SUNOCO LOGISTICS PARTNERS LP
Form 10-K
February 26, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2007**

**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** | **23-3096839** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **Mellon Bank Center 1735 Market Street, Suite LL, Philadelphia, PA** | **19103-7583** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **Common Units representing limited partnership interests** | **New York Stock Exchange** |
| **Senior Notes 7.25%, due February 15, 2012** | **New York Stock Exchange** |
| **Senior Notes 6.125%, due May 15, 2016** | **New York Stock Exchange** |

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

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

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

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 x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.: Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10 percent or more of the Common Units outstanding (including the General Partner of the registrant, Sunoco Partners LLC, as if they may be affiliates of the registrant)) was approximately $992.7 million as of June 30, 2007, based on $60.08 per unit, the closing price of the Common Units as reported on the New York Stock Exchange on that date.

At February 25, 2008, the number of the registrant s Common Units outstanding was 28,657,485.

**DOCUMENTS INCORPORATED BY REFERENCE: NONE**

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**Forward-Looking Statements**

*Some of the information included in this annual report on Form 10-K 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 Sunoco Logistics Partners L.P. (the Partnership ) that is based on the beliefs of its management as well as assumptions made by and information currently available to management.*

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

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

- *Our ability to successfully consummate announced acquisitions or expansions and integrate them into our existing business operations;*
- *Delays related to construction of, or work on, new or existing facilities and the issuance of applicable permits;*
- *Changes in demand for, or supply of, crude oil, refined petroleum products and natural gas liquids that impact demand for the Partnership s pipeline, terminalling and storage services;*
- *Changes in the demand for crude oil we both buy and sell;*
- *The loss of Sunoco R&M as a customer or a significant reduction in its current level of throughput and storage with the Partnership;*
- *An increase in the competition encountered by the Partnership s petroleum products terminals, pipelines and crude oil acquisition and marketing operations;*
- *Changes in the financial condition or operating results of joint ventures or other holdings in which the Partnership has an equity ownership interest;*
- *Changes in the general economic conditions in the United States;*
- *Changes in laws and regulations to which the Partnership is subject, including federal, state, and local tax, safety, environmental and employment laws;*

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

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

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

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

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

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

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

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

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

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

*Risks related to labor relations and workplace safety;*

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

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

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

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

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

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

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

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

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

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

## PART I

### ITEM 1. BUSINESS

**(a) General Development of Business**

The Partnership is a publicly traded Delaware limited partnership that owns, operates and acquires a geographically diverse portfolio of complementary pipeline, terminalling, and crude oil acquisition and marketing assets. The principal executive offices of Sunoco Partners LLC, the Partnership s general partner (the General Partner ), are located at Mellon Bank Center, 1735 Market Street, Suite LL, Philadelphia, Pennsylvania 19103 (telephone (866) 248-4344). The Partnership s website address is www.sunocologistics.com.

Sunoco, Inc., and its wholly-owned subsidiaries including Sunoco, Inc. (R&M), owns approximately 43.4 percent of the partnership interests at December 31, 2007, including a 2 percent general partner interest. Sunoco, Inc. and Sunoco, Inc. (R&M) are collectively referred to as Sunoco .

**(b) Financial Information about Segments**

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

**(c) Narrative Description of Business**

The Partnership is principally engaged in the transport, terminalling and storage of refined products and crude oil and the purchase and sale of crude oil in 12 states located in the Northeast, Midwest and Southwest United States. Sunoco accounted for approximately 23 percent of the Partnership s total revenues for the year ended December 31, 2007. The business comprises three segments:

The *Eastern Pipeline System* primarily serves the Northeast and Midwest United States operations of Sunoco and includes: approximately 1,650 miles of refined product pipelines, including a two-thirds undivided interest in the 80-mile refined product Harbor pipeline, and 58 miles of interrefinery pipelines between two of Sunoco s refineries; approximately 140 miles of crude oil pipelines; a 9.4 percent interest in Explorer Pipeline Company, a joint venture that owns a 1,881-mile refined product pipeline; a 31.5 percent interest in Wolverine Pipe Line Company, a joint venture that owns a 721-mile refined product pipeline; a 12.3 percent interest in West Shore Pipe Line Company, a joint venture that owns a 652-mile refined product pipeline; and a 14.0 percent interest in Yellowstone Pipe Line Company, a joint venture that owns a 750-mile refined product pipeline.

The *Terminal Facilities* consist of 36 refined product terminals with an aggregate storage capacity of 6.2 million barrels, primarily serving the Partnership s Eastern Pipeline System; the Nederland Terminal, a 14.7 million barrel marine crude oil terminal on the Texas Gulf Coast; a 2.0 million barrel refined product terminal serving Sunoco s Marcus Hook refinery near Philadelphia, Pennsylvania; one inland and two marine crude oil terminals with a combined capacity of 3.4 million barrels, and related pipelines, which serve Sunoco s Philadelphia refinery; a ship and barge dock which serves Sunoco s Eagle Point refinery; and a 1.0 million barrel liquefied petroleum gas ( LPG ) terminal near Detroit, Michigan.

The *Western Pipeline System* gathers, purchases, sells, and transports crude oil principally in Oklahoma and Texas and consists of approximately 3,200 miles of crude oil trunk pipelines, including a 37.0 percent undivided interest in the 80-mile Mesa Pipe Line system, and approximately 500 miles of crude oil gathering lines that supply the trunk pipelines; approximately 115 crude oil transport trucks; approximately 150 crude oil truck unloading facilities; a 55.3 percent economic interest (50 percent voting interest) in the Mid-Valley Pipeline Company, a joint venture that owns a 994-mile pipeline and a 43.8 percent interest in West Texas Gulf Pipe Line Company, a joint venture that owns a 579-mile crude oil pipeline.

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Revenues are generated by charging tariffs for transporting refined products, crude oil and other hydrocarbons through the pipelines and by charging fees for storing refined products, crude oil, and other hydrocarbons, and for providing other services at the Partnership s terminals. The Partnership also generates revenue by purchasing domestic crude oil and selling it to Sunoco and other customers. Generally, as crude oil is purchased, corresponding sale transactions are simultaneously entered into involving physical deliveries of crude oil, which enables the Partnership to secure a profit on the transaction at the time of purchase and establish a substantially balanced position, thereby minimizing exposure to price volatility after the initial purchase. The Partnership s practice is to not enter into commodity derivative contracts.

The Partnership s primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput, pursue strategic and accretive acquisitions that complement the Partnership s existing asset base, improve operating efficiencies, and increase distributions to its unitholders.

For the year ended December 31, 2007, Sunoco accounted for approximately 62 percent of the Eastern Pipeline segment s total revenues, approximately 65 percent of the Terminal Facilities segment s total revenues, and approximately 21 percent of the Western Pipeline System segment s total revenues.

**Eastern Pipeline System**

*Refined Product Pipelines*

The Partnership owns and operates approximately 1,650 miles of refined product pipelines in the Northeast and Midwest United States. The refined product pipelines transport refined products from Sunoco s Philadelphia and Marcus Hook, Pennsylvania, Toledo, Ohio and Eagle Point, New Jersey refineries, as well as from third party locations, to markets in New York, New Jersey, Pennsylvania, Ohio, and Michigan. The refined products transported in these pipelines include multiple grades of gasoline, middle distillates (such as heating oil, diesel and jet fuel), liquefied petroleum gas ( LPGs ) (such as propane and butane), refining feedstocks, and other hydrocarbons. The Federal Energy Regulatory Commission ( FERC ) regulates the rates for interstate shipments on the Eastern Pipeline System and the Pennsylvania Public Utility Commission ( PA PUC ) regulates the rates for intrastate shipments in Pennsylvania. The Partnership also leases to Sunoco three bi-directional, 18-mile interrefinery pipelines and a four-mile pipeline spur extending to the Philadelphia International Airport.

The following table details the total shipments on the refined product pipelines in each of the years presented. Total shipments represent the total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped. Management of the Partnership believes that total shipments is a better performance indicator for the Eastern Pipeline System than barrels transported as certain refined product pipelines such as transfer pipelines transport large volumes over short distances and generate minimal revenues. The following excludes amounts attributable to the interrefinery pipelines and equity ownership interests in the corporate joint ventures:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Total shipments (in thousands of barrel miles per day) | 46,144 | 48,493 | 49,963 |

The mix of refined petroleum products delivered varies seasonally, with gasoline demand peaking during the summer months, and demand for heating oil and other distillate fuels peaking in the winter. In addition, weather conditions in the areas served by the Eastern Pipeline System affect both the demand for, and the mix of, the refined petroleum products delivered through the Eastern Pipeline System, although historically

any overall impact on the total volume shipped has been short term.

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*Crude Oil Pipelines*

The Eastern Pipeline system includes a 123-mile, 16-inch crude oil pipeline that runs from Marysville, Michigan to Toledo, Ohio. This pipeline receives crude oil from the Enbridge pipeline system for delivery to Sunoco and BP refineries located in Toledo, Ohio and to Marathon s Samaria, Michigan tank farm, which supplies its refinery in Detroit, Michigan. Marysville is also a truck injection point for local production. During 2006, the Partnership completed an expansion project on the Marysville pipeline that increased capacity by approximately 20 percent to approximately 190,000 barrels per day ( bpd ).

The table below sets forth the average daily number of barrels of crude oil transported through this crude oil pipeline in each of the years presented:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005[1] | 2006 | 2007 |
| Crude oil throughput (in bpd) | 92,778 | 124,512 | 146,200 |

(1) Production issues at two third-party Canadian synthetic crude oil plants resulted in lower shipments on the Marysville to Toledo crude oil pipeline in 2005.

*Explorer Pipeline*

The Partnership owns a 9.4 percent interest in Explorer Pipeline Company ( Explorer ), a joint venture that owns a 1,881-mile common carrier refined product pipeline. The system, which is operated by Explorer employees, originates from the refining centers of Lake Charles, Louisiana and Beaumont, Port Arthur and Houston, Texas, and extends to Chicago, Illinois, with delivery points in the Houston, Dallas/Fort Worth, Tulsa, St. Louis, and Chicago areas. Explorer charges market-based rates for all its tariffs.

*Wolverine Pipe Line*

The Partnership owns a 31.5 percent interest in Wolverine Pipe Line Company ( Wolverine ), a joint venture that owns a 721-mile common carrier pipeline that transports primarily refined products. The system, which is operated by Wolverine employees, originates from Chicago, Illinois and extends to Detroit, Grand Haven, and Bay City, Michigan with delivery points along the way. Wolverine charges market-based rates for tariffs at the Detroit, Jackson, Niles, Hammond, and Lockport destinations.

*West Shore Pipe Line*

The Partnership owns a 12.3 percent interest in West Shore Pipe Line Company ( West Shore ), a joint venture that owns a 652-mile common carrier refined product pipeline. The system, which is operated by CITGO employees, originates from the Chicago, Illinois refining center and extends to Madison and Green Bay, Wisconsin with delivery points along the way. West Shore charges market-based tariff rates in the Chicago

area.

*Yellowstone Pipe Line*

The Partnership owns a 14.0 percent interest in Yellowstone Pipe Line Company ( Yellowstone ), a joint venture that owns a 750-mile common carrier refined product pipeline. The system, which is operated by ConocoPhillips employees, originates from the Billings, Montana refining center and extends to Moses Lake, Washington with delivery points along the way. Tariff rates are regulated by the FERC for interstate shipments and the Montana Public Service Commission for intrastate shipments in Montana.

**Terminal Facilities**

*Refined Product Terminals*

The Partnership s 36 refined product terminals receive refined products from pipelines, barges, rail, and trucks and distribute them to Sunoco and to third parties, who in turn deliver them to end-users and retail outlets.

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Terminals are facilities where refined products are transferred to or from storage or a transportation system, such as a pipeline, to another transportation system, such as trucks or another pipeline. The operation of these facilities is called terminalling. Terminals play a key role in moving product to the end-user market by providing the following services: storage; distribution; blending to achieve specified grades of gasoline; and other ancillary services that include the injection of additives and the filtering of jet fuel. Typically, the Partnership s terminal facilities consist of multiple storage tanks and are equipped with automated truck loading equipment that is available 24 hours a day. This automated system provides for control of allocations, credit, and carrier certification. In 2007, the Partnership acquired a 50 percent interest in a refined products terminal in Syracuse, NY.

The Partnership s refined product terminals derive most of their revenues from terminalling fees paid by customers. A fee is charged for receiving refined products into the terminal and delivering them to trucks, barges, or pipelines. In addition to terminalling fees, the Partnership generates revenues by charging customers fees for blending, including ethanol blending, injecting additives, and filtering jet fuel. Refined product terminals generate the balance of their revenues from the handling of other hydrocarbons. Sunoco accounts for a significant portion of the Partnership s refined product terminal revenues. The Eastern Pipeline System supplies the majority of the Partnership s refined product terminals, with third-party pipelines and barges supplying the remainder.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Refined products throughput (bpd) | 389,523 | 391,718 | 433,797 |

The Partnership s refined product terminals include the following assets acquired since December 31, 2004:

*Syracuse Terminal Acquisition.* On June 1, 2007, the Partnership purchased a 50 percent undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation for approximately $13.4 million. Total terminal storage capacity is approximately 550,000 barrels.

The following table outlines the number of terminals and storage capacity in barrels ( bbls ) by state:

| **State** | **Number of Terminals** | **Storage Capacity (bbls)** |
|---|---|---|
| Indiana | 1 | 206,500 |
| Maryland | 1 | 663,900 |
| Michigan | 2 | 406,700 |
| New Jersey | 4 | 762,600 |
| New York[1,2] | 4 | 915,800 |
| Ohio | 7 | 915,900 |
| Pennsylvania | 16 | 2,008,800 |
| Virginia | 1 | 276,900 |
| Total | 36 | 6,157,100 |

(1) The Partnership has a 45 percent ownership interest in a terminal at Inwood, New York. The storage capacity included in the table represents the proportionate share of capacity attributable to the Partnership s ownership interest.

(2) The Partnership has a 50 percent ownership interest in a terminal at Syracuse, New York. The storage capacity included in the table represents the proportionate share of capacity attributable to the Partnership s ownership interest.

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*Nederland Terminal*

The Nederland Terminal, which is located on the Sabine-Neches waterway between Beaumont and Port Arthur, Texas, is a large marine terminal that provides storage and distribution services for refiners and other large transporters of crude oil. The terminal receives, stores, and distributes crude oil, feedstocks, lubricants, petrochemicals, and bunker oils (used for fueling ships and other marine vessels). In addition, it also blends lubricants and is equipped with petroleum laboratory facilities. The terminal currently has a total shell storage capacity of approximately 14.7 million barrels in 132 aboveground storage tanks with individual capacities of up to 660,000 barrels. During 2007, the Partnership continued construction of seven new tanks with a capacity of 4.2 million shell barrels of storage capacity, four of which were placed into service in 2007. Construction also continued around the Partnership s agreement with Motiva Enterprises LLC, which includes three crude oil storage tanks at the Partnership s Nederland Terminal and a crude oil pipeline from Nederland to Motiva s Port Arthur, Texas refinery.

The Nederland Terminal can receive crude oil at each of its five ship docks and three barge berths, which can accommodate any vessel capable of navigating the 40-foot freshwater draft of the Sabine-Neches Ship Channel. The five ship docks are capable of receiving over 1.0 million bpd of crude oil. The terminal can also receive crude oil through a number of pipelines, including the Shell pipeline from Louisiana, the Cameron Highway pipeline, the ExxonMobil Pegasus pipeline, the Department of Energy ( DOE ) Big Hill pipeline, the DOE West Hackberry pipeline, and the Partnership s Western Pipeline System. The DOE pipelines connect the terminal to the United States Strategic Petroleum Reserve s West Hackberry caverns at Hackberry, Louisiana and Big Hill near Winnie, Texas, which have an aggregate storage capacity of 370 million barrels. In the first quarter of 2006 ExxonMobil reversed the flow of crude oil on its Pegasus pipeline from Patoka, Illinois to the Nederland Terminal, which resulted in the flow of Canadian crude oil to the Nederland Terminal beginning in April 2006.

