
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

**For the Quarterly Period Ended: June 30, 2017
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: **001-35653**

SUNOCO LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

30-0740483

(I.R.S. Employer Identification Number)

8020 Park Lane, Suite 200, Dallas, TX 75231
(Address of principal executive offices, including zip code)

(832) 234-3600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging Growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

The registrant had 99,468,884 common units representing limited partner interests, 16,410,780 Class C units representing limited partner interests and 12,000,000 Series A Preferred Units representing limited partner interests outstanding at August 4, 2017 .

SUNOCO LP
FORM 10-Q
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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

SUNOCO LP
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2017	December 31, 2016
	<i>(in millions, except units)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 97	\$ 99
Accounts receivable, net	398	539
Receivables from affiliates	148	3
Inventories, net	356	385
Other current assets	91	72
Assets held for sale	4,194	291
Total current assets	5,284	1,389
Property and equipment, net	1,155	1,188
Other assets:		
Goodwill	1,032	1,050
Intangible assets, net	786	752
Other noncurrent assets	54	64
Assets held for sale	—	4,258
Total assets	<u>\$ 8,311</u>	<u>\$ 8,701</u>
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 461	\$ 616
Accounts payable to affiliates	169	109
Advances from affiliates	86	87
Accrued expenses and other current liabilities	352	372
Current maturities of long-term debt	5	5
Liabilities associated with assets held for sale	68	—
Total current liabilities	1,141	1,189
Revolving line of credit	825	1,000
Long-term debt, net	3,537	3,509
Deferred tax liability	601	643
Other noncurrent liabilities	106	96
Liabilities associated with assets held for sale	—	68
Total liabilities	6,210	6,505
Commitments and contingencies (Note 13)		
Equity:		
Limited partners:		
Series A Preferred unitholder - affiliated (12,000,000 units issued and outstanding as of June 30, 2017 and no units issued and outstanding as of December 31, 2016)	300	—
Common unitholders - public (53,718,058 units issued and outstanding as of June 30, 2017 and 52,430,220 units issued and outstanding as of December 31, 2016)	1,291	1,467
Common unitholders - affiliated (45,750,826 units issued and outstanding as of June 30, 2017 and December 31, 2016)	510	729
Class C unitholders - held by subsidiary (16,410,780 units issued and outstanding as of June 30, 2017 and December 31, 2016)	—	—
Total equity	2,101	2,196
Total liabilities and equity	<u>\$ 8,311</u>	<u>\$ 8,701</u>

The accompanying notes are an integral part of these consolidated financial statements.

SUNOCO LP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(in millions, except unit and per unit amounts)</i>				
Revenues:				
Retail motor fuel	\$ 39	\$ 46	\$ 77	\$ 91
Wholesale motor fuel sales to third parties	2,281	1,997	4,525	3,493
Wholesale motor fuel sales to affiliates	6	10	28	17
Merchandise	18	17	34	33
Rental income	22	22	44	43
Other	34	31	67	74
Total revenues	2,400	2,123	4,775	3,751
Cost of sales:				
Retail motor fuel cost of sales	33	43	66	83
Wholesale motor fuel cost of sales	2,185	1,839	4,328	3,205
Merchandise cost of sales	13	12	24	23
Other	4	2	8	4
Total cost of sales	2,235	1,896	4,426	3,315
Gross profit	165	227	349	436
Operating expenses:				
General and administrative	40	36	72	83
Other operating	46	47	95	85
Rent	12	12	25	24
Loss (gain) on disposal of assets	3	—	4	(1)
Depreciation, amortization and accretion	33	28	63	54
Total operating expenses	134	123	259	245
Operating income	31	104	90	191
Interest expense, net	54	44	111	64
Income (loss) from continuing operations before income taxes	(23)	60	(21)	127
Income tax expense (benefit)	(57)	3	(70)	5
Income from continuing operations	34	57	49	122
Income (loss) from discontinued operations, net of income taxes	(256)	15	(270)	12
Net income (loss) and comprehensive income (loss)	<u>\$ (222)</u>	<u>\$ 72</u>	<u>\$ (221)</u>	<u>\$ 134</u>
Net income (loss) per limited partner unit - basic:				
Continuing operations - common units	\$ 0.04	\$ 0.38	\$ (0.05)	\$ 0.88
Discontinued operations - common units	(2.56)	0.15	(2.72)	0.13
Net income (loss) - common units	\$ (2.52)	\$ 0.53	\$ (2.77)	\$ 1.01
Net income (loss) per limited partner unit - diluted:				
Continuing operations - common units	\$ 0.03	\$ 0.38	\$ (0.05)	\$ 0.88
Discontinued operations - common units	(2.56)	0.15	(2.72)	0.13
Net income (loss) - common units	\$ (2.53)	\$ 0.53	\$ (2.77)	\$ 1.01
Weighted average limited partner units outstanding:				
Common units - public (basic)	53,715,598	49,588,960	53,289,557	49,588,960
Common units - public (diluted)	54,149,181	49,644,916	53,555,219	49,644,916
Common units - affiliated (basic and diluted)	45,750,826	45,750,826	45,750,826	41,807,600
Cash distribution per unit	\$ 0.8255	\$ 0.8255	\$ 1.6510	\$ 1.6428

The accompanying notes are an integral part of these consolidated financial statements.

SUNOCO LP
CONSOLIDATED STATEMENT OF EQUITY
(unaudited, in millions)

	Preferred Units- Affiliated	Common Units- Public	Common Units- Affiliated	Total Equity
Balance at December 31, 2016	<u>\$ —</u>	<u>\$ 1,467</u>	<u>\$ 729</u>	<u>\$ 2,196</u>
Equity issued under ATM, net	—	33	—	33
Equity issued to ETE	300	—	—	300
Cash distribution to unitholders	—	(90)	(119)	(209)
Distribution to preferred units	(8)	—	—	(8)
Unit-based compensation	—	5	4	9
Other	—	—	1	1
Partnership net income (loss)	8	(124)	(105)	(221)
Balance at June 30, 2017	<u>\$ 300</u>	<u>\$ 1,291</u>	<u>\$ 510</u>	<u>\$ 2,101</u>

The accompanying notes are an integral part of these consolidated financial statements.

