

SUNOCO LOGISTICS PARTNERS LP

Form 10-Q

November 02, 2006

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

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-31219

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

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

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

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

**19103-7583
(Zip Code)**

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

SUNOCO LOGISTICS PARTNERS L.P.

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Chief Executive Officer and Principal Financial Officer Certification

Chief Executive Officer and Principal Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b)

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except unit and per unit amounts)

	Three Months Ended September 30,	
	2006	2005
Revenues		
Sales and other operating revenue:		
Affiliates (Note 3)	\$ 484,710	\$ 525,486
Unaffiliated customers	1,118,932	721,160
Other income	5,281	4,039
Total Revenues	1,608,923	1,250,685
Costs and Expenses		
Cost of products sold and operating expenses	1,561,819	1,207,769
Depreciation and amortization	9,079	8,785
Selling, general and administrative expenses	13,391	14,005
Total Costs and Expenses	1,584,289	1,230,559
Operating Income	24,634	20,126
Net interest cost paid to affiliates (Note 3)	324	75
Other interest cost and debt expense, net	7,354	5,484
Capitalized interest	(720)	(126)
Net Income	\$ 17,676	\$ 14,693
Calculation of Limited Partners' interest in Net Income (Note 4):		
Net Income	\$ 17,676	\$ 14,693
Less: General Partner's interest in Net Income	(819)	(495)
Limited Partners' interest in Net Income	\$ 16,857	\$ 14,198
Net Income per Limited Partner unit:		
Basic	\$ 0.59	\$ 0.57
Diluted	\$ 0.59	\$ 0.56

Weighted average Limited Partners units outstanding (Note 4):

Basic	28,535,870	25,111,434
Diluted	28,663,319	25,269,275

(See Accompanying Notes)

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

(in thousands, except unit and per unit amounts)

	Nine Months Ended September 30,	
	2006	2005
Revenues		
Sales and other operating revenue:		
Affiliates (Note 3)	\$ 1,481,470	\$ 1,497,419
Unaffiliated customers	2,874,639	1,841,522
Other income	11,544	11,754
Total Revenues	4,367,653	3,350,695
Costs and Expenses		
Cost of products sold and operating expenses	4,216,279	3,224,068
Depreciation and amortization	27,236	24,400
Selling, general and administrative expenses	41,916	38,429
Total Costs and Expenses	4,285,431	3,286,897
Operating Income	82,222	63,798
Net interest cost paid to affiliates (Note 3)	1,047	194
Other interest cost and debt expense, net	21,220	15,945
Capitalized interest	(2,465)	(126)
Net Income	\$ 62,420	\$ 47,785
Calculation of Limited Partners' interest in Net Income (Note 4):		
Net Income	\$ 62,420	\$ 47,785
Less: General Partners' interest in Net Income	(6,264)	(2,573)
Limited Partners' interest in Net Income	\$ 56,156	\$ 45,212
Net Income per Limited Partner unit:		
Basic	\$ 2.06	\$ 1.86
Diluted	\$ 2.05	\$ 1.83
Weighted average Limited Partners' units outstanding (Note 4):		
Basic	27,296,067	24,452,350

Diluted

27,421,581

24,624,200

(See Accompanying Notes)

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

	September 30, 2006 (UNAUDITED)	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,807	\$ 21,645
Advances to affiliates (Note 3)	2,049	
Accounts receivable, affiliated companies (Note 3)	140,535	136,536
Accounts receivable, net	759,449	584,509
Inventories:		
Crude oil	40,016	27,561
Materials, supplies and other	733	700
Total Current Assets	961,589	770,951
Properties, plants and equipment	1,472,337	1,287,542
Less accumulated depreciation and amortization	(490,431)	(472,706)
Properties, plants and equipment, net	981,906	814,836
Investment in affiliates (Note 5)	81,597	69,097
Deferred charges and other assets	33,988	25,801
Total Assets	\$ 2,059,080	\$ 1,680,685
Liabilities and Partners' Capital		
Current Liabilities		
Accounts payable	\$ 936,022	\$ 720,127
Accrued liabilities	29,960	32,884
Accrued taxes other than income	22,549	20,986
Advances from affiliates (Note 3)		5,750
Total Current Liabilities	988,531	779,747
Long-term debt (Note 6)	469,862	355,573
Other deferred credits and liabilities	23,484	21,954
Commitments and contingent liabilities (Note 7)		
Total Liabilities	1,481,877	1,157,274
Partners' Capital:		
Limited partners' interest	570,923	515,512
General partner's interest	6,280	7,899

Total Partners Capital	577,203	523,411
Total Liabilities and Partners Capital	\$ 2,059,080	\$ 1,680,685

(See Accompanying Notes)

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

	Nine Months Ended September 30 ,	
	2006	2005
Cash Flows from Operating Activities:		
Net Income	\$ 62,420	\$ 47,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,236	24,400
Restricted unit incentive plan expense	2,905	2,220
Changes in working capital pertaining to operating activities net of the effect of acquisitions:		
Accounts receivable, affiliated companies	(3,999)	(19,033)
Accounts receivable, net	(174,940)	(217,822)
Inventories	(10,299)	(7,810)
Accounts payable and accrued liabilities	212,633	214,947
Accrued taxes other than income	1,563	5,430
Other	(6,863)	(4,146)
Net cash provided by operating activities	110,656	45,971
Cash Flows from Investing Activities:		
Capital expenditures	(85,825)	(33,373)
Acquisitions	(121,382)	(100,857)
Net cash used in investing activities	(207,207)	(134,230)
Cash Flows from Financing Activities:		
Distributions paid to Limited Partners and General Partner	(71,160)	(48,474)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan	(1,443)	(2,863)
Net proceeds from issuance of Limited Partner units	110,338	159,879
Redemption of Limited Partner units from Sunoco		(99,203)
Contributions from General Partner for Limited Partner unit transactions	2,427	1,429
Net proceeds from issuance of Senior Notes	173,307	
Repayments from (advances to) affiliates, net	(7,799)	12,761
Borrowings under credit facility	155,500	75,000
Repayments under credit facility	(216,100)	(56,500)
Contributions from / (Distributions to) affiliate	(51,357)	842
Net cash provided by financing activities	93,713	42,871
Net change in cash and cash equivalents	(2,838)	(45,388)
Cash and cash equivalents at beginning of year	21,645	52,660

Cash and cash equivalents at end of period	\$ 18,807	\$ 7,272
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(See Accompanying Notes)

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

1. Basis of Presentation

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

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

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

2. Acquisitions

Mid-Valley Pipeline Acquisition

On August 21, 2006, the Partnership purchased from Sunoco a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest in Mid-Valley Pipeline Company (Mid-Valley) for \$65 million, subject to certain adjustments five years following the date of closing, based upon performance of Sunoco. Mid-Valley owns a 994-mile pipeline, which originates in Longview, Texas and terminates in Samaria, Michigan, and has operating capacity of approximately 238,000 barrels per day and 4.2 million barrels of shell storage capacity. Mid-Valley provides crude oil to a number of refineries, primarily in the Midwest United States. The Partnership will continue to be the operator of the Mid-Valley pipeline.