The Nederland Terminal can deliver crude oil and other petroleum products via pipeline, barge, ship, rail, or truck. In the aggregate, the terminal is capable of delivering over 1.9 million bpd of crude oil to 12 connecting pipelines. The connecting pipelines include the ExxonMobil pipeline to its Beaumont, Texas refinery; the DOE pipelines to the Big Hill and West Hackberry Strategic Petroleum Reserve caverns; the Valero pipeline to its Port Arthur, Texas refinery; the Total pipelines to its Port Arthur, Texas refinery; the Shell pipeline to Houston, Texas refineries; West Texas Gulf and the Partnership s pipelines to the Mid-Valley pipeline at Longview, Texas and to the CITGO pipeline at Sour Lake, Texas; the Partnership s pipeline to Seabreeze, Texas; and the Partnership s pipeline to the Alon Big Spring, Texas refinery and Midland, Texas. In December 2006, the Partnership executed an agreement with Motiva Enterprises LLC to construct three additional crude oil storage tanks, with a combined capacity of approximately 2.0 million shell barrels of storage capacity, and provide a new approximately 8 mile 30 crude oil pipeline connection from the Nederland Terminal to Motiva s Port Arthur, Texas refinery. Construction of these assets is expected to be completed on or before January 2010.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Crude oil and refined products throughput (bpd) | 457,655 | 461,943 | 507,312 |

Revenues are generated at the Nederland Terminal primarily by providing term or spot storage services and throughput capability to a number of customers. The majority of the terminal s revenues in 2007 were from unaffiliated third parties.

*Fort Mifflin Terminal Complex*

The Fort Mifflin Terminal Complex is located on the Delaware River in Philadelphia and supplies Sunoco s Philadelphia refinery with all of its crude oil. These assets include the Fort Mifflin Terminal, the Hog Island

Wharf, the Darby Creek Tank Farm and connecting pipelines. Revenues are generated from the Fort Mifflin Terminal Complex by charging fees based on tank capacity and throughput. Substantially all of the revenues from the Fort Mifflin Terminal Complex are derived from Sunoco.

The Fort Mifflin Terminal consists of two ship docks with 40-foot freshwater drafts and nine tanks with a total storage capacity of 570,000 barrels. Crude oil and some refined products enter the Fort Mifflin Terminal primarily from marine vessels on the Delaware River. One Fort Mifflin dock is designed to handle crude oil from very large crude oil carrier-class tankers and smaller crude oil vessels. The other dock can accommodate only smaller crude oil vessels.

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

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Crude oil throughput (bpd) | 321,623 | 305,539 | 296,976 |
| Refined products throughput (bpd) | 5,533 | 14,256 | 13,972 |
| Total (bpd) | 327,156 | 319,795 | 310,948 |

*Marcus Hook Tank Farm*

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Refined products throughput (bpd) | 149,934 | 151,093 | 146,112 |

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*Eagle Point Dock*

The Eagle Point Dock is located on the Delaware River and is connected to the Sunoco Eagle Point refinery. It can accommodate three ships or barges and supplies the Eagle Point refinery with all of its crude oil. The dock can also receive and deliver crude oil, intermediate products and refined products to outbound ships and barges.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Crude oil throughput (bpd) | 146,720 | 136,473 | 138,159 |
| Refined products throughput (bpd) | 78,439 | 80,448 | 100,649 |
| Total (bpd) | 225,159 | 216,921 | 238,808 |

*Inkster Terminal*

The Inkster Terminal, located near Detroit, Michigan, consists of eight salt caverns with a total storage capacity of 975,000 barrels. The Partnership uses the Inkster Terminal s storage in connection with its Toledo, Ohio to Sarnia, Canada pipeline system and for the storage of LPGs from Sunoco s Toledo refinery and from Canada. The terminal can receive and ship LPGs in both directions at the same time and has a propane truck loading rack.

**Western Pipeline System**

Crude Oil Pipelines

The Partnership owns and operates approximately 3,200 miles of crude oil trunk pipelines and approximately 500 miles of crude oil gathering pipelines in Texas and Oklahoma. The Partnership also delivers crude oil and other feedstocks for Sunoco and other third parties from points in Texas and Oklahoma.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005[1] | 2006[2][3] | 2007[3] |
| Crude oil and other feedstocks throughput (bpd) | 356,129 | 526,014 | 527,491 |

(1) Includes results from the Corsicana to Wichita Falls crude oil pipeline and the undivided interest in the Mesa pipeline from the acquisition date.

(2) Includes results from the Millennium and Kilgore crude oil pipelines and the Amdel and White Oil crude oil pipelines from the acquisition dates.

(3) Excludes results from the joint venture interests.

*Texas*

The Partnership owns and operates approximately 2,400 miles of crude oil trunk pipelines and approximately 300 miles of crude oil gathering pipelines in Texas. The Texas system is connected to the Mid-Valley and West Texas Gulf pipelines which are 55.3 percent and 43.8 percent, respectively, owned by the Partnership, other third-party pipelines, and the Partnership s Nederland Terminal.

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Revenues are generated from tariffs paid by shippers utilizing the Partnership s transportation services. These tariffs are filed with the Texas Railroad Commission and the FERC.

The Partnership s Texas crude oil pipeline system also includes the following assets acquired since December 31, 2004:

*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 approximately $100.0 million. The pipeline system consists primarily of a 187-mile, 16-inch pipeline with an operating capacity of 125,000 bpd. 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 to construct a new 20-mile, 24-inch pipeline to connect the Corsicana terminal to the West Texas Gulf pipeline at Wortham, Texas, in which the Partnership has a 43.8 percent ownership interest. Construction of the new 20-mile pipeline was completed in December 2005.

*Mesa Pipe Line Undivided Interest Acquisition.* On December 5, 2005, the Partnership purchased a subsidiary of Sunoco, which owned a 7.2 percent undivided interest in the Mesa Pipe Line system for approximately $1.3 million. The Mesa Pipe Line system consists of an 80-mile, 24-inch crude oil pipeline from Midland, Texas to Colorado City, Texas, with an operating capacity of 316,000 bpd, and approximately 0.8 million barrels of shell capacity at Midland. The Mesa pipeline connects to the West Texas Gulf pipeline, which supplies crude oil to the Mid-Valley pipeline as well as to the Corsicana to Wichita Falls system and other West Texas Gulf delivery points. On December 29, 2005, the Partnership purchased an additional 29.8 percent interest in Mesa from Chevron for approximately $5.3 million, increasing the Partnership s ownership to 37.0 percent. On April 21, 2006, the Partnership and Plains All American Pipeline, L.P. agreed to extend the Mesa operating agreement, previously scheduled to expire on June 30, 2006, until December 31, 2009.

*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 acquisition consists of (a) the Millennium Pipeline, a 200-mile, 12-inch crude oil pipeline with approximately 65,000 bpd 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 barrel per day capacity originating in Kilgore, Texas and terminating at the Oil Tanking terminal in the Houston, Texas region; (c) approximately 0.9 million barrels of shell storage capacity at Kilgore, and Longview, Texas, approximately 0.6 million of which were inactive; (d) a crude oil sales and marketing business; and (e) crude oil line fill and working inventory.

*Amdel and White Oil Pipeline Acquisition.* On March 1, 2006, the Partnership 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 bpd 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 bpd operating capacity, originating at the Amdel Pipeline and terminating at Alon s Big Spring, Texas refinery. Alon has agreed to ship a minimum of 15,000 bpd 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 began making deliveries during the fourth quarter 2006. During the first quarter of 2007, the Partnership completed a project to expand the capacity on the Amdel Pipeline from approximately 27,000 to 40,000 bpd. The Partnership also is constructing new tankage at the Nederland Terminal to service these new volumes more efficiently and expects the project to be completed during 2008.

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*Mid-Valley Pipeline Acquisition.* On August 18, 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 (50 percent voting rights) in Mid-Valley Pipeline Company ( Mid-Valley ) for $65 million, subject to certain adjustments five years following the date of closing, based on the throughput 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 bpd 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.

*Oklahoma*

The Partnership owns and operates a crude oil pipeline and gathering system in Oklahoma. This system contains approximately 800 miles of crude oil trunk pipelines and approximately 200 miles of crude oil gathering pipelines. The Partnership has the ability to deliver substantially all of the crude oil gathered on its Oklahoma system to Cushing. Additionally, deliveries are made on the Oklahoma system to Sunoco and other third-party refiners.

Revenues are generated on the Partnership s Oklahoma system from tariffs paid by shippers utilizing the Partnership s transportation services. The Partnership files these tariffs with the Oklahoma Corporation Commission and the FERC. The Partnership is one of the largest purchasers of crude oil from producers in the state, and is the primary shipper on its Oklahoma system.

*West Texas Gulf Pipe Line*

The Partnership owns a 43.8 percent interest in the West Texas Gulf Pipe Line Company ( West Texas Gulf ), a joint venture that owns a 579-mile common carrier crude oil pipeline. The system originates from the West Texas oil fields at Colorado City and the Nederland crude oil import terminals and extends to Longview, Texas where deliveries are made to several pipelines, including the Mid-Valley pipeline. On January 1, 2005, the Partnership became the operator of this system.

Crude Oil Acquisition and Marketing

In addition to receiving tariff revenues for transporting crude oil on the Western Pipeline System, the Partnership generates most of its revenues through its crude oil acquisition and marketing activities. These activities are primarily in Oklahoma and Texas and include: purchasing crude oil at the wellhead from producers and in bulk from aggregators at major pipeline interconnections and trading locations; transporting crude oil on the Partnership s pipelines and trucks or, when necessary or cost effective, pipelines or trucks owned and operated by third parties; and marketing crude oil to major integrated oil companies, independent refiners, including Sunoco for its Tulsa and Toledo refineries, and resellers in various types of sale and exchange transactions.

The crude oil acquisition and marketing operations generate substantial revenue and cost of products sold because they reflect the sales price and cost of the significant volume of crude oil bought and sold. However, the absolute price levels for crude oil normally do not bear a relationship to gross margin, although these price levels significantly impact revenue and cost of products sold. As a result, period-to-period variations in revenue and cost of products sold are not generally meaningful in analyzing the variation in gross margin for the crude oil acquisition and marketing operations. The operating results of the crude oil acquisition and marketing operations are dependent on its ability to sell crude oil at a price in excess of the aggregate cost. Management of the Partnership believes gross margin, which is equal to sales and other operating revenue less cost of products sold and operating expenses and depreciation and amortization, is a key measure of financial performance for the Western

Pipeline System.

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The Partnership mitigates most of its pricing risk on purchase contracts by selling crude oil for an equal term on a similar pricing basis. The Partnership also mitigates most of its volume risk by entering into sales agreements, generally at the same time that purchase agreements are executed, at similar volumes. As a result, volumes sold are generally equal to volumes purchased. The Partnership does not acquire and hold crude oil futures contracts or enter into other commodity derivative contracts.

*Crude Oil Purchases and Exchanges*

In a typical producer s operation, crude oil flows from the wellhead to a separator where the petroleum gases are removed. After separation, the producer treats the crude oil to remove water, sand, and other contaminants and then moves it to an on-site storage tank. When the tank is full, the producer contacts the Partnership s field personnel to purchase and transport the crude oil to market. The crude oil in producers tanks is then either delivered directly or transported via truck to the Partnership s pipeline or to a third party s pipeline. The trucking services are performed either by the Partnership s truck fleet or a third-party trucking operation.

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

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

In November 2007, the U.S. Department of Energy awarded a contract to the Partnership for the exchange of royalty oil produced from the Gulf Coast for crude oil meeting the requirements of the Strategic Petroleum Reserve. The contract terms apply royalty-in-kind exchange provisions that require the Partnership to: (1) take delivery of crude oil owed to the U.S. Government from offshore Gulf Coast federal leases; and (2) deliver to the Strategic Petroleum Reserve a volume of crude oil that meets certain specifications. Under its contract, deliveries of royalty oil to the Partnership began in January, 2008, and will continue for a period of six months, ending in June, 2008. The total volume of royalty oil so delivered is expected to be approximately three million barrels. Starting in February, 2008, the Partnership, through its Nederland Terminal facility, began monthly deliveries of sweet crude oil into the Strategic Petroleum Reserve site in West Hackberry, LA, for a period of six months, ending in July 2008. The Partnership s performance obligations under its contract with the DOE are secured by two standby letters of credit, each in the amount of $65.2 million.

The Partnership enters into contracts with producers at market prices generally for a term of one year or less, with a majority of the transactions on a 30-day renewable basis. For the year ended December 31, 2007, the Partnership purchased 164,432 bpd from approximately 3,400 producers and from approximately 34,000 leases, and undertook 400,084 bpd of exchanges and bulk purchases during the same period.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | (in thousands of bpd) | | |
| Lease purchases: | | | |
| Available for sale | 164 | 176 | 164 |
| Exchanged | 22 | 16 | 14 |
| Other exchanges and bulk purchases | 237 | 295 | 400 |
| Total Purchases | 423 | 487 | 578 |
| Sales: | | | |
| Sunoco refineries: | | | |
| Toledo | 27 | 32 | 20 |
| Tulsa | 62 | 78 | 50 |
| Third parties | 96 | 103 | 166 |
| Exchanges: | | | |
| Purchased at the lease | 22 | 16 | 14 |
| Other | 216 | 256 | 330 |
| Total Sales | 423 | 485 | 580 |

*Crude Oil Trucking*

The Partnership owns approximately 125 crude oil truck unloading facilities in Oklahoma, Texas, and New Mexico, the majority of which are located on the Partnership s pipeline system. Approximately 225 crude oil truck drivers are used by a subsidiary of the general partner of the Partnership and approximately 115 crude oil transport trucks are owned. The crude oil truck drivers pick up crude oil at production lease sites and transport it to various truck unloading facilities on the Partnership s pipelines and third-party pipelines. Third-party trucking firms are also retained to transport crude oil to certain facilities.

**Pipeline and Terminal Control Operations**

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

The control centers operate with Supervisory Control and Data Acquisition, or SCADA, systems that continuously monitor real time operational data, including refined product and crude oil throughput, flow rates, and pressures. In addition, the control centers monitor alarms and throughput balances. The control centers operate remote pumps, motors and valves associated with the delivery of refined products and crude oil. The computer systems are designed to enhance leak-detection capabilities, sound automatic alarms if operational conditions outside of pre-established parameters occur, and provide for remote-controlled shutdown of pump stations on the Partnership s pipelines. Pump stations and

meter-measurement points along the Partnership s pipelines are linked by satellite or telephone communication systems for remote monitoring and control, which reduces the requirement for full-time on-site personnel at most of these locations.

**Acquisitions**

The Partnership completed the following acquisitions in the three years ended December 31, 2007:

*Syracuse Terminal Acquisition.* On June 1, 2007, the Partnership purchased a 50 percent undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of

Exxon Mobil Corporation for approximately $13.4 million. For further information, see Terminal Facilities discussion above.

*Mid-Valley Pipeline Acquisition.* On August 18, 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 (50 percent voting rights) in Mid-Valley Pipeline Company ( Mid-Valley ) for approximately $65 million, subject to certain adjustments five years following the date of closing, based on throughput by Sunoco. For further information, see Western Pipeline System discussion above.

*Amdel and White Oil Pipeline Acquisition.* On March 1, 2006, the Partnership acquired a Texas crude oil pipeline system from Alon USA Energy, Inc. for approximately $68.0 million. For further information, see Western Pipeline System discussion above.

*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. For further information, see Western Pipeline System discussion above.