SUNOCO LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2017	2016
	(in millions)	
Cash flows from operating activities:		
Net income (loss)	\$ (221)	\$ 134
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
(Income) loss from discontinued operations	270	(12)
Depreciation, amortization and accretion	63	54
Amortization of deferred financing fees	8	4
Loss (gain) on disposal of assets	4	(1)
Non-cash unit based compensation expense	9	6
Deferred income tax	(70)	1
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	141	(78)
Receivable from affiliates	(145)	3
Inventories	29	(16)
Other assets	(11)	(21)
Accounts payable	(154)	(7)
Accounts payable to affiliates	60	7
Accrued liabilities and other current liabilities	(34)	(9)
Other noncurrent liabilities	37	(5)
Net cash provided by (used in) continuing operating activities	(14)	60
Cash flows from investing activities:		
Capital expenditures	(27)	(25)
Purchase of intangible assets	(22)	(27)
Proceeds from disposal of property and equipment	—	5
Net cash used in investing activities	(49)	(47)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	2,835
Payments on long-term debt	(3)	(796)
Revolver borrowings	1,413	1,258
Revolver repayments	(1,588)	(1,033)
Loan origination costs	—	(29)
Advances from affiliates	22	267
Equity issued to ETE, net of issuance costs	300	61
Proceeds from issuance of common units, net of offering costs	33	—
Distributions to ETP	—	(50)
Other cash from financing activities, net	2	3
Distributions to unitholders	(209)	(184)
Net cash provided by (used in) financing activities	(30)	2,332
Cash flows from discontinued operations:		
Operating activities	165	139
Investing activities	(72)	(2,474)
Changes in cash included in current assets held for sale	(2)	9
Net increase (decrease) in cash and cash equivalents of discontinued operations	91	(2,326)
Net increase (decrease) in cash	(2)	19
Cash and cash equivalents at beginning of period	99	48
Cash and cash equivalents at end of period	\$ 97	\$ 67

The accompanying notes are an integral part of these consolidated financial statements.

SUNOCO LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Principles of Consolidation

The Partnership was formed in June 2012, and completed its initial public offering (“IPO”) in September 2012.

Effective October 27, 2014, the Partnership changed its name from Susser Petroleum Partners LP (NYSE: SUSP) to Sunoco LP (“SUN”, NYSE: SUN). As used in this document, the terms “Partnership”, “SUN”, “we”, “us”, and “our” should be understood to refer to Sunoco LP and our consolidated subsidiaries, unless the context clearly indicates otherwise.

The consolidated financial statements are composed of Sunoco LP, a publicly traded Delaware limited partnership, and our wholly-owned subsidiaries. We distribute motor fuels across more than 30 states throughout the East Coast, Midwest, and Southeast regions of the United States from Maine to Florida and from Florida to New Mexico, as well as Hawaii. We also operate convenience retail stores across more than 20 states, primarily in Texas, Pennsylvania, New York, Virginia, Florida, and Hawaii.

We operate our business as two segments, which are primarily engaged in wholesale fuel distribution and retail fuel and merchandise sales, respectively. On April 6, 2017, certain subsidiaries of the Partnership (collectively, the “Sellers”) entered into an Asset Purchase Agreement (the “Purchase Agreement”) with 7-Eleven, Inc., a Texas corporation (“7-Eleven”) and SEI Fuel Services, Inc., a Texas corporation and wholly-owned subsidiary of 7-Eleven (“SEI Fuel,” and, together with 7-Eleven, referred to herein collectively as “Buyers”). With the assistance of a third-party brokerage firm, we have begun marketing efforts with respect to approximately 208 Stripes sites located in certain West Texas, Oklahoma and New Mexico markets, which were not included in the 7-Eleven Purchase Agreement. The results of these operations have been reported as discontinued operations for all periods presented in the consolidated financial statements. See Note 4 for more information related to the Purchase Agreement, the marketing efforts and the discontinued operations. All other footnotes present results of the continuing operations.

Our primary operations are conducted by the following consolidated subsidiaries:

Wholesale Subsidiaries

- Susser Petroleum Operating Company LLC (“SPOC”), a Delaware limited liability company, distributes motor fuel, propane and lubricating oils to Stripes’ retail locations, consignment locations, and third party customers in Texas, New Mexico, Oklahoma, Louisiana and Kansas.
- Sunoco, LLC (“Sunoco LLC”), a Delaware limited liability company, primarily distributes motor fuel in more than 26 states throughout the East Coast, Midwest and Southeast regions of the United States. Sunoco LLC also processes transmix and distributes refined product through its terminals in Alabama and the Greater Dallas, TX metroplex.
- Southside Oil, LLC (“Southside”), a Virginia limited liability company, distributes motor fuel, primarily in Georgia, Maryland, New York, Tennessee, and Virginia.
- Aloha Petroleum LLC, a Delaware limited liability company, distributes motor fuel and operates terminal facilities on the Hawaiian Islands.