The purchase price of the acquisition was initially funded with \$46.0 million in borrowings under the Partnership's Credit Facility and with cash on hand, and has been included in the Western Pipeline System business segment. Since the acquisition was from a related party, the interest in the entity was recorded by the Partnership at Sunoco's historical cost of \$12.5 million and the \$52.5 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution. The results of the acquisition are included in the financial statements from the date of acquisition.

Millennium and Kilgore Pipeline Acquisition

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

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

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

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

Amdel and White Oil Pipeline Acquisition

On March 1, 2006, the Partnership also acquired a Texas crude oil pipeline system from Alon USA Energy, Inc. for approximately \$68.0 million. The system consists of (a) the Amdel Pipeline, a 503-mile, 10-inch common carrier crude oil pipeline with approximately 27,000 barrels per day operating capacity, originating at the Nederland Terminal, and terminating at Midland, Texas, and (b) the White Oil Pipeline, a 25-mile, 10-inch crude oil pipeline with approximately 40,000 barrels per day operating capacity, originating at the Amdel Pipeline and terminating at Alon's Big Spring, Texas refinery. Alon has also agreed to ship a minimum of 15,000 barrels per day on the pipelines under a 10-year, throughput and deficiency agreement. The pipelines were idle at the time of purchase and were re-commissioned by the Partnership during the second quarter 2006. The pipelines are currently being filled and are expected to begin making deliveries during the fourth quarter 2006. The Partnership also began construction to expand capacity on the Amdel Pipeline from approximately 27,000 to 40,000 barrels per day, which it expects to be completed by the first quarter of 2007, and to construct new tankage at the Nederland Terminal to service these new volumes more efficiently. The purchase price of the acquisition was initially funded with borrowings under the Partnership's Credit Facility, and has been allocated to property, plants and equipment based on the relative fair value of the assets acquired on the acquisition date within the Western Pipeline System business segment.

Mesa Pipe Line System Interest Acquisition

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

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

Corsicana to Wichita Falls Pipeline Acquisition

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

allocated to property, plants and equipment within the Western Pipeline System business segment. The results of the acquisition are included in the financial statements from the date of acquisition.

Table of Contents**Syracuse Terminal Acquisition**

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

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

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco's centralized cash management program. Under this program, all of the Partnership's cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco's cash accounts with a corresponding credit or charge to an intercompany account. The intercompany balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to the average rate of the Partnership's third-party money market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate provided in the Partnership's revolving credit facility (see Note 6).

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

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

Accounts Receivable, Affiliated Companies

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

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

Table of Contents*Capital Contributions*

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

the Omnibus Agreement, which requires Sunoco R&M to, among other things, reimburse the Partnership for any operating expenses and capital expenditures in excess of \$8.0 million per year in each calendar year from 2002 to 2006 that are made to comply with the DOT's pipeline integrity management rule, subject to a maximum aggregate reimbursement of \$15.0 million over the five-year period ending December 31, 2006. For the nine months ended September 2006, the Partnership received \$0.4 million under this arrangement. The Partnership has received a cumulative reimbursement of \$12.1 million under this arrangement;

the Omnibus Agreement, which requires Sunoco R&M to, among other things, reimburse the Partnership for up to \$10.0 million of expenditures required at the Marcus Hook Tank Farm and the Darby Creek Tank Farm to maintain compliance with existing industry standards and regulatory requirements. For the nine months ended September 2006, the Partnership received \$0.1 million under this arrangement and reached the \$10.0 million limit;

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

the Eagle Point purchase agreement, which requires Sunoco R&M to reimburse the Partnership for certain maintenance capital and expenses incurred regarding the assets acquired, as defined, up to \$5.0 million through March 2014. The Partnership has received \$1.1 million to date under this agreement.

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

	Nine Months Ended September 30,	
	2006	2005
Maintenance capital	\$ 1,723	\$ 842
Operating expenses		
	\$ 1,723	\$ 842

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

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

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

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

as capital contributions to Partners Capital within its condensed consolidated balance sheets.

Asset Acquisition

On August 21, 2006, the Partnership acquired a subsidiary of Sunoco, which owned a 55.3 percent equity interest in the Mid-Valley Pipeline Company (Mid-Valley) for \$65 million, subject to certain adjustments five years following the date of

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closing (see Note 2). Since the acquisition was from a related party, the interest in the entity was recorded by the Partnership at Sunoco's historical cost of \$12.5 million and the \$52.5 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution.

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

Redemption of Common Units

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

Conversion of Subordinated Units

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

4. Net Income Per Unit Data

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

The general partner's interest in net income consists of its 2.0 percent general partner interest and incentive distributions, which are increasing percentages, up to 50 percent of quarterly distributions in excess of \$0.50 per limited partner unit (see Note 10). The general partner was allocated net income of \$0.8 million (representing 4.6 percent of total net income for the period) and \$0.5 million (representing 3.4 percent of total net income for the period) for the three months ended September 30, 2006 and 2005, respectively. The general partner was allocated net income of \$6.3 million (representing 10.0 percent of total net income for the period) and \$2.6 million (representing 5.4 percent of total net income for the period) for the nine months ended September 30, 2006 and 2005, respectively. Diluted net income per limited partner unit is calculated by dividing net income applicable to limited partners by the sum of the weighted-average number of common and subordinated units outstanding and the dilutive effect of incentive unit awards, as calculated by the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Weighted average number of limited partner units outstanding - basic	28,535,870	25,111,434	27,296,067	24,452,350
Add effect of dilutive unit incentive awards	127,449	157,841	125,514	171,850
Weighted average number of limited partner units - diluted	28,663,319	25,269,275	27,421,581	24,624,200

5. Investment in Affiliates

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

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

(1) Ownership of Mid-Valley Pipeline Company relates only to the period ended September 30, 2006 as the acquisition was completed in August 2006.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income Statement Data:				
Total revenues	\$ 135,873	\$ 98,580	\$ 342,339	\$ 284,820
Net income	\$ 36,986	\$ 24,296	\$ 87,643	\$ 77,530

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

	September 30, 2006	December 31, 2005
Balance Sheet Data:		
Current assets	\$ 117,981	\$ 100,241
Non-current assets	\$ 486,681	\$ 468,994
Current liabilities	\$ 111,534	\$ 80,054
Non-current liabilities	\$ 408,589	\$ 437,004
Net equity	\$ 84,539	\$ 52,177

The Partnership's investments in Wolverine, West Shore, Yellowstone, and West Texas Gulf at September 30, 2006 include an excess investment amount of approximately \$55.1 million, net of accumulated amortization of \$2.5 million. The excess investment is the difference between the investment balance and the Partnership's proportionate share of the net assets of the entities. The excess investment was allocated to the underlying tangible and intangible assets. Other than land and indefinite-lived intangible assets, all amounts allocated, principally to pipeline and related assets,

are amortized using the straight-line method over their estimated useful life of 40 years and included within depreciation and amortization in the condensed consolidated statements of income.