*Mesa Pipe Line Undivided 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. On December 29, 2005, the Partnership purchased an additional 29.8 percent interest in Mesa from Chevron for approximately $5.3 million, increasing its combined interest to 37.0 percent. For further information, see Western Pipeline System discussion above.

*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 approximately $100.0 million. For further information, see Western Pipeline System discussion above.

Although the Partnership does not currently engage in business unrelated to the transportation or storage of crude oil and refined products and the other businesses discussed above, management of the Partnership may, in the future, consider and make acquisitions in other business areas.

**Competition**

As a result of the physical integration with Sunoco, the Partnership believes that it will not face significant competition for crude oil transported to the Philadelphia, Toledo, Tulsa, and Eagle Point refineries, or refined products transported from the Philadelphia, Marcus Hook, Toledo, and Eagle Point refineries. For further information on this agreement, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Agreements with Sunoco. For the year ended December 31, 2007, Sunoco accounted for approximately 23 percent of the Partnership s total revenues.

*Eastern Pipeline System*

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

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

In addition, the Partnership, including its interests in corporate joint ventures, faces competition from trucks that deliver refined products in a number of areas that it serves. While their costs may not be competitive for longer hauls or large volume shipments, trucks compete effectively for incremental and marginal volume in many areas that are served by trucks. The availability of truck transportation places a significant competitive constraint on the Partnership s ability to increase tariff rates.

*Terminal Facilities*

Historically, except for the Nederland Terminal, essentially all of the throughput at the Terminal Facilities segment has come from Sunoco. Under the terms of the pipelines and terminals storage and throughput agreements and other agreements, the Partnership will continue to receive a significant portion of the throughput at these facilities from Sunoco.

The 36 refined product terminals compete with other independent terminals regarding price, versatility, and services provided. The competition primarily comes from integrated petroleum companies, refining and marketing companies, independent terminal companies, and distribution companies with marketing and trading activities.

The primary competitors for the Nederland Terminal are its refinery customers docks and other terminal facilities, located in the Beaumont, Texas area.

The Inkster Terminal s primary competition comes from other nearby facilities located in Michigan and Windsor, Canada.

*Western Pipeline System*

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

**Partnership s Option to Purchase Pipelines from Sunoco**

The Partnership owns most of the pipeline, terminalling, storage, and related assets that support Sunoco s refinery operations. Sunoco owns a 10.0 percent interest in Inland Corporation, which owns and operates a 611-mile refined products pipeline from Lima and Toledo, Ohio to Canton, Cleveland, Columbus, and Dayton, Ohio. This pipeline transports refined products for Sunoco from its Toledo, Ohio refinery and for the other owners.

Sunoco has granted the Partnership a ten-year option, which expires in 2012, to purchase its interest in Inland Corporation for fair market value at the date of purchase. Sunoco s interests in Inland Corporation is subject to agreements with the other interest owners that include, among other things, consent requirements and rights of first refusal that may be triggered upon certain transfers. The exercise of the options with respect to this asset is subject to the terms and conditions of those agreements.

Sunoco has also granted the Partnership a ten-year option, which expires in 2012, to purchase an idled 370-mile 6-inch refined product pipeline from Icedale, Pennsylvania to Cleveland, Ohio for fair market value at the date of purchase.

Both of the ten-year option agreements discussed above are contained in the Omnibus Agreement that was entered into with Sunoco and the general partner. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Agreements with Sunoco .

**Safety Regulation**

A majority of the Partnership s pipelines are subject to United States Department of Transportation ( DOT ) regulations and to regulation under comparable state statutes relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. In addition, the Partnership must permit access to and copying of records and must prepare certain reports and provide information required by the Secretary of Transportation.

DOT regulations, adopted in December 2000, require operators of hazardous liquid interstate pipelines to develop and follow a program to assess the integrity of all pipeline segments that could affect designated high consequence areas , including high population areas, drinking water and ecological resource areas that are unusually sensitive to environmental damage from a pipeline release, and commercially navigable waterways. The Partnership has prepared its own written Risk Based Integrity Management Program, identified the line segments that could impact high consequence areas and developed Baseline Assessment Plans. Management expects that it will complete the full assessment of the remaining segments by March 31, 2008, the timeframe prescribed by the regulations.

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

**Environmental Regulation**

*General*

The Partnership s operations are subject to complex federal, state, and local laws and regulations relating to the protection of health and the environment, including laws and regulations which govern the handling and release of crude oil and other liquid hydrocarbon materials, some of which are discussed below. Violations of environmental laws or regulations can result in the imposition of significant administrative, civil and criminal fines and penalties and, in some instances, injunctions banning or delaying certain activities. Management of the Partnership believes it is in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to frequent change at the federal, state and local levels, and the clear trend is to place increasingly stringent limitations on activities that may affect the environment.

There are also risks of accidental releases into the environment associated with the Partnership s operations, such as releases of crude oil or hazardous substances from its pipelines or storage facilities. To the extent not insured, such accidental releases could subject the Partnership to substantial liabilities arising from environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for any related violations of environmental laws or regulations.

In connection with the February 2002 IPO, and the contribution of pipeline and terminalling assets to the Partnership by affiliates of Sunoco, Inc., Sunoco agreed to indemnify the Partnership for 100 percent of all losses from environmental liabilities related to the transferred assets arising prior to, and asserted within 21 years of,

February 8, 2002. There is no monetary cap on this indemnification from Sunoco. Sunoco s share of liability for claims asserted thereafter will decrease by 10 percent each year through the thirtieth year following the February 8, 2002 date. In addition, this indemnification applies to the interests in the Mesa Pipeline system and the Mid-Valley Pipeline purchased from Sunoco following the IPO. Any remediation liabilities not covered by this indemnity will be the Partnership s responsibility. The Partnership has agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the transferred assets occurring after February 8, 2002, and for environmental and toxic tort liabilities related to these assets to the extent Sunoco is not required to indemnify the Partnership. Total future costs for environmental remediation activities will depend upon, among other things, the extent of impact at each site, the timing and nature of required remedial actions, the technology available, and the determination of the Partnership s liability at multi-party sites. As of December 31, 2007, all material environmental liabilities incurred by, and known to, the Partnership are either covered by the environmental indemnification or reserved for by the Partnership within its financial statements.

*Air Emissions*

The Partnership s operations are subject to the Clean Air Act, as amended, and comparable state and local statutes. The Partnership will be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining permits and approvals addressing air emission related issues. Although no assurances can be given, management of the Partnership believes implementation of the 1990 Clean Air Act Amendments will not have a material adverse effect on its financial condition or results of operations.

The Partnership s customers, including Sunoco, are also subject to, and affected by, environmental regulations. As a result of these regulations, Sunoco could be required to make significant capital expenditures, operate these refineries at reduced levels, and pay significant penalties. It is uncertain what Sunoco s responses to these emerging issues will be. Those responses could reduce Sunoco s obligations under the pipelines and terminals storage and throughput agreement, thereby reducing the Partnership s throughput in its pipelines and terminals, cash flow, and ability to make distributions or satisfy its debt obligations.

*Hazardous Substances and Waste*

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

The Partnership also generates solid wastes, including hazardous wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act, referred to as RCRA, and comparable state statutes. The Partnership is not currently required to comply with a substantial portion of the RCRA requirements because its operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during the Partnership s operating activities, will in the future be designated as hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could have a material adverse effect on the Partnership s maintenance capital expenditures and operating expenses.

The Partnership currently owns or leases, and the Partnership s predecessor has in the past owned or leased, properties where hydrocarbons are being or have been handled for many years. These properties and wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, the

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Partnership could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent future contamination.

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

*Water*

The Partnership s operations can result in the discharge of regulated substances, including crude oil. The Federal Water Pollution Control Act of 1972, also known as the Clean Water Act, and analogous state laws impose restrictions and strict controls regarding the discharge of regulated substances into state waters or waters of the United States.

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

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

*Environmental Remediation*

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

The Partnership has experienced several petroleum releases for which it is not covered by an indemnity from Sunoco, and for which it is responsible for necessary assessment, remediation, and/or monitoring activities. Management of the Partnership estimates that the total aggregate cost of performing the currently anticipated assessment, monitoring, and remediation activities at these sites is not material in relation to its financial position at December 31, 2007. The Partnership has implemented an extensive inspection program to prevent releases of refined products or crude oil into the environment from its pipelines, gathering systems, and terminals. Any damages and liabilities incurred due to

future environmental releases from the Partnership s assets have the potential to substantially affect its business.

**Rate Regulation**

*General Interstate Regulation.* Interstate common carrier pipeline operations are subject to rate regulation by the FERC under the Interstate Commerce Act, the Energy Policy Act of 1992, and rules and orders promulgated pursuant thereto. The Interstate Commerce Act requires that tariff rates for petroleum pipelines be

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

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

Sunoco and its subsidiaries are the only current shippers on several of the pipelines. Sunoco has agreed not to challenge, cause others to challenge, or assist others in challenging, the tariff rates for the term of the pipelines and terminals storage and throughput agreement. It is possible that any new shippers, current shippers, or other interested parties, may decide to challenge the tariff rates. If any rate challenge or challenges were successful, revenues, cash flows, and the cash available for distribution could be materially reduced.

During 2006 and 2007, the Partnership was granted permission by the FERC to charge market-based rates in most of the refined products markets it serves. In those markets where market-based rates were approved, the Partnership is able to establish rates as the Partnership determines what the market will support.

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

**Title to Properties**

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

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Some of the leases, easements, rights-of-way, permits, and licenses acquired by the Partnership or transferred to it upon the closing of the February 2002 IPO require the consent of the grantor to transfer these rights, which in some instances is a governmental entity. The Partnership has obtained or is in the process of obtaining third-party consents, permits, and authorizations sufficient for the transfer of the assets necessary to operate the business in all material respects. In management s opinion, with respect to any consents, permits, or authorizations that have not been obtained, the failure to obtain them will not have a material adverse effect on the operation of the business.

The Partnership has satisfactory title to all of the assets contributed to it in connection with the February 2002 IPO, or is entitled to indemnification from Sunoco under the Omnibus Agreement for title defects to these assets and for failures to obtain certain consents and permits necessary to conduct its business that arise within ten years after the closing of the February 2002 IPO. Record title to some of the assets may continue to be held by affiliates of Sunoco until the Partnership has made the appropriate filings in the jurisdictions in which such assets are located and obtained any consents and approvals that were not obtained prior to the closing of the February 2002 IPO. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens for environmental contamination, taxes and other burdens, easements, or other restrictions, management believes that none of these burdens materially detract from the value of the properties or will materially interfere with their use in the operation of the Partnership s business.

**Employees**

To carry out the Partnership s operations, the general partner and its affiliates employed approximately 1,150 people at December 31, 2007 who provide direct support to the operations. Labor unions or associations represent approximately 600 of these employees at December 31, 2007. The general partner considers its employee relations to be good. The Partnership has no employees.

**(d) Financial Information about Geographical Areas**

The Partnership has no significant amount of revenue or segment profit or loss attributable to international activities.

**(e) Available Information**

The Partnership makes available, free of charge on its website, *www.sunocologistics.com*, all materials that it files electronically with the Securities Exchange Commission, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC.

## ITEM 1A. RISK FACTORS

*The risks below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations, cash flows and financial condition could be affected materially and adversely.*

### RISKS RELATED TO OUR BUSINESS

***We may not be able to generate sufficient cash from operations to allow us to make the required payments to our debt holders or to pay quarterly distributions.***

The amount of cash we can distribute on our common units principally depends upon the cash we generate from our operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Because the cash we generate from operations will fluctuate from quarter to quarter, we may not be able to pay all the applicable interest and principal obligations on our debt, or to pay quarterly distributions.

In the future, we may not be able to generate sufficient cash flow from operations, realize currently anticipated operating improvements or borrow amounts under our revolving credit facility sufficient to fund our liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on or before maturity on commercially reasonable terms, or at all.

Our ability to pay quarterly distributions depends primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. As a result, we may pay cash distributions during periods when we record net losses and may be unable to pay cash distributions during periods when we record net income.

***We depend upon Sunoco for a substantial portion of the crude oil and refined products transported on our pipelines and handled at our terminals, and our crude oil sales.***

For the year ended December 31, 2007, Sunoco accounted for approximately 62 percent of our Eastern Pipeline System total revenues, 65 percent of our Terminal Facilities total revenues, and 21 percent of our Western Pipeline System total revenues. The balance of our revenues was received from third parties, and we will continue to remain dependent on third parties for these additional revenues. Our pipelines and terminals storage and throughput agreements with Sunoco provide for escalation of the fees charged to Sunoco, but the increased fees may be inadequate to cover increased costs in the future. We expect to continue to derive a substantial portion of our revenues from Sunoco for the foreseeable future. If for any reason, Sunoco were to decrease the throughput transported on our pipelines, the volumes of crude oil or refined products handled at our terminals or the amounts of crude oil purchased from us, it could materially and adversely affect our financial condition, results of operations, or cash flows.

***Sunoco s obligations to us under the pipelines and terminals storage and throughput agreements and other arrangements may be reduced or suspended in some circumstances.***

Sunoco s obligations to us under the pipelines and terminals storage and throughput agreements may be permanently reduced in some circumstances. These events include:

- the inability of Sunoco and us to agree on the amount of any surcharge required to be paid by Sunoco to cover substantial and unanticipated costs that may be incurred in complying with new laws or governmental regulations applicable to our Terminal Facilities; and

- a decision by Sunoco to shut down or reconfigure one or more of its refineries if Sunoco reasonably believes in good faith that such event will jeopardize its ability to satisfy its minimum revenue or throughput obligations.

Depending on the ultimate cost of complying with existing and future environmental regulations or proceedings, Sunoco may determine that it is more economical to reduce production at a refinery or shut down all or a portion of a refinery rather than make these capital expenditures. Sunoco s obligations to us under the pipelines and terminals storage and throughput agreements would be reduced in this event.

Furthermore, Sunoco s obligations to us would be temporarily suspended during the occurrence of an event that is outside the control of the parties, which renders performance impossible with respect to an asset for at least 30 days. The occurrence of any of these events could materially and adversely affect our financial condition, results of operations, or cash flows.

Sunoco actively manages its assets and operations, and therefore, changes of some nature, possibly material to our business relationship, may occur at some point in the future.

***If Sunoco satisfies only its minimum obligations to us under, or if we are unable to renew or extend the pipelines and terminals storage and throughput agreements, it could materially and adversely affect our financial condition, results of operations, or cash flows.***

Sunoco may reduce the volume it transports on our pipelines or delivers at our terminals to the minimum amounts it is obligated to transport or deliver under the pipelines and terminals storage and throughput agreements. In addition, the terms of Sunoco s remaining obligations to us under the pipelines and terminals storage and throughput agreements entered into at the time of our initial public offering will expire in 2009. If Sunoco reduces its use of our facilities after expiration of this agreement or any other storage and throughput agreements between us and Sunoco, or if the terms under a new agreement are materially changed in a way that reduces revenues, and we are unable to generate additional revenues from third parties, it could materially and adversely affect our financial condition, results of operations, or cash flows.

***If Sunoco underutilizes the Partnership s refined product terminals or the Marcus Hook Tank Farm, it could materially and adversely affect our financial condition, results of operations, or cash flows.***

Effective March 1, 2007 Sunoco has no minimum throughput obligations at the Partnership s refined product terminals or the Marcus Hook Tank Farm. Because these facilities are well situated to Sunoco s refining and marketing supply chain needs, management of the Partnership would expect Sunoco to continue to use the Partnership s refined products terminals and Marcus Hook Tank Farm. However, there can be no assurance that Sunoco will continue to use the Partnership s terminals and Marcus Hook Tank Farm or that additional revenues can be generated from third parties, which could materially and adversely affect our financial condition, results of operations and cash flows.