Retail Subsidiaries (Also See Note 4)

- Susser Petroleum Property Company LLC (“PropCo”), a Delaware limited liability company, primarily owns and leases convenience store properties.
- Susser Holdings Corporation (“Susser”), a Delaware corporation, sells motor fuel and merchandise in Texas, New Mexico, Oklahoma, and Louisiana through Stripes-branded convenience stores.
- Sunoco Retail LLC (“Sunoco Retail”), a Pennsylvania limited liability company, owns and operates convenience stores that sell motor fuel and merchandise primarily in Pennsylvania, New York, and Florida.
- MACS Retail LLC, a Virginia limited liability company, owns and operates convenience stores, in Virginia, Maryland, and Tennessee.
- Aloha Petroleum, Ltd. (“Aloha”), a Hawaii corporation, owns and operates convenience stores on the Hawaiian Islands.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain items have been reclassified for presentation purposes to conform to the accounting policies of the consolidated entity. Other than the reclassification of certain balances to assets and liabilities held for sale and certain revenues and expenses to discontinued operations, as discussed in Note 4, these reclassifications had no material impact on gross margin, income from operations, net income and comprehensive income, or the balance sheets or statements of cash flows.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Pursuant to Regulation S-X, certain information and disclosures normally included in the annual financial statements have been condensed or omitted. The consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 24, 2017.

Significant Accounting Policies

As of June 30, 2017, there were no changes in significant accounting policies from those described in the December 31, 2016 audited consolidated financial statements.

Motor Fuel and Sales Taxes

Certain motor fuel and sales taxes are collected from customers and remitted to governmental agencies either directly by the Partnership or through suppliers. The Partnership's accounting policy for wholesale direct sales to dealer and commercial customers is to exclude the collected motor fuel tax from sales and cost of sales.

For retail locations where the Partnership holds inventory, including consignment arrangements, motor fuel sales and motor fuel cost of sales include motor fuel taxes. Such amounts were \$15 million and \$15 million for the three months ended June 30, 2017 and 2016, respectively, and \$30 million and \$30 million for the six months ended June 30, 2017 and 2016, respectively. Merchandise sales and cost of merchandise sales are reported net of sales tax in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Recently Issued Accounting Pronouncements

FASB ASU No. 2014-09. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which clarifies the principles for recognizing revenue based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In August 2015, the FASB deferred the effective date of ASU 2014-09, which is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catchup transition method). The Partnership expects to adopt ASU 2014-09 in the first quarter of 2018 and will apply the cumulative catch-up transition method.

We are in the process of evaluating our revenue contracts by segment and fee type to determine the potential impact of adopting the new standards. At this point in our evaluation process, we have determined that the timing and/or amount of revenue that we recognize on certain contracts will be impacted by the adoption of the new standard; however, we are still in the process of quantifying these impacts and cannot say whether or not they would be material to our financial statements. In addition, we are in the process of implementing appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new standard. We continue to monitor additional authoritative or interpretive guidance related to the new standard as it becomes available, as well as comparing our conclusions on specific interpretative issues to other peers in our industry, to the extent that such information is available to us.

FASB ASU No. 2016-02. In February 2016, the FASB issued Accounting Standards Update No. 2016-02 "Leases (Topic 842)", which amends the FASB Accounting Standards Codification and creates Topic 842, Leases. This Topic requires Balance Sheet recognition of lease assets and lease liabilities for leases classified as operating leases under previous GAAP, excluding short-term leases of 12 months or less. This ASU is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated balance sheets and related disclosures.

We are in the process of evaluating our lease contracts to determine the potential impact of adopting the new standards. At this point in our evaluation process, we have determined that the timing and/or amount of lease assets and lease liabilities that we recognize on certain contracts will be impacted by the adoption of the new standard; however, we are still in the process of quantifying these impacts and cannot say whether or not they would be material to our financial statements. In addition, we are in the process of implementing appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new standard. We continue to

monitor additional authoritative or interpretive guidance related to the new standard as it becomes available, as well as comparing our conclusions on specific interpretative issues to other peers in our industry, to the extent that such information is available to us.

FASB ASU No. 2016-15. In August 2016, the FASB issued ASU No. 2016-15 “*Statement of Cash Flows (Topic 230)*” which institutes a number of modifications to presentation and classification of certain cash receipts and cash payments in the statement of cash flows. These modifications include (a) debt prepayment or debt extinguishment costs, (b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (c) contingent consideration payments made after a business combination, (d) proceeds received from the settlement of insurance claims, (e) proceeds from the settlement of corporate-owned life insurance policies, (f) distributions received from equity method investees, (g) beneficial interest obtained in a securitization of financial assets, (h) separately identifiable cash flows and application of the predominance principle. This ASU is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our consolidated statements of cash flows and related disclosures.

FASB ASU No. 2016-16. In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this update do not change GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, Consolidation, or for an intra-entity transfer of inventory. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The Partnership is currently evaluating the impact that adoption of this standard will have on the consolidated financial statements and related disclosures.

FASB ASU No. 2017-04. In January 2017, the FASB issued ASU No. 2017-04 “*Intangibles-Goodwill and other (Topic 350): Simplifying The Test For Goodwill Impairment*”. The amendments in this update remove the second step of the two-step test currently required by Topic 350. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This ASU is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Partnership adopted this ASU on April 1, 2017, which had no impact on the consolidated financial statements at the time of adoption. This accounting guidance was utilized in the goodwill impairment tests performed during the three months ended June 30, 2016, which are discussed in Note 4.

3. Acquisitions

Certain amounts included within these acquisitions are included in the discontinued operations discussed in Note 4.

Sunoco LLC and Sunoco Retail LLC Acquisitions

On April 1, 2015, we acquired a 31.58% membership interest and 50.1% voting interest in Sunoco LLC from ETP Retail Holdings, LLC (“ETP Retail”), an indirect wholly-owned subsidiary of Energy Transfer Partners, L.P. (“ETP”), for total consideration of \$775 million in cash (the “Sunoco Cash Consideration”) and 795,482 common units representing limited partner interests in the Partnership, pursuant to a Contribution Agreement dated March 23, 2015, among the Partnership, ETP Retail and ETP (the “Sunoco LLC Contribution Agreement”). The Sunoco Cash Consideration was financed through issuance by the Partnership and its wholly owned subsidiary, Sunoco Finance Corp. (“SUN Finance”), of 6.375% Senior Notes due 2023 on April 1, 2015. The common units issued to ETP Retail were issued and sold in a private transaction exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). Pursuant to the terms of the Sunoco LLC Contribution Agreement, ETP guaranteed all of the obligations of ETP Retail.

