience difficulty in replacing those lost volumes and revenues, which could materially and adversely affect our financial condition, results of operations or cash flows.

Rate regulation or market conditions may not allow us to recover the full amount of increases in our costs. A successful challenge to our rates could materially and adversely affect our financial condition, results of operations or cash flows.

The primary rate-making methodology of the Federal Energy Regulatory Commission (FERC) is price indexing. We use this methodology in many of our interstate markets. In an order issued in March 2006, FERC announced that, effective July 1, 2006, the index would equal the change in the producer price index for finished goods plus 1.3 percent (previously, the index was equal to the change in the producer price index for finished goods). This index is to be in effect through July 2011. If the changes in the index are not large enough to fully reflect actual increases to our costs, our financial condition could be adversely affected. If the index results in a rate increase that is substantially in excess of the pipeline's actual cost increases, or it results in a rate decrease that is substantially less than the pipeline's actual cost decrease, the rates may be protested, and, if successful, result in the lowering of the pipeline's rates. The FERC's rate-making methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs.

Under the Energy Policy Act adopted in 1992, certain interstate pipeline rates were deemed just and reasonable or grandfathered. On our FERC-regulated pipelines, most of our revenues are derived from such grandfathered rates. A person challenging a grandfathered rate must, as a threshold matter, establish a substantial change since the date of enactment of the Act, in either the economic circumstances or the nature of the service that formed the basis for the rate. If the FERC were to find a substantial change in circumstances, then the existing rates could be subject to detailed review. There is a risk that some rates could be found to be in excess of levels justified by our cost of service. In such event, the FERC would order us to reduce rates prospectively and

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could order us to pay reparations to shippers. Reparations could be required for a period of up to two years prior to the date of filing the complaint in the case of rates that are not grandfathered and for the period starting with the filing of the complaint in the case of grandfathered rates.

In addition, a state commission could also investigate our intrastate rates or terms and conditions of service on its own initiative or at the urging of a shipper or other interested party. If a state commission found that our rates exceeded levels justified by our cost of service, the state commission could order us to reduce our rates.

Potential changes to current rate-making methods and procedures may impact the federal and state regulations under which we will operate in the future. In addition, if the FERC's petroleum pipeline ratemaking methodology changes, the new methodology could materially and adversely affect our financial condition, results of operations or cash flows.

Our operations are subject to federal, state, and local laws and regulations relating to environmental protection and operational safety that could require substantial expenditures.

Our pipelines, gathering systems, and terminal operations are subject to increasingly strict environmental and safety laws and regulations. The transportation and storage of refined products and crude oil result in a risk that refined products, crude oil, and other hydrocarbons may be suddenly or gradually released into the environment, potentially causing substantial expenditures for a response action, significant government penalties, liability to government agencies for natural resources damages, personal injury, or property damage to private parties and significant business interruption. We own or lease a number of properties that have been used to store or distribute refined products and crude oil for many years. Many of these properties also have been previously owned or operated by third parties whose handling, disposal, or release of hydrocarbons and other wastes were not under our control, and for which, in some cases, we have indemnified the previous owners and operators.

Failure to comply with these laws and regulations may result in assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens and, to a lesser extent, issuance of injunctions to limit or cease operations. We may be unable to recover these costs through increased revenues.

Our business is subject to federal, state and local laws and regulations that govern the product quality specifications of the petroleum products that we store and transport.

The petroleum products that we store and transport are sold by our customers for consumption into the public market. Various federal, state and local agencies have the authority to prescribe specific product quality specifications to commodities sold into the public market. Changes in product quality specifications could reduce our throughput volume, require us to incur additional handling costs or require the expenditure of significant capital. In addition, different product specifications for different markets impact the fungibility of products transported and stored in our pipeline systems and terminal facilities and could require the construction of additional storage to segregate products with different specifications. We may be unable to recover these costs through increased revenues.

In addition, the operations of our butane blending business are reliant upon gasoline vapor pressure specifications. Significant changes in such specifications could reduce butane blending opportunities, which would affect our ability to market our butane blending services licenses and which would ultimately affect our ability to recover the costs incurred to acquire and integrate the butane blending business.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for our services.

The U.S. Senate has considered legislation to restrict U.S. emissions of carbon dioxide and other greenhouse gases (GHG) that may contribute to global warming and climate change. Many states, either individually or through multi-state regional initiatives, have begun implementing legal measures to reduce GHG emissions. The

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U.S. House of Representatives has previously approved legislation to establish a cap-and-trade program, whereby the U.S. Environmental Protection Agency (EPA) would issue a capped and steadily declining number of tradable emissions allowances to certain major GHG emission sources so they could continue to emit GHGs into the atmosphere. The cost of such allowances would be expected to escalate significantly over time, making the combustion of carbon-based fuels (e.g., refined petroleum products, oil and natural gas) increasingly expensive. Beginning in 2011, current EPA regulations will require specified large domestic GHG sources to report emissions above a certain threshold occurring after January 1, 2010. Our facilities will not be subject to this reporting requirement since our GHG emissions are below the applicable threshold. In addition, the EPA has proposed new regulations, under the federal Clean Air Act, that would require a reduction in GHG emissions from motor vehicles and could trigger permit review for GHG emissions from certain stationary sources. It is not possible at this time to predict how pending legislation or new regulations to address GHG emissions would impact our business. However, the adoption and implementation of federal, state, or local laws or regulations limiting GHG emissions in the U.S. could adversely affect the demand for our crude oil or refined products transportation and storage services, and result in increased compliance costs, reduced volumes or additional operating restrictions.

Terrorist attacks aimed at our facilities could adversely affect our business.

The U.S. government has issued warnings that energy assets, specifically the nation's pipeline and terminal infrastructure, may be the future targets of terrorist organizations. Any terrorist attack at our facilities, those of our customers and, in some cases, those of other pipelines, refineries, or terminals could materially and adversely affect our financial condition, results of operations or cash flows.

Our risk management policies cannot eliminate all commodity risk, and our use of hedging arrangements could result in financial losses or reduce our income. In addition, any non-compliance with our risk management policies could result in significant financial losses.

We follow risk management practices designed to minimize commodity risk, and engage in hedging arrangements to reduce our exposure to fluctuations in the prices of refined products. These hedging arrangements expose us to risk of financial loss in some circumstances, including when the counterparty to the hedging contract defaults on its contract obligations, or when there is a change in the expected differential between the underlying price in the hedging agreement and the actual prices received. In addition, these hedging arrangements may limit the benefit we would otherwise receive from increases in prices for such refined products.

The accounting standards regarding hedge accounting are very complex, and even when we engage in hedging transactions that are effective economically (whether to mitigate our exposure to fluctuations in commodity prices, or to balance our exposure to fixed and variable interest rates), these transactions may not be considered effective for accounting purposes. Accordingly, our financial statements may reflect some volatility due to these hedges, even when there is no underlying economic impact at that point. In addition, it is not always possible for us to engage in a hedging transaction that completely mitigates our exposure to commodity prices. Our financial statements may reflect a gain or loss arising from an exposure to commodity prices for which we are unable to enter into a completely effective hedge.

We have adopted risk management policies designed to manage risks associated with our businesses. However, these policies cannot eliminate all price-related risks, and there is also the risk of non-compliance with such policies. We cannot make any assurances that we will detect and prevent all violations of our risk management practices and policies, particularly if deception or other intentional misconduct is involved. Any violations of our risk management practices or policies by our employees or agents could result in significant financial losses.

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We do not own all of the land on which our pipelines and facilities are located, and we lease certain facilities and equipment, and we are subject to the possibility of increased costs to retain necessary land use which could disrupt our operations.

We do not own all of the land on which certain of our pipelines and facilities are located, and we are, therefore, subject to the risk of increased costs to maintain necessary land use. We obtain the rights to construct and operate certain of our pipelines and related facilities on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts on acceptable terms or increased costs to renew such rights, could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, we are subject to the possibility of increased costs under our rental agreements with landowners, primarily through rental increases and renewals of expired agreements.

Whether we have the power of eminent domain for our pipelines varies from state to state, depending upon the type of pipeline (*e.g.*, crude oil, or refined products) and the laws of the particular state. In either case, we must compensate landowners for the use of their property and, in eminent domain actions, such compensation may be determined by a court. Our inability to exercise the power of eminent domain could negatively affect our business if we were to lose the right to use or occupy the property on which our pipelines are located.

Additionally, certain facilities and equipment (or parts thereof) used by us are leased from third parties for specific periods. Our inability to renew equipment leases or otherwise maintain the right to utilize such facilities and equipment on acceptable terms, or the increased costs to maintain such rights, could have a material adverse effect on our results of operations and cash flows.

A portion of our general and administrative services, covered under our Omnibus Agreement with Sunoco, have been outsourced to third-party service providers. Fraudulent activity or misuse of proprietary data involving our outsourcing partners could expose us to additional liability.

As a result of Sunoco's outsourcing initiatives, more third parties are involved in processing our information and data. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers, including the potential loss or disclosure of such information or data as a result of fraud or other forms of deception, could expose us to a risk of loss or misuse of this information, result in litigation and potential liability for us, lead to reputational damage, increase our compliance costs, or otherwise harm our business.

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RISKS RELATED TO OUR PARTNERSHIP STRUCTURE

Our general partner's discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement provides that our general partner may reduce operating surplus by establishing cash reserves to provide funds for our future operating expenditures. In addition, the partnership agreement provides that our general partner may reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to our unitholders in any one or more of the next four quarters. These cash reserves will affect the amount of cash available for current distribution to our unitholders.

Even if unitholders are dissatisfied, they have limited rights under the Partnership agreement to remove our general partner without its consent, which could lower the trading price of the common units.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner or its board of directors and will have no right to elect our general partner or its board of directors on an annual or other continuing basis. The board of directors of our general partner is chosen by the members of our general partner, all of which are wholly-owned subsidiaries of Sunoco. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units trade could be diminished because of the absence or reduction of a control premium in the trading price.

The partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owner of our general partner from transferring its ownership interest in the general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of the general partner with its own appointees.

Sunoco and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of our unitholders.

Sunoco indirectly owns and controls our general partner and owns approximately 31 percent of our partnership interests, including a 2 percent general partner interest. Conflicts of interest may arise between Sunoco and its affiliates, including our general partner, on the one hand, and us

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and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

Sunoco, as a shipper on our pipelines, and a customer at our terminals, could seek lower tariff rates or terminalling fees, or could determine not to utilize our facilities;

neither our partnership agreement nor any other agreement requires Sunoco to pursue a business strategy that favors us or utilizes our assets, including whether to increase or decrease refinery production, whether to shut down or reconfigure a refinery, or what markets to pursue or grow. Sunoco's directors and officers have a fiduciary duty to make these decisions in the best interests of the shareholders of Sunoco;

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our general partner is allowed to take into account the interests of parties other than us, such as Sunoco, in resolving conflicts of interest;

under our partnership agreement, our general partner has limited liability and restricted fiduciary duties with respect to actions that, without these limitations and restrictions, might otherwise constitute breaches of fiduciary duty;

under our partnership agreement, the remedies available to our unitholders with respect to conduct by our general partner that may constitute a breach of fiduciary duty have been limited;

our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional partnership securities, and reserves, each of which can affect the amount of cash available for distribution to our unitholders and the amount received by our general partner in respect of its incentive distribution rights (IDRs);

our general partner determines which costs incurred by Sunoco and its affiliates are reimbursable by us;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any additional contractual arrangements are fair and reasonable to us; and

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates, including the pipelines and terminals storage and throughput agreements with Sunoco.

We are a holding company. We conduct our operations through our subsidiaries and depend on cash flow from our subsidiaries to pay distributions to our unitholders and service our debt obligations.

We are a holding company. We conduct our operations through our subsidiaries. As a result, our cash flow and ability to pay distributions to our unitholders and to service our debt is dependent upon the earnings of our subsidiaries. In addition, we are dependent on the distribution of earnings, loans or other payments from our subsidiaries to us. Any payment of dividends, distributions, loans or other payments from our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries also will be contingent upon the profitability of our subsidiaries. If we are unable to obtain funds from our subsidiaries we may not be able to pay distributions to our unitholders or pay interest or principal on our debt securities when due.

Our general partner may cause us to borrow funds in order to make cash distributions, even where the purpose or effect of the borrowing benefits the general partner or its affiliates.

Our general partner is a wholly owned subsidiary of Sunoco, and Sunoco owns approximately 31 percent of our partnership interests, including a 2 percent general partner interest, and all of our IDRs. Our general partner may cause us to borrow funds from affiliates of Sunoco or from third parties in order to pay cash distributions to our unitholders and to our general partner, including distributions with respect to our general partner's IDRs.

Our general partner has a limited call right that may require our unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80 percent of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, unitholders may be required to sell their common units at an undesirable time or price, may not receive a return on the investment, and may incur a tax liability upon the sale.

We may issue additional common units without unitholder approval, which would dilute our unitholders' ownership interests.

We may issue an unlimited number of common units or other limited partner interests, including limited partner interests that rank senior to our common units, without the approval of our unitholders. The issuance of

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additional common units, or other equity securities of equal or senior rank, will decrease the proportionate ownership interest of existing unitholders and reduce the amount of cash available for distribution to our common unitholders and may adversely affect the market price of our common units.

Sunoco and its affiliates may engage in limited competition with us.

Sunoco and its affiliates may engage in limited competition with us. Pursuant to the Omnibus Agreement, Sunoco and its affiliates have agreed not to engage in the business of purchasing crude oil at the wellhead or operating refined products or crude oil pipelines or terminals or liquefied petroleum gas (LPG) terminals in the continental United States. The Omnibus Agreement, however, does not apply to:

certain businesses operated by Sunoco or any of its subsidiaries;

any logistics asset constructed by Sunoco or any of its subsidiaries within a manufacturing or refining facility in connection with the operation of that facility;

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of less than \$5 million; and

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of \$5 million or more if we have been offered the opportunity to purchase the business for fair market value, and we decline to do so with the concurrence of our conflicts committee.

Upon a change of control of Sunoco or a sale of our general partner by Sunoco, the non-competition provisions of the Omnibus Agreement may terminate.

A unitholder may not have limited liability if a state or federal court finds that we are not in compliance with the applicable statutes or that unitholder action constitutes control of our business.

The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some states. A unitholder could be held liable in some circumstances for our obligations to the same extent as a general partner if a state or federal court determined that:

we had been conducting business in any state without complying with the applicable limited partnership statute; or

the right or the exercise of the right by the unitholders as a group to remove or replace our general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted participation in the control of our business.

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Under applicable state law, our general partner has unlimited liability for our obligations, including our debts and environmental liabilities, if any, except for our contractual obligations that are expressly made without recourse to our general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that under some circumstances a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

RISKS RELATED TO OUR DEBT

References under this heading to we, us, and our mean Sunoco Logistics Partners Operations L.P.

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We may not be able to obtain funding, or obtain funding on acceptable terms, to meet our future capital needs because of the deterioration of the credit and capital markets.

Global market and economic conditions have been, and continue to be volatile. The debt and equity capital markets have been impacted by, among other things, significant write-offs in the financial services sector and the re-pricing of credit risk in the broadly syndicated market.

As a result, the cost of raising money in the debt and equity capital markets could be higher and the availability of funds from those markets could be diminished if we seek access to those markets. Accordingly, we cannot be certain that additional funding will be available if needed and to the extent required, on acceptable terms. If additional funding is not available when needed, or is available only on unfavorable terms, we may be unable to implement our business plan, enhance our existing business, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our revenues and results of operations.

Restrictions in our debt agreements may prevent us from engaging in some beneficial transactions or paying distributions to unitholders.

As of December 31, 2010, our total outstanding long-term indebtedness was approximately \$1.2 billion. Our payment of principal and interest on the debt will reduce the cash available for distribution on our units, as will our obligation to repurchase the senior notes upon the occurrence of specified events involving a change in control of our general partner. In addition, we are prohibited by our credit facilities and the senior notes from making cash distributions during an event of default, or if the payment of a distribution would cause an event of default, under any of our debt agreements. Our leverage and various limitations in our credit facilities and our senior notes may reduce our ability to incur additional debt, engage in some transactions, and capitalize on acquisition or other business opportunities. Any subsequent refinancing of our current debt or any new debt could have similar or greater restrictions.

We could incur a substantial amount of debt in the future, which could prevent us from fulfilling our debt obligations.

We are permitted to incur additional debt, subject to certain limitations under our revolving credit facilities and, in the case of secured debt, under the indenture governing the notes. If we incur additional debt in the future, our increased leverage could, for example:

make it more difficult for us to satisfy our obligations under our debt securities or other indebtedness and, if we fail to comply with the requirements of the other indebtedness, could result in an event of default under our debt securities or such other indebtedness;

require us to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow from working capital, capital expenditures and other general corporate activities;

limit our ability to obtain additional financing in the future for working capital, capital expenditures and other general corporate activities;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

detract from our ability to successfully withstand a downturn in our business or the economy generally; and

place us at a competitive disadvantage against less leveraged competitors.

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Rising short-term interest rates could increase our financing costs and reduce the amount of cash we generate.

As of December 31, 2010, we had \$31 million of floating-rate debt. As a result, we have exposure to changes in short-term interest rates. Rising short-term rates could materially and adversely affect our financial condition, results of operations or cash flows.

Any reduction in our credit ratings or in Sunoco's credit ratings could materially and adversely affect our business, financial condition, liquidity and results of operations.

We currently maintain an investment grade rating by Moody's, S&P and Fitch Ratings. However, our current ratings may not remain in effect for any given period of time and a rating may be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. If Moody's, S&P or Fitch Ratings were to downgrade our long-term rating, particularly below investment grade, our borrowing costs could significantly increase, which would adversely affect our financial results, and our potential pool of investors and funding sources could decrease. Further, due to our relationship with Sunoco, any down-grading in

Sunoco's credit ratings could also result in a down-grading in our credit ratings. Ratings from credit agencies are not recommendations to buy, sell or hold our securities and each rating should be evaluated independently of any other rating.

TAX RISKS TO OUR COMMON UNIT HOLDERS

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity level taxation by individual states. If the Internal Revenue Service, or IRS, treats us as a corporation or we become subject to a material amount of entity level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to unitholders.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this matter. The IRS may adopt positions that differ from the ones we take. A successful IRS contest of the federal income tax positions we take may impact adversely the market for our common units, and the costs of any IRS contest will reduce our cash available for distribution to unitholders.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax at the corporate tax rate, and likely would pay state income tax at varying rates. Distributions to unitholders generally would be taxed again as corporate distributions. Treatment of us as a corporation would result in a material reduction in anticipated cash flow and after-tax return to unitholders. Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or to otherwise subject us to a material level of entity-level taxation. States are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to unitholders would be reduced. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to a material level of entity-level taxation for federal, state, or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

The sale or exchange of 50 percent or more of our capital and profit interests during any twelve-month period will result in our termination as a partnership for federal income tax purposes.