6. Long-Term Debt

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

	September 30, 2006	December 31, 2005
Credit Facility	\$ 46,000	\$ 106,600
Senior Notes 7.25%, due February 15, 2012	250,000	250,000
Senior Notes 6.125%, due May 15, 2016	175,000	
Less unamortized bond discount	(1,138)	(1,027)
	\$ 469,862	\$ 355,573

Sunoco Logistics Partners Operations L.P. (the Operating Partnership), a wholly-owned entity of the Partnership, has a \$300 million Credit Facility available to fund the Operating Partnership's working capital requirements, to finance future

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acquisitions and for general partnership purposes. It may also be used to fund the quarterly distribution to a maximum of \$20.0 million. Borrowing under this distribution sublimit must be reduced to zero each year for a 15-day period. The Credit Facility matures in November 2010 and may be prepaid at any time. It bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin or (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin). There were \$46.0 million of outstanding borrowings under the Credit Facility at September 30, 2006. The Credit Facility contains various covenants limiting the Operating Partnership's ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; acquire another company; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The Credit Facility also contains covenants (each as defined in the credit agreement) requiring the Operating Partnership to maintain, on a rolling four-quarter basis, a maximum total debt to EBITDA ratio of 4.75 to 1, which can generally be increased to 5.25 to 1 during an acquisition period; and an interest coverage ratio of at least 3.0 to 1. The Operating Partnership is in compliance with these covenants as of September 30, 2006. The Partnership's ratio of total debt to EBITDA was 3.0 to 1 and the interest coverage ratio was 4.6 to 1 at September 30, 2006.

On March 1, 2006, the Partnership completed its acquisition of two Texas crude oil pipeline systems for approximately \$108.9 million (see Note 2). The Partnership initially financed these transactions with \$109.5 million of borrowings under the Credit Facility. All of the \$216.1 million in borrowings outstanding under the Credit Facility were repaid in May 2006 with proceeds from the Senior Notes offering described below, together with a portion of the net proceeds from the concurrent offering of 2.68 million limited partner common units (see Note 9).

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

On August 21, 2006, the Partnership purchased from Sunoco a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest in Mid-Valley Pipeline Company (Mid-Valley) for \$65 million, subject to certain adjustments five years following the date of closing (see Note 2). The purchase price of the acquisition was initially funded with \$46.0 million in borrowings under the Partnership's Credit Facility and with cash on hand.

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

7. Commitments and Contingent Liabilities

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws and regulations result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third-party or formerly owned sites. The accrued liability for environmental remediation in the condensed consolidated balance sheets was \$0.5 million and \$0.6 million as of September 30, 2006 and December 31, 2005, respectively. There are no liabilities attributable to unasserted claims, nor have any recoveries from insurance been assumed.

Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites, the determination of the extent of any contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the

nature and extent of future environmental laws, inflation rates and the determination of the Partnership's liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability, and the number, participation levels and financial viability of other parties. As discussed below, the Partnership's future costs will also be impacted by an indemnification from Sunoco.

Sunoco has indemnified the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed to the Partnership that arise from the operation of such assets prior to the closing of the Partnership's initial

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

Sunoco has also indemnified the Partnership for liabilities, other than environmental and toxic tort liabilities related to the assets contributed to the Partnership, that arise out of Sunoco's ownership and operation of the assets prior to the closing of the February 2002 IPO and that are asserted within 10 years after closing of the February 2002 IPO. In addition, Sunoco has indemnified the Partnership from liabilities relating to certain defects in title to the assets contributed to the Partnership and associated with failure to obtain certain consents and permits necessary to conduct its business that arise within 10 years after closing of the February 2002 IPO as well as from liabilities relating to legal actions pending against Sunoco or its affiliates as of February 2, 2002, or events and conditions associated with any assets retained by Sunoco or its affiliates.

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

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

8. Management Incentive Plan

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

As of September 30, 2006, there were approximately 0.2 million unvested restricted stock units outstanding with a weighted average grant-date fair value of \$39.59 per unit, and a contractual life of three years. As of September 30, 2006, total compensation cost related to non-vested awards not yet recognized was \$1.9 million, and the weighted-average period over which this cost is expected to be recognized in expense is 1.6 years. The number of restricted stock units outstanding and the total compensation cost related to non-vested awards not yet recognized reflect the Partnership's estimates of performance factors pertaining to performance-based restricted unit awards.

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

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

SFAS No. 123R also requires the use of a non-substantive vesting period approach for new share-based payment awards that vest when an employee becomes retirement eligible, as is the case under the Partnership's Long-Term

Incentive Plan (i.e., the vesting period cannot exceed the date an employee becomes retirement eligible). The effect will be to accelerate expense recognition compared to the vesting period approach that the Partnership previously followed under SFAS No. 123. As a result of adopting Statement 123(R) on January 1, 2006, the Partnership's net income is \$0.8 million lower for the nine months ended September 30, 2006, than if it had continued to account for share-based compensation under SFAS No. 123. Basic and diluted earnings per unit are each \$.01 lower for the nine months ended September 30, 2006 than if the

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Partnership had continued to account for share-based compensation under SFAS No. 123. The future impact of the non-substantive vesting period will be dependent upon the value of future stock-based awards granted to employees who are eligible to retire prior to the normal vesting periods of the awards.

The Partnership recognized share-based compensation expense related to the LTIP of approximately \$2.9 million in the first nine months of 2006 under SFAS No. 123R and \$2.2 million for the first nine months of 2005 under SFAS No. 123. During the year ended December 31, 2005, approximately 118,400 awards under the LTIP vested. During the first quarter of 2006, the Partnership issued 86,827 new common units (after netting for taxes of approximately \$1.4 million) and made DER-related payments of approximately \$0.7 million in connection with the vesting.