On November 15, 2015, we entered into a Contribution Agreement (the “ETP Dropdown Contribution Agreement”) with Sunoco LLC, Sunoco, Inc., ETP Retail, Sunoco GP LLC, and ETP. Pursuant to the terms of the ETP Dropdown Contribution Agreement, we agreed to acquire from ETP Retail, effective January 1, 2016, (a) 100% of the issued and outstanding membership interests of Sunoco Retail, an entity that was formed by Sunoco, Inc. (R&M), an indirect wholly owned subsidiary of Sunoco, Inc., prior to the closing of the ETP Dropdown Contribution Agreement, and (b) 68.42% of the issued and outstanding membership interests of Sunoco LLC (the “ETP Dropdown”). Pursuant to the terms of the ETP Dropdown Contribution Agreement, ETP agreed to guarantee all of the obligations of ETP Retail.

Immediately prior to the closing of the ETP Dropdown, Sunoco Retail owned all of the retail assets previously owned by Sunoco, Inc. (R&M), an ethanol plant located in Fulton, NY, 100% of the issued and outstanding membership interests in Sunmarks, LLC, and all the retail assets previously owned by Atlantic Refining & Marketing Corp., a wholly owned subsidiary of Sunoco, Inc.

Subject to the terms and conditions of the ETP Dropdown Contribution Agreement, at the closing of the ETP Dropdown, we paid to ETP Retail \$2.2 billion in cash on March 31, 2016, which included working capital adjustments, and issued to ETP Retail 5,710,922

common units representing limited partner interests in the Partnership (the “ETP Dropdown Unit Consideration”). The ETP Dropdown was funded with borrowings under a term loan agreement. The ETP Dropdown Unit Consideration was issued in a private transaction exempt from registration under Section 4(a)(2) of the Securities Act.

The acquisitions of Sunoco LLC and Sunoco Retail were accounted for as transactions between entities under common control. Specifically, the Partnership recognized the acquired assets and assumed liabilities at their respective carrying values with no goodwill created. The Partnership’s results of operations include Sunoco LLC’s and Sunoco Retail’s results of operations beginning September 1, 2014, the date of common control. As a result, the Partnership retrospectively adjusted its financial statements to include the balances and operations of Sunoco LLC and Sunoco Retail from August 31, 2014. Accordingly, the Partnership retrospectively adjusted its consolidated statement of operations and comprehensive income to include \$2.4 billion of Sunoco LLC revenues and \$25 million of net income for the three months ended March 31, 2015, \$1.5 billion of Sunoco Retail revenues and \$11 million of net income for the twelve months ended December 31, 2015 as well as \$5.5 billion of Sunoco LLC and Sunoco Retail revenues and \$73 million of net loss for the Successor period from September 1, 2014 through December 31, 2014.

The following table summarizes the final recording of assets and liabilities at their respective carrying values as of August 31, 2014 (in millions):

	Sunoco LLC	Sunoco Retail	Total
Current assets	\$ 1,107	\$ 329	\$ 1,436
Property and equipment	384	710	1,094
Goodwill	—	1,289	1,289
Intangible assets	182	294	476
Other noncurrent assets	2	—	2
Current liabilities	(641)	(146)	(787)
Other noncurrent liabilities	(7)	(340)	(347)
Net assets	\$ 1,027	\$ 2,136	\$ 3,163
Net deemed contribution			(188)
Cash acquired			(24)
Total cash consideration, net of cash acquired (1)			\$ 2,951

(1) Total cash consideration, net of cash acquired, includes \$775 million paid on April 1, 2015 and \$2.2 billion paid on March 31, 2016.

Goodwill acquired in connection with the Sunoco LLC and Sunoco Retail acquisitions is non-deductible for tax purposes.

Emerge Fuels Business Acquisition

On August 31, 2016, we acquired the Emerge fuels business (the “Fuels Business”) from Emerge Energy Services LP (NYSE: EMES) (“Emerge”) for \$171 million, inclusive of working capital and other adjustments, which was funded using amounts available under our revolving credit facility. The Fuels Business includes two transmix processing plants with attached refined product terminals located in Birmingham, Alabama and the Greater Dallas, TX metroplex and engages in the processing of transmix and the distribution of refined fuels. Combined, the plants can process over 10,000 barrels per day of transmix, and the associated terminals have over 800,000 barrels of storage capacity.

Management, with the assistance of a third party valuation firm, determined the preliminary assessment of fair value of assets and liabilities at the date of the Fuels Business acquisition. We determined the preliminary value of goodwill by giving consideration to the following qualitative factors:

- synergies created through increased fuel purchasing advantages and integration with our existing wholesale business;
- strategic advantages of owning transmix processing plants and increasing our terminal capacity; and
- competitors processing transmix in the geographic region.

Management is reviewing the valuation and confirming the results to determine the final purchase price allocation. As a result, material adjustments to this preliminary allocation may occur in the future.

The following table summarizes the preliminary recording of assets and liabilities at their respective carrying values as of the date presented (in millions):

	August 31, 2016
Current assets	\$ 27
Property and equipment	49
Goodwill	54
Intangible assets	57
Current liabilities	(16)
Net assets	171
Cash acquired	—
Total cash consideration, net of cash acquired	\$ 171

Goodwill acquired in connection with the Emerge acquisition is deductible for tax purposes.