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

Factors that could lead to a sustained decrease in market demand for refined products include:

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

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

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

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

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

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***A material decrease in crude oil available for transport through our Western Pipeline System could materially and adversely affect our financial position, results of operations, or cash flows.***

The volume of crude oil transported in our crude oil pipelines depends on the availability of attractively priced crude oil produced in the areas accessible to our crude oil pipelines and received from other common carrier pipelines. If we do not replace volume lost due to a material temporary or permanent decrease in supply, the volume of crude oil transported through our pipelines would decline. In addition, sustained low crude oil prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of marginal wells. Similarly, a temporary or permanent material increase in the price of crude oil supplied from any of these sources, as compared to alternative sources of crude oil available to our customers, could cause the volume of crude oil transported in our pipelines to decline.

***Any reduction in the capability of, or the allocations to, our shippers in interconnecting, third-party pipelines would cause a reduction of volumes transported in our pipelines and through our terminals.***

Sunoco and the other users of our pipelines and terminals are dependent upon connections to third-party pipelines to receive and deliver crude oil and refined products. Any reduction of capabilities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes would result in reduced volumes transported in our pipelines or through our terminals. Similarly, if additional shippers begin transporting volume over interconnecting pipelines, the allocations to our existing shippers could be reduced, which also would reduce volumes transported in our pipelines or through our terminals.

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

Delays or cost increases related to capital spending programs involving construction of new facilities (or improvements and repairs to our existing facilities) could adversely affect our ability to achieve forecasted internal rates of return and operating results. Delays in making required changes or upgrades to our facilities could subject us to fines or penalties as well as affect our ability to supply certain products we make. Such delays or cost increases may arise as a result of unpredictable factors in the marketplace, many of which are beyond our control, including:

- denial or delay in issuing requisite regulatory approvals and/or permits;
- unplanned increases in the cost of construction materials or labor;
- disruptions in transportation of modular components and/or construction materials;
- severe adverse weather conditions, natural disasters, or other events (such as equipment malfunctions explosions, fires, spills) affecting our facilities, or those of vendors and suppliers;
- shortages of sufficiently skilled labor, or labor disagreements resulting in unplanned work stoppages;

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

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

Our forecasted internal rates of return also are based upon our projections of future market fundamentals which are not within our control, including changes in general economic conditions, available alternative supply and customer demand.

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

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

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

Following an acquisition, we may discover previously unknown liabilities associated with the acquired business for which we have no recourse under applicable indemnification provisions. An acquisition may require us to assume certain prior known or unknown liabilities.

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

Our operations and those of our customers and suppliers may be subject to operational hazards and unforeseen interruptions such as natural disasters (including hurricanes), adverse weather, accidents, fires, explosions, hazardous materials releases, and other events beyond our control. These events might result in a loss of equipment or life, injury, or extensive property damage, as well as an interruption in our operations. We may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could materially and adversely affect our financial condition, results of operations, or cash flows.

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

There can be no assurance that we have adequately assessed the credit worthiness of our existing or future counterparties or that there will not be an unanticipated deterioration in their credit worthiness, which could have an adverse impact on us. In those cases in which we provide division order services for crude oil purchased at the wellhead, we may be responsible for distribution of proceeds to all parties. In other cases, we pay all of or a portion of the production proceeds to an operator who distributes these proceeds to the various interest owners. There can be no assurance that we will not experience material losses in dealings with other parties.

***Competition with respect to our operating segments could ultimately lead to lower levels of profits and could materially and adversely affect our financial condition, results of operations, or cash flows.***

We face competition from other pipelines, terminals and crude oil marketers, as well as from other means of transporting, storing and distributing petroleum products. Our customers demand delivery of products on tight time schedules and in a number of geographic markets. If our quality of service declines or we cannot meet the demands of our customers, they may utilize the services of our competitors. If a competing crude oil or refined product pipeline or other crude oil marketer charged lower rates than we do, we could be forced to reduce our rates to remain competitive.

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

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

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

The primary rate-making methodology of the Federal Energy Regulatory Commission, or FERC, is price indexing. We use this methodology in many of our interstate markets. In an order issued February 24, 2003, the FERC announced that, effective July 1, 2003, the index would equal the change in the producer price index for finished goods (previously, the index was equal to the change in the producer price index for finished goods minus 1 percent). If the index falls, we would be required to reduce rates that are based on the FERC s price indexing methodology if they exceed the new maximum allowable rate. In addition, changes in the index might not be large enough to fully reflect actual increases in our costs. The FERC s rate-making methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs.

Under the Energy Policy Act adopted in 1992, certain interstate pipeline rates were deemed just and reasonable or grandfathered. Most of our revenues are derived from grandfathered rates on our FERC-regulated refined products pipelines. A person challenging a grandfathered rate must, as a threshold matter, establish a substantial change since the date of enactment of the Act, in either the economic circumstances or the nature of the service that formed the basis for the rate. If the FERC were to find a substantial change in circumstances, then the existing rates could be subject to detailed review. There is a risk that some rates could be found to be in excess of levels justified by our cost of service. In such event, the FERC would order us to reduce rates prospectively and could order us to pay reparations to complaining shippers. Reparations could be required for a period of up two years prior to the date of filing the complaint in the case of rates that are not grandfathered and for the period starting with the filing of the complaint in the case of grandfathered rates.

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

Sunoco has agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates in effect during the term of the pipelines and terminals storage and throughput agreement. This agreement does not prevent other current or future shippers from challenging our tariff rates. At the end of the term of the agreement, Sunoco will be free to challenge, or to cause other parties to challenge or assist others in challenging, our tariff rates in effect at that time.

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

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

Our pipelines, gathering systems, and terminal operations are subject to increasingly strict environmental and safety laws and regulations. The transportation and storage of refined products and crude oil result in a risk that refined products, crude oil, and other hydrocarbons may be suddenly or gradually released into the

environment, potentially causing substantial expenditures for a response action, significant government penalties, liability to government agencies for natural resources damages, personal injury, or property damage to private parties and significant business interruption. We own or lease a number of properties that have been used to store or distribute refined products and crude oil for many years. Many of these properties also have been previously owned or operated by third parties whose handling, disposal, or release of hydrocarbons and other wastes were not under our control, and for which, in some cases, we have indemnified the previous owners and operators.

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

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

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

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

Since the September 11, 2001 terrorist attacks, the U.S. government has issued warnings that energy assets, specifically the nation s pipeline and terminal infrastructure, may be the future targets of terrorist organizations. Any terrorist attack at our facilities, those of our customers and, in some cases, those of other pipelines, refineries, or terminals could materially and adversely affect our financial condition, results of operations, or cash flows.

***Due to our lack of asset diversification, adverse developments in our businesses could materially and adversely affect our financial condition, results of operations, or cash flows.***

We rely exclusively on the revenues generated from our businesses, and dividends from our equity investments. Due to our lack of asset diversification, an adverse development in one of these businesses could have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

**RISKS RELATED TO OUR PARTNERSHIP STRUCTURE**

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

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

***Even if unitholders are dissatisfied, they cannot remove our general partner without its consent, which could lower the trading price of the common units.***

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders did not elect our general partner or its board of directors and will have no right to elect our general

partner or its board of directors on an annual or other continuing basis. The board of directors of our general partner is chosen by the members of our general partner, all of which are subsidiaries of Sunoco. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units trade could be diminished because of the absence or reduction of a control premium in the trading price.

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

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

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

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

Sunoco indirectly owns and controls our general partner, which holds the 2 percent general partner interest and holds a 42.2 percent limited partner interest in us. Conflicts of interest may arise between Sunoco and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, the general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

- Sunoco, as a shipper on our pipelines, and a customer at our terminals, could seek lower tariff rates or terminalling fees, once the terms of Sunoco s obligations under the pipelines and terminals storage and throughput agreements expire in 2009, or could determine not to utilize our facilities;

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

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

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

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

our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional partnership securities, and reserves, each of which can affect the amount of cash available for distribution to our unitholders;

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

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

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

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

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

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

In some instances, our general partner may cause us to borrow funds from affiliates of Sunoco or from third parties in order to permit the payment of cash distributions.

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

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

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

The Partnership may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time. The issuance of additional common units, or other equity securities of equal or senior rank, will decrease the proportionate ownership interest of existing unitholders and may reduce the amount of cash available for distribution and/or the market price of our common units.

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

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

any business operated by Sunoco or any of its subsidiaries at the closing of our initial public offering;

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

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of less than $5.0 million; and

any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of $5.0 million or more if we have been offered the opportunity to purchase the business for fair market value, and we decline to do so with the concurrence of our conflicts committee.

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

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

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

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

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

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

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

**RISKS RELATED TO OUR DEBT**

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

As of December 31, 2007, our total outstanding long-term indebtedness was approximately $515.1 million. Our payment of principal and interest on the debt will reduce the cash available for distribution on our units, as will our obligation to repurchase the senior notes upon the occurrence of specified events involving a change in control of our general partner. In addition, we are prohibited by our credit facility and the senior notes from making cash distributions during an event of default, or if the payment of a distribution would cause an event of default, under any of our debt agreements. The termination of our pipelines and terminals storage and throughput agreements with Sunoco would constitute an event of default under our credit facility. Our leverage and various limitations in our credit facility and our senior notes may reduce our ability to incur additional debt, engage in some transactions, and capitalize on acquisition or other business opportunities. Since Sunoco owns and controls our general partner, we are not permitted to incur additional debt if the effect would be to cause an event of default under Sunoco s revolving credit agreements. Similarly a default by Sunoco on its debt agreement could cause a default under our debt agreements. Any subsequent refinancing of Sunoco s or our current debt or any new debt could have similar or greater restrictions.

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

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

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

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

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

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

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

- place us at a competitive disadvantage against less leveraged competitors.

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

As of December 31, 2007, we had $91.0 million of floating-rate debt. As a result, we have exposure to changes in short-term interest rates. Rising short-term rates could materially and adversely affect our financial condition, results of operations, or cash flows.

***A down-grading in Sunoco s credit rating could result in a down-grading in our credit rating, which could adversely affect our ability to obtain financing.***

Due to our relationship with Sunoco, our credit rating is partly dependent on Sunoco s credit rating. Any down-grading in Sunoco s credit rating could result in a down-grading in our credit rating, which could, among other things, limit our ability to obtain financing on the terms currently available to us, if at all.

**TAX RISKS TO OUR COMMON UNIT HOLDERS**

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

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

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

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

Our partnership will be considered to have terminated for federal income tax purposes if there is a sale or exchange of 50 percent or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all of our unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

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

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

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

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

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

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

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

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if

they do not live in any of those jurisdictions. Our unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. We currently own assets and conduct business in 12 states, most of which impose a personal income tax. As we make acquisitions or expand our business, we may own assets or conduct business in additional states that impose a personal income tax. It is our unitholders responsibility to file all United States federal, state and local tax returns.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

**ITEM 3. LEGAL PROCEEDINGS**

Sunoco Partners Marketing & Terminals L.P. ( SPMT ), which is wholly owned by the Partnership, has received a proposed penalty assessment from the Internal Revenue Service ( IRS ) in the aggregate amount of $5.1 million based on a failure to timely file excise tax information returns relating to its terminal operations during the calendar years 2004 and 2005. SPMT became current on its information return filings with the IRS in July of 2006. SPMT believes it had reasonable cause for the failure to not file the information returns on a timely basis, and provided this information to the IRS on October 19, 2007 in a formal filing. SPMT is currently awaiting a response from the IRS. The proposed penalties are for the failure to file information returns rather than any failure to pay taxes due, as no taxes were owed by SPMT in connection with such information. The timing or outcome of this claim, and the total costs to be incurred by SPMT in connection therewith, cannot be reasonably estimated at this time.

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

In January 2007, the Pipeline Hazardous Materials Safety Administration proposed penalties totaling $0.2 million based on alleged violations of various pipeline safety requirements relating to our meter facilities in the Western Pipeline System. In November 2007, we received notice of administrative fines from the Delaware County Regional Water Control Authority totaling approximately $0.3 million relating to alleged non-compliance with monthly average arsenic limits. We are currently in discussions with the government agencies to resolve these matters.

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

There are certain other pending legal proceedings related to matters arising after the February 2002 IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material to the Partnership s financial position at December 31, 2007.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS**

None.

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PART II

## ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SECURITYHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

The Partnership s common units were listed on the New York Stock Exchange under the symbol SXL beginning on February 5, 2002. Prior to February 5, 2002, the Partnership s equity securities were not traded on any public trading market. At the close of business on February 25, 2008, there were 89 holders of record of the Partnership s common units. These holders of record included the general partner with 12,063,734 common units registered in its name, and Cede & Co. with 16,505,564 common units registered to it.

The high and low closing sales price ranges (composite transactions) and distributions declared by quarter for 2006 and 2007 were as follows:

| | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Unit Price | | Declared | Unit Price | | Declared |
| Quarter | High | Low | Distributions[1] | High | Low | Distributions[1] |
| 1st | $ 43.47 | $ 39.95 | $ 0.7500 | $ 59.24 | $ 49.68 | $ 0.8250 |
| 2nd | $ 44.00 | $ 39.60 | $ 0.7750 | $ 62.84 | $ 55.54 | $ 0.8375 |
| 3rd | $ 45.26 | $ 40.75 | $ 0.7875 | $ 62.98 | $ 48.92 | $ 0.8500 |
| 4th | $ 50.88 | $ 43.84 | $ 0.8125 | $ 58.81 | $ 48.69 | $ 0.8700 |

(1) Distributions were declared and paid within 45 days following the close of each quarter.

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 minimum quarterly distributions of $0.45 per common unit, to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner.

The Partnership issued 11,383,639 subordinated units to its general partner in connection with the initial public offering in February 2002. These subordinated units were convertible to common units on a one-for-one basis provided the Partnership met applicable financial tests set forth in the Partnership Agreement. Once converted, subordinated units are no longer subordinated to the rights of the holders of common units. The Partnership met the minimum quarterly distribution requirements on all outstanding units for each of the four-quarter periods ended December 31, 2005 and 2006. As a result, the subordinated units converted to common units during 2005 through 2007.

The Partnership will, in general, pay cash distributions each quarter in the following manner:

| | Percentage of Distributions | |
|---|---|---|
| Quarterly Cash Distribution Amount per Unit | 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

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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.

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

For equity compensation plan information, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Securityholder Information .

**ITEM 6. SELECTED FINANCIAL DATA**

For the periods presented, Sunoco was the primary or exclusive user of the refined product terminals, the Fort Mifflin Terminal Complex, and the Marcus Hook Tank Farm.

Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of the assets and to extend their useful lives. Expansion capital expenditures are capital expenditures made to expand the existing operating capacity of the assets, whether through construction or acquisition. The Partnership treats repair and maintenance expenditures that do not extend the useful life of existing assets as operating expenses as incurred.

Throughput is the total number of barrels per day ( bpd ) transported on a pipeline system or through a terminal. Total shipments represent the total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped. Management of the Partnership believes that total shipments is a better performance indicator for the Eastern Pipeline System than throughput as certain refined product pipelines such as transfer pipelines, transport large volumes over short distances and generate minimal revenues.

The following table should be read together with, and is qualified in its entirety by reference to, the financial statements and the accompanying notes of Sunoco Logistics Partners L.P. included in Item 8. Financial Statements and Supplementary Data . The table also should be read together with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations .

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**SUNOCO LOGISTICS PARTNERS L.P.**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003[1] | 2004[2] | 2005[3] | 2006[4] | 2007[5] |
| | (in thousands, except per unit and operating data) | | | | |
| ***Income Statement Data:*** | | | | | |
| Revenues: | | | | | |
| Sales and other operating revenue: | | | | | |
| Affiliates | $ 1,383,090 | $ 1,751,612 | $ 1,986,019 | $ 1,842,634 | $ 1,682,042 |
| Unaffiliated customers | 1,274,383 | 1,699,673 | 2,496,593 | 3,994,601 | 5,695,413 |
| Other income[6] | 16,730 | 13,932 | 14,295 | 17,315 | 28,381 |
| Total revenues | 2,674,203 | 3,465,217 | 4,496,907 | 5,854,550 | 7,405,836 |
| Costs and expenses: | | | | | |
| Cost of products sold and operating expenses | 2,519,160 | 3,307,480 | 4,326,713 | 5,644,021 | 7,156,142 |
| Depreciation and amortization | 27,157 | 31,933 | 33,838 | 36,649 | 37,341 |
| Selling, general and administrative expenses | 48,412 | 48,449 | 53,048 | 55,686 | 56,198 |
| Total costs and expenses | 2,594,729 | 3,387,862 | 4,413,599 | 5,736,356 | 7,249,681 |
| Operating income | 79,474 | 77,355 | 83,308 | 118,194 | 156,155 |
| Net interest cost and debt expense | 20,040 | 20,324 | 21,599 | 27,853 | 35,280 |
| Income before income tax expense | 59,434 | 57,031 | 61,709 | 90,341 | 120,875 |
| Income tax expense | | | | | |
| Net Income | $ 59,434 | $ 57,031 | $ 61,709 | $ 90,341 | $ 120,875 |
| Net Income per limited partner unit: | | | | | |
| Basic | $ 2.55 | $ 2.29 | $ 2.37 | $ 2.87 | $ 3.38 |
| Diluted | $ 2.53 | $ 2.27 | $ 2.35 | $ 2.85 | $ 3.37 |
| Cash distributions per unit to limited partners:[7] | | | | | |
| Paid | $ 1.99 | $ 2.32 | $ 2.56 | $ 3.03 | $ 3.33 |
| Declared | $ 2.05 | $ 2.40 | $ 2.65 | $ 3.13 | $ 3.38 |
| ***Cash Flow Data:*** | | | | | |
| Net cash provided by operating activities | $ 97,212 | $ 106,622 | $ 90,835 | $ 141,480 | $ 207,499 |
| Net cash used in investing activities | $ (39,008) | $ (95,583) | $ (180,654) | $ (241,220) | $ (119,351) |
| Net cash provided by/(used in) financing activities | $ (41,963) | $ (8,460) | $ 58,804 | $ 87,507 | $ (95,560) |
| Capital expenditures: | | | | | |
| Maintenance | $ 30,850 | $ 30,829 | $ 31,194 | $ 29,872 | $ 24,946 |
| Expansion | 10,226(1) | 64,754(2) | 149,460(3) | 209,135(4) | 94,666(5) |
| Total capital expenditures | $ 41,076 | $ 95,583 | $ 180,654 | $ 239,007 | $ 119,612 |
| EBITDA[8] | $ 106,631 | $ 109,288 | $ 117,146 | $ 154,843 | $ 193,496 |
| Distributable Cash Flow[8] | $ 61,055 | $ 65,182 | $ 72,378 | $ 102,844 | $ 134,467 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003[1] | 2004[2] | 2005[3] | 2006[4] | 2007[5] |
| | (in thousands, except per unit and operating data) | | | | |
| ***Balance Sheet Data (at period end):*** | | | | | |
| Net properties, plants and equipment | $ 583,164 | $ 647,200 | $ 814,836 | $ 1,006,668 | $ 1,089,262 |
| Total assets | $ 1,181,006 | $ 1,368,786 | $ 1,680,685 | $ 2,082,077 | $ 2,504,642 |
| Total debt | $ 313,136 | $ 313,305 | $ 355,573 | $ 491,910 | $ 515,104 |
| Total Partners Capital | $ 403,758 | $ 460,594 | $ 523,411 | $ 582,911 | $ 591,045 |
| ***Operating Data (bpd):*** | | | | | |
| Eastern Pipeline System total shipments (in thousands of barrel miles per day)[9] | 55,324 | 59,173 | 56,907 | 61,764 | 65,737 |
| Terminal Facilities throughput (bpd) | 1,204,394 | 1,464,254 | 1,549,427 | 1,541,470 | 1,636,977 |
| Western Pipeline System throughput[9] (bpd) | 304,471 | 298,797 | 356,129 | 526,014 | 527,491 |
| Crude oil purchases at wellhead (bpd) | 193,176 | 186,827 | 186,224 | 191,644 | 177,981 |

(1) On September 30, 2003, the Partnership acquired an additional 3.1 percent ownership interest in West Shore for approximately $3.7 million. The purchase price for this acquisition is included within the 2003 expansion capital expenditures.

(2) During the year ended December 31, 2004, the Partnership completed the following acquisitions: the Eagle Point logistics assets were purchased for approximately $20.0 million on March 30, 2004; two refined product terminals located in Baltimore, Maryland and Manassas, Virginia were purchased for $12.0 million on April 28, 2004; an additional 33.3 percent undivided interest in the Harbor pipeline was acquired on June 28, 2004 for approximately $7.3 million; and a refined product terminal located in Columbus, Ohio was purchased for approximately $8.0 million on November 30, 2004. The aggregate purchase price for these acquisitions is included within the 2004 expansion capital expenditures.

(3) Expansion capital expenditures in 2005 includes approximately $100.0 million related to the August 1, 2005 acquisition of the Corsicana to Wichita Falls, Texas crude oil pipeline system and storage facilities, and approximately $5.5 million related to the December 2005 acquisition of an undivided joint interest in the Mesa Pipe Line. The total purchase price of the Mesa interest was approximately $6.6 million, however since a portion of the interest was acquired from a related party, it was recorded by the Partnership at Sunoco s historical cost 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.

(4) Expansion capital expenditures in 2006 includes approximately $40.9 million related to the March 1, 2006 acquisition of the Millennium and Kilgore crude oil pipeline system, approximately $68.0 million related to the March 1, 2006 acquisition of the Amdel and White Oil crude oil pipeline system and approximately $12.5 million related to the August 18, 2006 acquisition of a 55.3 percent equity interest in Mid-Valley Pipeline Company. The total purchase price of Mid-Valley was approximately $65.0 million, however since a portion of the interest was acquired from a related party, it was recorded by the Partnership at Sunoco s historical cost 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.

(5) Expansion capital expenditures in 2007 include approximately $13.4 million related to the June 1, 2007 acquisition of the Syracuse Terminal.

(6) Includes equity income from the investments in the following joint ventures: Explorer Pipeline Company, Wolverine Pipe Line Company, West Shore Pipe Line Company, Yellowstone Pipe Line Company, West Texas Gulf Pipe Line Company, and Mid-Valley Pipeline Company. Equity income from these investments has been included based on the Partnership s respective ownership percentages of each, and from the dates of acquisition forward.

(7) Cash distributions paid per unit to limited partners represent payments made per unit during the period stated. Cash distributions declared per unit to limited partners represent distributions declared per unit for

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the quarters within the period stated. Declared distributions were paid within 45 days following the close of each quarter.

(8) EBITDA and distributable cash flow provides additional information for evaluating the Partnership s ability to make distributions to its unitholders and the general partner. The following table reconciles the difference between net income, as determined under United States generally accepted accounting principles, and EBITDA and distributable cash flow (in thousands):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Net income | $ 59,434 | $ 57,031 | $ 61,709 | $ 90,341 | $ 120,875 |
| Interest paid to affiliates | 15 | 439 | 468 | 1,411 | 2,287 |
| Capitalized interest | (493) | | (480) | (3,005) | (3,419) |
| Interest expense | 20,981 | 20,476 | 21,999 | 30,392 | 36,723 |
| Interest income | (463) | (591) | (388) | (945) | (311) |
| Depreciation and amortization | 27,157 | 31,933 | 33,838 | 36,649 | 37,341 |
| EBITDA | 106,631 | 109,288 | 117,146 | 154,843 | 193,496 |
| Interest expense, net | (20,040) | (20,324) | (21,599) | (27,853) | (35,280) |
| Maintenance capital expenditures | (30,850) | (30,829) | (31,194) | (29,872) | (24,946) |
| Sunoco reimbursements | 5,314 | 7,047 | 8,025 | 5,726 | 1,197 |
| Distributable cash flow | $ 61,055 | $ 65,182 | $ 72,378 | $ 102,844 | $ 134,467 |

Management of the Partnership believes EBITDA and distributable cash flow information enhances an investor s understanding of a business s ability to generate cash for payment of distributions and other purposes. In addition, EBITDA is also used as a measure in determining the Partnership s compliance with certain revolving credit facility covenants. However, there may be contractual, legal, economic or other reasons which may prevent the Partnership from satisfying principal and interest obligations with respect to indebtedness and may require the Partnership to allocate funds for other purposes. EBITDA and distributable cash flow do not represent and should not be considered alternatives to net income or cash flows from operating activities as determined under United States generally accepted accounting principles and may not be comparable to other similarly titled measures of other businesses.

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

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

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

### Overview

The Partnership is a Delaware limited partnership formed on October 15, 2001 to acquire, own, and operate, a geographically diverse portfolio of complementary pipeline, terminalling, and crude oil acquisition and marketing assets.

The Partnership is engaged in the transport, terminalling, and storage of refined products and crude oil and in the purchase and sale of crude oil in 12 states located in the Northeast, Midwest and Southwest United States. Revenues are generated by charging tariffs for transporting refined products, crude oil and other hydrocarbons through the Partnership s pipelines as well as by charging fees for storing refined products, crude oil and other hydrocarbons in, and for providing other services at, its terminals. Revenues are also generated by purchasing domestic crude oil and

selling it to Sunoco and other customers. Generally, as the Partnership purchases crude oil it simultaneously enters into corresponding sale transactions involving physical deliveries of crude oil, which enables it to secure a profit on the transaction at the time of purchase.

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**Strategic Actions**

The Partnership s primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput, pursue strategic and accretive acquisitions that complement the Partnership s existing asset base, improve operating efficiencies, and increase its cash distributions to unitholders. As part of its strategy, the Partnership has undertaken several strategic initiatives, including:

***2007 Acquisition***

*Syracuse Terminal Acquisition.* On June 1, 2007, the Partnership purchased a 50 percent undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation for approximately $13.4 million. Total terminal storage capacity is approximately 550,000 barrels.

***2006 Acquisitions***

*Mid-Valley Pipeline Acquisition.* On August 18, 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 (50 percent voting interest) in Mid-Valley Pipeline Company ( Mid-Valley ) for $65 million, subject to certain adjustments five years following the date of closing, based on throughput 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 bpd 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.

*Millenium and Kilgore Pipeline Acquisition.* On March 1, 2006, the Partnership purchased a Texas crude oil pipeline system from affiliates of Black Hills Energy, Inc. for approximately $40.9 million. The system consists of (a) the Millennium Pipeline, a 200-mile, 12-inch crude oil pipeline with approximately 65,000 bpd 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 barrel per day capacity originating in Kilgore, Texas and terminating at refineries in the Houston, Texas region; (c) approximately 900,000 shell barrels of active storage capacity at Kilgore, and Longview, Texas, approximately 550,000 of which are inactive; (d) a crude oil sales and marketing business; and (e) crude oil line fill and working inventory.

*Amdel and White Oil Pipeline Acquisition.* On March 1, 2006, the Partnership 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 bpd 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 bpd operating capacity, originating at the Amdel Pipeline and terminating at Alon s Big Spring, Texas refinery. The pipelines were idle at the time of purchase, were re-commissioned by the Partnership during the second quarter 2006 and began making deliveries during the fourth quarter 2006. During the first quarter of 2007, the Partnership completed a project to expand the capacity on the Amdel Pipeline from approximately 27,000 to 40,000 bpd. Construction on new tankage at the Nederland Terminal to service these new volumes more efficiently is expected to be completed during 2008.

***2005 Acquisitions***

*Mesa Pipe Line System Acquisition.* On December 5, 2005, the Partnership purchased a subsidiary of Sunoco which owned a 7.2 percent undivided interest in the Mesa Pipe Line system for approximately $1.3 million. The Mesa Pipe Line system consists of an 80-mile, 24-inch crude oil pipeline from Midland, Texas to Colorado City, Texas, with an operating capacity of 316,000 bpd, and approximately 800,000 shell 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 approximately $5.3 million, increasing its combined interest to 37.0 percent.

*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 approximately $100.0 million. The pipeline system consists primarily of a 187-mile, 16-inch pipeline with an operating capacity of 125,000 bpd. 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 shell barrels of 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 to construct a new 20-mile pipeline to connect the Corsicana to Wichita Falls pipeline to the West Texas Gulf pipeline, in which the Partnership has a 43.8 percent ownership interest.

***Growth Capital Program***

In December 2006, the Partnership announced that it had executed an agreement with Motiva Enterprices LLC to construct three additional crude oil storage tanks, with a combined capacity of 2.0 million shell barrels of capacity, and a 12-mile 30 crude oil pipeline from the Nederland Terminal to Motiva s Port Arthur, Texas refinery. Construction of these assets is expected to be completed on or before January 2010 and cost in excess of $90 million. During 2008, the Partnership expects to spend approximately $100 million on expansion capital expenditures related to organic growth, which includes the Motiva project.

***Conservative Capital Structure***

The Partnership s goal is to maintain a conservative capital structure and substantial liquidity. On August 8, 2007, Sunoco Logistics Partners Operations L.P. (the Operating Partnership ), a wholly-owned entity of the Partnership, entered into a new, five-year $400 million credit facility ( Credit Facility ). This Credit Facility replaced the Operating Partnership s previous credit facility agreement that was scheduled to mature on November 22, 2010. (See Liquidity and Capital Resources for further information.). In May 2006, the Operating Partnership issued $175 million of 6.125 percent Senior Notes, due May 15, 2016, the 2016 Senior Notes , 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 Partnership also completed a series of equity issuances during 2005 and 2006, through which it issued an aggregate of 7.1 million limited partner units, generating $269.9 million of net proceeds. Proceeds from these equity issues were used to redeem 2.8 million limited partner units owned by Sunoco, repay a portion of the debt incurred to fund its acquisitions and fund the Partnership s organic growth program.

***Cash Distribution Increases***

As a result of the above initiatives, the general partner was able to increase or maintain equal the cash distributions to limited partners in all quarters during each of the three years ended December 31, 2007. During the three year period ended December 31, 2007, the distribution increased to $0.87 per common unit, ($3.48 annualized), from $0.63 per common unit paid in February 2005. The distribution for the fourth quarter of 2007 will be paid in February 2008. This increase represents a 7 percent increase over the fourth quarter 2006 distribution.