Our partnership will be considered to have technically terminated for federal income tax purposes if there is a sale or exchange of 50 percent or more of the total interests in our capital and profits within a twelve-month

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period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. A sale or exchange would occur, for example, if we sold our business or merged with another company, or if any of our unitholders, including Sunoco, Inc. or any of their affiliates, sold or transferred their partnership interests in us. Our termination would, among other things, result in the closing of our taxable year for all of our unitholders which could result in us filing two tax returns (and unitholders receiving two Schedule K-1s) for one calendar year. Our termination could also result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a calendar year, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for federal income tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership may be permitted to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

Our unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which will be different in amount than the cash we distribute, our unitholders will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they receive no cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that result from that income.

Tax gain or loss on disposition of our limited partner units could be more or less than expected.

If our unitholders sell their limited partner units, they will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those limited partner units. Prior distributions to our unitholders in excess of the total net taxable income the unitholder was allocated for a unit, which decreased their tax basis in that unit, will, in effect, become taxable income to our unitholders if the limited partner unit is sold at a price greater than their tax basis in that limited partner unit, even if the price they receive is less than their original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if our unitholders sell their units, they may incur a tax liability in excess of the amount of cash received from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as individual retirement accounts (IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file U.S. federal tax returns and pay tax on their share of our taxable income.

Our unitholders will likely be subject to state and local taxes and return filing requirements in states where they do not live as a result of investing in our limited partner units.

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In addition to federal income taxes, our unitholders will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if they do not live in any of those

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jurisdictions. Our unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. We currently conduct our business and own assets in more than a dozen states, most of which impose a personal income tax. As we make acquisitions or expand our business, we may own assets or conduct business in additional states that impose a personal income tax. It is our unitholders responsibility to file all United States federal, state and local tax returns.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units, may be modified by administrative, legislative or judicial interpretation at any time. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Moreover, any such modification could make it more difficult or impossible for us to meet the exception which allows publicly traded partnerships that generate qualifying income to be treated as partnerships (rather than corporations) for U.S. federal income tax purposes, affect or cause us to change our business activities, or affect the tax consequences of an investment in our common units. For example, members of Congress have been considering substantive changes to the definition of qualifying income and the treatment of certain types of income earned from partnerships. While these specific proposals would not appear to affect our treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

See Item 1. (c) for a description of the locations and general character of our material properties.

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ITEM 3. 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 us 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.

Additionally, we have received notices of violations and potential fines under various federal, state and local provisions relating to the discharge of materials into the environment or protection of the environment. While we believe that even if any one or more of the environmental proceedings listed below were decided against us, it would not be material to our financial position, we are required to report environmental proceedings if we reasonably believe that such proceedings will result in monetary sanctions in excess of \$0.1 million.

In January 2007, the Pipeline Hazardous Material Safety Administration (PHMSA) proposed penalties totaling approximately \$0.2 million based on alleged violations of various pipeline safety requirements relating to our meter facilities in the Crude Oil Pipeline System. In September 2010, the Partnership paid the assessed fine.

In August 2009, PHMSA proposed penalties totaling approximately \$0.2 million based on alleged violations of various safety regulations relating to the November 2008 products release by Sunoco Pipeline L.P. in Murrysville, Pennsylvania. The Partnership has appealed the findings of violation and the proposed penalty. The timing and outcome of this appeal cannot be reasonably determined at this time.

The Partnership's Sunoco Pipeline L.P. subsidiary operates the West Texas Gulf Pipeline on behalf of West Texas Gulf Pipe Line Company and its shareholders pursuant to an Operating Agreement. Sunoco Pipeline L.P. also has a 60.3% ownership interest in the Company. In March 2010, Sunoco Pipeline L.P. received a Notice of Probable Violation, Proposed Civil Penalty and proposed Compliance Order from PHMSA with proposed civil penalties totaling approximately \$0.4 million in connection with a crude oil release that occurred at the Colorado City, Texas station on the West Texas Gulf Pipeline in June 2009. The Partnership has appealed the finding of violation and the proposed penalty. The time or outcome of this appeal cannot be reasonably determined at this time.

In December 2010, PHMSA proposed penalties totaling approximately \$0.1 million for alleged violations of various pipeline safety requirements relating to our rights of way and equipment within the Crude Oil Pipeline System. In January 2011, the Partnership paid the assessed fine.

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 financial position at December 31, 2010.

ITEM 4. RESERVED

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SECURITYHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES**

Our common units are listed on the New York Stock Exchange under the symbol "SXL" beginning on February 5, 2002. At the close of business on February 22, 2011, there were 79 holders of record of our common units. These holders of record included the general partner with 9.9 million common units registered in its name, and Cede & Co., a clearing house for stock transactions, with 23.2 million common units registered to it.

Our registration statement to offer our limited partnership interests and debt securities to the public also allows our general partner to sell in one or more offerings, the common units it owns. For each offering of our general partner's limited partnership units, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities offered by our general partner in that offering.

The high and low sales price ranges (composite transactions) and distributions declared by quarter for 2010 and 2009 were as follows:

Quarter	2010			2009		
	Unit Price		Declared Distributions	Unit Price		Declared Distributions
	High	Low		High	Low	
1 st	\$ 72.32	\$ 62.20	\$ 1.115	\$ 56.00	\$ 44.65	\$ 1.015
2 nd	\$ 72.49	\$ 50.37	\$ 1.140	\$ 56.60	\$ 49.10	\$ 1.040
3 rd	\$ 79.15	\$ 70.49	\$ 1.170	\$ 59.96	\$ 52.72	\$ 1.065
4 th	\$ 84.17	\$ 72.25	\$ 1.180	\$ 69.87	\$ 57.00	\$ 1.090

Within 45 days after the end of each quarter, we distribute all cash on hand at the end of the quarter less reserves established by our general partner in its discretion. This is defined as "available cash" in the partnership agreement. Our general partner has broad discretion to establish cash reserves that it determines are necessary or appropriate to properly conduct our business. We will make minimum quarterly distributions of \$0.45 per common unit, to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

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

There is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we are prohibited from making any distributions to our unitholders if it would cause an event of default, or an event of default exists under the credit facilities or the senior notes (Please see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" Liquidity and Capital

Resources).

In January 2010, we repurchased, and our general partner transferred and assigned to us for cancellation, the incentive distribution rights (IDRs) held by our general partner under our Second Amended and Restated Agreement of Limited Partnership, as amended, in consideration for (i) our issuance to our general partner of

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new IDRs issued under our Third Amended and Restated Agreement of Limited Partnership and (ii) our issuance to our general partner of a promissory note in the principal amount of \$201 million. In February 2010, the Operating Partnership issued a total of \$500 million in senior notes, which mature in February 2020 and February 2040. A portion of the net proceeds from this offering was used to repay in the full this promissory note. For a further description of the senior notes issuance, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table compares the target distribution levels and distribution splits between the general partner and the holders of our common units under the cancelled IDRs and under the new IDRs:

	Cancelled IDRs			New IDRs		
	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions		Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
General Partner		Unitholders	General Partner		Unitholders	
Minimum Quarterly Distribution	\$ 0.450	2%	98%			
First Target Distribution	up to \$ 0.500	2%	98%		No change	
Second Target Distribution	above \$ 0.500					
	up to \$ 0.575	15%*	85%			
Third Target Distribution	above \$ 0.575			above \$ 0.575		
	up to \$ 0.700	25%*	75%	up to \$1.5825	37%*	63%
Thereafter	above \$ 0.700	50%*	50%	above \$1.5825	50%*	50%

* Includes 2 percent general partner interest.

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The following tables present selected current and historical audited financial data. The tables should be read together with the financial statements and the accompanying notes of Sunoco Logistics Partners L.P. included in Item 8. Financial Statements and Supplementary Data. The tables also should be read together with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SUNOCO LOGISTICS PARTNERS L.P.

	2010	Year Ended December 31,			2006
		2009	2008	2007	
		(in millions, except per unit data)			
Income Statement Data:					
Revenues:					
Sales and other operating revenue:					
Affiliates	\$ 1,117	\$ 706	\$ 2,572	\$ 1,682	\$ 1,843
Unaffiliated customers		4,696		5,695	3,995
	6,691		7,540		
Other income ⁽¹⁾	30	28	24	28	17
Total revenues	\$ 7,838	\$ 5,430	\$ 10,136	\$ 7,405	\$ 5,855
Operating income	\$ 301	\$ 295	\$ 245	\$ 156	\$ 118
Gain on investments in affiliates	\$ 128	\$	\$	\$	\$
Income before income tax expense	\$ 356	\$ 250	\$ 214	\$ 121	\$ 90
Net Income	\$ 348	\$ 250	\$ 214	\$ 121	\$ 90
Net Income attributable to noncontrolling interests	2				
Net Income attributable to Sunoco Logistics Partners L.P.	\$ 346	\$ 250	\$ 214	\$ 121	\$ 90
Net Income attributable to Sunoco Logistics Partners L.P. per Limited Partner unit:					
Basic	\$ 9.40	\$ 6.52	\$ 6.19	\$ 3.39	\$ 2.68
Diluted	\$ 9.34	\$ 6.48	\$ 6.15	\$ 3.37	\$ 2.67
Cash distributions per unit to Limited Partners: ⁽²⁾					
Paid	\$ 4.52	\$ 4.11	\$ 3.67	\$ 3.33	\$ 3.03
Declared	\$ 4.61	\$ 4.21	\$ 3.79	\$ 3.38	\$ 3.13
Other Data:					
EBITDA ⁽³⁾	\$ 366	\$ 343	\$ 291	\$ 193	\$ 154
Distributable Cash Flow ⁽³⁾	\$ 248	\$ 266	\$ 236	\$ 134	\$ 103

⁽¹⁾ Includes equity income from the investments in the following joint ventures: Explorer Pipeline Company, Wolverine Pipe Line Company, West Shore Pipe Line Company, Yellowstone Pipe Line Company, Mid-Valley Pipeline Company (Mid-Valley) and West Texas Gulf Pipe Line Company (West Texas Gulf). Equity income from the investments has been included based on our respective ownership percentages of each, and from the dates of acquisition forward. In the third quarter 2010, the Partnership acquired a controlling financial

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interest in Mid-Valley and West Texas Gulf. Therefore, these joint ventures are reflected as consolidated subsidiaries of the Partnership from the respective dates of acquisition.

- (2) Cash distributions paid per unit to limited partners represent payments made per unit during the period stated. Cash distributions declared per unit to limited partners represent distributions declared per unit for the quarters within the period stated. Declared distributions were paid within 45 days following the close of each quarter.

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- (3) EBITDA and distributable cash flow provide additional information for evaluating our ability to make distributions to our unitholders and our general partner. The following table reconciles the difference between net income attributable to Sunoco Logistics Partners L.P. and net cash provided by operating activities, as determined under United States generally accepted accounting principles, and EBITDA and distributable cash flow:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions)				
Net Income attributable to Sunoco Logistics Partners L.P.	\$ 346	\$ 250	\$ 214	\$ 121	\$ 90
Interest cost, net	73	45	31	35	27
Depreciation and amortization expense	64	48	40	37	37
Impairment charge	3		6		
Provision for income taxes	8				
Gain on investments in affiliates	(128)				
EBITDA	\$ 366	\$ 343	\$ 291	\$ 193	\$ 154
Interest cost, net	(73)	(45)	(31)	(35)	(27)
Maintenance capital expenditures	(37)	(32)	(26)	(25)	(30)
Sunoco reimbursements			2	1	6
Provision for income taxes	(8)				
Distributable cash flow	\$ 248	\$ 266	\$ 236	\$ 134	\$ 103

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions)				
Net cash provided by operating activities	\$ 341	\$ 176	\$ 229	\$ 207	\$ 141
Interest cost, net	73	45	31	35	27
Amortization expense and bond discount	(2)	(2)	(1)	(1)	(1)
Restricted unit incentive plan expense	(5)	(5)	(4)	(5)	(4)
Net change in working capital pertaining to operating activities		121			
	(55)		38	(40)	(11)
Net proceeds from insurance recovery				(4)	
Provision for income taxes	8				
Net Income attributable to noncontrolling interests	(2)				
Other	8	8	(2)	1	2
EBITDA	\$ 366	\$ 343	\$ 291	\$ 193	\$ 154

Our management believes 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 is also used as a measure in determining our compliance with certain revolving credit facility covenants. However, there may be contractual, legal, economic or other 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. 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 United States generally accepted accounting principles and may not be comparable to other similarly titled measures of other businesses.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.**

	Year Ended December 31,				
	2010 ⁽¹⁾	2009 ⁽²⁾	2008 ⁽³⁾	2007 ⁽⁴⁾	2006 ⁽⁵⁾
	(in millions)				
Cash Flow Data:					
Net cash provided by operating activities	\$ 341	\$ 176	\$ 229	\$ 207	\$ 141
Net cash used in investing activities	\$ (426)	\$ (226)	\$ (332)	\$ (119)	\$ (241)
Net cash provided by (used in) financing activities	\$ 85	\$ 50	\$ 103	\$ (95)	\$ 87
Capital expenditures:					
Maintenance ⁽⁶⁾	\$ 37	\$ 32	\$ 26	\$ 25	\$ 30
Expansion ⁽⁷⁾	389	194	306	95	209
Total capital expenditures	\$ 426	\$ 226	\$ 332	\$ 120	\$ 239

(1) Expansion capital expenditures in 2010 include \$152 million related to the acquisition of a butane blending business from Texon L.P., \$91 million related to the acquisition of additional ownership interests in Mid-Valley, West Texas Gulf and West Shore, and construction projects to expand services at the Partnership's refined products terminals, increase tankage at the Nederland facility and to expand upon the Partnership's refined products platform in the southwest United States.

(2) Expansion capital expenditures in 2009 include \$50 million related to the acquisition of Excel Pipeline LLC and a refined products terminal in Romulus, Michigan and the construction of tankage and pipeline assets in connection with the Partnership's agreement to connect the Nederland terminal to a Port Arthur, Texas refinery and construction of additional crude oil storage tanks at the Nederland terminal.

(3) Expansion capital expenditures in 2008 include \$186 million related to the acquisition of the MagTex refined products pipeline system, construction of tankage and pipeline assets in connection with the Partnership's agreement to connect the Nederland terminal to a Port Arthur, Texas refinery and construction of additional crude oil storage tanks at the Nederland terminal.

(4) Expansion capital expenditures in 2007 includes approximately \$13 million related to the acquisition of the Syracuse Terminal, construction of tankage and pipeline assets in connection with the Partnership's agreement to connect the Nederland terminal to a Port Arthur, Texas refinery and construction of additional crude oil storage tanks at the Nederland terminal.

(5) Expansion capital expenditures in 2006 include approximately \$41 million related to the acquisition of the Millennium and Kilgore crude oil pipeline system, approximately \$68 million related to the acquisition of the Amdel and White Oil crude oil pipeline system and approximately \$12 million related to the acquisition of a 55.3 percent equity interest in Mid-Valley Pipeline Company. The total purchase price of Mid-Valley was approximately \$65 million, however since a portion of the interest was acquired from a related party, it was recorded by us at Sunoco's historical cost and the \$53 million difference between the purchase price and the cost basis of the assets was recorded by us as a capital distribution.

(6) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of the assets and to extend their useful lives. We treat maintenance expenditures that do not extend the useful life of existing assets as operating expenses as incurred.

(7) Expansion capital expenditures are capital expenditures made to acquire and integrate complimentary assets to grow the business, to improve operational efficiencies or reduce costs and to expand existing and construct new facilities, such as projects that increase storage or throughput volume.

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	2010	Year Ended December 31,			2006
		2009	2008	2007	
(in millions)					
Balance Sheet Data (at period end):					
Net properties, plants and equipment	\$ 2,128	\$ 1,534	\$ 1,375	\$ 1,089	\$ 1,007
Total assets	\$ 4,188	\$ 3,099	\$ 2,308	\$ 2,505	\$ 2,082
Total debt	\$ 1,229	\$ 868	\$ 748	\$ 515	\$ 492
Total Sunoco Logistics Partners L.P. Equity	\$ 965	\$ 862	\$ 670	\$ 591	\$ 583
Noncontrolling interests	77				
Total equity	\$ 1,042	\$ 862	\$ 670	\$ 591	\$ 583

	2010	Year Ended December 31,			2006
		2009	2008	2007	
(in millions)					
Operating Data:					
Refined Products Pipeline System					
Total shipments (in millions of barrel miles per day) ⁽¹⁾⁽²⁾	51	58	47	49	47
Revenue per barrel mile (in cents)	0.645	0.606	0.603	0.548	0.469
Terminal Facilities					
Terminal throughput (in thousands of bpd)					
Refined products terminals	488	462	436	434	392
Nederland terminal	728	597	526	507	462
Refinery terminals	465	591	653	696	688
Crude Oil Pipeline System					
Crude oil pipeline throughput (in thousands of bpd) ⁽¹⁾⁽³⁾	1,139	658	683	674	651
Crude oil purchases at wellhead (in thousands of bpd)	189	182	178	178	192
Gross margin per barrel of pipeline throughput (in cents) ⁽³⁾⁽⁴⁾	41.8	73.0	63.0	31.9	26.8
Average crude oil price (per barrel)	\$ 79.55	\$ 61.93	\$ 99.65	\$ 72.40	\$ 66.25

(1) Excludes amounts attributable to the equity ownership interests in corporate joint ventures which are not consolidated.

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

(3) Reflects total throughput by Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company from the dates of acquisition in 2010, divided by 365 days. From the dates of acquisition, these pipelines had actual throughput of approximately 585 thousand bpd for the year ended December 31, 2010.

(4) Represents total segment sales and other operating revenue minus cost of products sold and operating expenses and depreciation and amortization divided by crude oil pipeline throughput. Gross margin and throughput volumes for Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company have been included from the acquisition dates.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements of Sunoco Logistics Partners L.P. Among other things, those financial statements include more detailed information regarding the basis of presentation for the following information.

Overview

We are a Delaware limited partnership which owns and operates a geographically diverse portfolio of complementary pipeline, terminalling, and crude oil acquisition and marketing assets. We are principally engaged in the transport, terminalling, and storage of refined products and crude oil and in the purchase and sale of crude oil in 17 states located in the northeast, midwest, southeast and southwest United States. Revenues are generated by charging tariffs for transporting refined products, crude oil and other hydrocarbons through our pipelines as well as by charging fees for terminalling services for refined products, crude oil and other hydrocarbons at our facilities. Revenues are also generated by acquiring and marketing crude oil and refined products. Generally, crude oil and refined products purchases are entered into in contemplation of or simultaneously with corresponding sale transactions involving physical deliveries, which enables us to secure a profit on the transaction at the time of purchase.