Other Acquisitions

On October 12, 2016, we completed the acquisition of convenience store, wholesale motor fuel distribution, and commercial fuels distribution businesses serving East Texas and Louisiana from Denny Oil Company (“Denny”) for approximately \$55 million . This acquisition included six company-owned and operated locations, six company-owned and dealer operated locations, wholesale fuel supply contracts for a network of independent dealer-owned and dealer-operated locations, and a commercial fuels business in the Eastern Texas and Louisiana markets. As part of the acquisition, we acquired 13 fee properties, which included the six company operated locations, six dealer operated locations, and a bulk plant and an office facility. This transaction was funded using amounts available under our revolving credit facility with the total purchase consideration allocated to assets acquired based on the preliminary estimate of their respective fair values on the purchase date. Management, with the assistance of a third party valuation firm, is in the process of evaluating the initial purchase price allocation. As a result, material adjustments to this preliminary allocation may occur in the future. The acquisition preliminarily increased goodwill by \$18 million .

On June 22, 2016, we acquired 14 convenience stores and the wholesale fuel business in the Austin, Houston, and Waco, Texas markets from Kolkhorst Petroleum Inc. ("Kolkhorst") for \$39 million . The convenience stores acquired include 5 fee properties and 9 leased properties, all of which are company operated. The Kolkhorst acquisition also included supply contracts with dealer-owned and operated sites. This acquisition was funded using amounts available under our revolving credit facility with the total purchase consideration allocated to assets acquired based on the estimate of their respective fair values on the purchase date. Management, with the assistance of a third party valuation firm has determined the fair value of the assets which has increased goodwill by \$19 million .

On June 22, 2016, we acquired 18 convenience stores serving the upstate New York market from Valentine Stores, Inc. (“Valentine”) for \$78 million . This acquisition included 19 fee properties (of which 18 are company operated convenience stores and one is a standalone Tim Hortons), one leased Tim Hortons property and three raw tracts of land in fee for future store development. This acquisition was funded using amounts available under our revolving credit facility with the total purchase consideration allocated to assets acquired based on the estimate of their respective fair values on the purchase date. Management, with the assistance of a third party valuation firm, has determined the fair value of the assets at the date of acquisition which has increased goodwill by \$42 million .

The Denny, Kolkhorst and Valentine acquisitions were all assets acquisitions, and any goodwill created from these acquisitions is deductible for tax purposes.

4. Discontinued Operations

Pursuant to the Purchase Agreement described in Note 1, Sellers have agreed to sell a portfolio of approximately 1,112 company-operated retail outlets in 19 geographic regions, together with ancillary businesses and related assets, including the Laredo Taco Company (the “Business”), for an aggregate purchase price of \$3.3 billion , payable in cash, plus the value of inventory at the closing of the transactions contemplated by the Purchase Agreement (the “Closing”) and the assumption of certain liabilities related to the Business by Buyers. The purchase price is subject to certain adjustments, including (i) those relating to specified items that arise during post-signing due diligence and inspections and (ii) individual properties not ultimately being acquired by Buyers due to the failure to obtain necessary third party consents or waivers or because either Buyers or Sellers exercise their respective rights, under certain circumstances, to cause a specific property to be excluded from the transaction. In addition, both the Partnership and Sunoco LLC have guaranteed Sellers’ obligations under the Purchase Agreement and related ancillary agreements pursuant to a guarantee agreement (the “Guarantee Agreement”) entered into in connection with the Purchase Agreement. In connection with the Closing, Sellers and Buyers and their

respective affiliates will enter into a number of ancillary agreements, including a 15-year “take-or-pay” fuel supply agreement between Sunoco LLC and SEI Fuel.

The Closing is expected to occur in the fourth quarter of 2017, and is subject to the satisfaction or waiver of customary closing conditions for a transaction of this type, including the receipt of any approvals required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. As a result of the Purchase Agreement and subsequent to closing, previously eliminated wholesale motor fuel sales to the Partnership's retail locations will be reported as wholesale motor fuel sales to third parties. Also, the related accounts receivable from such sales will cease to be eliminated from the consolidated balance sheets and will be reported as accounts receivable.

With the assistance of a third-party brokerage firm, we have begun marketing efforts with respect to approximately 208 Stripes sites located in certain West Texas, Oklahoma and New Mexico markets, which were not included in the 7-Eleven Purchase Agreement.

The Partnership has concluded that it meets the accounting requirements for reporting the financial position, results of operations and cash flows of its Continental United States retail convenience stores as discontinued operations.

The following tables present the aggregate carrying amounts of assets and liabilities classified as held for sale in the Consolidated Balance Sheets:

	June 30, 2017	December 31, 2016
<i>(In millions)</i>		
Carrying amount of assets held for sale:		
Cash	\$ 22	\$ 20
Inventories	186	188
Other current assets	82	83
Property and equipment, net	2,141	2,185
Goodwill	1,260	1,568
Intangible assets, net	501	503
Other noncurrent assets	2	2
Total assets held for sale	<u>\$ 4,194</u>	<u>\$ 4,549</u>
Carrying amount of liabilities associated with assets held for sale:		
Other current and noncurrent liabilities	\$ 68	\$ 68
Total liabilities associated with assets held for sale	<u>\$ 68</u>	<u>\$ 68</u>

During the three months ended June 30, 2017, Sunoco LP announced the sale of a majority of the assets in its retail reporting unit. Sunoco LP's retail reporting unit includes the retail operations in the continental United States but excludes the retail convenience store operations in Hawaii that comprise the Aloha reporting unit. Upon the classification of assets and related liabilities as held for sale, Sunoco LP's management applied the measurement guidance in ASC 360, *Property, Plant and Equipment*, to calculate the fair value less cost to sell of the disposal group. In accordance with ASC 360-10-35-39, management first tested the goodwill included within the disposal group for impairment prior to measuring the disposal group's fair value less the cost to sell. In the determination of the classification of assets held for sale and the related liabilities, management allocated a portion of the goodwill balance previously included in the Sunoco LP retail reporting unit to assets held for sale based on the relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained in accordance with ASC 350-20-40-3. The amount of goodwill allocated to assets held for sale was approximately \$1.6 billion, and the amount of goodwill allocated to the remainder of the retail reporting unit, which is comprised of Sunoco LP's ethanol plant, credit card processing services and franchise royalties, was approximately \$188 million.