9. Equity Offerings

In May 2006, the Partnership sold 2.4 million common units in a public offering at a price of \$43.00 per unit. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale. The purchase price for the over allotment was equal to the offering price in the May 2006 sale. The units were issued under the Partnership's Form S-3 shelf registration statement declared effective by the SEC in April 2006. The total sale of units resulted in gross proceeds of \$115.2 million, and net proceeds of \$110.4 million, after the underwriters' commission and legal, accounting and other transaction expenses. Net proceeds of the offering, together with the \$173.3 million in net proceeds from the concurrent offering of Senior Notes (see Note 6), were used to repay \$216.1 million of the debt incurred under the revolving credit facility, to fund the Partnership's 2006 organic growth program, and for general partnership purposes. Also as a result of the issuance of these units, the general partner contributed \$2.4 million to the Partnership to maintain its 2.0 percent general partner interest.

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

10. Cash Distributions

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

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

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

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

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

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

Thereafter, in the manner discussed below.

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

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

Quarterly Cash Distribution Amount per Unit	Percentage of Distributions	
	Unitholders	General Partner
Up to minimum quarterly distribution (\$0.45 per Unit)	98%	2%
Above \$0.45 per Unit up to \$0.50 per Unit	98%	2%
Above \$0.50 per Unit up to \$0.575 per Unit	85%	15%
Above \$0.575 per Unit up to \$0.70 per Unit	75%	25%
Above \$0.70 per Unit	50%	50%

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

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

Date Cash Distribution Paid	Cash		Total Cash Distribution to the General Partner (\$ in millions)
	Distribution per Limited Partner Unit	Total Cash Distribution to Limited Partners (\$ in millions)	
February 14, 2005	\$ 0.625	\$ 15.0	\$ 1.0
May 13, 2005	\$ 0.625	\$ 15.1	\$ 1.0
August 12, 2005	\$0.6375	\$ 15.4	\$ 1.1
November 14, 2005	\$ 0.675	\$ 17.4	\$ 1.5
February 14, 2006	\$0.7125	\$ 18.4	\$ 2.0
May 15, 2006	\$ 0.75	\$ 21.4	\$ 3.3
August 14, 2006	\$ 0.775	\$ 22.1	\$ 4.0

On October 23, 2006, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of \$0.7875 per common and subordinated partnership unit (\$3.15 annualized), representing the distribution for the third quarter 2006. The \$26.8 million distribution, including \$4.4 million to the general partner, will be paid on November 14, 2006 to unitholders of record at the close of business on November 7, 2006.

11. Exit Costs Associated with Western Pipeline Headquarters Relocation

On June 10, 2005, the Partnership announced its intention to relocate its Western area headquarters operations from Tulsa, Oklahoma to the Houston, Texas area. The Partnership offered to relocate all affected employees. The

Partnership substantially completed the relocation during the first quarter 2006.

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

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

	Three Months Ended September 30,	
	2006	2005
Segment Operating Income		
Eastern Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 19,408	\$ 19,205
Unaffiliated customers	7,358	5,149
Other income	3,387	3,246
Total Revenues	30,153	27,600
Operating expenses	11,975	12,550
Depreciation and amortization	2,199	2,616
Selling, general and administrative expenses	4,377	4,743
Total Costs and Expenses	18,551	19,909
Operating Income	\$ 11,602	\$ 7,691
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	\$ 21,120	\$ 19,874
Unaffiliated customers	10,537	8,608
Total Revenues	31,657	28,482
Operating expenses	14,269	13,207
Depreciation and amortization	3,797	3,759
Selling, general and administrative expenses	3,914	3,511
Total Costs and Expenses	21,980	20,477
Operating Income	\$ 9,677	\$ 8,005
Western Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 444,182	\$ 486,407
Unaffiliated customers	1,101,037	707,480
Other income	1,894	716

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Total Revenues	1,547,113	1,194,603
Cost of products sold and operating expenses	1,535,575	1,182,012
Depreciation and amortization	3,083	2,410
Selling, general and administrative expenses	5,100	5,751
Total Costs and Expenses	1,543,758	1,190,173
Operating Income	\$ 3,355	\$ 4,430
Reconciliation of Segment Operating Income to Net Income:		
Operating Income:		
Eastern Pipeline System	\$ 11,602	\$ 7,691
Terminal Facilities	9,677	8,005
Western Pipeline System	3,355	4,430
Total segment operating income	24,634	20,126
Net interest expense	6,958	5,433
Net Income	\$ 17,676	\$ 14,693

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	Nine Months Ended September 30,	
	2006	2005
Segment Operating Income		
Eastern Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 56,795	\$ 55,571
Unaffiliated customers	20,470	15,728
Other income	8,218	9,496
Total Revenues	85,483	80,795
Operating expenses	32,207	34,286
Depreciation and amortization	7,417	7,822
Selling, general and administrative expenses	13,049	14,142
Total Costs and Expenses	52,673	56,250
Operating Income	\$ 32,810	\$ 24,545
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	\$ 61,079	\$ 58,329
Unaffiliated customers	30,068	25,890
Other Income	7	77
Total Revenues	91,154	84,296
Operating expenses	39,565	35,997
Depreciation and amortization	11,377	11,274
Selling, general and administrative expenses	11,270	10,233
Total Costs and Expenses	62,212	57,504
Operating Income	\$ 28,942	\$ 26,792
Western Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 1,363,596	\$ 1,383,519
Unaffiliated customers	2,824,101	1,799,904
Other income	3,319	2,181
Total Revenues	4,191,016	3,185,604
Cost of products sold and operating expenses	4,144,507	3,153,785

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Depreciation and amortization	8,442	5,304
Selling, general and administrative expenses	17,597	14,054
Total Costs and Expenses	4,170,546	3,173,143
Operating Income	\$ 20,470	\$ 12,461

Reconciliation of Segment Operating Income to Net Income:

Operating Income:		
Eastern Pipeline System	\$ 32,810	\$ 24,545
Terminal Facilities	28,942	26,792
Western Pipeline System	20,470	12,461
Total segment operating income	82,222	63,798
Net interest expense	19,802	16,013
Net Income	\$ 62,420	\$ 47,785

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

	September 30, 2006	December 31, 2005
Eastern Pipeline System	\$ 357,051	\$ 343,591
Terminal Facilities	329,791	293,119
Western Pipeline System	1,342,455	1,016,915
Corporate and other	29,783	27,060
Total identifiable assets	\$ 2,059,080	\$ 1,680,685