Strategic Actions

Our primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput, pursue strategic and accretive acquisitions that complement our existing asset base and improve operating efficiencies. We also utilize our pipeline systems to take advantage of market dislocations. We believe these strategies will result in continuing increases in distributions to our unitholders. As part of our strategy, we have undertaken several initiatives including the acquisitions and growth capital programs described below.

Acquisitions

During the three years ended December 31, 2010, we completed nine acquisitions for a total of approximately \$488 million.

2010 Acquisitions

Bay City Terminal In October 2010, we acquired a terminal facility located in Bay City, Texas from Gulfstream Terminals & Marketing LLC. The terminal is capable of handling both crude oil and refined products volumes. Total active terminal storage capacity of this facility is approximately 0.1 million barrels. The terminal was included within in the Terminal Facilities from the date of acquisition;

Big Sandy Terminal In October 2010 we acquired a 0.2 million barrel refined products terminal and pipeline segment located in Big Sandy, Texas from an affiliate of Chevron Corporation. The terminal and pipeline segment are currently not operational, however we plan to integrate them into our existing assets in the southwest United States beginning in the second quarter 2011. The terminal and pipeline segment were included in our Terminal Facilities and Refined Products Pipeline System from the date of acquisition;

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Butane Blending Business In July 2010 we acquired a butane blending business from Texon L.P. The acquisition included patented technology for blending of butane into gasoline, contracts with customers currently utilizing the patented technology, butane inventories and other related assets. The acquisition was included within the Terminal Facilities as of the date of acquisition;

Controlling Financial Interest in Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company In July and August 2010 we acquired additional ownership interests in Mid-Valley Pipeline

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Company (Mid-Valley) and West Texas Gulf Pipe Line Company (West Texas Gulf), increasing our ownership interest from 55.3 percent to 91.0 percent and from 43.8 percent to 60.3 percent, respectively. Mid-Valley owns an approximately 1,000-mile common carrier pipeline, which originates in Longview, Texas and terminates in Samaria, Michigan. The pipeline provides crude oil to a number of refineries, primarily in the Midwest United States. West Texas Gulf owns and operates an approximately 600-mile common carrier crude oil pipeline system which originates from the West Texas oil fields at Colorado City and the Partnership's Nederland terminal, and extends to Longview, Texas, where deliveries are made to several pipelines, including Mid-Valley. As we now have a controlling financial interest in both entities, each is reflected as a consolidated subsidiary as of the respective acquisition dates, and are included in the Crude Oil Pipeline System; and

Additional Equity Interest in West Shore Pipe Line Company In July 2010 we acquired an additional ownership interest in West Shore Pipe Line Company (West Shore), increasing our ownership interest from 12.3 percent to 17.1 percent. West Shore owns and operates an approximately 650-mile common carrier refined products pipeline that originates in Chicago, Illinois and services delivery points from Chicago to Wisconsin. This investment is accounted for as an equity method investment, with the equity income recorded in the Refined Products Pipeline System.

2009 Acquisitions

Romulus Terminal Acquisition In September 2009 we acquired a refined products terminal located in Romulus, Michigan from R.K.A. Petroleum LLC. The terminal has storage capacity of approximately 0.4 million barrels and services the Detroit metropolitan area and has been integrated into our Terminal Facilities from the date of acquisition; and

Excel Pipeline LLC Acquisition In September 2009 we acquired the owner of an approximately 50-mile crude oil pipeline in Oklahoma, from affiliates of Gary-Williams Energy Corporation. The system originates in Duncan, Oklahoma and terminates in Wynnewood, Oklahoma and has been operated by us for Gary-Williams Energy Corporation since 2007. The pipeline has been included in our Crude Oil Pipeline System from the date of acquisition.

2008 Acquisition

MagTex Acquisition In November 2008, we acquired a refined products pipeline system located in Texas from affiliates of Exxon Mobil Corporation. The system consists of approximately 300 miles of refined products pipeline originating in Beaumont and Port Arthur and terminating in Hearne, Texas; another approximately 200 miles of refined products pipeline originating in Beaumont and terminating in Waskom, Texas; and refined products facilities located in Hearne, Hebert, Waco, Center and Waskom, Texas and Arcadia, Louisiana with combined active storage capacity of approximately 0.6 million barrels. The results of operations for the MagTex assets have been included in the Refined Products Pipeline System and Terminal Facilities from the acquisition date.

Growth Capital Program

In 2010, we completed approximately \$137 million of organic growth capital projects to improve operational efficiencies, reduce costs, expand existing facilities and construct new assets to increase storage, throughput volume or the scope of services we are able to provide. In 2010, these included construction projects to expand services at our refined products terminals, increase tankage at the Nederland facility and expand on our refined products platform in the southwest United States. In 2010, we announced a joint pipeline and marine project with MarkWest Liberty Midstream & Resources, LLC to transport ethane produced in the Marcellus Shale Basin in Pennsylvania to the Gulf Coast (Project Mariner). We would transport ethane from Western Pennsylvania on our existing pipeline to a refrigerated ethane storage facility, which we would construct and operate at an existing East Coast facility. Operations for Project Mariner are expected to commence in 2013.

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During 2011, we expect to spend approximately \$100 to \$150 million on expansion capital expenditures related to organic growth, excluding acquisitions and spending related to Project Mariner.

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Conservative Capital Structure

Our goal is to maintain substantial liquidity and a conservative capital structure. Sunoco Logistics Partners Operations L.P. (the Operating Partnership), our wholly-owned subsidiary, has a five-year \$395 million revolving credit facility (\$395 million Credit Facility) and a \$63 million revolving credit facility (\$63 million Credit Facility). We will maintain our conservative capital structure by combining debt and equity issuances to finance our future growth.

Cash Distribution Increases

As a result of our continued growth, our general partner increased our cash distributions to limited partners in all quarters in the three years ended December 31, 2010. For the quarter ended December 31, 2010, the distribution increased to \$1.18 per common unit, (\$4.72 annualized), from \$1.09 per common unit paid in February 2010. The distribution for the fourth quarter of 2010 was paid on February 14, 2011.

In January 2010, we repurchased, and our general partner transferred and assigned to us for cancellation, the incentive distribution rights (IDRs) held by the general partner under the Second Amended and Restated Agreement of Limited Partnership, as amended, as consideration for (i) our issuance to the general partner of new IDRs issued under the Third Amended and Restated Agreement of Limited Partnership and (ii) our issuance to the general partner of a promissory note in the amount of \$201 million, which was repaid in full during the first quarter of 2010. The new IDRs provide for target distribution levels and distribution splits between the general partner and the holders of our limited partnership units equal to those applicable to the cancelled IDRs, except that (i) the general partner's distribution split for distributions above the current second target distribution of \$0.575 per limited partnership unit per quarter (or \$2.30 per limited partnership unit on an annualized basis) and up to the third target distribution will increase to 37% from 25% (these percentages include the general partner's 2% interest); and (ii) the third target distribution will be increased from \$0.70 to \$1.5825 per limited partnership unit per quarter (or from \$2.80 to \$6.33 per limited partnership unit on an annualized basis). See Note 12 to the financial statements included in Item 8. Financial Statements and Supplementary Data for more information on these changes.

Table of Contents**Results of Operations**

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Statements of Income			
Sales and other operating revenue:			
Affiliates	\$ 1,117	\$ 706	\$ 2,572
Unaffiliated customers	6,691	4,696	7,540
Other income	30	28	24
Total revenues	7,838	5,430	10,136
Cost of products sold and operating expenses	7,398	5,023	9,786
Depreciation and amortization expense	64	48	40
Selling, general and administrative expenses	72	64	59
Impairment charge	3		6
Total costs and expenses	7,537	5,135	9,891
Operating income	301	295	245
Interest cost, net	73	45	31
Gain on investments in affiliates	128		
Income before provision for income taxes	\$ 356	\$ 250	\$ 214
Provision for income taxes	8		
Net Income	\$ 348	\$ 250	\$ 214
Net Income attributable to noncontrolling interests	2		
Net Income attributable to Sunoco Logistics Partners L.P.	\$ 346	\$ 250	\$ 214

Table of Contents**Segment Operating Income**

	Year Ended December 31,		
	2010	2009	2008
(in millions)			
Refined Products Pipeline System			
Sales and other operating revenue:			
Affiliates	\$ 76	\$ 79	\$ 77
Unaffiliated customers	44	49	27
Other income	16	12	8
Total revenues	136	140	112
Operating expenses			
Depreciation and amortization expense	15	13	9
Selling, general and administrative expenses	23	22	20
Total costs and expenses	92	95	78
Operating income	\$ 44	\$ 45	\$ 34
Terminal Facilities			
Sales and other operating revenue:			
Affiliates	\$ 122	\$ 100	\$ 100
Unaffiliated customers	142	91	62
Other income	1	2	1
Total revenues	265	193	163
Cost of products sold and operating expenses			
Depreciation and amortization expense	26	19	16
Selling, general and administrative expenses	25	19	19
Impairment charge	3		6
Total costs and expenses	170	109	105
Operating income	\$ 95	\$ 84	\$ 58
Crude Oil Pipeline System			
Sales and other operating revenue:			
Affiliates	\$ 919	\$ 527	\$ 2,395
Unaffiliated customers	6,505	4,556	7,451
Other income	13	14	15
Total revenues	7,437	5,097	9,861
Cost of products sold and operating expenses			
Depreciation and amortization expense	23	16	15
Selling, general and administrative expenses	24	23	20
Total costs and expenses	7,275	4,931	9,708
Operating income	\$ 162	\$ 166	\$ 153

Table of Contents**Operating Highlights**

	Year Ended December 31,		
	2010	2009	2008
Refined Products Pipeline System:			
Total shipments (in millions of barrel miles per day) ⁽¹⁾⁽²⁾	51	58	47
Revenue per barrel mile (in cents)	0.645	0.606	0.603
Terminal Facilities:			
Terminal throughput (in thousands of bpd):			
Refined products terminals	488	462	436
Nederland terminal	728	597	526
Refinery terminals	465	591	653
Crude Oil Pipeline System:			
Crude oil pipeline throughput (in thousands of bpd) ⁽²⁾⁽³⁾	1,139	658	683
Crude oil purchases at wellhead (in thousands of bpd)	189	182	178
Gross margin per barrel of pipeline throughput (in cents) ⁽³⁾⁽⁴⁾	41.8	73.0	63.0
Average crude oil price (per barrel)	\$ 79.55	\$ 61.93	\$ 99.65

- (1) Represents total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped.
- (2) Excludes amounts attributable to equity interests which are not consolidated.
- (3) Reflects total throughput by Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company from the dates of acquisition in 2010, divided by 365 days. From the dates of acquisition, these pipeline had actual throughput of approximately 585 thousand bpd for the twelve months ended December 31, 2010.
- (4) Represents total segment sales and other operating revenue minus cost of products sold and operating expense and depreciation and amortization divided by crude oil pipeline throughput. Gross margin and throughput volumes for Mid-Valley Pipeline Company and West Texas Gulf Pipe Line Company have been included from the acquisition dates.

Analysis of Consolidated Net Income

Net income attributable to partnership interests was \$346 million, \$250 million and \$214 million for the years ended December 31, 2010, 2009 and 2008 respectively.

The \$96 million increase in net income attributable to partnership interests from 2009 to 2010 was primarily the result of a \$128 million non-cash gain on the Partnership's acquisition of additional interests in Mid-Valley and West Texas Gulf. The gain resulted from an adjustment to record its previous ownership interest at fair value in accordance with acquisition accounting rules. Excluding the gain, net income decreased \$32 million compared to 2009, due to an increase in interest expense, related to debt issuances which were used to finance the IDR repurchase and exchange transaction and fund growth initiatives. Higher interest expense was partially offset by increased operating income associated primarily to improved Terminal Facilities volumes and contributions from acquisitions and organic projects.

The \$36 million increase in net income attributable to partnership interests from 2008 to 2009 was primarily the result of increased operating income driven by higher fees across all segments, full year results from the MagTex acquisition, additional tankage at the Nederland terminal facility, and higher lease acquisition earnings. This increase in operating income was partially offset by a \$14 million increase in net interest expense due primarily to higher borrowings associated with the MagTex acquisition, increased contango inventory positions and organic growth projects.

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Analysis of Segment Operating Income

Year Ended December 31, 2010 versus Year Ended December 31, 2009

Refined Products Pipeline System

Operating income for the Refined Products Pipeline System decreased \$1 million to \$44 million for the year ended December 31, 2010. Lower pipeline volumes resulted in reduced revenues compared to the prior year. Higher equity income from the Partnership's joint venture interests, along with increased operating gains and reduced utility, environmental and tax expenses partially offset the reduction in volumes.

Terminal Facilities

Operating income for the Terminal Facilities increased by \$11 million to \$95 million for the year ended December 31, 2010. The increase in operating income was due primarily to higher volumes and fees at the refined products terminals, additional volumes at the Nederland terminal facility and increased butane blending activities in 2010. These increases were partially offset by a non-cash impairment charge of \$3 million related to the cancellation of a construction project and reduced refinery terminal volumes driven by the permanent shut-down of Sunoco's Eagle Point refinery. In addition, the increases were partially offset by higher costs related to the integration of the butane blending business, higher amortization expense related to intangible assets acquired in 2010, and higher depreciation expense related to the Partnership's acquisitions and organic growth projects.

Crude Oil Pipeline System

Operating income for the Crude Oil Pipeline System decreased \$4 million to \$162 million for the year ended December 31, 2010. The decrease in operating income was primarily due to lower lease acquisition results driven by reduced contango profits. Offsetting the decrease in operating income were the incremental earnings associated with the Partnership's 2010 acquisition of additional interests in two joint venture pipelines and contributions from a pipeline acquired in the third quarter of 2009.

Year Ended December 31, 2009 versus Year Ended December 31, 2008

Refined Products Pipeline System

Operating income for the Refined Products Pipeline System increased \$11 million to \$45 million for the year ended December 31, 2009. The increase in operating income was due primarily to full year results from the MagTex refined products pipeline acquisition, as well as increased equity income associated with the Partnership's joint venture interests.

Terminal Facilities

Operating income for the Terminal Facilities increased by \$26 million to \$84 million for the year ended December 31, 2009. The increase was due primarily to increased terminal fees, additional tankage at the Nederland terminal facility, a full year of results from the MagTex refined products terminal acquisition and the commencement of butane blending projects. Also contributing to the increase was the absence of hurricane damages and a non-cash impairment charge recognized during 2008. Partially offsetting these increases were higher terminal operating losses.

Crude Oil Pipeline System

Operating income for the Crude Oil Pipeline System increased \$13 million to \$166 million for the year ended December 31, 2009 due primarily to increased pipeline fees and higher lease acquisition earnings from the contango market structure. These increases were partially offset by a reduction in pipeline operating gains, a decrease in equity income from the Partnership's joint venture interests and the absence of an insurance gain recognized in 2008.

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Liquidity and Capital Resources

Liquidity

Cash generated from operations and borrowings under the \$395 million and the \$63 million credit facilities are our primary sources of liquidity. At December 31, 2010, we had net working capital of \$88 million and available borrowing capacity under the credit facilities of \$427 million. Our working capital position reflects crude oil and refined products inventories based on historical costs under the last-in, first-out method (LIFO) of accounting. If the inventories had been valued at their current replacement cost, we would have had working capital of \$256 million at December 31, 2010. We periodically supplement our cash flows from operations with proceeds from debt and equity financing activities.

Capital Resources

Credit Facilities

The Operating Partnership has a five-year \$395 million credit facility, which is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The \$395 million Credit Facility matures in November 2012 and had no outstanding balance at December 31, 2010.

The \$395 million Credit Facility bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin, (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin) or (iii) the federal funds rate plus an applicable margin. This \$395 million Credit Facility contains various covenants limiting the Operating Partnership's ability to a) incur indebtedness, b) grant certain liens, c) make certain loans, acquisitions and investments, d) make any material change to the nature of its business, e) acquire another company, or f) enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The \$395 million Credit Facility also limits the Operating Partnership, on a rolling four-quarter basis, to a maximum total debt to EBITDA ratio of 4.75 to 1, which can generally be increased to 5.25 to 1 during an acquisition period. The Operating Partnership was in compliance with these covenants as of December 31, 2010.

In June 2010, Lehman Brothers (Lehman) was removed from the list of banks participating in, what was then, the Operating Partnership's \$400 million Credit Facility. The removal relates to Lehman's September 2008 bankruptcy and failure to fund its \$5 million share of the Partnership's borrowings under the facility.

In March 2009, the Operating Partnership entered into a \$63 million revolving credit facility with 2 participating financial institutions. The \$63 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. The \$63 million Credit Facility matures in September 2011 and may be repaid at any time. At December 31, 2010, there was \$31 million outstanding under this credit facility. This amount has been classified as long-term debt as we have the ability and intent to refinance it on a long-term basis. The facility bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin or (ii) the higher of (a) the federal funds rate plus 0.50 percent plus an applicable margin, (b) Toronto Dominion's prime rate plus an applicable margin or (c) LIBOR plus 1.0 percent plus an applicable margin. The \$63 million Credit Facility contains various covenants similar to the \$395 million Credit Facility and also requires the Operating Partnership to maintain, on a rolling four-quarter basis, a maximum total debt to EBITDA ratio of 4.5 to 1, which can generally be increased to 5.0 to 1 during an acquisition period. The Operating Partnership was in compliance with

these covenants as of December 31, 2010.

Promissory Note, Affiliated Companies

In July 2010, the Operating Partnership entered into a subordinated \$100 million variable rate promissory note due to Sunoco in May 2013. The note bears interest at three-month LIBOR plus 275 basis points per annum.

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The proceeds from this note were used to fund a portion of the purchase price of the Partnership's acquisition of the butane blending business discussed earlier.

Senior Notes

In February 2010, the Operating Partnership issued \$250 million of 5.50 percent Senior Notes and \$250 million of 6.85 percent Senior Notes, due February 15, 2020 and February 15, 2040, respectively (2020 and 2040 Senior Notes). The 2020 and 2040 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2020 and 2040 Senior Notes contain various covenants limiting the Operating Partnership's ability to incur certain liens, engage in sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The net proceeds from the 2020 and 2040 Senior Notes were used to repay the \$201 million promissory note issued in connection with our repurchase and exchange of our general partner's IDR interests, to repay outstanding borrowings under the \$395 million Credit Facility and for general partnership purposes.

In February 2009, the Operating Partnership issued \$175 million of 8.75 percent Senior Notes, due February 15, 2014 (2014 Senior Notes). The 2014 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2014 Senior Notes contain various covenants limiting the Operating Partnership's ability to incur certain liens, engage in sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The net proceeds from the 2014 Senior Notes were used to repay outstanding borrowings under the \$395 million Credit Facility, which were associated with the MagTex acquisition.