Once the retail reporting unit's goodwill was allocated between assets held for sale and continuing operations, management performed goodwill impairment tests on both reporting units to which the goodwill balances were allocated. No goodwill impairment was identified for the \$188 million goodwill balance that remained in the retail reporting unit. The result of the impairment test of the goodwill included within the assets held for sale was an impairment charge of \$320 million. The key assumption in the impairment test for the \$1.6 billion goodwill balance classified as held for sale was the fair value of the disposal group, which was based on the assumed proceeds from the sale of those assets. The announced purchase and sale agreement includes the majority of the retail sites that have been classified as held for sale; thus, a key assumption in the goodwill impairment test was the assumed sales proceeds (less the related costs to sell) for the remainder of the sites, which represent approximately 15% of the total number of sites. Management is currently marketing the remaining sites for sale and utilized information from that sales process to develop the assumed sales proceeds for those sites. While management believes that the assumed sales proceeds for these remaining held-for-sale sites are reasonable and likely to be obtained in a sale of those sites, an agreement has not been negotiated and therefore the ultimate outcome could be different than the

assumption used in the impairment test. Subsequent to the impairment of goodwill included within the assets held for sale, no further impairments of any other assets held for sale were deemed necessary as the remaining carrying value of the disposal group approximated the assumed proceeds from the sale of those assets less the cost to sell.

For goodwill included in the Aloha and Wholesale reporting units, which goodwill balances total \$112 million and \$732 million, respectively, and which were not classified as held for sale, no impairments were deemed necessary during the three months ended June 30, 2017. Management does not believe that the goodwill associated with either of these reporting units or the remaining goodwill of \$188 million within the retail reporting unit is at significant risk of impairment, and the goodwill will continue to be subjected to annual goodwill impairment testing on October 1.

The results of operations associated with all discontinued operations are presented in the following table:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Revenue				
Motor fuel sales	\$ 1,639	\$ 1,338	\$ 3,116	\$ 2,410
Merchandise	590	560	1,113	1,068
Rental income	1	1	2	1
Other	19	18	37	25
Total revenues	2,249	1,917	4,268	3,504
Cost of sales:				
Motor fuel cost of sales	1,451	1,189	2,793	2,120
Merchandise cost of sales	399	378	757	724
Other	1	8	1	16
Total cost of sales	1,851	1,575	3,551	2,860
Gross profit	398	342	717	644
Operating expenses:				
General and administrative	32	25	65	37
Other operating	231	221	446	432
Rent	24	23	45	45
Loss on disposal of assets and impairment charge	323	2	329	3
Depreciation, amortization and accretion expense	6	51	63	102
Total operating expenses	616	322	948	619
Operating income (loss)	(218)	20	(231)	25
Interest expense, net	4	7	9	15
Income (loss) from discontinued operations before income taxes	(222)	13	(240)	10
Income tax expense (benefit)	34	(2)	30	(2)
Net income (loss) from discontinued operations	<u>\$ (256)</u>	<u>\$ 15</u>	<u>\$ (270)</u>	<u>\$ 12</u>

5. Accounts Receivable, net

Accounts receivable, net, consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Accounts receivable, trade	\$ 244	\$ 361
Credit card receivables	97	133
Vendor receivables for rebates, branding, and other	27	21
Other receivables	34	27
Allowance for doubtful accounts	(4)	(3)
Accounts receivable, net	<u>\$ 398</u>	<u>\$ 539</u>

6. Inventories, net

Due to changes in fuel prices, we recorded a write-down on the value of fuel inventory of \$44 million at June 30, 2017. There was no write-down at December 31, 2016.

Inventories, net, consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Fuel-retail	\$ 1	\$ 1
Fuel-wholesale	333	364
Fuel-consignment	7	5
Merchandise	3	4
Other	12	11
Inventories, net	<u>\$ 356</u>	<u>\$ 385</u>

7. Property and Equipment, net

Property and equipment, net, consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Land	\$ 531	\$ 501
Buildings and leasehold improvements	413	413
Equipment	449	427
Construction in progress	85	127
Total property and equipment	<u>1,478</u>	<u>1,468</u>
Less: accumulated depreciation	<u>323</u>	<u>280</u>
Property and equipment, net	<u>\$ 1,155</u>	<u>\$ 1,188</u>

8. Goodwill and Intangible Assets, net

Goodwill

Goodwill represents the excess of the purchase price of an acquired entity over the amounts allocated to the assets acquired and liabilities assumed in a business combination. At June 30, 2017 and December 31, 2016 we had \$1.0 billion and \$1.1 billion of goodwill recorded in conjunction with past business combinations, respectively.

Goodwill is not amortized, but is tested annually for impairment, or more frequently if events and circumstances indicate that the asset might be impaired. In accordance with ASC 350-20-35 “*Goodwill - Subsequent Measurements*”, during the fourth quarter of 2016, we performed goodwill impairment tests on our reporting units and recognized a goodwill impairment charge of \$642 million on our retail reporting unit primarily due to changes in assumptions related to projected future revenues and cash flows from the dates the goodwill was originally recorded. During 2017, we are continuing our evaluation of the purchase accounting for Denny and Emerge with the assistance of a third party valuation firm.

In connection with the reclassification of the retail assets as held-for-sale, Sunoco LP performed interim goodwill impairment testing on the remaining goodwill balance in the retail reporting unit. See Note 4 for more information on the balances reclassified as held-for-sale and the related impairment testing.