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

13. Supplemental Condensed Consolidating Financial Information

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

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

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

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	\$	\$	\$ 484,710	\$	\$	\$ 484,710
Unaffiliated customers			1,118,932			1,118,932
Equity in earnings of subsidiaries	17,676	24,242		2	(41,920)	
Other income			5,281			5,281
Total Revenues	17,676	24,242	1,608,923	2	(41,920)	1,608,923
Costs and Expenses						
Cost of products sold and operating expenses			1,561,819			1,561,819
Depreciation and amortization			9,079			9,079
Selling, general and administrative expenses			13,391			13,391
Total Costs and Expenses			1,584,289			1,584,289
Operating Income	17,676	24,242	24,634	2	(41,920)	24,634
Net interest cost paid to / (received from) affiliates		(68)	390	2		324
Other interest cost and debt expenses, net		7,354				7,354
Capitalized interest		(720)				(720)
Net Income	\$ 17,676	\$ 17,676	\$ 24,244	\$	\$ (41,920)	\$ 17,676

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

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	\$	\$	\$ 525,486	\$	\$	\$ 525,486
Unaffiliated customers			721,160			721,160
Equity in earnings of subsidiaries	14,690	21,117		2	(35,809)	
Other income			4,039			4,039
Total Revenues	14,690	21,117	1,250,685	2	(35,809)	1,250,685
Costs and Expenses						
Cost of products sold and operating expenses			1,207,770	(1)		1,207,769
Depreciation and amortization			8,785			8,785
Selling, general and administrative expenses			14,005			14,005
Total Costs and Expenses			1,230,560	(1)		1,230,559
Operating Income	14,690	21,117	20,125	3	(35,809)	20,126
Net interest cost paid to / (received from) affiliates		1,069	(994)			75
Other interest cost and debt expenses, net		5,484				5,484
Capitalized interest		(126)				(126)
Net Income (Loss)	\$ 14,690	\$ 14,690	\$ 21,119	\$ 3	\$ (35,809)	\$ 14,693

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Statement of Income
Nine Months Ended September 30, 2006
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	\$	\$	\$ 1,481,470	\$	\$	\$ 1,481,470
Unaffiliated customers			2,874,639			2,874,639
Equity in earnings of subsidiaries	62,414	81,824		8	(144,246)	
Other income			11,544			11,544
Total Revenues	62,414	81,824	4,367,653	8	(144,246)	4,367,653
Costs and Expenses						
Cost of products sold and operating expenses			4,216,279			4,216,279
Depreciation and amortization			27,236			27,236
Selling, general and administrative expenses			41,916			41,916
Total Costs and Expenses			4,285,431			4,285,431
Operating Income	62,414	81,824	82,222	8	(144,246)	82,222
Net interest cost paid to / (received from) affiliates		655	390	2		1,047
Other interest cost and debt expenses, net		21,220				21,220
Capitalized interest		(2,465)				(2,465)
Net Income	\$ 62,414	\$ 62,414	\$ 81,832	\$ 6	\$ (144,246)	\$ 62,420

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Statement of Income
Nine Months Ended September 30, 2005
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	\$	\$	\$ 1,497,419	\$	\$	\$ 1,497,419
Unaffiliated customers			1,841,522			1,841,522
Equity in earnings of subsidiaries	47,772	66,038		7	(113,817)	
Other income			11,754			11,754
Total Revenues	47,772	66,038	3,350,695	7	(113,817)	3,350,695
Costs and Expenses						
Cost of products sold and operating expenses			3,224,074	(6)		3,224,068
Depreciation and amortization			24,400			24,400
Selling, general and administrative expenses			38,429			38,429
Total Costs and Expenses			3,286,903	(6)		3,286,897
Operating Income	47,772	66,038	63,792	13	(113,817)	63,798
Net interest cost paid to / (received from) affiliates		2,447	(2,253)			194
Other interest cost and debt expenses, net		15,945				15,945
Capitalized interest		(126)				(126)
Net Income	\$ 47,772	\$ 47,772	\$ 66,045	\$ 13	\$ (113,817)	\$ 47,785

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Balance Sheet
September 30, 2006
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets						
Current Assets						
Cash and cash equivalents	\$	\$ 18,807	\$	\$	\$	\$ 18,807
Advances to affiliates	(789)	48,075	(45,237)			2,049
Accounts receivable, affiliated companies			140,535			140,535
Accounts receivable, net			759,449			759,449
Inventories						
Crude oil			40,016			40,016
Materials, supplies and other			733			733
Total Current Assets	(789)	66,882	895,496			961,589
Properties, plants and equipment, net			981,906			981,906
Investment in affiliates	575,239	977,902	81,597	87	(1,553,228)	81,597
Deferred charges and other assets		3,536	30,452			33,988
Total Assets	\$ 574,450	\$ 1,048,320	\$ 1,989,451	\$ 87	\$ (1,553,228)	\$ 2,059,080
Liabilities and Partners Capital						
Current Liabilities						
Accounts payable	\$	\$	\$ 936,022	\$	\$	\$ 936,022
Accrued liabilities	1,109	6,134	22,717			29,960
Accrued taxes other than income			22,578	(29)		22,549
Total Current Liabilities	1,109	6,134	981,317	(29)		988,531
Long-term debt		469,862				469,862
Other deferred credits and liabilities			23,484			23,484
Total Liabilities	1,109	475,996	1,004,801	(29)		1,481,877

Total Partners Capital	573,341	572,324	984,650	116	(1,553,228)	577,203
Total Liabilities and Partners Capital	\$ 574,450	\$ 1,048,320	\$ 1,989,451	\$ 87	\$ (1,553,228)	\$ 2,059,080

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Balance Sheet
December 31, 2005

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets						
Current Assets						
Cash and cash equivalents	\$	\$ 21,645	\$	\$	\$	\$ 21,645
Advances to affiliates			5,506		(5,506)	
Accounts receivable, affiliated companies			136,536			136,536
Accounts receivable, net			584,509			584,509
Inventories						
Crude oil			27,561			27,561
Materials, supplies and other			700			700
Total Current Assets		21,645	754,812		(5,506)	770,951
Properties, plants and equipment, net			809,342	5,494		814,836
Investment in affiliates	464,986	778,106	69,291	(130)	(1,243,156)	69,097
Deferred charges and other assets		2,459	23,325	17		25,801
Total Assets	\$ 464,986	\$ 802,210	\$ 1,656,770	\$ 5,381	\$ (1,248,662)	\$ 1,680,685
Liabilities and Partners Capital						
Current Liabilities						
Accounts payable	\$	\$	\$ 720,127	\$	\$	\$ 720,127
Accrued liabilities	1,171	6,800	24,913			32,884
Accrued taxes other than income			20,986			20,986
Advances from affiliates	5,945			5,311	(5,506)	5,750
Total Current Liabilities	7,116	6,800	766,026	5,311	(5,506)	779,747
Long-term debt		355,573				355,573
Other deferred credits and liabilities			21,954			21,954
Total Liabilities	7,116	362,373	787,980	5,311	(5,506)	1,157,274