Equity Offerings

In August 2010, the Partnership completed a public offering of 2.0 million limited partnership units. Net proceeds of \$143 million were used to finance the purchase of the Partnership's additional ownership interests in Mid-Valley, West Texas Gulf and West Shore and to reduce outstanding borrowings under the Operating Partnership's \$395 million Credit Facility. In connection with this offering, the General Partner contributed \$3 million to the Partnership to maintain its 2 percent general partner interest.

In April and May 2009, the Partnership completed a public offering of 2.2 million common units. Net proceeds of \$110 million were used to reduce outstanding borrowings under the Operating Partnership's \$395 million Credit Facility and for general partnership purposes. In connection with these offerings, the general partner contributed \$2 million to the Partnership to maintain its 2 percent general partner interest.

Cash Flows and Capital Expenditures

Net cash provided by operating activities for the years ended December 31, 2010, 2009 and 2008 was \$341 million, \$176 million and \$229 million, respectively. Net cash provided by operating activities for 2010 was primarily the result of net income of \$220 million (excluding a \$128 million non-cash gain in connection with the acquisitions of additional interests in Mid-Valley and West Texas Gulf). Also contributing to net cash provided by operating activities were non-cash charges of depreciation and amortization of \$64 million, and a \$55 million decrease in working capital. The change in working capital was primarily the result of the liquidation of contango inventory positions. Net cash provided by operating activities for 2009 was primarily the result of net income of \$250 million and depreciation and amortization of \$48 million, offset by an increase working capital of \$121 million, which was the result of an increase in accounts receivable associated with liquidation of contango inventory positions. Net cash provided by operating activities for 2008 was primarily the result of net income of \$214 million and depreciation

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and amortization of \$40 million, offset by an increase working capital of \$38 million, resulting from increased inventory positions.

Net cash used in investing activities for the years ended December 31, 2010, 2009 and 2008 was \$426 million, \$226 million and \$332 million, respectively. Investing activities in 2010 included \$252 million of

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acquisitions, including a butane blending business; a controlling financial interest in Mid-Valley and West Texas Gulf; an additional ownership interest in West Shore; a refined products and crude oil terminal in Bay City, Texas and a refined products terminal and pipeline segment in Big Sandy, Texas. Also included in the cash used in investing activities for 2010 are expansion capital costs related to construction projects to expand services at our refined products terminals, increase tankage at the Nederland facility and expand on our refined products platform in the southwest United States. In 2009, cash used in investing activities included \$50 million for the Romulus, Michigan terminal and Excel Pipeline acquisitions, as well as constructions costs associated with the completion of the project to connect the Nederland terminal to Motiva's Port Arthur, Texas refinery, construction of additional storage tanks at Nederland and refined products butane blending projects. In 2008, cash used in investing activities included \$186 million for the MagTex acquisition and various other capital improvement projects.

Net cash provided by financing activities for the years ended December 31, 2010, 2009 and 2008 was \$85 million, \$50 million and \$103 million, respectively.

For the year ended December 31, 2010, the \$85 million of cash provided by financing activities was primarily attributable to net proceeds of \$494 million from the issuance of \$500 million senior notes, net proceeds of \$143 million related to our August 2010 equity offering and \$100 million of proceeds from the July 2010 promissory note with Sunoco. These financing sources were used primarily to fund our 2010 acquisitions and growth projects and repay the \$201 million promissory note issued in connection with the repurchase and exchange of the general partners' IDRs. Cash provided by these sources were further offset by \$189 million of quarterly distributions to the limited and general partners and \$238 million of net repayments under our \$395 million Credit Facility.

For the year ended December 31, 2009, the \$50 million of cash provided by financing activities was primarily attributable to net proceeds of \$173 million related to the February 2009 issuance of 8.75 percent senior notes and \$110 million of net proceeds from the April and May offering of 2.2 million common units. These sources were partially offset by \$173 million of distributions and \$54 million of net repayments under our \$395 million Credit Facility. Cash provided by financing activities was primarily used to fund the 2009 expansion capital.

For the year ended December 31, 2008, the \$103 million of cash provided by financing activities was primarily attributable to \$232 million increase in net borrowings under our \$395 million Credit Facility which were used primarily to fund the MagTex acquisition. This amount was partially offset by \$137 million in distributions paid to our limited partners and our general partner.

Under a treasury services agreement with Sunoco, we participate in Sunoco's centralized cash management program. Advances to affiliates in our balance sheets at December 31, 2010 and 2009 represent amounts due from Sunoco under this agreement.

Capital Requirements

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

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

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

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

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Maintenance	\$ 37	\$ 32	\$ 26
Expansion	389	194	306
Total	\$ 426	\$ 226	\$ 332

Maintenance capital expenditures primarily consist of recurring expenditures at each of the business segments 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 and related equipment, and the upgrade of pump stations. Management expects maintenance capital expenditures to be approximately \$45 million in 2011.

Expansion capital expenditures increased by \$195 million to \$389 million for the year ended December 31, 2010. Expansion capital expenditures for 2010 include the acquisitions of a butane blending business; a controlling financial interest in Mid-Valley and West Texas Gulf; an additional ownership interest in West Shore; a refined products and crude oil terminal in Bay City, Texas; and a refined products terminal and pipeline segment in Big Sandy, Texas. In addition, expansion capital expenditures for 2010 include construction projects to expand services at our refined products terminals, increase tankage at the Nederland facility and expand on our refined products platform in the southwest United States. Expansion capital expenditures decreased by \$112 million to \$194 million for the year ended December 31, 2009. Expansion capital expenditures for 2009 included the acquisitions of a refined products terminal in Romulus, Michigan and Excel Pipeline LLC, the owner of a crude oil pipeline which services Gary Williams Wynnewood, Oklahoma refinery, and the construction pursuant to our agreement to connect our Nederland Terminal to a Port Arthur, Texas refinery. Expansion capital also included butane blending projects and construction of additional crude oil storage tanks at Nederland.

Capital Requirements

In 2010, we announced a joint pipeline and marine project with MarkWest Liberty Midstream & Resources, LLC to transport ethane produced in the Marcellus Shale Basin in Pennsylvania to the Gulf Coast (Project Mariner). We would transport ethane from Western Pennsylvania on our existing pipeline to a refrigerated ethane storage facility, which we would construct and operate at an existing East Coast facility. Operations for Project Mariner are expected to commence in 2013.

Management expects to invest approximately \$100 million to \$150 million in expansion capital projects in 2011, excluding acquisitions and Project Mariner. These projects include additional tankage at the Nederland terminal, butane blending projects and expansion of our refined products platform in the southwest United States.

We expect to fund our capital expenditures, including any additional acquisitions, from cash provided by operations and, to the extent necessary, from the proceeds of borrowing under the credit facilities, other borrowings and issuance of additional common units.

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The following table sets forth the aggregate amount of long-term debt maturities (including interest commitments based upon the interest rate in effect at December 31, 2010), annual rentals applicable to non-cancelable operating leases, and purchase commitments related to future periods at December 31, 2010:

	Year Ended December 31,						Total
	2011	2012	2013	2014	2015	Thereafter	
	(in millions)						
Long-term debt:							
Principal	\$ 31	\$ 250	\$ 100	\$ 175	\$	\$ 675	\$ 1,231
Interest	79	62	58	44	42	474	759
Operating leases	6	6	3	3	2	1	21
Purchase obligations	2,039						2,039
	\$ 2,155	\$ 318	\$ 161	\$ 222	\$ 44	\$ 1,150	\$ 4,050

Our operating leases reported above include leases of office space, third-party pipeline capacity, and other property and equipment, with initial or remaining non-cancelable terms in excess of one year.

A purchase obligation is an enforceable and legally binding agreement to purchase goods and services that specifies significant terms, including: fixed or expected quantities to be purchased; market-related pricing provisions; and a specified term. Our purchase obligations consist of non-cancelable contracts to purchase crude oil for terms of one year or less by our Crude Oil Acquisition and Marketing group and non-cancelable contracts to purchase butane for terms of one year or less by our butane blending business.

Substantially all of the above purchase obligations include actual crude oil purchases for the month of January 2011. The remaining crude oil purchase obligation amounts are based on the quantities committed to be purchased assuming adequate well production for the remainder of the year, at December 31, 2010 crude oil prices. Actual amounts to be paid in regards to these obligations will be based upon market prices or formula-based market prices during the period of purchase. For further discussion of our Crude Oil Acquisition and Marketing activities, see Item 1. Business Crude Oil Pipeline System Crude Oil Acquisition and Marketing.

Environmental Matters

Operation of the pipelines, terminals, and associated facilities are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of the environment. As a result of compliance with these laws and regulations, liabilities have been accrued for estimated site restoration costs to be incurred in the future at the facilities and properties, including liabilities for environmental remediation obligations. Under our accounting policies, liabilities are recorded when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. For a discussion of the accrued liabilities and charges against income related to these activities, see Note 10 to the financial statements included in Item 8. Financial Statements and Supplementary Data.

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Under the terms of the Omnibus Agreement and in connection with the contribution of assets to us by affiliates of Sunoco, Sunoco has agreed to indemnify us for 30 years from environmental and toxic tort liabilities related to the assets contributed that arise from the operation of such assets prior to closing of the February 2002 initial public offering (IPO). See Agreements with Sunoco.

For more information concerning environmental matters, please see Item 1. Business Environmental Regulation.

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Impact of Inflation

Although the impact of inflation has slowed in recent years, it is still a factor in the United States economy and may increase the cost to acquire or replace property, plant, and equipment and may increase the costs of labor and supplies. To the extent permitted by competition, regulation, and existing agreements, we have and will continue to pass along increased costs to customers in the form of higher fees.

Critical Accounting Policies

A summary of our significant accounting policies is included in Note 1 to the financial statements included in Item 8 Financial Statements and Supplementary Data. Management believes that the application of these policies on a consistent basis enables us to provide the users of the financial statements with useful and reliable information about our operating results and financial condition. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Significant items that are subject to such estimates and assumptions include long-lived assets and environmental remediation activities. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results may differ from the estimates on which our financial statements are prepared at any given point in time.

The critical accounting policies identified by our management are as follows:

Long-Lived Assets. The cost of long-lived assets (less estimated salvage value, in the case of properties, plants and equipment), is generally depreciated on a straight-line basis over the estimated useful lives of the assets. Useful lives are based on historical experience, contract expiration or other reasonable basis, and are adjusted when changes in planned use, technological advances or other factors indicate that a different life would be more appropriate. Changes in useful lives that do not result in the impairment of an asset are recognized prospectively.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. Such events and circumstances include, among other factors: operating losses; unused capacity; market value declines; technological developments resulting in obsolescence; changes in demand for products manufactured by others utilizing our services or for our products; changes in competition and competitive practices; uncertainties associated with the United States and world economies; changes in the expected level of environmental capital, operating or remediation expenditures; and changes in governmental regulations or actions. Additional factors impacting the economic viability of long-lived assets are discussed under *Forward Looking Statements* in this document.

A long-lived asset is considered to be impaired when the undiscounted net cash flows expected to be generated by the asset are less than its carrying amount. Such estimated future cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the impaired asset. It is also difficult to precisely estimate fair market value because quoted market prices for our long-lived assets may not be readily available. Therefore, fair market value is generally based on the present values of estimated future cash flows using discount rates commensurate with the risks associated with the assets being reviewed for impairment.

In 2010, we recognized an impairment of \$3 million related to the cancellation of a terminal construction project. There were no asset impairments for the year ended December 31, 2009. In 2008, we recognized an impairment of \$6 million related to our decision to discontinue

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efforts to expand liquefied petroleum gas (LPG) storage capacity at our Inkster, Michigan facility. The impairment charge reflected the entire cost associated with the project.

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Environmental Remediation. At December 31, 2010, our accrual for environmental remediation activities was \$4 million. This accrual is for work at identified sites where an assessment has indicated that cleanup costs are probable and reasonably estimable. The accrual is undiscounted and is based on currently available information, estimated timing of remedial actions and related inflation assumptions, existing technology and presently enacted laws and regulations. It is often extremely difficult to develop reasonable estimates of future site remediation costs due to changing regulations, changing technologies and their associated costs, and changes in the economic environment. In the above instances, if a range of probable environmental cleanup costs exists for an identified site, the minimum of the range is accrued unless some other point or points in the range are more likely, in which case the most likely amount in the range is accrued. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent their occurrence is probable and reasonably estimable.

Management believes that none of the current remediation locations are material, individually or in the aggregate, to our financial position at December 31, 2010. As a result, our exposure to adverse developments with respect to any individual site is not expected to be material. However, if changes in environmental regulations occur, such changes could impact several of our facilities. As a result, from time to time, significant charges against income for environmental remediation may occur.

Under the terms of the Omnibus Agreement and in connection with the contribution of assets to us by affiliates of Sunoco, Sunoco has agreed to indemnify us, in whole or in part, for 30 years from environmental and toxic tort liabilities related to the assets contributed that arise from the operation of such assets prior to closing of the IPO. We have agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the 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 us. See *Agreements with Sunoco* for more information.

In summary, 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 terms of cost sharing arrangements with other potentially responsible parties and the nature and extent of future environmental laws, inflation rates and the determination of our liability at the sites, if any, in the light of the number, participation level and financial viability of other parties.

New Accounting Pronouncements

For a discussion of recently issued accounting pronouncements requiring adoption subsequent to December 31, 2010, see Note 1 to the consolidated financial statements included in Item 8. *Financial Statements and Supplementary Data.*

Agreements with Sunoco

We have entered into material agreements with Sunoco and their affiliates, as discussed below.

Pipeline and Terminating Agreements

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In December 2010, Sunoco announced its intention to sell its Toledo refinery to affiliates of PBF Holding Company LLC (PBF). We currently have certain agreements to provide pipeline and terminalling services which support the Toledo refinery. The sale of the refinery is expected to be completed during the first quarter of 2011 and we do not anticipate the transaction to have a material impact to our financial results as certain agreements are expected to be assigned to PBF or its agents in connection with the sale.

In 2010, we entered into a one-year throughput agreement with Sunoco on our Marysville crude oil pipeline. Under this agreement, Sunoco is required to ship a minimum average of 106,000 barrels per

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day (bpd) based on the published tariff available to third parties on the pipeline. This agreement is expected to be transferred to PBF or its agents upon completion of the sale of Sunoco's Toledo refinery.

Under a three-year agreement, Sunoco agreed to annually throughput a minimum of 968,550 barrels of LPG originating at the Toledo refinery to and from the Inkster Terminal. This minimum throughput is an annual amount for each contract period running from April 1 to March 31. Additionally, Sunoco agreed to annually throughput a minimum of 250,000 barrels of propane across the Inkster Terminal loading rack. This minimum propane throughput is an annual amount for each contract period running from April 1 to March 31, and was pro-rated for the 2010-2011 term to account for the timing of the loading rack installation. This agreement expires in March 2012 and is expected to be transferred to PBF or its agents upon completion of the Toledo refinery sale.

We have a five-year product terminal services agreement with Sunoco under which Sunoco may throughput refined products through our terminals, and a tank farm agreement under which Sunoco may throughput refined products through our Marcus Hook Tank Farm. These agreements expire in February 2012. The agreements contain no minimum throughput obligations for Sunoco.

We have a three-year agreement with Sunoco relating to the Fort Mifflin Terminal Complex. Under this agreement, Sunoco will deliver a minimum average of 300,000 barrels per day of crude oil and refined products per contract year at the Fort Mifflin Terminal Complex. This minimum average throughput is an annual amount for each contract period running from March 1 to February 28. Sunoco does not have exclusive use of the Fort Mifflin Terminal Complex, however we are obligated to provide the necessary tanks, marine docks and pipelines for Sunoco to meet its minimum requirements under the agreement. This agreement expires in February 2012.

Under a 20-year lease agreement which expires in February 2022, Sunoco leases our interrefinery pipelines between Sunoco's Philadelphia and Marcus Hook refineries for an annual fee which escalates at 1.67 percent each January 1 for the term of the agreement. The annual fee for the year ended December 31, 2010 was \$6 million. The lease agreement also requires Sunoco to reimburse us for any non-routine maintenance expenditures, as defined, incurred during the term of the agreement. There were no material reimbursements under this agreement during 2008, 2009 or 2010.

Sunoco is a shipper on our refined products and crude oil pipelines. With the exception of the crude oil pipeline agreement noted above, all movements are on the same terms that would be available to an unrelated third party and are based on published tariff rates on the respective pipelines.

Subject to a minimum of 180 days advance written notice, the obligations under the Inkster agreement and the Fort Mifflin Terminal Complex agreement may be permanently reduced or suspended if there is a shut-down or reconfiguration of (i) the Toledo refinery such that the refinery does not produce the volumes sufficient for the shipper to satisfy its minimum obligations under the Inkster agreement; or the Philadelphia refinery such that the refinery does not require (in the case of crude oil) or produce (in the case of petroleum products) volumes sufficient for Sunoco to satisfy its minimum obligations under the Fort Mifflin agreement.

Our facilities are well-situated to handle Sunoco's refining and marketing supply chain needs, and we expect that Sunoco will continue to utilize our pipelines and terminals. The strategic interplay between our assets and Sunoco's assets results in a mutually beneficial relationship between us and Sunoco. However, Sunoco actively manages its assets and operations and changes of some nature, possibly material to our business relationship, may occur at some point in the future. There can be no assurance of the levels at which Sunoco will continue to utilize our pipelines or terminals or that revenues can be generated from third parties.

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Refined Products and Crude Oil Purchase Agreements

We have an agreement with Sunoco whereby Sunoco purchases from us, at market-based rates, refined products at certain of our terminal facilities. This agreement is negotiated annually and the current agreement expires in May 2011.

We have agreements with Sunoco whereby Sunoco purchases from us, at market-based rates, particular grades of crude oil that are purchased by our crude oil acquisition and marketing business. These agreements automatically renew on a monthly basis unless terminated by either party on 30 days' written notice. In the first quarter of 2011, Sunoco is expected to complete the sale of its Toledo refinery and assign its crude oil purchase agreements relating to this facility to PBF. Similar to the arrangements related to the June 2009 sale of the Sunoco Tulsa refinery to Holly Corporation, the termination of the agreements with Sunoco are not expected to have a material impact on our results of operations and our cash flow, as the contracts to sell crude oil to PBF or its agents are expected to be commensurate with historical Sunoco volumes.

Omnibus Agreement

In 2002, we entered into an Omnibus Agreement with Sunoco and our general partner that addresses the following matters:

our obligation to pay the general partner or Sunoco an annual administrative fee for the provision by Sunoco of certain general and administrative services;

Sunoco's and its affiliates' agreement not to compete with us under certain circumstances;

our agreement to undertake to develop and construct or acquire an asset if requested by Sunoco;

an indemnity by Sunoco for certain environmental, toxic tort and other liabilities;

our obligation to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the assets that occur on or after the closing of the IPO and for environmental and toxic tort liabilities related to the assets to the extent Sunoco is not required to indemnify us; and

our option to purchase certain pipeline, terminalling, and storage assets retained by Sunoco or its affiliates.