Other Intangible Assets

Gross carrying amounts and accumulated amortization for each major class of intangible assets, excluding goodwill, consisted of the following:

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<i>(in millions)</i>						
Indefinite-lived						
Tradenames	\$ 295	\$ —	\$ 295	\$ 286	\$ —	\$ 286
Contractual rights	43	—	43	43	—	43
Finite-lived						
Customer relations including supply agreements	660	222	438	611	198	413
Favorable leasehold arrangements, net	4	3	1	4	3	1
Loan origination costs	10	5	5	10	4	6
Other intangibles	7	3	4	3	—	3
Intangible assets, net	<u>\$ 1,019</u>	<u>\$ 233</u>	<u>\$ 786</u>	<u>\$ 957</u>	<u>\$ 205</u>	<u>\$ 752</u>

We review amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of amortizable intangible assets is not recoverable, we reduce the carrying amount of such assets to fair value. We review non-amortizable intangible assets for impairment annually, or more frequently if circumstances dictate.

Customer relations and supply agreements have a remaining weighted-average life of approximately 10 years. Favorable leasehold arrangements have a remaining weighted-average life of approximately 5 years. Non-competition agreements and other intangible assets have a remaining weighted-average life of approximately 15 years. Loan origination costs have a remaining weighted-average life of approximately 2 years.

9. Accrued Expenses and Other Current Liabilities

Current accrued expenses and other current liabilities consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Wage and other employee-related accrued expenses	\$ 41	\$ 42
Franchise agreement termination accrual	2	2
Accrued tax expense	187	154
Accrued insurance	14	23
Reserve for environmental remediation, current	3	5
Accrued interest expense	40	39
Deposits and other	65	107
Total	<u>\$ 352</u>	<u>\$ 372</u>

10. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Term Loan	\$ 1,243	\$ 1,243
Sale leaseback financing obligation	115	117
2014 Revolver	825	1,000
6.375% Senior Notes Due 2023	800	800
5.500% Senior Notes Due 2020	600	600
6.250% Senior Notes Due 2021	800	800
Other	24	1
Total debt	<u>4,407</u>	<u>4,561</u>
Less: current maturities	5	5
Less: debt issuance costs	40	47
Long-term debt, net of current maturities	<u>\$ 4,362</u>	<u>\$ 4,509</u>

Pursuant to the terms of the 7-Eleven Purchase Agreement, as a condition precedent to closing the transaction, we have committed to either (i) commence and complete a consent solicitation pursuant to which certain terms of each of the Indentures governing the 2020 Senior Notes, 2021 Senior Notes and 2023 Senior Notes (collectively “the Senior Notes”) will be modified to allow for the transaction or (ii) satisfy and discharge the Senior Notes.

Term Loan

On March 31, 2016, we entered into a senior secured term loan agreement (the “Term Loan”) to finance a portion of the costs associated with the ETP Dropdown. The Term Loan provides secured financing in an aggregate principal amount of up to \$2.035 billion, which we borrowed in full. The Partnership used the proceeds to fund a portion of the ETP Dropdown and to pay fees and expenses incurred in connection with the ETP Dropdown and Term Loan.

Obligations under the Term Loan are secured equally and ratably with the 2014 Revolver (as defined below) by substantially all tangible and intangible assets of the Partnership and certain of our subsidiaries, subject to certain exceptions and permitted liens. Obligations under the Term Loan are guaranteed by certain of the Partnership’s subsidiaries. In addition, ETP Retail, a wholly owned subsidiary of ETP, provided a limited contingent guaranty of collection with respect to the payment of the principal amount of the Term Loan. The maturity date of the Term Loan is October 1, 2019. The Partnership is not required to make any amortization payments with respect to the loans under the Term Loan. Amounts borrowed under the Term Loan bear interest at either LIBOR or base rate plus an applicable margin based on the election of the Partnership for each interest period. Until the Partnership first receives an investment grade rating, the applicable margin for LIBOR rate loans ranges from 1.500% to 3.000% and the applicable margin for base rate loans ranges from 0.500% to 2.000%, in each case based on the Partnership’s Leverage Ratio (as defined in the Term Loan). The Term Loan requires the Partnership to maintain a leverage ratio of not more than (i) as of the last day of each fiscal quarter through December 31, 2017, 6.75 to 1.0, (ii) as of March 31, 2018, 6.5 to 1.0, (iii) as of June 30, 2018, 6.25 to 1.0, (iv) as of September 30, 2018, 6.0 to 1.0, (v) as of December

31, 2018, 5.75 to 1.0 and (vi) thereafter, 5.5 to 1.0 (in the case of the quarter ending March 31, 2019 and thereafter, subject to increases to 6.0 to 1.0 in connection with certain specified acquisitions in excess of \$50 million, as permitted under the Term Loan).

On January 31, 2017, the Partnership entered into a limited waiver to the Term Loan (the “Term Loan Waiver”). Under the Term Loan Waiver, the Agents and lenders party thereto waived and deemed remedied, among other matters, the miscalculations of the Partnership’s leverage ratio as set forth in its previously delivered compliance certificates and the resulting failure to pay incremental interest owed under the Term Loan from December 21, 2016 through the effective date of the Term Loan Waiver. The incremental interest owed was remedied prior to the effectiveness of the Term Loan Waiver. As a result of the restatement of the compliance certificates for the fiscal quarter ended September 30, 2016 delivered in connection with the Term Loan Waiver, the margin applicable to the obligations under the Term Loan increased from (i) 2.75% in respect of LIBOR rate loans and 1.75% in respect of base rate loans to (ii) 3.00% in respect of LIBOR rate loans and 2.00% in respect of base rate loans, until the delivery of the next compliance certificates.