Total Partners Capital	457,870	439,837	868,790	70	(1,243,156)	523,411
Total Liabilities and Partners Capital	\$ 464,986	\$ 802,210	\$ 1,656,770	\$ 5,381	\$ (1,248,662)	\$ 1,680,685

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Statement of Cash Flows
Nine Months Ended September 30, 2006
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 62,352	\$ 60,670	\$ 131,874	\$ 6	\$ (144,246)	\$ 110,656
Cash Flows from Investing Activities:						
Capital expenditures			(85,825)			(85,825)
Acquisitions			(121,382)			(121,382)
Intercompany	(45,720)	(128,140)	29,620	(6)	144,246	
	(45,720)	(128,140)	(177,587)	(6)	144,246	(207,207)
Cash Flows from Financing Activities:						
Distribution paid to Limited Partners and General Partner	(71,160)					(71,160)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(1,443)			(1,443)
Net proceeds from issuance of Limited Partner units	110,338					110,338
Contributions from General Partner for Limited Partner unit transactions	2,427					2,427
Net proceeds from issuance of Senior Notes		173,307				173,307
Repayments from (advances to) affiliates, net	(5,157)	(48,075)	45,433			(7,799)
Borrowings under credit facility		155,500				155,500
Repayments under credit facility		(216,100)				(216,100)
Contributions from (distributions to) affiliate	(53,080)		1,723			(51,357)

	(16,632)	64,632	45,713		93,713
Net change in cash and cash equivalents		(2,838)			(2,838)
Cash and cash equivalents at beginning of year		21,645			21,645
Cash and cash equivalents at end of period	\$	\$ 18,807	\$	\$	\$ 18,807

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Statement of Cash Flows
Nine Months Ended September 30, 2005
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 65,986	\$ 43,562	\$ 50,227	\$ 13	\$ (113,817)	\$ 45,971
Cash Flows from Investing Activities:						
Capital expenditures			(33,373)			(33,373)
Acquisitions			(100,857)			(100,857)
Intercompany	(92,307)	(107,450)	85,953	(13)	113,817	
	(92,307)	(107,450)	(48,277)	(13)	113,817	(134,230)
Cash Flows from Financing Activities:						
Distribution paid to Limited Partners and General Partner	(48,474)					(48,474)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(2,863)			(2,863)
Net proceeds from issuance of Limited Partner units	159,879					159,879
Redemption of Limited Partner units from Sunoco	(99,203)					(99,203)
Contributions from General Partner for Limited Partner unit transactions	1,429					1,429
Repayments from affiliates, net	12,690		71			12,761
Borrowings under credit facility		75,000				75,000
Repayments under credit facility		(56,500)				(56,500)
Contributions from affiliate			842			842
	26,321	18,500	(1,950)			42,871

Net change in cash and cash equivalents		(45,388)				(45,388)	
Cash and cash equivalents at beginning of year		52,660				52,660	
Cash and cash equivalents at end of period	\$	\$	7,272	\$	\$	\$	7,272

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

	Three Months Ended September 30,	
	2006	2005
Eastern Pipeline System:⁽¹⁾		
Total shipments (barrel miles per day) ⁽²⁾	61,320,475	56,437,189
Revenue per barrel mile (cents)	0.474	0.469
Terminal Facilities:		
Terminal throughput (bpd):		
Refined product terminals	393,304	382,957
Nederland terminal	480,609	420,467
Refinery terminals ⁽³⁾	658,957	688,923
Western Pipeline System:⁽¹⁾⁽⁴⁾		
Crude oil pipeline throughput (bpd)	565,639	368,985
Crude oil purchases at wellhead (bpd)	192,175	180,216
Gross margin per barrel of pipeline throughput (cents) ⁽⁵⁾	12.6	27.9

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

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

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

Tank Farm and the Eagle Point Dock.

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

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

Analysis of Consolidated Net Income

Net income was \$17.7 million for the third quarter 2006 as compared with \$14.7 million for the third quarter 2005, an increase of \$3.0 million. This increase was due mainly to an increase in total shipments in the Eastern Pipeline System, operating results from the acquisitions completed in 2005 and 2006 in the Western Pipeline System and increased revenues at the Partnership's refined product terminals associated with ethanol blending. These increases were partially offset by lower lease acquisition margins and higher interest expense related to financing the acquisitions completed in 2006 and the Partnership's internal expansion capital program.

Net interest expense increased \$1.6 million to \$7.0 million for the third quarter 2006 from \$5.4 million for the prior year's quarter due to increased borrowings and higher interest rates, partially offset by an increase of \$0.6 million in capitalized interest.

Analysis of Segment Operating Income

Eastern Pipeline System

Operating income for the Eastern Pipeline System increased \$3.9 million to \$11.6 million for the third quarter 2006 from \$7.7 million for the third quarter 2005. This increase was primarily the result of a \$2.4 million increase in sales

and other operating revenue and a \$0.6 million decrease in operating expenses. Sales and other operating revenue increased from

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\$24.4 million for the prior year's quarter to \$26.8 million for the third quarter 2006 mainly due to an increase in total shipments. The increase in shipments was due principally to higher throughput on the Marysville, Michigan to Toledo, Ohio crude oil pipeline. During 2005, two third-party Canadian synthetic crude oil plants experienced reduced production as a result of fire damage. Resumed production at these crude oil plants, along with higher demand due to expansion of a Detroit refinery served by the Marysville pipeline, resulted in an increase in shipments. Operating expenses decreased to \$12.0 million in the third quarter 2006 from \$12.6 million in the third quarter 2005 due mainly to product operating gains, partially offset by increased operating costs.

Terminal Facilities

The Terminal Facilities business segment had operating income of \$9.7 million for the third quarter 2006, as compared to \$8.0 million for the prior year's third quarter. Total revenues increased \$3.2 million from the prior year's third quarter to \$31.7 million for the third quarter 2006 due primarily to increased revenues associated with ethanol blending at the Partnership's refined product terminals starting in May 2006, an increase in volumes at the Partnership's Nederland Terminal, as well as increased volumes at the refined product terminals. Operating expenses increased \$1.1 million from the prior year's third quarter to \$14.3 million for the third quarter 2006 due principally to timing of scheduled maintenance activity and higher utility costs. Closing of the previously announced agreement to purchase a 50 percent interest in a refined products terminal located in Syracuse, New York from an affiliate of Exxon Mobil Corporation is now expected to occur in the fourth quarter of 2006.