General and Administrative Services Fee

Under the Omnibus Agreement, we pay Sunoco or our general partner an annual administrative fee that includes expenses incurred by Sunoco and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, engineering, information technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee was \$5 million, \$6 million and \$6 million for the years ended December 31, 2010, 2009, and 2008, respectively. This fee does not include the costs of shared insurance programs (which are allocated to us based upon our share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the

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general partner (including senior executives), or the cost of their employee benefits. We have no employees, and reimburse Sunoco and its affiliates for these costs and other direct expenses incurred on our behalf. In addition, we have incurred additional general and administrative costs which we pay directly.

The initial term of Section 4.1 of the Omnibus Agreement (which concerns our obligation to pay the annual fee for provision of certain general and administrative services) was through the end of 2004. The parties have extended the term of Section 4.1 annually by one year in each of the following years and again for 2011. The 2011 annual fee has increased to \$13 million to cover costs of services now provided by Sunoco that were previously provided by third parties and includes an allocation of management costs for the Chief Executive Officer; Vice President, Chief Financial Officer; Vice President, Chief Human Resources Officer; and others

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from Sunoco that were previously included in our direct costs. The 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 us. There can be no assurance that Section 4.1 of the Omnibus Agreement will be extended beyond 2011, or that, if extended, the administrative fee charged by Sunoco will be at or below the current administrative fee. In the event that we are unable to obtain such services from Sunoco or other third parties at or below the current cost, our financial condition and results of operations may be adversely impacted.

In addition to the fees for the centralized corporate functions, selling, general and administrative expenses in the statements of income include the allocation of shared insurance costs of \$4 million, \$4 million and \$3 million for the years ended December 31, 2010, 2009 and 2008 respectively. The Partnership's share of allocated Sunoco employee benefit plan expenses, including non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits was \$29 million, \$28 million and \$23 million for the years ended December 31, 2010, 2009 and 2008 respectively. These expenses are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the statements of income.

Development or Acquisition of an Asset by the Partnership

The Omnibus Agreement contains a provision pursuant to which Sunoco may at any time propose to us that we undertake a project to develop and construct or acquire an asset. If our general partner determines in its good faith judgment, with the concurrence of its Conflicts Committee, that the project, including the terms on which Sunoco would agree to use such asset, will be beneficial on the whole and that proceeding with the project will not effectively preclude us from undertaking another project that will be more beneficial to us, we will be required to use commercially reasonable efforts to finance, develop, and construct or acquire the asset.

Noncompetition

Sunoco agreed, and will cause its affiliates to agree, for so long as Sunoco controls our general partner, not to engage in, whether by acquisition or otherwise, the business of purchasing crude oil at the wellhead or operating crude oil pipelines or terminals, refined products pipelines or terminals, or LPG terminals in the continental United States. This restriction does not apply to:

certain businesses currently operated by Sunoco or any of its subsidiaries;

any logistics asset constructed by Sunoco or any of its subsidiaries within a manufacturing or refining facility in connection with the operation of that facility;

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of less than \$5 million; and

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of \$5 million or more if we have been offered the opportunity to purchase the business for fair market value not later than six months after completion of such acquisition or construction, and we decline to do so with the concurrence of the Conflicts Committee.

In addition, the limitations on the ability of Sunoco and its affiliates to compete with us may terminate upon a change of control of Sunoco.

Indemnification

Under the terms of the Omnibus Agreement and in connection with the contribution of assets by affiliates of Sunoco, Sunoco has agreed to indemnify us for 30 years from environmental and toxic tort liabilities related to the assets contributed that arise from the operation of such assets prior to closing of the IPO. Sunoco is obligated to indemnify us for 100 percent of all losses asserted within the first 21 years of closing of the IPO. Sunoco s

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share of liability for claims asserted thereafter will decrease by 10 percent a year. For example, for a claim asserted during the twenty-third year after closing of the IPO, Sunoco would be required to indemnify us for 80 percent of the loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. In addition, this indemnification applies to the interests in the Mesa Pipeline system and the Mid-Valley pipeline purchased from Sunoco following the IPO. Any environmental and toxic tort liabilities not covered by this indemnity will be our responsibility. 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 liability at multiparty sites, if any, in light of the number, participation levels, and financial viability of other parties. We have agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the 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 us.

Sunoco has also agreed to indemnify us for liabilities relating to:

the assets contributed to the Partnership, other than environmental and toxic tort liabilities, that arise out of the operation of the assets prior to the closing of the IPO and that are asserted within ten years after the closing of the IPO;

certain defects in title to the assets contributed to the Partnership and failure to obtain certain consents and permits necessary to conduct the business that arise within ten years after the closing of the IPO;

legal actions related to the period prior to the IPO currently pending against Sunoco or its affiliates; and

events and conditions associated with any assets retained by Sunoco or its affiliates.

License Agreement

We have granted to Sunoco and certain of its affiliates, including our general partner, a license to our intellectual property so that our general partner can manage its operations and create new intellectual property using our intellectual property. Our general partner will assign to us the new intellectual property it creates in operating our business. Our general partner has also licensed to us certain of its own intellectual property for use in the conduct of our business and we have licensed to our general partner certain intellectual property for use in the conduct of its business. The license agreement has also granted to us a license to use the trademarks, trade names, and service marks of Sunoco in the conduct of its business.

Treasury Services Agreement

We have a treasury services agreement with Sunoco pursuant to which, among other things, we are participating in Sunoco's centralized cash management program. Under this program, all of the 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 balance will be settled periodically, but no less frequently than monthly. Amounts due from Sunoco and its subsidiaries earn interest at a rate equal to the average rate of our third-party money market investments, while amounts due to Sunoco and its subsidiaries bear interest at a rate equal to the interest rate provided in the \$395 million Credit Facility.

Other Agreements

We have also entered into various other agreements with Sunoco and their affiliates, including throughput agreements regarding certain acquired assets or improvements or expansions of existing assets. Our management believes the terms of these agreements to be comparable to those that could be negotiated with an unrelated third party.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rates and volatility in crude oil and refined products commodity prices. To manage such exposure, interest rates and 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- and variable-rate debt. At December 31, 2010, we had \$131 million of variable-rate borrowings under our revolving credit facility and promissory note from affiliates. The outstanding borrowings bear interest cost of LIBOR plus an applicable margin. An increase in short-term interest rates will have a negative impact on funds borrowed under variable debt arrangements. Our weighted average variable interest rate on our variable-rate borrowings was 3.0 percent at December 31, 2010. A one percent change in the weighted average rate would have impacted annual interest expense by approximately \$1 million.

At December 31, 2010, we had \$1.1 billion of fixed-rate borrowings, which is comprised of \$250 million of 2012 Senior Notes, \$175 million of 2014 Senior Notes, \$175 million of 2016 Senior Notes, \$250 million of 2020 Senior Notes and \$250 million of 2040 Senior Notes. A hypothetical one-percent decrease in interest rates would increase the fair value of our fixed-rate borrowings at December 31, 2010 by approximately \$231 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 constantly 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 December 31, 2010, the fair market value of our open derivative positions was a net liability of \$4 million on 0.7 million barrels of refined products. These derivative positions vary in length but do not extend beyond April 2011. The potential decline in the market value of these derivatives from a hypothetical 10 percent adverse change in the year-end market prices of the underlying commodities that were being hedged by derivative contracts at December 31, 2010 was estimated to be \$6 million. This hypothetical loss was estimated by multiplying the difference between the hypothetical and the actual year-end market prices of the underlying commodities by the contract volume amounts.

For additional information concerning our commodity market risk activities, see Note 14 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

Management of Sunoco Logistics Partners L.P. (the Partnership) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Partnership's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

The Partnership's management assessed the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2010. In making this assessment, the Partnership's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*.

Based on this assessment, management believes that, as of December 31, 2010, the Partnership's internal control over financial reporting is effective based on those criteria. Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Partnership's internal control over financial reporting, which appears in this section.

Lynn L. Elsenhans

Chairman and Chief Executive Officer

Brian P. MacDonald

Vice President and Chief Financial Officer

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors of

Sunoco Partners LLC

We have audited Sunoco Logistics Partners L.P.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sunoco Logistics Partners L.P.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sunoco Logistics Partners L.P. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2010 financial statements of Sunoco Logistics Partners L.P. and our report dated February 23, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

February 23, 2011

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS**

To the Board of Directors of

Sunoco Partners LLC

We have audited the accompanying balance sheets of Sunoco Logistics Partners L.P. (the Partnership) as of December 31, 2009 and 2010, and the related statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunoco Logistics Partners L.P. at December 31, 2009 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sunoco Logistics Partners L.P.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

February 23, 2011

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****STATEMENTS OF INCOME**

(in millions, except units and per unit amounts)

	Year Ended December 31,		
	2010	2009	2008
Revenues			
Sales and other operating revenue:			
Affiliates (Note 3)	\$ 1,117	\$ 706	\$ 2,572
Unaffiliated customers	6,691	4,696	7,540
Other income	30	28	24
Total Revenues	7,838	5,430	10,136
Costs and Expenses			
Cost of products sold and operating expenses	7,398	5,023	9,786
Depreciation and amortization expense	64	48	40
Selling, general and administrative expenses	72	64	59
Impairment charge	3		6
Total Costs and Expenses	7,537	5,135	9,891
Operating Income	301	295	245
Net interest cost to affiliates (Note 3)	2		1
Other interest cost and debt expense, net	76	49	34
Capitalized interest	(5)	(4)	(4)
Gain on investments in affiliates (Note 2)	128		
Income Before Provision for Income Taxes	\$ 356	\$ 250	\$ 214
Provision for income taxes (Note 1)	8		
Net Income	\$ 348	\$ 250	\$ 214
Net Income attributable to noncontrolling interests	2		
Net Income attributable to Sunoco Logistics Partners L.P.	\$ 346	\$ 250	\$ 214
Calculation of Limited Partners' interest:			
Net Income attributable to Sunoco Logistics Partners L.P.	\$ 346	\$ 250	\$ 214
Less: General Partner's interest	(48)	(52)	(37)
Limited Partners' interest	\$ 298	\$ 198	\$ 177
Net Income attributable to Sunoco Logistics Partners L.P. per Limited Partner unit (Note 4):			
Basic	\$ 9.40	\$ 6.52	\$ 6.19
Diluted	\$ 9.34	\$ 6.48	\$ 6.15
Weighted average Limited Partners' units outstanding:			
Basic	31.7	30.3	28.6

Diluted

31.9

30.5

28.8

(See Accompanying Notes)

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Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****BALANCE SHEETS**

(in millions)

	December 31,	
	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 2	\$ 2
Advances to affiliated companies (Note 3)	44	9
Accounts receivable, affiliated companies (Note 3)	154	48
Accounts receivable, net	1,536	1,280
Inventories	63	87
Total Current Assets	1,799	1,426
Properties, plants and equipment	2,799	2,151
Less accumulated depreciation and amortization	(671)	(617)
Properties, plants and equipment, net (Note 6)	2,128	1,534
Investment in affiliates (Note 7)	73	88
Goodwill (Note 8)	63	16
Intangible assets, net (Note 8)	109	22
Other assets	16	13
Total Assets	\$ 4,188	\$ 3,099
Liabilities and Equity		
Accounts payable	\$ 1,591	\$ 1,254
Accrued liabilities	76	49
Accrued taxes payable (Note 1)	44	31
Total Current Liabilities	1,711	1,334
Long-term debt, affiliated companies (Note 9)	100	
Long-term debt (Note 9)	1,129	868
Other deferred credits and liabilities	42	35
Deferred income taxes (Note 1)	164	
Commitments and contingent liabilities (Note 10)		
Total Liabilities	3,146	2,237
Equity		
Sunoco Logistics Partners L.P. equity		
Limited Partners' interest	940	837
General Partner's interest	28	27
Accumulated other comprehensive loss	(3)	(2)

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Total Sunoco Logistics Partners L.P. equity	965	862
Noncontrolling interests	77	
Total Equity	1,042	862
Total Liabilities and Equity	\$ 4,188	\$ 3,099

(See Accompanying Notes)

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****STATEMENTS OF CASH FLOWS**

(in millions)

	Year Ended December 31,		
	2010	2009	2008
Cash Flows from Operating Activities:			
Net Income	\$ 348	\$ 250	\$ 214
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	64	48	40
Impairment charge	3		6
Amortization of financing fees and bond discount	2	2	1
Restricted unit incentive plan expense	5	5	4
Gain on investments in affiliates	(128)		
Changes in working capital pertaining to operating activities:			
Accounts receivable, affiliated companies	(106)	30	(15)
Accounts receivable, net	(248)	(627)	548
Inventories	38	3	(59)
Accounts payable and accrued liabilities	360	463	(498)
Accrued taxes	11	10	(14)
Other			
	(8)	(8)	2
Net cash provided by operating activities	341	176	229
Cash Flows from Investing Activities:			
Capital expenditures	(174)	(176)	(146)
Acquisitions	(252)	(50)	(186)
Net cash used in investing activities	(426)	(226)	(332)
Cash Flows from Financing Activities:			
Distributions paid to limited and general partners	(189)	(173)	(137)
Distributions paid to noncontrolling interests	(4)		
Net proceeds from issuance of limited partner units	143	110	
Contributions from general partner	3	2	3
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(2)	(2)	(1)
Repayments under credit facility	(888)	(687)	(111)
Borrowings under credit facility	650	633	343
Net proceeds from issuance of long-term debt	494	173	
Promissory note from affiliate	100		
Repayment of promissory note to general partner	(201)		
Advances to affiliated companies, net	(21)	(6)	6
Net cash provided by financing activities	85	50	103

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Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of year	2	2	2
Cash and cash equivalents at end of period	\$ 2	\$ 2	\$ 2

(See Accompanying Notes)

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****STATEMENTS OF EQUITY**

(in millions)

	Limited Partners Units	\$	General Partner \$	Accumulated Other Comprehensive Income (Loss) \$	Non- controlling Interests \$	Total \$
Balance at December 31, 2007	28.6	\$ 582	\$ 9	\$	\$	\$591
Comprehensive Income:						
Net Income		171	43			214
Recognition of funded status of affiliates postretirement plans				(2)		(2)
Loss on cash flow hedges				(1)		(1)
Total comprehensive income		171	43	(3)		211
Units issued under incentive plans	0.1	4				4
Payment of statutory withholding on issuance of LTIP		(1)				(1)
Contributions from general partner		3				3
Distributions paid to limited partners and general partner		(105)	(32)			(137)
Other		(1)				(1)
Balance at December 31, 2008	28.7	\$ 653	\$ 20	\$ (3)	\$	\$670
Comprehensive Income:						
Net Income		197	53			250
Gain on cash flow hedges				1		1
Total comprehensive income		197	53	1		251
Issuance of Limited Partner units to the public	2.2	110	2			112
Units issued under incentive plans	0.1	5				5
Distribution equivalent rights		(1)				(1)
Payment of statutory withholding on issuance of LTIP		(2)				(2)
Distributions paid to limited partners and general partner		(125)	(48)			(173)
Balance at December 31, 2009	31.0	\$ 837	\$ 27	\$ (2)	\$	\$862
Comprehensive Income:						
Net Income		298	48		2	348
Recognition of funded status of affiliates postretirement plans				1		1
Loss on cash flow hedges				(2)		(2)
Total comprehensive income		298	48	(1)	2	347
Issuance of Limited Partner units to the public	2.0	143	3			146
Units issued under incentive plans	0.1	5				5
Distribution equivalent rights		(1)				(1)
Payment of statutory withholding on issuance of LTIP		(2)				(2)
Noncontrolling equity in joint venture acquisitions					80	80
Distribution related to IDR transaction		(197)	(4)			(201)
		(143)	(46)		(4)	(193)

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Distributions paid to limited partners, general partner and noncontrolling interests

Other							(1)	(1)
Balance at December 31, 2010	33.1	\$ 940	\$ 28	\$	(3)	\$	77	\$1,042

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Operations

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 17 states located in the northeast, midwest, southeast and southwest United States. Sunoco, Inc. and its wholly-owned subsidiaries, including Sunoco, Inc. (R&M), are collectively referred to as Sunoco and accounted for approximately 14 percent of the Partnership's total revenues for the year ended December 31, 2010.

Principles of Consolidation

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. (the Operating Partnership) and include the accounts of entities in which the Partnership has a controlling financial interest. A controlling financial interest is evidenced by either a voting interest greater than 50 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 (VIE). All significant intercompany accounts and transactions are eliminated in consolidation and noncontrolling interests in equity and net income are shown separately in the balance sheets and statements of 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 the third quarter 2010, the Partnership acquired a controlling financial interest in 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. The consolidated financial statements separately reflect amounts attributable to the noncontrolling interests. In management's opinion, the consolidated financial statements reflect all normal and recurring adjustments needed to fairly present the Partnership's financial position and operating results at the dates and for the periods presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates.

Revenue Recognition

Terminalling and storage revenues are recognized at the time the services are provided. Pipeline revenues are recognized upon delivery of the barrels to the location designated by the shipper. Crude oil acquisition and marketing revenues, as well as refined product marketing revenues, are recognized when title to the product is transferred to the customer. Revenues are not recognized for crude oil exchange transactions, which are entered into primarily to acquire crude oil of a desired quality or to reduce transportation costs by taking delivery closer to the Partnership's end markets. Any net differential for exchange transactions is recorded as an adjustment of inventory costs in the purchases component of cost of products sold and operating expenses in the statements of income.

Affiliated revenues consist of sales of crude oil and refined products, as well as the provision of crude oil and refined products pipeline transportation, terminalling and storage services to Sunoco. Sales of crude oil and

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

refined products to affiliates are priced using market based rates. Sunoco pays fees for transportation or terminalling services based on the terms and conditions of an established agreement or utilizing published tariffs.

Cash Equivalents

The Partnership considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. At December 31, 2010 and 2009, these cash equivalents consist of money market accounts.

Accounts Receivable, net

Accounts receivable represent valid claims against non-affiliated customers (see Note 3 for affiliated receivables) for products sold or services rendered. The Partnership extends credit terms to certain customers after review of various credit indicators, including the customer's credit rating. Outstanding customer receivable balances are regularly reviewed for possible non-payment indicators and reserves are recorded for doubtful accounts based upon management's estimate of collectability at the time of review. Actual balances are charged against the reserve when all collection efforts have been exhausted.

Inventories

Inventories are valued at the lower of cost or market. Crude oil and refined products inventory costs have been determined using the last-in, first-out method (LIFO). Under this methodology, the cost of products sold consists of the actual acquisition costs of the Partnership, which include transportation and storage costs. Such costs are adjusted to reflect increases or decreases in inventory quantities, which are valued based on the changes in the LIFO inventory layers. The cost of materials, supplies and other inventories is principally determined using the average cost method.