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**Results of Operations**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 (in thousands) | 2007 |
| **Statements of Income** | | | |
| Sales and other operating revenue: | | | |
| Affiliates | $ 1,986,019 | $ 1,842,634 | $ 1,682,042 |
| Unaffiliated customers | 2,496,593 | 3,994,601 | 5,695,413 |
| Other income | 14,295 | 17,315 | 28,381 |
| Total revenues | 4,496,907 | 5,854,550 | 7,405,836 |
| Cost of products sold and operating expenses | 4,326,713 | 5,644,021 | 7,156,142 |
| Depreciation and amortization | 33,838 | 36,649 | 37,341 |
| Selling, general and administrative expenses | 53,048 | 55,686 | 56,198 |
| Total costs and expenses | 4,413,599 | 5,736,356 | 7,249,681 |
| Operating income | 83,308 | 118,194 | 156,155 |
| Net interest expense | 21,599 | 27,853 | 35,280 |
| Net income | $ 61,709 | $ 90,341 | $ 120,875 |
| **Segment Operating Income:** | | | |
| **Eastern Pipeline System** | | | |
| Sales and other operating revenue: | | | |
| Affiliate | $ 75,570 | $ 77,228 | $ 81,866 |
| Unaffiliated customers | 21,096 | 28,408 | 35,475 |
| Other income | 11,773 | 11,201 | 13,932 |
| Total revenues | 108,439 | 116,837 | 131,273 |
| Operating expenses | 47,046 | 45,516 | 52,298 |
| Depreciation and amortization | 10,509 | 9,550 | 9,165 |
| Selling, general and administrative expenses | 18,560 | 17,532 | 20,404 |
| Total costs and expenses | 76,115 | 72,598 | 81,867 |
| Operating income | $ 32,324 | $ 44,239 | $ 49,406 |
| **Terminal Facilities** | | | |
| Sales and other operating revenue: | | | |
| Affiliates | $ 78,885 | $ 82,607 | $ 92,156 |
| Unaffiliated customers | 34,880 | 40,635 | 49,466 |
| Other income | 79 | 37 | (39) |
| Total revenues | 113,844 | 123,279 | 141,583 |
| Cost of products sold and operating expenses | 48,571 | 53,427 | 57,528 |
| Depreciation and amortization | 15,054 | 15,364 | 15,338 |
| Selling, general and administrative expenses | 14,429 | 15,348 | 16,049 |

| | | | |
|---|---|---|---|
| Total costs and expenses | 78,054 | 84,139 | 88,915 |
| Operating income | $ 35,790 | $ 39,140 | $ 52,668 |
| **Western Pipeline System** | | | |
| Sales and other operating revenue: | | | |
| Affiliates | $ 1,831,564 | $ 1,682,799 | $ 1,508,020 |
| Unaffiliated customers | 2,440,617 | 3,925,558 | 5,610,472 |
| Other income | 2,443 | 6,077 | 14,488 |
| Total revenues | 4,274,624 | 5,614,434 | 7,132,980 |
| Cost of products sold and operating expenses | 4,231,096 | 5,545,078 | 7,046,316 |
| Depreciation and amortization | 8,275 | 11,735 | 12,838 |
| Selling, general and administrative expenses | 20,059 | 22,806 | 19,745 |
| Total costs and expenses | 4,259,430 | 5,579,619 | 7,078,899 |
| Operating income | $ 15,194 | $ 34,815 | $ 54,081 |

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**Operating Highlights**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| **Eastern Pipeline System[1]:** | | | |
| Total shipments (barrel miles per day)[2] | 56,906,896 | 61,763,923 | 65,736,878 |
| Revenue per barrel mile (cents) | 0.469 | 0.469 | 0.489 |
| **Terminal Facilities:** | | | |
| Terminal throughput (bpd): | | | |
| Refined product terminals[3] | 389,523 | 391,718 | 433,797 |
| Nederland Terminal | 457,655 | 461,943 | 507,312 |
| Fort Mifflin Terminal Complex | 327,156 | 319,795 | 310,948 |
| Marcus Hook Tank Farm | 149,934 | 151,093 | 146,112 |
| Eagle Point Dock. | 225,159 | 216,921 | 238,808 |
| **Western Pipeline System[1][4]:** | | | |
| Crude oil pipeline throughput (bpd) | 356,129 | 526,014 | 527,491 |
| Crude oil purchases at wellhead (bpd) | 186,224 | 191,644 | 177,981 |
| Gross margin per barrel of pipeline throughput (cents)[5] | 25.7 | 26.8 | 30.8 |

(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) Includes results from the Partnership s purchase of a 50 percent undivided interest in a refined products terminal in Syracuse, New York from the acquisition date.

(4) Includes results from the Partnership s purchases of an undivided interest in the Mesa Pipe Line system, the Corsicana to Wichita Falls, Texas pipeline system, the Millennium and Kilgore pipeline system and the Amdel pipeline system from 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 $61.7 million, $90.3 million and $120.9 million for the years ended December 31, 2005, 2006 and 2007 respectively.

The $30.6 million increase in net income from 2006 to 2007 was primarily the result of strong operating performance in our Terminal Facilities and Western Pipeline segments, the August 2006 acquisition of an equity interest in the Mid-Valley Pipeline Company, and the March 2006 acquisitions of the Kilgore and Millennium pipelines. Partially offsetting the increase in operating income was higher interest expense related to the Partnership s organic growth program, and 2006 and 2007 acquisitions.

The $28.6 million increase in net income from 2005 to 2006 was primarily the result of the operating results from the acquisitions completed in 2005 and 2006 in the Western Pipeline System, an increase in total shipments in the Eastern Pipeline System, increased revenues at the Partnership s refined product terminals associated with ethanol blending, higher lease acquisition results and the absence of non-recurring costs related to Hurricane Rita, described below. These increases in net income were partially offset by higher interest expense related to financing the acquisitions completed in 2006 and the Partnership s internal expansion capital program.

On September 24, 2005, Hurricane Rita damaged the Partnership s Nederland Terminal facility and a portion of the Western Pipeline System, impacting several storage tanks, dock facilities, buildings and equipment. Although the Nederland Terminal resumed operations on October 3, 2005, the business was impacted for a few weeks as a result of interruptions in customer and supplier business activities related to the Hurricane.

The costs attributed to the Hurricane totaled approximately $7.5 million, of which we have recovered $4.4 million from the insurance carrier as of December 31, 2007. The Partnership does not expect to incur any material additional costs in 2008 to repair its damaged facilities, and expects to negotiate a final settlement with its insurance carrier for reimbursement of the remaining unreimbursed costs during 2008.

Net interest expense was $35.3 million for the year ended December 31, 2007, a $7.4 million increase from the prior year primarily due to increased borrowings related to financing the Partnership s organic growth program, the previously mentioned 2007 acquisition and higher inventory levels during the first half of the year.

Net interest expense was $27.9 million for the year ended December 31, 2006, a $6.3 million increase from the prior year. Interest expense increased due to increased borrowings and higher interest rates, partially offset by an increase of $2.5 million in capitalized interest. The increased borrowings were used to partially fund the previously mentioned 2006 acquisitions, as well as to fund organic growth projects.

***Analysis of Segment Operating Income***

***Year Ended December 31, 2007 versus Year Ended December 31, 2006***

*Eastern Pipeline System*

Operating income for the Eastern Pipeline System increased $5.2 million to $49.4 million for the year ended December 31, 2007 compared to $44.2 million for the prior year. Sales and other operating revenue increased by $11.7 million to $117.3 million due to increased shipments on the expanded Marysville crude oil line, and in the aggregate, higher volumes and fees across our refined products pipelines. A $2.7 million increase in other income was related to an increase in equity income associated with the Partnership s joint venture interests. Operating expenses increased by $6.8 million due to higher maintenance activity, additional utility expense related to higher throughput, and environmental charges due to third party contractor pipeline damage, partially offset by an increase in product operating gains. A $2.9 million increase in selling, general and administrative expenses was largely associated with a decrease in capitalized engineering costs and higher employee costs.

*Terminal Facilities*

Operating income for the Terminal Facilities segment increased by $13.6 million to $52.7 million for the year ended December 31, 2007 compared to $39.1 million for the prior year. Total revenue increased $18.3 million to $141.6 million due primarily to increased throughput at the Partnership s Nederland crude oil terminal and refined product terminals as well as higher refined product additive fees. Cost of products sold and operating expenses increased $4.1 million for the year ended December 31, 2007 to $57.5 million primarily due to increased maintenance activity and costs associated with the purchase of product additives. The increase in selling, general and administrative expense of $0.7 million was largely due to higher employee costs and was partially offset by an insurance recovery related to the 2005 hurricane loss.

*Western Pipeline System*

Operating income for the Western Pipeline System increased $19.3 million to $54.1 million for the year ended December 31, 2007 compared to $34.8 million for the prior year. The increase resulted from improved asset utilization and higher crude oil pipeline volume from the 2006 acquisitions previously mentioned. Total revenue and cost of products sold and operating expenses increased compared with the year ended December 31, 2006 due principally to higher crude prices and an increase in bulk purchase and sale activity. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma increased to $72.40 per barrel for the year ended December 31, 2007 from $66.25 per barrel for the year ended December 31, 2006. Operating expenses were higher as a result of increased costs associated with operating the assets acquired in 2006. Selling, general and administrative expenses decreased $3.1 million from 2006 due primarily to the Western Area office relocation which was completed during the first quarter of 2006 and an increase in capitalized engineering costs associated with the Partnership s organic growth program. Depreciation and amortization expense increased $1.1 million during the year ended December 31, 2007 to $12.8 million as a result of 2006 acquisitions.

***Year Ended December 31, 2006 versus Year Ended December 31, 2005***

*Eastern Pipeline System*

Operating income for the Eastern Pipeline System was $44.2 million for the year ended December 31, 2006 compared with $32.3 million for the prior year. The $11.9 million increase was the result of an $8.4 million increase in total revenues and a $1.5 million decrease in operating expenses. Sales and other operating revenue increased from $96.7 million from the prior year to $105.6 million for the year ended December 31, 2006 mainly due to an increase in total shipments resulting from 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. Resumption of production at these crude oil plants, along with higher demand due to the expansion of a Detroit refinery served by the Marysville pipeline, resulted in an increase in shipments. Other income decreased to $11.2 million for the year ended December 31, 2006 from $11.8 million for the prior year period due primarily to a decrease in joint venture equity income. Operating expenses decreased from $47.0 million in the prior year to $45.5 million for the year ended December 31, 2006 due mainly to product operating gains, partially offset by increased utility, employee and operating costs associated with increased volumes. Selling, general and administrative expenses decreased $1.0 million for the year ended December 31, 2006 when compared to the prior year due primarily to increased capitalization of certain engineering-employee costs associated with the Partnership s organic growth capital projects. Depreciation and amortization expense decreased $1.0 million for the full year 2006 as certain assets reached the end of their depreciation life during the third quarter 2006.

*Terminal Facilities*

The Terminal Facilities business segment experienced an increase in operating income to $39.1 million for the year ended December 31, 2006 compared with $35.8 million for the prior year. Total revenues increased $9.4 million from the prior year to $123.3 million for the year ended December 31, 2006 due primarily to increased revenues associated with the addition of ethanol blending at the balance of the Partnership s refined product terminals starting in May 2006, an increase in revenues at the Partnership s Nederland Terminal and the addition of product additive revenues at the Partnership s refined product terminals. Operating expenses increased $4.9 million from the prior year to $53.4 million for the year ended December 31, 2006 due to higher maintenance activity, increased employee costs and additional refined product additive costs.

*Western Pipeline System*

Operating income for the Western Pipeline System was $34.8 million for the year ended December 31, 2006 compared with $15.2 million for the prior year. The increase was primarily the result of higher crude oil pipeline volumes resulting from the 2005 and 2006 crude oil pipeline acquisitions, an increase in other income of $3.6 million primarily attributable to equity income from the acquisition of a 55.3 percent interest in the Mid-Valley Pipeline Company in August 2006 and higher lease acquisition results. Total revenues and cost of products sold and operating expenses increased for the full year 2006 compared with the prior year 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 $66.25 per barrel for the full year 2006 from $56.61 per barrel for the full year 2005. Selling, general and administrative expenses increased $2.7 million due principally to costs related to the Western area office 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. Depreciation and amortization increased by $3.5 million due principally to the 2005 and 2006 acquisitions discussed earlier.

**Liquidity and Capital Resources**

*Liquidity*

Cash generated from operations and borrowings under the credit facilities are the Partnership s primary sources of liquidity. At December 31, 2007, the Partnership had a net working capital deficit of $65.2 million and available borrowing capacity under its $400 million Credit Facility (the Credit Facility ) of $309.0 million. The

Partnership s working capital position also reflects crude oil inventories 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 $100.0 million at December 31, 2007.

***Capital Resources***

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

Credit Facility

On August 8, 2007, Sunoco Logistics Partners Operations L.P. (the Operating Partnership ), a wholly-owned entity of the Partnership, entered into a new, five-year $400 million Credit Facility. This Credit Facility replaced the Operating Partnership s previous credit facility agreement that was scheduled to mature on November 22, 2010. The Credit Facility is available to fund the Operating Partnership s working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The Credit Facility matures in November 2012. At December 31, 2006, there was $68.0 million outstanding under the previous credit facility. In June, 2007, the Partnership drew an additional $13.4 million against the previous credit facility to fund the acquisition of a 50 percent undivided interest in a refined products terminal in Syracuse, New York. The remaining net borrowings were used to fund the Partnership s organic growth program and investments in inventory for lease acquisition business. The amount outstanding under the Credit Facility at December 31, 2007 totaled $91.0 million.

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

The Credit Facility contains various covenants limiting the Operating Partnership s ability to a) incur indebtedness, b) grant certain liens, c) make certain loans, acquisitions and investments, d) make any material change to the nature of its business, e) acquire another company, f) 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 requires 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. The Operating Partnership is in compliance with this requirement as of December 31, 2007. The Partnership s ratio of total debt to EBITDA was 2.7 to 1 at December 31, 2007.

Letters of Credit

In November 2007, the Partnership entered into two standby letters of credit totaling $130.4 million. The letters of credit, which are effective January 1, 2008, are required in connection with certain crude oil exchange contracts in which the Partnership is a party. The letters of credit are subject to commitment fees, which are not material.

Senior Notes

In May 2006, the Operating Partnership issued the $175 million of 6.125 percent Senior Notes, due May 16, 2016 ( 2016 Senior Notes ). The 2016 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2016 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 December 31, 2007. The net proceeds from the 2016 Senior Notes, together with the $110.3 million in net proceeds from the concurrent offering of approximately 2.7 million limited partner common units, described

below, 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 were used to fund the Partnership s organic growth program and for general Partnership purposes, including to finance future acquisitions.

The Partnership and the operating partnerships of the Operating Partnership served as joint and several guarantors of the Senior Notes and of any obligations under the previous credit facility. The Partnership continues to serve as guarantor of the Senior Notes and of any obligations under the new Credit Facility. These guarantees are full and unconditional. In connection with the Partnership s new Credit Facility the Subsidiary Guarantors (as defined in Note 18 to the financial statements included in Item 8) were released from their obligations both under the Credit Facility, and the 7.25 percent and 6.125 percent Senior Notes.

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 purchase price for the over allotment was equal to the offering price in 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, together with the $173.3 million in net proceeds from the concurrent offering of the 2016 Senior Notes, described above, 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.

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 1, 2005 purchase of a 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.

***Cash Flows and Capital Expenditures***

Net cash provided by operating activities for the years ended December 31, 2005, 2006 and 2007 was $90.8 million, $141.5 million and $207.5 million, respectively. Net cash provided by operating activities for 2007 was primarily the result of net income of $120.9 million and depreciation and amortization of $37.3 million, and an increase in the working capital deficit of $40.2 million. Net cash provided by operating activities for 2006 consists primarily of net income of $90.3 million, depreciation and amortization of $36.6 million, and an increase in the working capital deficit of $11.5 million. Net cash provided by operating activities for 2005 consists primarily of net income of $61.7 million, depreciation and amortization of $33.8 million, offset by an increase in working capital of $6.2 million. The increase in net cash provided by operating activities from 2006 to 2007 was primarily attributable to an increase in net income and a decrease in inventory associated with the

reduction of contango inventory positions. The increase in net cash provided by operating activities from 2005 to 2006 was primarily attributable to an increase in net income of approximately $28.6 million during 2006.

Net cash used in investing activities for the years ended December 31, 2005, 2006 and 2007 was $180.7 million, $241.2 million, and $119.4 million respectively. The decrease in cash used in investing activities from 2006 to 2007 is due primarily to the 2006 acquisitions. The increase in cash used in investing activities from 2005 to 2006 is due to acquisitions and organic growth projects. Capital expenditures (excluding acquisitions) were $73.3 million in 2005, $119.8 million in 2006 and $105.9 million in 2007 (see Capital Requirements below).