Western Pipeline System

Operating income for the Western Pipeline System decreased \$1.0 million to \$3.4 million for the third quarter 2006 from \$4.4 million for the third quarter 2005. The decrease was primarily the result of lower lease acquisition margins. The decrease was partially offset by higher crude oil pipeline volumes, mainly from the Corsicana to Wichita Falls, Texas crude oil pipeline acquired in August 2005, the 37.0 percent undivided interest in the Mesa Pipe Line System acquired in December 2005, and the Millennium and Kilgore pipelines acquired in March 2006. The Amdel pipeline, acquired in March 2006, is currently being filled and is expected to begin making deliveries during the fourth quarter 2006. The decrease was further offset by an increase in other income of \$1.2 million primarily attributable to equity income related to the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company in August 2006. Total revenues and cost of products sold and operating expenses increased in the third quarter 2006 compared with the prior year's quarter due principally to an increase in the price of crude oil. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma, increased to \$70.55 per barrel for the third quarter 2006 from \$63.17 per barrel for the third quarter 2005. Operating expenses were higher also as a result of increased costs associated with the acquired assets and higher utility costs. Depreciation and amortization increased by \$0.7 million due principally to the 2005 and 2006 acquisitions described earlier.

Table of Contents**Results of Operations Nine Months Ended September 30, 2006 and 2005****Sunoco Logistics Partners L.P.****Operating Highlights****Nine Months Ended September 30, 2006 and 2005**

	Nine Months Ended September 30,	
	2006	2005
Eastern Pipeline System:⁽¹⁾		
Total shipments (barrel miles per day) ⁽²⁾	60,254,723	55,825,649
Revenue per barrel mile (cents)	0.470	0.468
Terminal Facilities:		
Terminal throughput (bpd):		
Refined product terminals	388,996	387,374
Nederland terminal	473,117	454,721
Refinery terminals ⁽³⁾	688,553	695,912
Western Pipeline System:⁽¹⁾⁽⁴⁾		
Crude oil pipeline throughput (bpd)	523,780	335,920
Crude oil purchases at wellhead (bpd)	191,894	188,905
Gross margin per barrel of pipeline throughput (cents) ⁽⁵⁾	24.3	26.5

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

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

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

the Eagle Point Dock.

- (4) Includes results from the Partnership's purchases of an undivided joint interest in the Mesa Pipe Line system, the Corsicana to Wichita Falls, Texas pipeline system, and the Millennium and Kilgore pipeline system from the acquisition dates.
- (5) Represents total segment sales and other operating revenue minus cost of products sold and operating expenses and depreciation and amortization.

Analysis of Consolidated Net Income

Net income was \$62.4 million for the nine month period ended September 2006 as compared with \$47.8 million for the comparable period in 2005, an increase of \$14.6 million. This increase was due mainly to an increase in total shipments in the Eastern Pipeline System, operating results from the acquisitions completed in 2005 and 2006 in the Western Pipeline System and higher Western Pipeline System lease acquisition margins. These increases were partially offset by higher interest expense related to financing of the recent acquisitions and the Partnership's internal expansion capital program, and higher selling, general and administrative costs as a result of \$2.9 million in costs related to the Western area headquarters relocation, which was completed in the first quarter 2006.

Net interest expense increased \$3.8 million to \$19.8 million for the first nine months of 2006 from \$16.0 million for the first nine months of 2005 due to increased borrowings and higher interest rates, partially offset by an increase of \$2.3 million in capitalized interest.

Analysis of Segment Operating Income

Eastern Pipeline System

Operating income for the Eastern Pipeline System increased \$8.3 million to \$32.8 million for the first nine months of 2006 from \$24.5 million for the first nine months of 2005. Sales and other operating revenue increased from \$71.3 million

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for the prior year's period to \$77.3 million for the nine months ended September 2006 mainly due to an increase in total shipments. This increase was principally the result of higher throughput on the Marysville to Toledo crude oil pipeline as a result of the prior year production issues previously discussed. Other income decreased to \$8.2 million for the first nine months of 2006 from \$9.5 million for the prior year period due primarily to a decrease in joint venture equity income mainly as a result of reduced pipeline volumes experienced by the Partnership's joint venture interests. Operating expenses decreased from \$34.3 million in the first nine months of 2005 to \$32.2 million for the first nine months of 2006 due mainly to product operating gains, partially offset by increased utility, employee and operating costs. Selling, general and administrative expenses decreased \$1.1 million for the nine months ended September 30, 2006 when compared to the prior year period in 2005 due primarily to increased utilization of engineering employees related to expansion capital projects.

Terminal Facilities

The Terminal Facilities business segment had operating income of \$28.9 million for the nine months ended September 2006, as compared to \$26.8 million for the prior year's corresponding period. Total revenues increased \$6.9 million from the prior year's first nine months to \$91.2 million for the first nine months of 2006 due primarily to an increase in revenues associated with ethanol blending at the balance of the Partnership's refined product terminals starting in May 2006 and an increase in revenues at the Partnership's Nederland Terminal. Operating expenses increased \$3.6 million from the prior year's first nine months to \$39.6 million for the first nine months of 2006 due to increased employee costs, the timing of scheduled maintenance activity and higher utility costs.

Western Pipeline System

Operating income for the Western Pipeline System increased \$8.0 million to \$20.5 million for the first nine months of 2006 from \$12.5 million for the first nine months of 2005. The increase was primarily the result of higher crude oil pipeline volumes, mainly from the acquisitions previously discussed and higher lease acquisition margins. Other income increased for the nine months ended September 2006 by \$1.1 million when compared to the prior year period primarily due to an increase in equity income associated with the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company in August 2006. Total revenues and cost of products sold and operating expenses increased in the first nine months of 2006 compared with the prior year period due principally to an increase in the price of crude oil. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma, increased to \$68.29 per barrel for the nine months ended September 2006 from \$55.45 per barrel for the nine months ended September 2005. Depreciation and amortization increased by \$3.1 million due principally to the 2005 and 2006 acquisitions discussed earlier. Selling, general and administrative expenses increased \$3.5 million due principally to \$2.9 million of costs related to the Western area headquarters relocation from Tulsa, Oklahoma to Sugar Land, Texas, as well as increased costs associated with the acquired assets. The relocation to Sugar Land was completed in the first quarter 2006.

Liquidity and Capital Resources*Liquidity*

Cash generated from operations and borrowings under the Credit Facility are the Partnership's primary sources of liquidity. At September 30, 2006, the Partnership had a working deficit of \$26.9 million and available borrowing capacity under the Credit Facility of \$254.0 million. The Partnership's working capital position also reflects crude oil inventories based on historical costs under the LIFO method of accounting. If the inventories had been valued at their current replacement cost, the Partnership would have had working capital of \$70.5 million at September 30, 2006.

Capital Resources

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

Credit Facility

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

Partnership will be required to reduce to zero all borrowings under the distribution sublimit under the Credit Facility each year for 15 days.