Properties, Plants and Equipment

Properties, plants and equipment are stated at cost. Additions to properties, plants and equipment, including replacements and improvements, are recorded at cost. Repair and maintenance expenditures are charged to expense as incurred. Depreciation is provided principally using the straight-line method based on the estimated useful lives of the related assets. For certain interstate pipelines, the depreciation rate is applied to the net asset value based on the Federal Energy Regulatory Commission's (FERC) requirements, which approximates the useful lives proscribed under GAAP.

Capitalized Interest

The Partnership capitalizes interest on borrowed funds related to capital projects only for periods that activities are in progress to bring these projects to their intended use.

Investment in Affiliates

Investments in affiliates, which consist of corporate joint ventures, are accounted for under the equity method of accounting. Under this method, an investment is carried at acquisition cost, increased for the equity in income or decreased for the equity in loss from the date of acquisition, reduced for dividends received and increased or decreased for adjustments in other comprehensive income. Income recognized from the Partnership's corporate joint venture interests is presented within other income on the statements of income.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Partnership allocates its excess investment cost over its equity in the net assets of affiliates to the underlying tangible and intangible assets of the corporate joint ventures. Other than land and indefinite-lived intangible assets, all amounts allocated, principally to pipeline and related assets, are amortized using the straight-line method over their estimated useful life of 40 years. The amortization of these amounts is included within depreciation and amortization in the statements of income.

Acquisitions

The assets acquired and liabilities assumed as part of a business combination are recorded at their estimated fair values as of the date of acquisition. Any excess of purchase price over the estimated fair values of net assets acquired is recorded as goodwill. The results of operations of acquired businesses are included in the Partnership's results from the dates of acquisition. The purchase price of acquired assets is allocated to the underlying assets based on their relative fair values.

Beginning January 1, 2009, the Partnership adopted revisions to accounting guidance on the topic of business combinations. The revised guidance provides a new model for the initial recognition and measurement, subsequent measurement and accounting and disclosure of identifiable assets and goodwill acquired, liabilities assumed, including assets and liabilities from contingencies, in a business combination. The new guidance impacts only those acquisitions completed after January 1, 2009. The revised guidance addresses the mechanics of determining and allocating the purchase price to the underlying net assets; however, it does not change the overall policy of the Partnership to allocate the purchase price between tangible and intangible assets acquired and liabilities assumed based on their estimated fair values.

Impairment of Long-Lived Assets

Long-lived assets, other than those held for sale, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows expected to be generated by the asset are less than its carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the estimated fair value of the impaired asset. Long-lived assets held for sale are recorded at the lower of their carrying amount or estimated fair value less cost to sell the assets. In 2010, the Partnership recognized an impairment of \$3 million related to the cancellation of a construction project. The impairment charge reflects costs associated with assets that the Partnership cannot deploy elsewhere. During 2008, the Partnership recognized an impairment of \$6 million related to Management's decision to discontinue efforts to expand liquefied petroleum gas (LPG) storage capacity at its Inkster, Michigan facility. The impairment charge reflects the entire cost associated with the project.

Goodwill

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Goodwill, which represents the excess of the purchase price over fair value of net assets acquired, is tested for impairment at least annually rather than being amortized. The Partnership determined during 2010, 2009 and 2008 that goodwill was not impaired.

Intangible Assets

As part of past acquisitions, the Partnership has acquired intangible assets such as throughput and deficiency contracts, customer relationships and patent rights related to butane blending technology. The value assigned to these intangible assets is amortized on a straight-line basis through depreciation and amortization expense in the statements of income.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

Environmental Remediation

The Partnership accrues environmental remediation costs for work at identified sites where an assessment has indicated that cleanup costs are probable and reasonably estimable. Such accruals are undiscounted and are based on currently available information, estimated timing of remedial actions and related inflation assumptions, existing technology and presently enacted laws and regulations. If a range of probable environmental cleanup costs exists for an identified site, the minimum of the range is accrued unless some other point or points in the range are more likely, in which case the most likely amount in this range is accrued.

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. There are some states, in which the Partnership operates where it is subject to state and local income taxes. The majority of the income tax reflected in the financial statements relates to the consolidation of Mid-Valley and West Texas Gulf, both of which are subject to income taxes for federal and state purposes. In the third quarter 2010, the Partnership acquired controlling financial interests in Mid-Valley and West Texas Gulf and accordingly, the financial position and results of operations for these entities are consolidated in the Partnership's financial statements as of the respective acquisition dates.

The Partnership recognizes a tax benefit from uncertain positions only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authorities' widely understood administrative practices and precedents. The tax benefits recognized from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

The Partnership has deferred tax liabilities related to the difference between the book and tax bases of the assets and liabilities of Mid-Valley and West Texas Gulf.

Long-Term Incentive Plan

The Partnership accounts for the compensation cost of all unit-based payment awards at fair value and reports the related expense within selling, general and administrative expenses in the statements of income. Unit-based compensation cost for awards of restricted units is derived from the fair market value of common units on the grant date using a Monte Carlo Simulation if the payout is determined by market criteria related to unit proxies or grant date market price of the underlying unit. The Partnership recognizes unit-based compensation cost as expense ratably on a straight-line basis over the requisite service period unless the participant is retirement eligible, in which case, the recognition of the compensation cost is accelerated in the period the participant becomes retirement-eligible.

Asset Retirement Obligations

Asset retirement obligations (AROs) represent the fair value of a liability related to the retirement of long-lived assets and are recorded at the time a legal obligation is incurred. A corresponding asset is also recorded at that time and is depreciated over the remaining useful life of the related asset. The fair value of any ARO is determined based on estimates and assumptions related to retirement costs, future inflation rates and credit-adjusted risk-free interest rates. Changes in the liability are recorded for the passage of time (accretion) or for revisions to cash flows originally estimated to settle the ARO.

The Partnership's balance sheets include liabilities for asset retirement obligations, as a component of other deferred credits and liabilities, of \$25 million at December 31, 2010 and 2009. The Partnership believes it may have additional asset retirement obligations related to its pipeline assets and storage tanks, for which it is not possible to estimate when the retirement obligations will be settled. Consequently, these retirement obligations cannot be measured at this time.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

Fair Value Measurements

The Partnership applies fair value accounting for all assets and liabilities that are required to be measured at fair value under current accounting rules. The assets and liabilities that are measured at fair value on a recurring basis are not material to the Partnership's 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 Financial Accounting Standards Board (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.

Lease Accounting

The Partnership accounts for arrangements that convey the right to use property, plant or equipment for a stated period of time as leases. Whether an arrangement contains a lease is determined at inception of the arrangement based on all of the facts and circumstances. The Partnership reassesses whether the arrangement contains a lease after the inception of the arrangement only if (a) there is a change in the contractual terms, (b) a renewal option is exercised or an extension is agreed to by the parties to the arrangement, (c) there is a change in the determination as to whether or not fulfillment is dependent on specified property, plant, or equipment, or (d) there is a substantial physical change to the specified property, plant, or equipment. The Partnership continually analyzes its new and existing arrangements to evaluate whether they contain leases. Revenue or expense from arrangements where the Partnership is the lessor or lessee, respectively, is recognized ratably over the term of the underlying arrangement.

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

The Partnership uses the two-class method to determine basic and diluted earnings per unit. The two-class method is an earnings allocation formula that determines the earnings per unit for each class of equity ownership and participating security according to distributions declared and participation rights in undistributed earnings. The Partnership calculates basic and diluted net income attributable to Sunoco Logistics Partners L.P. per limited partner unit (net income attributable to SXL) by dividing net income attributable to SXL, after deducting the amount allocated to the general partner's interest and incentive distribution rights (IDRs), by the weighted-average number of limited partner units

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outstanding during the period. The general partner holds all of the IDRs.

In January 2009 the Partnership adopted new accounting guidance whereby, IDRs in a master limited partnership are treated as participating securities for the purpose of computing earnings per unit. In addition, when earnings differ from cash distributions, undistributed or over distributed earnings are to be allocated to the IDR holders and limited partners based on the contractual terms of the partnership agreement. Previously, earnings per unit was calculated as if all earnings for the period had been distributed, which resulted in an additional allocation of income to the general partner (the IDR holder) in quarterly periods where earnings exceeded the actual distribution and a lesser allocation of income to the general partner in quarterly periods where distributions exceeded earnings. The Partnership has retrospectively applied this new method to all periods presented. The Partnership's adoption of this guidance only impacts the allocation of earnings for purposes of

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

calculating our earnings per limited partner unit and has no impact on our results of operations or distributions of available cash to unitholders and our general partner.

Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current-year presentation.

2. Acquisitions

A key component of the Partnership's primary business strategy is to pursue strategic and accretive acquisitions that complement its existing asset base. The Partnership has made the following acquisitions during the three year period ended December 31, 2010:

2010 Acquisitions

In October 2010, the Partnership acquired two terminals in Texas for \$9 million. The Partnership also assumed a \$1 million environmental liability in connection with these transactions. The acquisitions include a terminal in Bay City, Texas, acquired from Gulfstream Terminals & Marketing LLC, which is capable of handling both crude oil and refined product volumes. Total active terminal storage capacity of the facility is approximately 0.1 million barrels. In addition, the Partnership acquired a 0.2 million barrel refined products terminal and pipeline segment in Big Sandy, Texas, from affiliates of Chevron Corporation. The terminal and pipeline segment are currently not operational, however the Partnership plans to integrate the assets into operations in the southwest United States beginning in 2011. The terminals and pipeline segment are included in the Terminal Facilities and Refined Products Pipeline System from the respective dates of acquisition.

In July 2010, the Partnership acquired a butane blending business from Texon L.P. for \$140 million plus inventory for a total of \$152 million. The acquisition includes patented technology for blending of butane into gasoline, contracts with customers currently utilizing the patented technology, butane inventories and other related assets. The acquisition was funded by a subordinated \$100 million note from Sunoco, and borrowings under the Operating Partnership's \$395 million Credit Facility. The purchase price was allocated to the underlying net assets acquired based upon estimates of their fair values at the date of acquisition. Goodwill was recognized related to expected synergies with the Partnership's terminal facilities. The acquisition is included within the Terminal Facilities.

In July 2010, the Partnership exercised its rights to acquire an additional ownership interest in West Shore Pipeline Company (West Shore) from an affiliate of BP for \$6 million, increasing its ownership interest from 12.3 percent to 17.1 percent. West Shore owns approximately 650-miles of common carrier refined products pipelines that originate in Chicago, Illinois and services delivery points from Chicago to Wisconsin. The acquisition was ultimately funded by proceeds from the Partnership's August 2010 equity issuance

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(Note 11). The investment was valued based on the fair value of the consideration transferred. The investment is accounted for as an equity method investment within the Partnership's Crude Oil Pipeline System, with the equity income recorded based on the Partnership's ownership percentage from the date of acquisition.

In July 2010, the Partnership exercised its rights to acquire an additional ownership interest in Mid-Valley from an affiliate of BP for \$58 million, increasing its ownership interest from 55.3 percent to 91.0 percent. Mid-Valley owns, and the Partnership is the operator of, an approximately 1,000-mile common carrier pipeline, which originates in Longview, Texas and terminates in Samaria, Michigan. The pipeline provides crude oil to a number of refineries, primarily in the midwest United States.

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

In August 2010, the Partnership exercised similar rights to acquire an additional ownership interest in West Texas Gulf from an affiliate of BP for \$27 million, increasing its ownership interest from 43.8 percent to 60.3 percent. West Texas Gulf owns, and the Partnership is the operator of, an approximately 600-mile common carrier crude oil pipeline system which originates

from the West Texas oil fields at Colorado City and the Partnership's Nederland terminal, and extends to Longview, Texas where deliveries are made to several pipelines, including Mid-Valley.

These acquisitions of the additional joint venture interests were ultimately funded by proceeds from the Partnership's August 2010 equity issuance. As the Partnership now has a controlling financial interest in both Mid-Valley and West Texas Gulf, the joint ventures are both reflected as consolidated subsidiaries of the Partnership from their respective acquisition dates. The acquisitions are included within the Crude Oil Pipeline System from the respective acquisition dates. Gains attributable to the re-measurement of the previously held equity interests in Mid-Valley and West Texas Gulf totaling \$128 million, were recognized in "Gain on investments in affiliates" in the consolidated statement of income for the year ended December 31, 2010. The fair value of the Partnership's pre-acquisition equity interests in Mid-Valley and West Texas Gulf, \$90 million and \$72 million, respectively, were determined based on the amounts paid by the Partnership, which were equal to the offers of other prospective acquirers. The Partnership used the same methodology to determine the fair value of the noncontrolling interests.

The following table summarizes the effects of the 2010 acquisitions on the Partnership's balance sheet (including the consolidation of Mid-Valley and West Texas Gulf) as of the respective acquisition dates:

2010

	Butane Blending	Joint Ventures	Terminals	Total
		(in millions)		
Increase in:				
Current assets	\$ 14	\$ 23	\$	\$ 37
Investment in affiliates		6		6
Properties, plants & equipment, net	1	471	10	482
Intangible assets, net	90			90
Goodwill	47			47
Other assets		1		1
Current liabilities		(4)		(4)
Other deferred credits and liabilities		(1)	(1)	(2)
Deferred income taxes		(164)		(164)
Sunoco Logistics Partners L.P. equity		(128)		(128)
Noncontrolling interests		(80)		(80)
Decrease in:				
Investment in affiliates		(33)		(33)
Cash paid for acquisitions	\$ 152	\$ 91	\$ 9	\$ 252

2009 Acquisitions

In September 2009, the Partnership purchased a refined products terminal located in Romulus, Michigan from R.K.A. Petroleum LLC (RKA) for \$18 million. The total terminal storage capacity is approximately 0.4 million barrels. The terminal services the Detroit metropolitan area and is connected to the Partnership's pipeline system. The purchase price of the acquisition was funded with borrowings under the Operating Partnership's \$395 million Credit Facility. The agreement included a contingency

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clause which requires additional payments to RKA up to \$2 million, if revenue generated as a result of certain customers/products exceeds a pre-determined amount. The estimated fair value of the contingency is included in the purchase price. The results of the acquisition are included in the financial statements within the Terminal Facilities from the acquisition date.

In September 2009, the Partnership purchased a 100% membership interest in Excel Pipeline LLC (Excel) from affiliates of Gary-Williams Energy Corporation (Gary-Williams) for approximately \$32 million. The tangible assets of Excel consist of approximately 50 miles of a crude oil pipeline originating in Duncan, Oklahoma and terminating at Gary-Williams refinery in Oklahoma. The Partnership was the operator of the pipeline prior to the acquisition. The purchase price of the acquisition was funded with borrowings under the Operating Partnership's \$395 million Credit Facility and was preliminarily allocated to the underlying assets based on their relative fair values. In connection with the transaction, the Partnership assumed a 20-year throughput and deficiency contract with Gary-Williams. Pursuant to the contract, Gary-Williams guarantees minimum amounts of crude oil throughput on the pipelines and the Partnership agrees to provide transportation of such crude oil. We estimated the fair value of the contract based on the discounted expected cash flows attributable to that contract. We estimated the fair value of properties, plants and equipment based on comparable transactions and replacement costs of those same assets in the same condition and stage of usefulness. The results of the acquisition are included in the Crude Oil Pipeline System from the acquisition date.

The following table summarizes the effects of the 2009 acquisitions on the Partnership's balance sheet as of the acquisition dates:

2009

	Excel Pipeline LLC	RKA Terminal (in millions)	Total
Increase in:			
Properties, plants & equipment, net	\$ 11	\$ 18	\$ 29
Intangible assets, net	21		21
Cash paid for acquisitions	\$ 32	\$ 18	\$ 50

2008 Acquisition

In November 2008, the Partnership purchased a refined products pipeline system from affiliates of Exxon Mobil Corporation for approximately \$186 million. The system consists of approximately 300 miles of refined products pipeline originating in Beaumont and Port Arthur and terminating in Hearne, Texas; another approximately 200 miles of refined products pipeline originating in Beaumont and terminating in Waskom, Texas; and refined product facilities located in Hearne, Hebert, Waco, Center and Waskom, Texas and Arcadia, Louisiana with active storage capacity of 0.6 million barrels. The purchase price of the acquisition was funded with borrowings under the Operating Partnership's \$395 million Credit Facility. The results of the acquisition are included in the financial statements within the Refined Products Pipeline System and Terminal Facilities business segments from the date of acquisition. The

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purchase price has been allocated to the assets and liabilities acquired based on their relative fair values on the acquisition date. The final purchase price allocation was \$191 million, which includes cash paid of \$186 million, the assumption of an environmental liability of \$2 million and the assumption of asset retirement obligations of approximately \$3 million.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

The following table summarizes the effects of the 2008 acquisition on the Partnership's balance sheet as of the acquisition date:

2008

	MagTex (in millions)
Increase in:	
Current assets	\$ 1
Properties, plants & equipment, net	189
Intangible assets, net	1
Other deferred credits and liabilities	(5)
Cash paid for acquisition	\$ 186

3. Related Party Transactions

Incentive Distribution Rights Exchange

In January 2010, the Partnership entered into a repurchase agreement with its general partner, whereby the Partnership agreed to repurchase from the general partner the existing IDRs for \$201 million and the issuance of new IDRs. Pursuant to this transaction, the Partnership executed the third amended and restated agreement of limited partnership of the Partnership (the new partnership agreement). The new partnership agreement reflects the cancellation of the original IDRs and the authorization and issuance of the new IDRs (Note 12).

The Partnership initially financed this arrangement with a promissory note to the general partner that was due December 31, 2010. Proceeds from the February 2010 issuance of \$500 million in Senior Notes were used to repay this promissory note in full (Note 9).

Promissory Note from Affiliate

In July 2010, the Partnership acquired a butane blending business from Texon L.P. The acquisition was partially funded by a three-year, subordinated \$100 million note from Sunoco, which bears interest at three-month LIBOR plus 275 basis points per annum. The balance of the acquisition was funded with borrowings under the Operating Partnership's \$395 million Credit Facility.

Pipeline and Terminalling Agreements

We have entered into material agreements with Sunoco and their affiliates which are discussed below.

In December 2010, Sunoco announced its intention to sell its Toledo refinery to affiliates of PBF Holding Company LLC (PBF). The Partnership currently has certain agreements to provide pipeline and terminalling services which support the Toledo refinery. The sale of the refinery is expected to be completed during the first quarter of 2011 and is not expected to have a material impact on the Partnership's financial results as certain agreements are expected to be assigned to PBF or its agents in connection with the sale.

In 2010, the Partnership entered into a one year throughput agreement with Sunoco on our Marysville crude oil pipeline. Under this agreement, Sunoco is required to ship a minimum average of 106,000 barrels per day (bpd) based on published tariffs available to third parties on the pipeline. This agreement is expected to be transferred to PBF or its agents in connection with the sale of Sunoco's Toledo refinery.