Cash used for acquisitions was $107.3 million in 2005, $121.4 million in 2006 and $13.5 million in 2007. Acquisitions completed in 2007 include a 50 percent undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation for approximately $13.4 million. Acquisitions completed in 2006 include the Amdel and White Oil pipeline for approximately $68.0 million, the Millennium and Kilgore pipeline system, storage facilities, sales and marketing business and crude oil inventory for approximately $40.9 million and a 55.3 percent equity interest (50 percent voting rights) in Mid-Valley Pipeline Company for approximately $65.0 million. 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. Acquisitions completed in 2005 include the Corsicana to Wichita Falls, Texas crude oil pipeline system and storage facilities for approximately $100.0 million and a 37.0 percent undivided interest in the Mesa Pipe Line system for approximately $6.6 million.

Net cash provided by / (used in) financing activities for the years ended December 31, 2005, 2006 and 2007 was, $58.8 million, $87.5 million and $(95.6) million respectively.

For the year ended December 31, 2007, the $95.6 million of cash used in financing activities was primarily the result of $117.5 million in distributions paid to limited partners and the general partner. This use of funds was partially offset by a $23.0 million increase in net borrowings under the Partnership s credit facilities related to funding the Partnership s expansion capital.

For the year ended December 31, 2006, the Partnership received $173.3 million of net proceeds from the issuance of the 2016 Senior Notes and net proceeds of $110.4 million from the concurrent public offerings completed in May 2006 and net borrowings of $38.6 million drawn against the Credit Facility to fund the acquisitions of two Texas crude oil pipelines and the 55.3 percent interest in the Mid-Valley pipeline. The $173.3 million net proceeds from the 2016 Senior Notes, together with the $110.4 million in net proceeds from the concurrent public offering were used to repay all of the $216.1 million in outstanding borrowings under the Partnership s Credit Facility. Additionally, the Partnership received $5.7 million of capital contributions for reimbursement of certain maintenance capital expenditures and operating expenses under agreements with Sunoco. The net proceeds from these sources were partially offset by $98.0 million in distributions paid to limited partners and the general partner, $47.4 million in capital distributions to Sunoco due primarily to the acquisition of a 55.3 percent interest (50 percent voting rights) in the Mid-Valley Pipeline Company and net advances to affiliates of $13.2 million.

For the year ended December 31, 2005, the Partnership received $60.4 million of net proceeds from the public offering completed in September 2005, net borrowings of $42.1 million drawn against the Credit Facility to fund the acquisitions of an undivided interest in the Mesa Pipe Line system and a portion of the Corsicana to Wichita Falls, Texas crude oil pipeline system and storage facilities, and the related pipeline construction. Additionally, the Partnership received $8.0 million of capital contributions for reimbursement of certain maintenance capital expenditures and operating expenses under agreements with Sunoco, and $18.1 million as a result of a reduction in advances to affiliates. The net proceeds from these sources were partially offset by $67.3 million in distributions paid to limited partners and the general partner in 2005.

Under a treasury services agreement with Sunoco, the Partnership participates in Sunoco s centralized cash management program. Advances to affiliates in the Partnership s balance sheets at December 31, 2007 and 2006 represent amounts due from Sunoco under this agreement.

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***Capital Requirements***

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

- Maintenance capital expenditures, such as those required to maintain equipment reliability, tankage and pipeline integrity and safety, to address environmental regulations and to improve operating efficiencies and,
- Expansion capital expenditures to acquire complementary 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 amounts paid for acquisitions, for the years presented (roll-forward table):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | (in thousands of dollars) | | |
| Maintenance | $ 31,194 | $ 29,872 | $ 24,946 |
| Expansion | 149,460(1) | 209,135(2) | 94,666(3) |
| Total | $ 180,654 | $ 239,007 | $ 119,612 |

(1) Includes $100.0 million related to the acquisition of the Corsicana to Wichita Falls, Texas crude oil pipeline system and storage facilities and $5.5 million for the undivided interest in the Mesa Pipe Line system. The total purchase price of the Mesa interest was $6.6 million, however since a portion of the interest was acquired from a related party, it was recorded by the Partnership at Sunoco s historical cost 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.

(2) Includes $40.9 million related to the acquisition of the Millennium and Kilgore crude oil pipeline system, $68.0 million related to the acquisition of the Amdel and White Oil crude oil pipeline system and $12.5 million related to the acquisition of a 55.3 percent equity interest in Mid-Valley Pipeline Company.

(3) Includes $13.4 million related to the acquisition of a 50 percent undivided interest in a refined products terminal located in Syracuse, New York.

Maintenance capital expenditures primarily consist of recurring expenditures at each of the business segments such as pipeline integrity costs, pipeline relocations, repair and upgrade of field instrumentation, including measurement devices, repair and replacement of tank floors and roofs, upgrades of cathodic protection systems, crude trucks and related equipment, and the upgrade of pump stations. In addition to these recurring projects, maintenance capital includes certain expenditures for which the Partnership received reimbursement from Sunoco under the terms of agreements between the parties (see Agreements with Sunoco ). Maintenance capital for the years ended December 31, 2005 and 2006 include $2.7 million and $2.8 million, respectively, related to the Western Area office move that was completed in the first quarter of 2006. As of December 31, 2006, the Partnership had received the maximum aggregate reimbursements defined within the Omnibus Agreement with Sunoco. Management expects maintenance capital expenditures to be approximately $26.0 million in 2008, excluding reimbursements from Sunoco in accordance with the terms of certain agreements.

Expansion capital expenditures decreased by $114.4 million to $94.7 million for the year ended December 31, 2007. Expansion capital for 2006 included the acquisition of the Millennium and Kilgore pipelines, the Amdel pipeline and the equity interest in the Mid-Valley Pipeline Company for approximately $121.4 million. Expansion capital for 2007 includes the construction in progress in connection with the Partnership s agreement with Motiva Enterprises LLC of three crude oil storage tanks at its Nederland Terminal and a crude oil pipeline from Nederland to Motiva s Port Arthur, Texas refinery. Expansion capital also includes

the construction of seven additional new crude oil storage tanks at Nederland, four of which were placed into service in 2007. These seven crude oil storage tanks will have a total capacity of approximately 4.2 million shell barrels. Also impacting expansion capital were additional pipeline connections in the Western Pipeline System and the second quarter of 2007 acquisition of a 50 percent interest in the Syracuse, New York refined products terminal.

Management expects to invest approximately $100.0 million in expansion capital projects in 2008, which includes the construction of new tankage and pipeline connections associated with the previously discussed agreement with Motiva Enterprises LLC, and the continued construction of tankage at the Nederland.

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

***Contractual Obligations***

The following table sets forth the aggregate amount of long-term debt maturities (including interest commitments based upon the interest rate in effect at December 31, 2007), annual rentals applicable to noncancelable operating leases, and purchase commitments related to future periods at December 31, 2007 (in thousands of dollars):

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** | **2012** | **Thereafter** | **Total** |
| Long-term debt: | | | | | | | |
| Principal | $ | $ | $ | $ | $ 341,000 | $ 175,000 | $ 516,000 |
| Interest | 33,897 | 33,897 | 33,897 | 33,897 | 17,485 | 36,176 | 189,249 |
| Operating leases | 3,414 | 3,124 | 2,747 | 2,334 | 2,209 | 4,195 | 18,023 |
| Purchase obligations | 2,768,881 | | | | | | 2,768,881 |
| | $ 2,806,192 | $ 37,021 | $ 36,644 | $ 36,231 | $ 360,694 | $ 215,371 | $ 3,492,153 |

The Partnership s operating leases reported above include leases of office space, third-party pipeline capacity, and other property and equipment, with initial or remaining noncancelable terms in excess of one year. On September 6, 2005, the Partnership executed an agreement to lease office space in Sugar Land, Texas for a term of approximately ten years. The lease terminates in November 2016.

A purchase obligation is an enforceable and legally binding agreement to purchase goods and services that specifies significant terms, including: fixed or expected quantities to be purchased; market-related pricing provisions; and a specified term. The Partnership s purchase obligations consist of noncancelable contracts to purchase crude oil for terms of one year or less by its Crude Oil Acquisition and Marketing group. The majority of the above purchase obligations include actual crude oil purchases for the month of January 2008. The remaining crude oil purchase obligation amounts are based on the quantities committed to be purchased assuming adequate well production for the remainder of the year, at December 31, 2007 crude oil prices. Actual amounts to be paid in regards to these obligations will be based upon market prices or formula-based market prices during the period of purchase. For further discussion of the Partnership s Crude Oil and Marketing activities, see Item 1. Business Western Pipeline System Crude Oil Acquisition and Marketing .

**Environmental Matters**

Operation of the pipelines, terminals, and associated facilities are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or otherwise

relating to protection of the environment. As a result of compliance with these laws and regulations, liabilities have been accrued for estimated site restoration costs to be incurred in the future at the facilities and properties, including liabilities for environmental remediation obligations. Under the Partnership s accounting policies, liabilities are recorded when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. For a discussion of the accrued liabilities and charges against income related to these activities, see Note 10 to the financial statements included in Item 8. Financial Statements and Supplementary Data.

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

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

**Impact of Inflation**

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

**Critical Accounting Policies**

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

The critical accounting policies identified by management of the Partnership are as follows:

*Long-Lived Assets.* The cost of properties, plants and equipment, less estimated salvage value, is generally depreciated on a straight-line basis over the estimated useful lives of the assets. Useful lives are based on historical experience and are adjusted when changes in planned use, technological advances or other factors indicate that a different life would be more appropriate. Changes in useful lives that do not result in the impairment of an asset are recognized prospectively. During 2005, the Partnership accelerated the depreciation of assets related to equipment upgrade programs and the Western area office move from Tulsa, Oklahoma to Sugar Land, Texas, based upon the estimated remaining useful lives of these assets until their replacement. The acceleration resulted in $1.8 million and $0.5 million of additional depreciation expense recognized in 2005 and 2006, respectively.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. Such events and circumstances include, among other factors: operating losses; unused capacity; market value declines; technological developments resulting in obsolescence; changes in demand for products manufactured by others utilizing the Partnership s services or for the

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Partnership s products; changes in competition and competitive practices; uncertainties associated with the United States and world economies; changes in the expected level of environmental capital, operating or remediation expenditures; and changes in governmental regulations or actions. Additional factors impacting the economic viability of long-lived assets are discussed under Forward Looking Statements in this document.

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

There were no asset impairments for the years ended December 31, 2005, 2006 and 2007.

*Environmental Remediation.* The operation of the Partnership s pipelines, terminals and associated facilities are subject to numerous federal, state and local laws and regulations which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. As a result of compliance with these laws and regulations, site restoration costs have been and will be incurred in the future at the Partnership s facilities and properties, including liabilities for environmental remediation obligations.

At December 31, 2007, the Partnership s accrual for environmental remediation activities was $1.1 million. This accrual is for work at identified sites where an assessment has indicated that cleanup costs are probable and reasonably estimable. The accrual is undiscounted and is based on currently available information, estimated timing of remedial actions and related inflation assumptions, existing technology and presently enacted laws and regulations. It is often extremely difficult to develop reasonable estimates of future site remediation costs due to changing regulations, changing technologies and their associated costs, and changes in the economic environment. In the above instances, if a range of probable environmental cleanup costs exists for an identified site, FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss requires that the minimum of the range be accrued unless some other point or points in the range are more likely, in which case the most likely amount in the range is accrued. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent their occurrence is probable and reasonably estimable.

Management believes that none of the current remediation locations are material, individually or in the aggregate, to the Partnership s financial position at December 31, 2007. As a result, the Partnership s exposure to adverse developments with respect to any individual site is not expected to be material. However, if changes in environmental regulations occur, such changes could impact several of the Partnership s facilities. As a result, from time to time, significant charges against income for environmental remediation may occur.

Under the terms of the Omnibus Agreement and in connection with the contribution of assets to the Partnership by affiliates of Sunoco, Sunoco has agreed to indemnify the Partnership, in whole or in part, for 30 years from environmental and toxic tort liabilities related to the assets contributed that arise from the operation of such assets prior to closing of the February 2002 IPO. The Partnership has agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the assets that occur on or after the closing of the February 2002 IPO and for environmental and toxic tort liabilities to the extent Sunoco is not required to indemnify the Partnership. See Agreements with Sunoco for more information.

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

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

**New Accounting Pronouncements**

For a discussion of recently issued accounting pronouncements requiring adoption subsequent to December 31, 2007, see Note 1 to the consolidated financial statements.

**Agreements with Sunoco**

The Partnership has entered into several agreements with Sunoco, and their affiliates as discussed below.

*Pipelines and Terminals Storage and Throughput Agreement*

Under this 2002 agreement, Sunoco is paying the Partnership fees which are generally comparable to those charged by third parties to:

- transport on the refined product pipelines existing at the time of the agreement an amount of refined products that will produce at least $54.3 million of revenue in the contract year commencing March 1, 2007, and at least $55.2 million of revenue in the contract year commencing March 1, 2008. Sunoco will pay the published tariffs on the pipelines. Based upon the prorated minimum amount noted, Sunoco has exceeded the minimum revenue amount through December 31, 2007 and management of the Partnership expects Sunoco to exceed the minimum amount under the agreement for the contract year from March 1, 2007 through February 28, 2008;

- store 975,734 barrels of liquefied petroleum gas ( LPG ) per contract year at the Inkster Terminal, which represents all of the LPG storage capacity at this facility. This storage is an annual amount for the contract period from April 1 to March 31 for the seven-year term of the agreement ending March 31, 2009. For the calendar year ended December 31, 2007, the Partnership received a fee of $2.238 per barrel of committed storage, a fee of $0.224 per barrel for receipts greater than 975,734 barrels per contract year and a fee of $0.224 per barrel for deliveries greater than 975,734 barrels per contract year. These fees will escalate at the rate of 1.875 percent each January 1 for the term of the agreement. Based upon the prorated minimum storage amount noted, Sunoco has exceeded the minimum storage amount through December 31, 2007 and management of the Partnership expects Sunoco to exceed the minimum storage amount under the agreement for the contract year from April 1, 2007 through March 31, 2008;

- receive and deliver at least 290,000 bpd of crude oil or refined products per contract year at the Fort Mifflin Terminal Complex for seven years ending February 28, 2009. This throughput is an annual amount for the contract period from March 1 to February 28 for the term of the agreement. For the year ended December 31, 2007, the Partnership received a fee of $0.1767 per barrel for the first 180,000 bpd and $0.0884 per barrel for volume in excess of 180,000 bpd. These fees will escalate at the rate of 1.67 percent each January 1 for the term of the agreement. Based upon the prorated minimum throughput amount noted, Sunoco has exceeded the minimum throughput amount through December 31, 2007 and management of the Partnership expects Sunoco to exceed the minimum throughput amount under the agreement for the contract year from March 1, 2007 through February 28, 2008; and

transport or cause to be transported an aggregate of at least 140,000 bpd of crude oil per contract year on the Marysville to Toledo, Nederland to Longview, Cushing to Tulsa, Barnsdall to Tulsa, and Bad Creek to Tulsa crude oil pipelines at the published tariffs for a term of seven years ending February 28, 2009. This throughput is an annual amount for the contract period from March 1 to February 28 for the term of the agreement. Based upon the prorated minimum throughput amount noted, Sunoco has exceeded the minimum throughput amount through December 31, 2007 and management of the Partnership expects

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Sunoco to exceed the minimum throughput amount under the agreement for the contract year from March 1, 2007 through February 28, 2008.

If Sunoco fails to meet its minimum obligations pursuant to the contract terms set forth above, it will be required to pay in cash the amount of any shortfall, which may be applied as a credit in the following year after Sunoco s minimum obligations for that year are met.

Sunoco s obligations under this agreement may be permanently reduced or suspended if Sunoco (1) shuts down or reconfigures one of its refineries (other than planned maintenance turnarounds), or is prohibited from using MTBE in the gasoline it produces, and (2) reasonably believes in good faith that such event will jeopardize its ability to satisfy these obligations. Although Sunoco no longer uses MTBE, it has not requested any reductions in its obligations.