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During the third quarter 2006, \$46.0 million was drawn against the Credit Facility to fund the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company. As of September 30, 2006, there was \$254.0 million available under the Credit Facility to fund the Partnership's internal expansion capital program, and for general Partnership purposes, including to finance pending and future acquisitions.

Senior Notes

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

Equity Offerings

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

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

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

Shelf Registration Statement

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

compliance with covenants in applicable debt obligations of the Operating Partnership (including the Credit Facility).
Cash Flows and Capital Expenditures

Net cash provided by operating activities for the nine months ended September 30, 2006 was \$110.7 million compared with \$46.0 million for the first nine months of 2005. Net cash provided by operating activities for the first nine months of

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2006 was primarily generated by net income of \$62.4 million, depreciation and amortization of \$27.2 million, and a \$25.0 million decrease in working capital. Working capital decreased primarily due to an increase in accounts payable. In the nine months ended September 30, 2006, crude oil prices increased, which generated an increase in cash for the Partnership. Net cash provided by operating activities for the first nine months of 2005 was principally generated by net income of \$47.8 million and depreciation and amortization of \$24.4 million, partially offset by a \$24.3 million increase in working capital.

Net cash used in investing activities for the first nine months of 2006 was \$207.2 million compared with \$134.2 million for the first nine months of 2005. The increase between periods is due primarily to the acquisitions of the Millennium and Kilgore crude oil pipelines and the Amdel crude oil pipeline in March 2006, the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company in August 2006, and the Partnership's investment in its internal expansion capital program, as further discussed below in the *Capital Requirements* section of this document.

Net cash provided by financing activities for the first nine months of 2006 was \$93.7 million compared with \$42.9 million net cash used in financing activities for the first nine months of 2005. Net cash provided by financing activities for the first nine months of 2006 was the result of \$110.3 million of net proceeds from the offering of 2.68 million limited partner common units and \$173.3 million of net proceeds received from the issuance of 6.125 percent Senior Notes in May 2006. This increase was partially offset by \$71.2 million in distributions paid to limited partners and the general partner, a net repayment of \$60.6 million on outstanding borrowings under the Partnership's Credit Facility and \$51.4 million in capital distributions to Sunoco due primarily to the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company discussed earlier.

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

Capital Requirements

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

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

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

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

	Nine Months Ended September 30,	
	2006	2005
Maintenance	\$ 16,882	\$ 18,624
Expansion ⁽¹⁾	188,113	115,606
	\$ 204,995	\$ 134,230

(1) The acquisition of a 55.3 percent interest in the Mid-Valley

Pipeline Company was included within the expansion capital amount for the nine months ended September 30, 2006 at Sunoco's historical cost of \$12.5 million. Since the acquisition was from a related party, the \$52.5 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution.

Maintenance capital expenditures, including \$2.8 million related to the Western area headquarters relocation in the nine months ended September 30, 2006, decreased \$1.7 million from the nine months ended September 30, 2005. Excluding the relocation costs, maintenance capital expenditures decreased \$4.5 million in the first nine months of 2006 from the first nine months of 2005 due mainly to the differences in timing of scheduled maintenance activity between the periods. Management anticipates maintenance capital expenditures to be approximately \$25.0 million for the year ended December 31, 2006, excluding the \$2.8 million related to the Western area headquarters relocation and amounts reimbursable under agreements with Sunoco. Maintenance capital expenditures for both periods presented include recurring expenditures such as

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pipeline integrity costs, pipeline relocations, repair and upgrade of field instrumentation, including measurement devices, repair and replacement of tank floors and roofs, upgrades of cathodic protection systems, crude trucks and related equipment, and the upgrade of pump stations.

Expansion capital expenditures in the nine months ended September 30, 2006 include \$119.2 million related to the acquisitions of the Millennium and Kilgore pipeline system and the Amdel pipeline system in March 2006 and the 55.3 percent interest in the Mid-Valley Pipeline Company (see Note 2 to the condensed consolidated financial statements).

Expansion capital expenditures also include the Partnership's investments in its internal expansion capital program, including expansion of the Marysville crude oil pipeline and the Amdel pipeline purchased in March 2006, expansion of the Montello to Pittsburgh segment of the Philadelphia system, the construction at Nederland of six new crude oil storage tanks with a total capacity of approximately 3.6 million shell barrels, installation of ethanol blending facilities at the balance of the Partnership's refined product terminals, as well as capitalized interest of \$2.5 million.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The \$300 million Credit Facility generally exposes the Partnership to interest rate risk since it bears interest at a variable rate of 5.71 percent at September 30, 2006. A one percent change in interest rates changes annual interest expense by approximately \$0.5 million based on outstanding borrowings under the Credit Facility of \$46.0 million at September 30, 2006.

Forward-Looking Statements

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

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

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

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

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

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

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

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

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

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

Changes in the general economic conditions in the United States;

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

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

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

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

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

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

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

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

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

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

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

Risks related to labor relations and workplace safety;

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

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

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

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

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

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

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

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

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

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Partnership's forward-looking statements. Other factors could also have material adverse effects

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on future results. The Partnership undertakes no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

Item 4. Controls and Procedures

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

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

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

In August 2006, Mid-Valley Pipeline Company (an entity in which Sunoco, Inc. formerly owned a 55.3 percent interest), Sun Pipe Line Company (a subsidiary of Sunoco, Inc.) and Sunoco Pipeline L.P. (a subsidiary of Sunoco Logistics Partners L.P.) reached a settlement with the U.S. Environmental Protection Agency, the U.S. Department of Justice and the Kentucky Environmental and Public Protection Cabinet relating to certain alleged violations of the federal Clean Water Act and certain Kentucky statutes and regulations, in a total amount of approximately \$3.1 million. The Partnership expects to be fully indemnified for costs associated with the settlement. The Consent Decree concerning this settlement was lodged with the U.S. District Court in Kentucky on August 15, 2006. The 30-day comment period expired on September 20, 2006 and a motion to enter the Consent Decree was filed on October 13, 2006, and is pending. The alleged violations arise from a release in November 2000 in Louisiana and a release in January 2005 in Kentucky. (See also the Partnership's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006)

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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Item 6. Exhibits

Exhibits

- 12.1 : Statement of Computation of Ratio of Earnings to Fixed Charges
- 31.1 : Chief Executive Officer and Principal Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(a)
- 32 : Chief Executive Officer and Principal Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350

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

Sunoco Logistics Partners L.P.

Investor Relations

Mellon Bank Center

1735 Market Street

Philadelphia, PA 19103-7583

or through our website at www.sunocologistics.com.

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SIGNATURE

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

Sunoco Logistics Partners L.P.

By: /s/ Deborah M. Fretz
 Deborah M. Fretz
 President, Chief Executive Officer and
 Principal
 Financial Officer

Date: November 2, 2006