Under a three-year agreement, Sunoco agreed to annually throughput a minimum of 968,550 barrels of LPG originating at the Toledo, Ohio refinery to and from the Inkster Terminal. This minimum

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

throughput is an annual amount for each contract period running from April 1 to March 31. Additionally, Sunoco agreed to annually throughput a minimum of 250,000 barrels of propane across the Inkster Terminal loading rack. This minimum propane throughput is an annual amount for each contract period running from April 1 to March 31, and has been pro-rated for the 2010-2011 term to account for the timing of the rack installation. This agreement is expected to be transferred to PBF or its agents and expires in March 2012.

The Partnership has a five-year product terminal services agreement with Sunoco under which Sunoco may throughput refined products through our terminals, and a tank farm agreement under which Sunoco may throughput refined products through our Marcus Hook Tank Farm. These agreements expire in February 2012. The agreements contain no minimum throughput obligations for Sunoco.

The Partnership has a three-year agreement with Sunoco relating to the Fort Mifflin Terminal Complex. Under this agreement, Sunoco will deliver an average of 300,000 barrels per day of crude oil and refined products per contract year at the Fort Mifflin Terminal Complex. This minimum average throughput is an annual amount for each contract period running from March 1 to February 28. Sunoco does not have exclusive use of the Fort Mifflin Terminal Complex; however, the Partnership is obligated to provide the necessary tanks, marine docks and pipelines for Sunoco to meet its minimum requirements under the agreement. This agreement expires in February 2012.

Subject to a minimum of 180 days advance written notice, the obligations under the Inkster agreement and the Fort Mifflin Terminal Complex agreement may be permanently reduced or suspended if there is a shut-down or reconfiguration of (i) the Toledo refinery such that the refinery does not produce the volumes sufficient for the shipper to satisfy its minimum obligations under the Inkster agreement; or the Philadelphia refinery such that the refinery does not require (in the case of crude oil) or produce (in the case of petroleum products) volumes sufficient for Sunoco to satisfy its minimum obligations under the Fort Mifflin agreement.

Advances to/from Affiliate

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco's centralized cash management program. Under this program, all of the Partnership's cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco's cash accounts with a corresponding credit or charge to an intercompany account. The intercompany balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to the average rate of the Partnership's third-party money market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate provided in the Operating Partnership's \$395 million Credit Facility.

Administrative Services

Under the Omnibus Agreement, the Partnership pays Sunoco or the general partner an annual administrative fee that includes expenses incurred by Sunoco and its affiliates to perform certain centralized corporate functions, such as legal, accounting, treasury, engineering, information

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technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee was \$5 million, \$6 million and \$6 million for the years ended December 31, 2010, 2009, and 2008, respectively. This fee does not include the costs of shared insurance programs (which are allocated to the Partnership based upon its share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the general partner (including senior executives), 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. The term of

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

Section 4.1 of the Omnibus Agreement (which concerns the Partnership's obligation to pay the annual fee for provision of certain general and administrative services) was extended by one year in January 2011. The 2011 annual fee has increased to \$13 million to cover costs of services now provided by Sunoco that were previously provided by third parties and includes an allocation of management costs for the Chief Executive Officer; Vice President, Chief Financial Officer; Vice President, Chief Human Resources Officer; and others from Sunoco that were previously included in our direct costs. These costs may be increased if the acquisition or construction of new assets or businesses requires an increase in the level of general and administrative services received by the Partnership.

In addition to the fees for the centralized corporate functions, selling, general and administrative expenses in the statements of income include the allocation of shared insurance costs of \$4 million, \$4 million and \$3 million for the years ended December 31, 2010, 2009 and 2008 respectively. The Partnership's share of allocated Sunoco employee benefit plan expenses, including non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits was \$29 million, \$28 million and \$23 million for the years ended December 31, 2010, 2009 and 2008 respectively. These expenses are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the statements of income.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

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

Capital Contributions

In August 2010, the Partnership completed a public offering of 2.0 million limited partnership units. As a result of this offering, the general partner contributed \$3 million to the Partnership to maintain its 2 percent general partner interest. The Partnership recorded this amount as a capital contribution to Equity within its consolidated balance sheet.

In April and May 2009, the Partnership sold 2.2 million common units in a public offering. As a result of the issuance, the general partner contributed \$2 million to the Partnership to maintain its 2 percent general partner interest. The Partnership recorded this amount as a capital contribution within its consolidated balance sheet.

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In February 2010, 2009 and 2008 the Partnership issued 0.1 million common units, in each year, to participants in the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) upon completion of award vesting requirements. As a result of these issuances of common units, the general partner contributed less than \$0.1 million in each period to the Partnership to maintain its 2 percent general partner interest. The Partnership recorded these amounts as capital contributions within its consolidated balance sheets.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO FINANCIAL STATEMENTS (Continued)****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 SXL 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 \$0.50 per limited partner unit (see Note 12). The general partner was allocated net income attributable to SXL of \$48 million (representing 14 percent of total net income attributable to SXL for the period) for the year ended December 31, 2010, \$52 million (representing 21 percent of total net income attributable to SXL for the period) for the year ended December 31, 2009 and \$37 million (representing 17 percent of total net income attributable to SXL for the period) for the year ended December 31, 2008. Diluted net income attributable to SXL per limited partner unit is calculated by dividing net income attributable to SXL applicable to limited partners by the sum of the weighted-average number of common units outstanding and the dilutive effect of incentive unit awards (see Note 13), calculated using the treasury stock method.

The following table sets forth the reconciliation of the weighted average number of limited partner units used to compute basic net income attributable to SXL per limited partner unit to those used to compute diluted net income attributable to SXL per limited partner unit for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Weighted average number of limited partner units outstanding - basic	31.7	30.3	28.6
Add effect of dilutive incentive awards	0.2	0.2	0.2
Weighted average number of limited partner units - diluted	31.9	30.5	28.8

5. Inventories

The components of inventories are as follows:

	December 31,	
	2010	2009
	(in millions)	
Crude oil	\$ 39	\$ 82
Refined products	16	2
Refined products additives	2	2
Materials, supplies and other	6	1
	\$ 63	\$ 87

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The current replacement cost of crude oil and refined products inventory exceeded its carrying value by \$166 million and \$147 million at December 31, 2010 and 2009, respectively. Crude oil inventory balances declined in the Partnership's Crude Oil Pipeline System during 2010 and 2009, which resulted in a liquidation of a portion of the prior year layer carried at lower costs. The reduction resulted predominantly from the elimination of contango inventory positions, and had the effect of increasing results of operations by \$19 million and \$1 million in 2010 and 2009, respectively.

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO FINANCIAL STATEMENTS (Continued)****6. Properties, Plants and Equipment**

The components of net properties, plants and equipment are as follows:

	Estimated Useful Lives	December 31, 2010 2009 (in millions)	
Land and land improvements (including rights of way)		\$ 401	\$ 120
Pipeline and related assets	38 - 60	1,271	1,047
Terminals and storage facilities	5 - 44	686	620
Other	5 - 48	325	297
Construction-in-progress		116	67
Total properties, plants and equipment		\$ 2,799	\$ 2,151
Less: Accumulated depreciation and amortization		(671)	(617)
Total properties, plants and equipment, net		\$ 2,128	\$ 1,534

7. Investment in Affiliates

The corporate joint ventures own and operate refined products pipeline systems or crude oil pipeline systems. The Partnership's ownership percentages in and method of accounting for corporate joint ventures as of December 31, 2010 and 2009 are as follows:

	December 31, 2010		December 31, 2009	
Explorer Pipeline Company	9.4%	Equity method	9.4%	Equity method
Yellowstone Pipe Line Company	14.0%	Equity method	14.0%	Equity method
West Shore Pipe Line Company	17.1%	Equity method	12.3%	Equity method
Wolverine Pipe Line Company	31.5%	Equity method	31.5%	Equity method
West Texas Gulf Pipe Line Company	60.3%	Consolidated	43.8%	Equity method
Mid-Valley Pipeline Company	91.0%	Consolidated	55.3%	Equity method

The following table provides summarized unaudited financial information on a 100 percent basis for the Partnership's equity ownership interests:

2010	2009	2008
(in millions)		

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Income Statement Data:⁽¹⁾			
Total revenues	\$ 439	\$ 458	\$ 470
Income before income taxes	\$ 193	\$ 190	\$ 151
Net income	\$ 120	\$ 119	\$ 96
Balance Sheet Data (as of year-end):⁽¹⁾			
Current assets	\$ 122	\$ 126	\$ 115
Non-current assets	\$ 646	\$ 680	\$ 682
Current liabilities	\$ 122	\$ 124	\$ 123
Non-current liabilities	\$ 546	\$ 568	\$ 591
Net equity	\$ 100	\$ 114	\$ 83

⁽¹⁾ The balance sheet and income statement data as of and for the year ended December 31, 2010 excludes amounts related to Mid-Valley and West Texas Gulf from the dates of the Partnership's acquisition of its controlling financial interests in these joint ventures. Such amounts are included in the Partnership's consolidated financial statements.

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

The Partnership's investments in Yellowstone Pipe Line Company (Yellowstone), West Shore and Wolverine Pipe Line Company (Wolverine) at December 31, 2010 include an excess investment amount of approximately \$55 million, net of accumulated amortization of \$5 million. The excess investment is the difference between the investment balance and the Partnership's proportionate share of the net assets of the entities. During the years ended December 31, 2010, 2009 and 2008, the Partnership has not provided additional financial support to any of the joint ventures.

The Partnership had \$22 million of undistributed earnings from its investments in corporate joint ventures within Equity at December 31, 2010. During the years ended December 31, 2010, 2009 and 2008 the Partnership received dividends of \$15 million, \$19 million and \$22 million, respectively, from its investments in corporate joint ventures.

8. Goodwill and Other Intangible Assets*Goodwill*

Goodwill represents the excess of the purchase price of an acquired business over the fair value of net assets acquired. Goodwill is not amortized; however it is subject to the Partnership's annual impairment testing. The Partnership's goodwill balance at December 31, 2010 was \$63 million compared to \$16 million at December 31, 2009. The \$47 million increase in goodwill relates to the expected synergies with the Partnership's refined products terminals related to the butane blending business.

Identifiable Intangible Assets

The Partnership's intangible assets include customer relationships, technology and certain contracts. The values assigned to these intangible assets are amortized to earnings using a straight-line approach, over a weighted-average amortization period of approximately 15 years. Amortization expense related to these intangibles was \$4 million for the year ended December 31, 2010.

	Weighted Average Amortization Period	December 31,	
		2010	2009
Gross			
Customer relationships	14	\$ 32	\$
Technology	14	58	
Contracts	19	24	23
Total gross		\$ 114	\$ 23

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Less: Accumulated Amortization

Customer relationships	\$ 1	\$
Technology	2	
Contracts	2	1
Total accumulated amortization	\$ (5)	\$ (1)
Total Net	\$ 109	\$ 22

Customer relationship intangible assets represent the estimated economic value assigned to certain relationships acquired in connection with business combinations or asset purchases whereby (i) the Partnership acquired information about or access to customers, (ii) the customers now have the ability to transact business with the Partnership and (iii) the Partnership is uniquely positioned due to limited competition to provide

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

products or services to the customers. Technology-related intangible assets are the Partnership's patents for blending of butane into refined products. These patents are amortized over their remaining lives. Contract-based intangible assets represent specific commercial rights acquired by the Partnership in connection with business combinations or asset purchases. These contracts are amortized over the remaining lives of the contracts.

As of December 31, 2010, the Partnership forecasts \$8 million of annual amortization expense for each year through the year 2015 for these intangible assets.

Intangible assets attributable to rights of way are included in the properties, plants and equipment in the Partnership's consolidated balance sheets at December 31, 2010 and December 31, 2009.

9. Debt

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

	December 31,	
	2010	2009
	(in millions)	
Affiliated Companies		
Promissory note due May 2013	\$ 100	\$
Credit Facilities		
\$62.5 million Credit Facility (2.77% as of December 31, 2010) due September 2011	31	31
\$395 million Credit Facility due November 2012		238
	\$ 31	\$ 269
Senior Notes		
Senior Notes 7.25%, due February 15, 2012	\$ 250	\$ 250
Senior Notes 8.75%, due February 15, 2014	175	175
Senior Notes 6.125%, due May 15, 2016	175	175
Senior Notes 5.50%, due February 15, 2020	250	
Senior Notes 6.85%, due February 15, 2040	250	
Less unamortized bond discount	(2)	(1)
Total Long-term debt	\$ 1,129	\$ 868

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The aggregate amount of long-term debt maturities is as follows:

Year Ended December 31:	(in millions)
2011	\$
2012	281
2013	100
2014	175
2015	
Thereafter	675
Total	\$ 1,231

Cash payments for interest related to long-term debt, net of capitalized interest (see Note 1), were \$63 million, \$41 million and \$32 million in 2010, 2009 and 2008, respectively.

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NOTES TO FINANCIAL STATEMENTS (Continued)

Promissory Note, Affiliated Companies

During the third quarter of 2010, the Operating Partnership entered into a subordinated \$100 million variable rate promissory note due to Sunoco in May 2013. The note bears interest at three-month LIBOR plus 275 basis points per annum. The proceeds from this note were used to fund a portion of the purchase price of the Partnership's acquisition of a butane blending business in July 2010.

\$395 Million Credit Facility

The Operating Partnership has a five-year \$395 million credit facility (the "\$395 million Credit Facility") with a current syndicate of ten participating financial institutions. The \$395 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The \$395 million Credit Facility matures in November 2012 and may be prepaid at any time. It bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin, (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin) or (iii) the federal funds rate plus an applicable margin. The \$395 million Credit Facility contains various covenants limiting the Operating Partnership's ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; acquire another company; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The \$395 million Credit Facility also limits the Partnership, on a rolling four-quarter basis, to a maximum total consolidated debt to consolidated EBITDA ratio of 4.75 to 1, which can generally be increased to 5.25 to 1 during an acquisition period. The Partnership is in compliance with this covenant at December 31, 2010.

\$63 Million Credit Facility

In March 2009, the Operating Partnership entered into a \$63 million revolving credit facility (the "\$63 million Credit Facility") with a syndicate of two participating financial institutions. This credit facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. The \$63 million Credit Facility matures in September 2011 and may be prepaid at any time. The outstanding borrowings under this facility have been classified as long-term debt as the Partnership has the ability and intent to refinance it on a long-term basis. The facility bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin or (ii) the higher of (a) the federal funds rate plus 0.50 percent plus an applicable margin, (b) Toronto Dominion's prime rate plus an applicable margin or (c) LIBOR plus 1.0 percent plus an applicable margin. The \$63 million Credit Facility contains various covenants similar to the \$395 million Credit Facility. In April 2010, the Operating Partnership completed an amendment to the \$63 million Credit Facility, which increased the maximum debt to EBITDA ratio to 4.5 to 1, which can generally be increased to 5.0 to 1 during an acquisition period. The Partnership is in compliance with this covenant at December 31, 2010.

Senior Notes

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The Partnership's 2012, 2014, 2016, 2020 and 2040 Senior Notes (Senior Notes) are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The Partnership's 2012 Senior Notes are also subject to repurchase by the Operating Partnership at a price equal to 100 percent of their principal amount, plus accrued and unpaid interest upon a change of control to a non-investment grade entity. The Senior Notes contain various covenants that limit the Operating Partnership's ability to incur certain liens, engage in certain sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The Operating Partnership is in compliance with these covenants as of December 31, 2010.

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

In February 2010, the Operating Partnership issued \$250 million of 5.50 percent Senior Notes and \$250 million of 6.85 percent Senior Notes, due February 15, 2020 and February 15, 2040, respectively. The net proceeds of \$494 million from the 2020 and 2040 Senior Notes, were used to repay the \$201 million promissory note issued in connection with the Partnership's repurchase and exchange of its IDR interest, repay outstanding borrowings under the Operating Partnership's \$395 million Credit Facility and for general partnership purposes.

In February 2009, the Operating Partnership issued \$175 million of 8.75 percent Senior Notes, due February 15, 2014. The net proceeds of \$173 million from the 2014 Senior Notes, were used to repay outstanding borrowings under the Operating Partnership's \$395 million Credit Facility.

Debt Guarantee

The Partnership currently serves as guarantor of the Senior Notes and of any obligations under the \$395 million and \$63 million Credit Facilities. These guarantees are full and unconditional.

The Partnership has no operations and its only assets are its investments in its wholly-owned partnerships and subsidiaries. The Operating Partnership also has no operations and its assets are limited primarily to its investments in its wholly-owned operating partnerships, deferred charges, and cash and cash equivalents of \$2 million. Except for amounts associated with the Senior Notes, the \$395 million and \$63 million Credit Facilities, the \$100 million Promissory Note to Sunoco, cash and cash equivalents and advances to affiliate, the assets and liabilities in the balance sheets and the revenues and costs and expenses in the statements of income are primarily attributable to the operating partnerships. See Note 19 for supplemental condensed consolidating financial information.

10. Commitments and Contingent Liabilities

Total rental expense for 2010, 2009 and 2008 amounted to \$8 million, \$7 million and \$6 million, respectively. The Partnership, as lessee, has non-cancelable operating leases for land, office space and equipment for which the aggregate amount of future minimum annual rentals as of December 31, 2010 is as follows:

	Year Ended December 31:	
	(in millions)	
2011	\$	6
2012		6
2013		3
2014		3
2015		2

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Thereafter		1
Total	\$	21

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws and regulations result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third-party or formerly owned sites. At December 31, 2010 and 2009, there were accrued liabilities for environmental remediation in the balance sheets of \$4 million and \$3 million, respectively. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled \$3 million, \$3 million and \$2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

The Partnership is a party to certain pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, it is reasonably possible that some portion of them could be resolved unfavorably to the Partnership and its predecessor. Management does not believe that any liabilities which may arise from such claims and the environmental matters discussed above would be material in relation to the financial position of the Partnership at December 31, 2010. Furthermore, management does not believe that the overall costs for such matters will have a material impact, over an extended period of time, on the Partnership's operations, cash flows or liquidity.

Sunoco has indemnified the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed to the Partnership that 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 a 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.

Sunoco also has indemnified the Partnership for liabilities, other than environmental and toxic tort liabilities related to the assets contributed to the Partnership, that arose out of Sunoco's ownership and operation of the assets prior to the closing of the IPO and that are asserted within 10 years after closing of the IPO. In addition, Sunoco has indemnified the Partnership from liabilities relating to certain defects in title to the assets contributed to the Partnership and associated with failure to obtain certain consents and permits necessary to conduct its business that arise within 10 years after closing of the IPO, as well as from liabilities relating to legal actions currently pending against Sunoco or its affiliates and events and conditions associated with any assets retained by Sunoco or its affiliates.

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the financial position of the Partnership at December 31, 2010. 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 financial position of the Partnership at December 31, 2010.