Sunoco actively manages its assets and operations, and, therefore, changes of some nature, possibly material to our business relationship, may occur at some point in the future.

There can be no assurance that Sunoco will renew the remaining obligations under the pipelines and terminals storage and throughput agreement, or that, if renewed, the rates will be at or above the current rates. If Sunoco does not extend or renew the remaining obligations under the pipelines and terminals storage and throughput agreement, the Partnership s financial condition and results of operations may be adversely affected. The Partnership s assets were constructed or purchased to service Sunoco s refining and marketing supply chain and are well-situated to suit Sunoco s needs. As a result, management of the Partnership would expect that even if this agreement is not renewed, Sunoco would continue to use the pipelines and terminals. However, there can be no assurance that Sunoco will continue to use the Partnership s facilities or that additional revenues can be generated from third parties.

Sunoco s obligations under this agreement do not terminate if Sunoco and its affiliates no longer own the general partner. This agreement may be assigned by Sunoco only with the consent of the Audit/Conflicts Committee of the general partner s board of directors.

*Omnibus Agreement*

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

Sunoco s obligation to reimburse the Partnership for specified operating expenses and capital expenditures or otherwise to complete certain tank maintenance and inspection projects;

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

Sunoco s and its affiliates agreement not to compete with the Partnership under certain circumstances;

the Partnership s agreement to undertake to develop and construct or acquire an asset if requested by Sunoco;

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

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

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

*Reimbursement of Expenses and Completion of Certain Projects by Sunoco.* The Omnibus Agreement requires Sunoco to:

- 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 ended December 31, 2006;

- complete, at its expense, certain tank maintenance and inspection projects at the Darby Creek Tank Farm; and

- reimburse the Partnership for up to $10.0 million of required expenditures at the Marcus Hook Tank Farm and the Darby Creek Tank Farm to maintain compliance with existing industry standards and regulatory requirements, including: cathodic protection upgrades at these facilities; raising tank farm pipelines above ground level at these facilities; and repairing or demolishing two riveted tanks at the Marcus Hook Tank Farm.

The Partnership reports outlays for these programs as operating expenses or capital expenditures, as appropriate, in the financial statements. Capital expenditures are depreciated over their useful lives. Reimbursements by Sunoco are reflected as capital contributions to Partners Capital within the Partnership s balance sheets.

For the years ended December 31, 2005 and 2006 the Partnership was reimbursed $7.0 million, and $3.3 million respectively, by Sunoco for maintenance capital expenditures and operating expenses incurred in excess of $8.0 million to comply with the DOT s pipeline integrity management rule. At December 31, 2006, the Partnership has received a cumulative reimbursement equal to the $15.0 million maximum aggregate reimbursement over the five-year period for compliance expenditures related to the DOT s pipeline integrity management rule. As a result, the Partnership does not expect to be reimbursed by Sunoco going forward for expenditures related to integrity management.

For the years ended December 31, 2005 and 2006 the Partnership was reimbursed by Sunoco for expenditures at the Marcus Hook Tank Farm and the Darby Creek Tank Farm to maintain compliance with existing industry standards and regulatory requirements. These expenditures, which were recorded as maintenance capital and operating expenses, were $0.9 million and $0.1 million for 2005 and 2006, respectively. At December 31, 2006, the Partnership had received a cumulative reimbursement equal to the $10.0 million maximum reimbursement for compliance expenditures at the Marcus Hook Tank Farm and the Darby Creek Tank Farm.

*General and Administrative Services Fee.* Under the Omnibus Agreement, the Partnership pays Sunoco or the general partner an annual administrative fee that includes expenses incurred by Sunoco and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, engineering, information technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee was $8.4 million, $7.7 million and $6.5 million for the years ended December 31, 2005, 2006 and 2007, respectively. This fee does not include the costs of shared insurance programs (which are allocated to the Partnership based upon its share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the general partner (including senior executives), or the cost of their employee benefits. The Partnership has no employees, and reimburses Sunoco and its affiliates for these costs and other direct expenses incurred on the Partnership s behalf. In addition, the Partnership has incurred additional general and administrative costs which it pays directly.

The initial term of Section 4.1 of the Omnibus Agreement (which concerns the Partnership s obligation to pay the annual fee for provision of certain general and administrative services) was through the end of 2004. The parties have extended the term of Section 4.1 by one year in January 2008. The 2008 annual fee decreased to $6.0 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 require 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 2008, or that, if extended, the administrative fee charged by Sunoco will be at or below the current administrative fee. In the event that the Partnership is unable to obtain such services from Sunoco or other third parties at or below the current cost, the Partnership s financial condition and results of operations may be adversely impacted.

In addition to the fees for the centralized corporate functions, selling, general and administrative expenses in the statements of income include the allocation of shared insurance costs of $5.1 million, $3.2 million and $3.9 million for the years ended December 31, 2005, 2006 and 2007, respectively. The insurance costs for the year ended December 31, 2005 include $2.5 million resulting from two special assessments by one of the Partnership s insurers as a result of Hurricanes Rita and Katrina. The Partnership s share of allocated Sunoco employee benefit plan expenses, including non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits, was $21.5 million, $22.5 million and $23.0 million for the years ended December 31, 2005, 2006 and 2007, respectively.

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

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

- any business currently operated by Sunoco or any of its subsidiaries;

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

- any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of less than $5.0 million; and

- any business that Sunoco or any of its subsidiaries acquires or constructs that has a fair market value of $5.0 million or more if the Partnership has been offered the opportunity to purchase the business for fair market value not later than six months after completion of such acquisition or construction, and the Partnership declines to do so with the concurrence of the Audit/Conflicts Committee.

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

*Options to Purchase Assets Retained by Sunoco*. The Omnibus Agreement also contains the terms under which the Partnership has the option to purchase Sunoco s direct or indirect interests in Inland Corporation, as well as the Icedale pipeline, as discussed under Business Pipeline, Terminalling, and Storage Assets Retained by Sunoco.

*Indemnification.* Under the terms of the Omnibus Agreement and in connection with the contribution of assets by affiliates of Sunoco, Sunoco has agreed to indemnify the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed that arise from the operation of such assets prior to

closing of the February 2002 IPO. Sunoco is obligated to indemnify the Partnership for 100 percent of all losses asserted within the first 21 years of closing of the February 2002 IPO. Sunoco s share of liability for claims asserted thereafter will decrease by 10 percent a year. For example, for a claim asserted during the twenty-third year after closing of the February 2002 IPO, Sunoco would be required to indemnify the Partnership for 80 percent of the loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. In addition, this indemnification applies to the interests in the Mesa Pipeline system and the Mid-Valley pipeline purchased from Sunoco following the IPO. Any environmental and toxic tort liabilities not covered by this indemnity will be the Partnership s responsibility. Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and extent of future environmental laws, inflation rates, and the determination of the liability at multiparty sites, if any, in light of the number, participation levels, and financial viability of other parties. The Partnership has agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the assets that occur on or after the closing of the February 2002 IPO and for environmental and toxic tort liabilities to the extent Sunoco is not required to indemnify the Partnership.

Sunoco has also agreed to indemnify the Partnership for liabilities relating to:

- the assets contributed, other than environmental and toxic tort liabilities, that arise out of the operation of the assets prior to the closing of the February 2002 IPO and that are asserted within ten years after the closing of the IPO;
- certain defects in title to the assets contributed and failure to obtain certain consents and permits necessary to conduct the business that arise within ten years after the closing of the February 2002 IPO;
- legal actions related to the period prior to the February 2002 IPO currently pending against Sunoco or its affiliates; and
- events and conditions associated with any assets retained by Sunoco or its affiliates.

*Interrefinery Lease Agreement*

Under a 20-year lease agreement entered into by the Partnership and Sunoco upon the closing of the February 2002 IPO, Sunoco leases the Partnership s 58 miles of interrefinery pipelines between Sunoco s Philadelphia and Marcus Hook refineries for an annual fee which escalates at 1.67 percent each January 1$^{st}$ for the term of the agreement. The annual fee for the year ended December 31, 2007 was $5.8 million. These fees are recorded as revenue within the Partnership s statements of income.

The lease agreement also requires Sunoco to reimburse the Partnership for any non-routine maintenance expenditures, as defined, incurred during the term of the agreement. For the year ended December 31, 2007, the Partnership was reimbursed by Sunoco for maintenance operating expenses and capital expenditures associated with this provision. The reimbursement was recorded as a capital contribution to Partners Capital within the Partnership s balance sheet.

*Crude Oil Purchase Agreement*

The Partnership has agreements with Sunoco whereby Sunoco purchases from the Partnership, at market-based rates, particular grades of crude oil that are purchased by the crude oil acquisition and marketing business. These agreements automatically renew on a monthly basis unless terminated by either party on 30 days written notice. Sunoco cancelled four of these agreements during 2007 in accordance with the terms, but the cancellation did not have a material impact on the Partnership s results of operations or cash flows. During each of the three years ended December 31, 2007, Sunoco purchased all the barrels offered pursuant to these agreements and has not indicated that it intends to terminate any additional agreements.

*License Agreement*

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

*Treasury Services Agreement*

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

*Eagle Point Logistics Assets Purchase and Throughput Agreements*

On March 30, 2004, the Partnership entered into a purchase agreement with Sunoco to acquire the Eagle Point refinery logistics assets for approximately $20 million. The purchase agreement requires Sunoco to reimburse the Partnership for certain maintenance capital and expenses incurred regarding the assets acquired, as defined, up to $5.0 million within the first 10 years of the closing of the transaction. At December 31, 2007, the Partnership has received a cumulative reimbursement of $2.9 million relative to the $5.0 million maximum reimbursement.

In connection with the acquisition, the Partnership also entered into a throughput agreement with Sunoco under which the Partnership is charging Sunoco fees for services provided under this agreement that are comparable to those charged in arm s length, third-party transactions to:

- receive or deliver all crude oil to and from the Eagle Point refinery, other than those received or shipped via rail car, tanker truck or pipeline for twelve years ending March 31, 2016. This throughput is an annual amount for the contract period from April 1 to March 31 for the term of the agreement. For the calendar year ended December 31, 2007, the Partnership received a fee of $0.0841 per barrel for the first 130,000 bpd of crude oil and $0.0420 per barrel for volumes in excess of 130,000 bpd. These fees escalate at the rate of 1.67 percent each January 1 for the term of the agreement;

- receive and deliver at least 41,800 bpd of refined and intermediate products per year at the Eagle Point dock for twelve years ending March 31, 2016. This throughput is an annual amount for the contract period from April 1 to March 31 for the term of the agreement. For the calendar year ended December 31, 2007, the Partnership received a fee of $0.0841 per barrel for the first 14,200 bpd of refined and intermediate products and $0.0420 per barrel for volume in excess of 14,200 bpd and also received a fee of $0.0736 per barrel for each shipment that required vapor combustion services. These fees escalate at the rate of 1.67 percent each January 1 for the term of the agreement; and

receive and deliver at least 32,000 bpd of refined and intermediate products per year at the Eagle Point Refined Products Terminal for twelve years ending March 31, 2016. This throughput is an annual amount for the contract period from April 1 to March 31 for the term of the agreement. For the year ended December 31, 2007, the Partnership received per barrel fees as set forth in the contract by refined

and intermediate product shipped. These fees will escalate at the rate of 1.67 percent each January 1 for the term of the agreement. For the year ended December 31, 2007, the Partnership received $0.1 million from Sunoco for not meeting the minimum throughput amount in the contract year ended March 31, 2007. Sunoco has met the minimum throughput amount through December 31, 2007. Under the agreement, Sunoco will pay the Partnership any shortfall if it does not exceed the minimum throughput amount under the agreement for the contract year from April 1, 2007 through March 31, 2008.

On January 24, 2008 Sunoco and the Partnership executed an Amended and Restated Dock and Terminal Throughput Agreement, which amended certain of the above terms. See Subsequent Events Note 17 to the financial statements included in Item 8.

*Unit Redemptions and Equity Offering Cost-Sharing Agreements*

In 2005, the Partnership sold 2.775 million common units in public offerings for net proceeds of $99.2 million. The net proceeds were used to redeem 2.775 million common units owned by Sunoco. Also in connection with the equity offerings, Sunoco reimbursed the Partnership for $0.4 million in transaction costs incurred by the Partnership. The reimbursement was accounted for as an increase to Partners Capital within the Partnership s consolidated balance sheet.

*Product Terminal Services Agreement*

On February 28, 2007 certain obligations of Sunoco under the pipelines and terminals storage throughput agreement with the Partnership, related to throughput of refined products through the Partnership s terminals, expired. Sunoco and the Partnership entered into a product terminal services agreement effective March 1, 2007 pursuant to which Sunoco may throughput refined products through the partnership s terminals at agreed upon fees that escalate over the five-year term of the agreement. The agreement contains no minimum throughput obligations for Sunoco. The Partnership s refined product terminals were constructed or purchased to service Sunoco s refining and marketing supply chain and are well situated to suit Sunoco s needs. As a result management of the Partnership would expect Sunoco to continue to use the terminals. However, there can be no assurance that Sunoco will continue to use the Partnership s terminals or that additional revenues can be generated from third parties.

*Marcus Hook Tank Farm Agreement*

On February 28, 2007 certain obligations of Sunoco under the pipelines and terminals storage and throughput agreement with the Partnership, related to the Marcus Hook Tank Farm, expired. Sunoco and the Partnership entered into the Marcus Hook Tank Farm Agreement effective March 1, 2007 pursuant to which Sunoco may throughput refined products through the Marcus Hook Tank Farm at agreed upon fees that escalate over the five-year term of the agreement. The agreement contains no minimum throughput obligations for Sunoco. The Partnership s Marcus Hook Tank Farm is well situated to meet the needs of Sunoco s Marcus Hook refinery. As a result management of the Partnership would expect Sunoco to continue to use the Marcus Hook Tank Farm. However, there can be no assurance that Sunoco will continue to use the Partnership s Marcus Hook Tank Farm or that additional revenues can be generated from third parties.

*Other Agreements*

The Partnership has also entered into various other agreements with Sunoco and their affiliates, including throughput agreements regarding certain acquired assets or improvements or expansions at existing assets which are not covered within the pipelines and terminals storage and throughput agreement. Although these agreements did not result from arm s-length negotiations, management of the Partnership believes the terms of these agreements to be comparable to those that could be negotiated with an unrelated third party.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

On January 8, 2008, the Partnership entered into an interest rate swap with a notional amount of $50.0 million maturing January 2010. Under the swap agreement, the Company receives interest equivalent to three-month LIBOR and pays a fixed rate of interest of 3.489 percent with settlements occurring quarterly. The Company has designated the interest rate swap as a cash flow hedge under SFAS No. 133.

The $400 million Credit Facility exposes the Partnership to interest rate risk since it bears interest at a variable rate. The interest rate swap that was entered into in January 2008 effectively fixes the interest rate on $50.0 million of our outstanding borrowings on the Credit Facility. The variable interest rate was 5.47 percent at December 31, 2007. Given the interest rate swap, a one percent change in interest rates changes annual interest expense by approximately $0.4 million.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### MANAGEMENT S REPORT ON INTERNAL CONTROL

### OVER FINANCIAL REPORTING

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

The Partnership s management assessed the effectiveness of the Partnership s internal control over financial reporting as of December 31, 2007. In making this assessment, the Partnership s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control Integrated Framework*.

Based on this assessment, management believes that, as of December 31, 2007, the Partnership s internal control over financial reporting is effective based on those criteria. Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Partnership s internal control over financial reporting, which appears in this section.

Deborah M. Fretz

President and Chief Executive Officer

Neal E. Murphy

Vice President and Chief Financial Officer