11. Equity Offerings

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In August 2010, the Partnership completed a public offering of 2.0 million common units. Net proceeds of \$143 million were used to fund the acquisition of additional interests in three of the Partnership's joint venture pipelines and to reduce outstanding borrowings under the Operating Partnership's \$395 million Credit Facility. In connection with this offering, the general partner contributed \$3 million to the Partnership to maintain its 2 percent general partner interest. At December 31, 2010, Sunoco's ownership in the Partnership was 31 percent, including its 2 percent general partner interest.

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

In April and May 2009, the Partnership completed a public offering of 2.2 million common units. Net proceeds of \$110 million were used to reduce outstanding borrowings under the Operating Partnership's \$395 million Credit Facility and for general partnership purposes. In connection with these offerings, the general partner contributed \$2 million to the Partnership to maintain its 2 percent general partner interest.

12. Cash Distributions

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

If cash distributions exceed \$0.50 per unit in a quarter, the general partner receives 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 shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

In January 2010, the Partnership repurchased, and its general partner transferred and assigned to the Partnership for cancellation, the IDRs held by the general partner under the Second Amended and Restated Agreement of Limited Partnership, as amended, in consideration for (i) the issuance to the general partner of new IDRs issued under the Third Amended and Restated Agreement of Limited Partnership and (ii) the issuance to the general partner of a promissory note in the principal amount of \$201 million. In February 2010, the Operating Partnership issued a total of \$500 million in senior notes which mature in February 2020 and February 2040. A portion of the net proceeds from this offering was used to repay in full this promissory note.

The following table compares the target distribution levels and distribution splits between the general partner and the holders of the Partnership's common units under the cancelled IDRs and under the new IDRs:

	Cancelled IDRs			Total Quarterly Distribution Target Amount	New IDRs	
	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions			General Partner	Unitholders
		General Partner	Unitholders			
Minimum Quarterly Distribution	\$ 0.450	2%	98%			
First Target Distribution	up to \$0.500	2%	98%		No change	

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Second Target Distribution	above \$0.500					
	up to \$0.575	15%*	85%			
Third Target Distribution	above \$0.575			above \$ 0.575		
	up to \$0.700	25%*	75%	up to \$ 1.5825	37%*	63%
Thereafter	above \$0.700	50%*	50%	above \$ 1.5825	50%*	50%

* Includes 2 percent general partner interest.

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Distributions paid by the Partnership during the years ended December 31, 2010, 2009 and 2008 were as follows:

Date Cash Distribution	Cash Distribution per Limited Partner Unit	Annualized Cash Distribution per Limited Partner Unit	Total Cash Distribution to the Limited Partners (in millions)	Total Cash Distribution to the General Partner (in millions)
Paid				
November 12, 2010	\$ 1.170	\$ 4.68	\$ 38.7	\$ 11.9
August 13, 2010	\$ 1.140	\$ 4.56	\$ 35.4	\$ 10.6
May 14, 2010	\$ 1.115	\$ 4.46	\$ 34.6	\$ 10.1
February 12, 2010	\$ 1.090	\$ 4.36	\$ 33.8	\$ 13.6
November 14, 2009	\$ 1.065	\$ 4.26	\$ 33.0	\$ 13.3
August 14, 2009	\$ 1.040	\$ 4.16	\$ 32.2	\$ 12.6
May 15, 2009	\$ 1.015	\$ 4.06	\$ 31.4	\$ 11.8
February 14, 2009	\$ 0.990	\$ 3.96	\$ 28.4	\$ 10.2
November 14, 2008	\$ 0.965	\$ 3.86	\$ 27.6	\$ 9.5
August 14, 2008	\$ 0.935	\$ 3.74	\$ 26.8	\$ 8.6
May 15, 2008	\$ 0.895	\$ 3.58	\$ 25.6	\$ 7.5
February 14, 2008	\$ 0.870	\$ 3.48	\$ 24.9	\$ 6.7

On January 27, 2011, the Partnership declared a cash distribution of \$1.18 per unit (\$4.72 per unit annualized) on its outstanding common units, representing the distribution for the quarter ended December 31, 2010. The \$51 million distribution, including \$12 million to the general partner, was paid on February 14, 2011 to unitholders of record at the close of business on February 8, 2011. The change in distribution splits resulted in a \$6 million reduction of the general partner's cash distribution as compared to the previous methodology for the fourth quarter of 2010.

13. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) for employees and directors of the general partner who perform services for the Partnership. The LTIP is administered by the independent directors of the Compensation Committee of the general partner's board of directors with respect to employee awards, and by the non-independent members of the general partner's board of directors with respect to awards granted to the independent members. The LTIP currently permits the grant of restricted units and unit options covering an additional 0.4 million common units.

Restricted Units

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A restricted unit entitles the grantee to receive a common unit or, at the discretion of the Compensation Committee, an amount of cash equivalent to the value of a common unit upon the vesting of the unit, which may include the attainment of predetermined performance targets. The Compensation Committee may make additional grants under the LTIP to employees and directors containing such terms as the Compensation Committee shall determine. Common units to be delivered to the grantee upon vesting may be common units acquired by the general partner in the open market, common units already owned by the general partner, common units acquired by the general partner directly from the Partnership or any other person, or any combination of the foregoing. The general partner will be entitled to reimbursement by the Partnership for the cost incurred in acquiring common units. If the Partnership issues new common units upon vesting of the restricted units, the total number of common units outstanding will increase. The Compensation Committee, in its discretion, may

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grant tandem distribution equivalent rights (DERs) with respect to the restricted units. Subject to applicable vesting criteria, DERs entitle the grantee to receive an amount of cash equal to the per unit cash distributions made by the Partnership during the period the restricted unit is outstanding. During the years ended December 31, 2010, 2009 and 2008, the Partnership granted 90,809, 99,801 and 62,048 restricted units, respectively, which included tandem DERs. Although some of these awards are time-vested only, most are subject to the Partnership achieving certain market-based and cash distribution performance targets as compared to a peer group average, which can cause the actual amount of units that ultimately vest to range from between 0 to 200 percent of the original units granted. These restricted unit awards generally vest over a three-year period.

The following table summarizes information regarding restricted unit award activity during the three years ended December 31, 2010:

Restricted Unit Activity

	Number of Units	Weighted Average Grant- Date Fair Value
Granted, non-vested and outstanding, December 31, 2007	129,342	\$ 51.72
Granted	62,048	\$ 52.92
Performance Factor adjustment	52,726	\$ 44.32
Vested	(108,523)	\$ 44.75
Cancelled/forfeited	(1,457)	\$ 52.53
Granted, non-vested and outstanding, December 31, 2008	134,136	\$ 55.00
Granted ⁽¹⁾	99,801	\$ 59.76
Performance Factor adjustment	49,762	\$ 56.05
Vested	(107,575)	\$ 56.26
Cancelled/forfeited	(20,129)	\$ 55.83
Granted, non-vested and outstanding, December 31, 2009	155,995	\$ 57.40
Granted ⁽¹⁾	90,809	\$ 74.71
Performance Factor adjustment	43,920	\$ 52.96
Vested	(97,003)	\$ 53.51
Cancelled/forfeited	(33,983)	\$ 62.77
Granted, non-vested and outstanding, December 31, 2010	159,738	\$ 67.21

⁽¹⁾ The number of restricted units issued related to performance shares may range from 0 to 200 percent of the number of units shown in the table above based on our achievement of performance goals for total shareholder return and cash distributions relative to a selected peer

group of competitors.

The total intrinsic value of restricted unit awards vested during the years ended December 31, 2010, 2009 and 2008 was \$9 million, \$7 million, and \$5 million, respectively. As of December 31, 2010 estimated compensation cost related to non-vested awards not yet recognized was \$3 million, and the weighted-average period over which this cost is expected to be recognized in expense is 1.9 years. The number of restricted stock units outstanding and the total compensation cost related to non-vested awards not yet recognized reflects the Partnership's estimates of performance factors for certain restricted unit awards.

The estimated fair value of restricted units under the LTIP is determined based upon the nature of the award. For performance-based awards, the fair value is determined using the grant date market price of the Partnership's common units. For market-based awards, the fair value is determined using a Monte Carlo simulation.

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The Partnership recognizes compensation expense on a straight-line basis over the requisite service period, and estimates forfeitures over the requisite service period when recognizing compensation expense.

Fair Value Assumptions

Year Ended December 31,	2010	2009	2008
Expected unit-price volatility	25.9%	29.1%	18.7%
Distribution yield	6.4%	7.4%	7.1%
Risk-free interest rate	1.6%	1.3%	2.3%

Expected unit-price volatility is based on the daily historical volatility of our common units, generally for the past three years. The distribution yield represents our annualized distribution yield on the average closing price of our common units 30 days prior to the date of grant. The risk-free interest rate is based on the zero-coupon U.S. Treasury bond, with a term equal to the remaining contractual term of the restricted unit awards.

The Partnership recognized unit-based compensation expense related to the LTIP of \$5 million, \$5 million and \$4 million in the years ended December 31, 2010, 2009 and 2008 respectively, related to the unit grants and performance factor adjustments noted in the table above. Each of the restricted unit grants also have tandem DERs which are recognized as a reduction of Equity when earned.

14. Derivatives and Risk Management

The Partnership is exposed to various market risks, including volatility in crude oil and refined product prices and interest rates. In order to manage such exposure, the Partnership's policy is (i) to only purchase crude oil and refined products for which sales contracts have been executed or for which ready markets exist, (ii) to structure sales contracts so that price fluctuations do not materially impact the margins earned, and (iii) not to 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 physical inventory builds or draws do occur, the Partnership continuously manages the variance 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

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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 not utilize derivative instruments to manage its exposure to prices related to crude oil purchase and sale activities. 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 us to transfer this price risk to counterparties who are able and willing to bear it.

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SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 products derivative contracts that are not designated as hedges for accounting purposes, all realized and unrealized gains and losses are recognized in the statement of income during the current period. For refined products derivative contracts that are designated and qualify as cash flow hedges pursuant to generally accepted accounting principles, 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 line item associated with the forecasted transaction and 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.

As of and for the period ended December 31, 2010, the impact of the Partnership's hedging activities was not material to the financial statements. The Partnership had open derivative positions of 0.7 million barrels of refined products at December 31, 2010, which vary in duration but do not extend beyond April 2011. As of December 31, 2010, the Partnership had derivative assets of \$2 million and derivative liabilities of \$6 million. The Partnership had no commodity-related derivative activities during the year ended December 31, 2009.

Credit Risks

The Partnership faces counterparty credit risk as a result of its 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 Partnership's customers' credit positions are analyzed prior to the extension of credit, and periodically after the credit has been extended. The Partnership manages its exposure to derivative counterparty credit risk through credit analysis, credit approvals, credit limits, and monitoring procedures.

The Partnership's over-the-counter derivatives are entered into with counterparties outside of organized exchanges. While management actively monitors the risk associated with entering into such transactions, it is possible that losses can result from counterparty credit risk in the future. At December 31, 2010, the potential exposure to credit losses on over-the-counter derivatives was immaterial.

15. Fair Value Measurements

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 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 and other valuation methodologies. At December 31,

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NOTES TO FINANCIAL STATEMENTS (Continued)

2010, the fair value of the Partnership's derivative assets and liabilities was not material. At December 31, 2010, the fair values of the credit facilities and the promissory note to Sunoco also approximate their carrying value, as these borrowings bear interest based upon short-term floating market interest rates. The estimated fair value of the Senior Notes is determined using observable market prices, as these notes are actively traded. The estimated aggregate fair value of the Senior Notes at December 31, 2010 is \$1.2 billion, compared to the carrying amount of \$1.1 billion. The estimated aggregate fair value of the Senior Notes at December 31, 2009 was \$664 million, compared to the carrying amount of \$600 million.

16. Concentration of Credit Risk

Approximately 14 percent of total revenues recognized by the Partnership during 2010 was derived from Sunoco. The Partnership sells crude oil to Sunoco, transports crude oil and refined products to/from Sunoco's refineries and provides terminalling and storage services for Sunoco. Sunoco has been issued an investment grade credit rating with a negative outlook by three recognized agencies, however management of the Partnership does not believe that the transactions with Sunoco expose it to significant credit risk.

The Partnership's other trade relationships are primarily with major integrated oil companies, independent oil companies and other pipelines and wholesalers. These concentrations of customers may affect the Partnership's overall credit risk in that the customers (including Sunoco) may be similarly affected by changes in economic, regulatory or other factors. The Partnership's customers' credit positions are analyzed prior to extending credit and periodically after the credit has been extended. The Partnership manages its exposure to credit risk through credit analysis, credit approvals, credit limits, monitoring procedures and the utilization of netting agreements. For certain transactions the Partnership may utilize letters of credit, prepayments and guarantees.

17. Business Segment Information

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

The *Refined Products Pipeline System* serves the United States operations of Sunoco and selected other third parties and consists of: approximately 2,200 miles of refined products pipelines, including a two-thirds undivided interest in the approximately 100-mile refined products Harbor pipeline, and joint venture interests in four refined products pipelines in selected areas of the United States.

The *Terminal Facilities* consist of 42 active refined products terminals with an aggregate storage capacity of 7.2 million barrels, which provide storage, terminalling, blending and other ancillary services primarily to the Refined Products Pipeline System; the Nederland Terminal, a 20.2 million barrel marine crude oil terminal on the Texas Gulf Coast; a 2.0 million barrel refined products terminal serving Sunoco's Marcus Hook refinery near Philadelphia, Pennsylvania; one inland and two marine crude oil terminals with a combined capacity of 3.4 million barrels, and related pipelines, which serve Sunoco's Philadelphia refinery and; a 1.0 million barrel

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LPG terminal near Detroit, Michigan.

The *Crude Oil Pipeline System* gathers, purchases, sells, and transports crude oil principally in Oklahoma and Texas. The system consists of approximately 4,900 miles of crude oil trunk pipelines, including a 37.0 percent undivided interest in the approximately 100-mile Mesa Pipe Line system; approximately 500 miles of crude oil gathering lines that supply the trunk pipelines; approximately 110 crude oil transport trucks; and approximately 100 crude oil truck unloading facilities.

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The following tables sets forth condensed statement of income information concerning the Partnership's recast business segments and reconciles total segment operating income to net income attributable to SXL for the years ended December 31, 2010, 2009 and 2008, respectively.

	Year Ended December 31, 2010			Total
	Refined Products Pipeline System	Terminal Facilities	Crude Oil Pipeline System (in millions)	
Sales and other operating revenue:				
Affiliates	\$ 76	\$ 122	\$ 919	\$ 1,117
Unaffiliated customers	\$ 44	\$ 142	\$ 6,505	\$ 6,691
Operating income ⁽¹⁾⁽²⁾	\$ 44	\$ 95	\$ 162	\$ 301
Net interest expense				73
Gain on investments in affiliates				128
Net Income				\$ 356
Provision for income taxes				8
Net Income attributable to noncontrolling interests				2
Net Income attributable to Sunoco Logistics				
Partners L.P.				\$ 346
Depreciation and amortization	\$ 15	\$ 26	\$ 23	\$ 64
Impairment charge	\$	\$ 3	\$	\$ 3
Capital expenditures ⁽³⁾	\$ 17	\$ 110	\$ 38	\$ 174
Investment in affiliates	\$ 73	\$	\$	\$ 73
Identifiable assets ⁽⁴⁾	\$ 531	\$ 857	\$ 2,713	\$ 4,188

(1) Operating income for the Refined Products Pipeline System includes equity income of \$14 million attributable to the Partnership's equity ownership interests in Explorer, Wolverine, West Shore and Yellowstone.

(2) Operating income for the Crude Oil Pipeline System includes equity income of \$12 million attributable to the Partnership's equity ownership interest in West Texas Gulf and Mid-Valley, prior to the date of the Partnership's acquisition of its controlling financial interests.

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- at which point the joint ventures were accounted for as consolidated subsidiaries.
- (3) Total capital expenditures exclude \$252 million for the acquisition of the butane blending business, additional ownership interests in West Shore, Mid-Valley and West Texas Gulf, and two terminals and include \$9 million of capital expenditures attributable to corporate activities.
 - (4) Identifiable assets include the Partnership's unallocated \$2 million cash and cash equivalents, \$44 million advances to affiliates, \$9 million deferred financing costs, \$32 million to properties, and plants and equipment, net.

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	Year Ended December 31, 2009			Total
	Refined Products Pipeline System	Terminal Facilities	Crude Oil Pipeline System (in millions)	
Sales and other operating revenue:				
Affiliates	\$ 79	\$ 100	\$ 527	\$ 706
Unaffiliated customers	\$ 49	\$ 91	\$ 4,556	\$ 4,696
Operating income ⁽¹⁾⁽²⁾	\$ 45	\$ 84	\$ 166	\$ 295
Net interest expense				45
Net Income				\$ 250
Net Income attributable to noncontrolling interests				
Net Income attributable to Sunoco Logistics Partners L.P.				\$ 250
Depreciation and amortization	\$ 13	\$ 19	\$ 16	\$ 48
Capital expenditures ⁽³⁾	\$ 12	\$ 110	\$ 41	\$ 176
Investment in affiliates	\$ 61	\$	\$ 27	\$ 88
Identifiable assets ⁽⁴⁾	\$ 476	\$ 598	\$ 1,988	\$ 3,099

(1) Operating income for the Refined Products Pipeline System includes equity income of \$12 million attributable to the Partnership's equity ownership interests in Explorer, Wolverine, West Shore and Yellowstone.

(2) Operating income for the Crude Oil Pipeline System includes equity income of \$13 million attributable to the Partnership's equity ownership interest in West Texas Gulf and Mid-Valley.

(3) Total capital expenditures exclude \$50 million for the acquisitions of the Romulus refined products terminal and the Excel crude oil pipeline and include \$13 million of capital expenditures attributable to corporate activities.

(4) Identifiable assets include the Partnership's unallocated \$2 million cash and cash equivalents, \$9 million advances to affiliates, \$4 million deferred financing costs, and \$22 million to properties, plants and equipment, net.

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	Year Ended December 31, 2008			Total
	Refined Products Pipeline System	Terminal Facilities	Crude Oil Pipeline System (in millions)	
Sales and other operating revenue:				
Affiliates	\$ 77	\$ 100	\$ 2,395	\$ 2,572
Unaffiliated customers	\$ 27	\$ 62	\$ 7,451	\$ 7,540
Operating income ⁽¹⁾⁽²⁾	\$ 34	\$ 58	\$ 153	\$ 245
Net interest expense				\$ 31
Net Income				\$ 214
Net Income attributable to noncontrolling interests				
Net Income attributable to Sunoco Logistics Partners L.P.				\$ 214
Depreciation and amortization	\$ 9	\$ 16	\$ 15	\$ 40
Impairment charge	\$	\$ 6	\$	\$ 6
Capital expenditures ⁽³⁾	\$ 13	\$ 74	\$ 53	\$ 146