The Partnership may voluntarily prepay borrowings under the Term Loan at any time without premium or penalty, subject to any applicable breakage costs for loans bearing interest at LIBOR. Under certain circumstances, the Partnership is required to repay borrowings under the Term Loan in connection with the issuance by the Partnership of certain types of indebtedness for borrowed money. The Term Loan also includes certain (i) representations and warranties, (ii) affirmative covenants, including delivery of financial and other information to the administrative agent, notice to the administrative agent upon the occurrence of certain material events, preservation of existence, payment of material taxes and other claims, maintenance of properties and insurance, access to properties and records for inspection by administrative agent and lenders, further assurances and provision of additional guarantees and collateral, (iii) negative covenants, including restrictions on the Partnership and our restricted subsidiaries’ ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make loans, advances or investments, pay dividends, sell or otherwise transfer assets or enter into transactions with shareholders or affiliates, and (iv) events of default, in each case substantively similar to the representations and warranties, affirmative and negative covenants and events of default in the Partnership’s 2014 Revolver (as defined below). During the continuance of an event of default, the lenders under the Term Loan may take a number of actions, including declaring the entire amount then outstanding under the Term Loan due and payable.

As of June 30, 2017, the balance on the Term Loan was \$1.2 billion. The Partnership was in compliance with all financial covenants at June 30, 2017.

6.250% Senior Notes Due 2021

On April 7, 2016, we and certain of our wholly owned subsidiaries, including SUN Finance (together with the Partnership, the “2021 Issuers”), completed a private offering of \$800 million 6.250% senior notes due 2021 (the “2021 Senior Notes”). The terms of the 2021 Senior Notes are governed by an indenture dated April 7, 2016, among the 2021 Issuers, our General Partner, and certain other subsidiaries of the Partnership (the “2021 Guarantors”) and U.S. Bank National Association, as trustee. The 2021 Senior Notes will mature on April 15, 2021 and interest is payable semi-annually on April 15 and October 15 of each year, commencing October 15, 2016. The 2021 Senior Notes are senior obligations of the 2021 Issuers and are guaranteed on a senior basis by all of the Partnership’s existing subsidiaries and certain of its future subsidiaries. The 2021 Senior Notes and guarantees are unsecured and rank equally with all of the 2021 Issuers’ and each 2021 Guarantor’s existing and future senior obligations. The 2021 Senior Notes and guarantees are effectively subordinated to the 2021 Issuers’ and each 2021 Guarantor’s secured obligations, including obligations under the Partnership’s 2014 Revolver (as defined below), to the extent of the value of the collateral securing such obligations, and structurally subordinated to all indebtedness and obligations, including trade payables, of the Partnership’s subsidiaries that do not guarantee the 2021 Senior Notes. ETC M-A Acquisition LLC (“ETC M-A”), a subsidiary of ETP Retail, guarantees collection to the 2021 Issuers with respect to the payment of the principal amount of the 2021 Senior Notes. ETC M-A is not subject to any of the covenants under the 2021 Indenture.

Net proceeds of approximately \$789 million were used to repay a portion of the borrowings outstanding under our Term Loan.

In connection with the issuance of the 2021 Senior Notes, we entered into a registration rights agreement with the initial purchasers pursuant to which we agreed to complete an offer to exchange the 2021 Senior Notes for an issue of registered notes with terms substantively identical to the 2021 Senior Notes on or before April 7, 2017. The exchange offer was completed on October 4, 2016.

5.500% Senior Notes Due 2020

On July 20, 2015, we and our wholly owned subsidiary, SUN Finance (together with the Partnership, the “2020 Issuers”), completed a private offering of \$600 million 5.500% senior notes due 2020 (the “2020 Senior Notes”). The terms of the 2020 Senior Notes are governed by an indenture dated July 20, 2015 (the “2020 Indenture”), among the 2020 Issuers, our General Partner, and certain other subsidiaries of the Partnership (the “2020 Guarantors”) and U.S. Bank National Association, as trustee (the “2020 Trustee”). The 2020 Senior Notes will mature on August 1, 2020 and interest is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2016. The 2020 Senior Notes are senior obligations of the 2020 Issuers and are guaranteed on a senior basis by all of the Partnership’s existing subsidiaries. The 2020 Senior Notes and guarantees are unsecured and rank equally with all of the 2020 Issuers’ and each 2020 Guarantor’s existing and future senior obligations. The 2020 Senior Notes and guarantees are effectively subordinated to the 2020 Issuers’ and each 2020 Guarantor’s secured obligations, including obligations under the Partnership’s 2014 Revolver (as defined below), to the extent of the value of the collateral securing such obligations, and structurally subordinated to all indebtedness and obligations, including trade payables, of the Partnership’s subsidiaries that do not guarantee the 2020 Senior Notes.

Net proceeds of approximately \$593 million were used to fund a portion of the cash consideration of the Susser Acquisition, through which we acquired 100% of the issued and outstanding shares of capital stock of Susser from Heritage Holdings, Inc., a wholly owned subsidiary of ETP, and ETP Holdco Corporation, a wholly owned subsidiary of ETP, on July 31, 2015.

In connection with our issuance of the 2020 Senior Notes, we entered into a registration rights agreement with the initial purchasers pursuant to which we agreed to complete an offer to exchange the 2020 Senior Notes for an issue of registered notes with terms substantively identical to the 2020 Senior Notes on or before July 20, 2016. The exchange offer was completed on October 4, 2016 and we paid the holders of the 2020 Senior Notes an aggregate of \$0.3 million in liquidated damages in the form of additional interest as a result of the delayed registration.

6.375% Senior Notes Due 2023

On April 1, 2015, we and our wholly owned subsidiary, SUN Finance (together with the Partnership, the “2023 Issuers”), completed a private offering of \$800 million 6.375% senior notes due 2023 (the “2023 Senior Notes”). The terms of the 2023 Senior Notes are governed by an indenture dated April 1, 2015 (the “2023 Indenture”), among the 2023 Issuers, our General Partner, and certain other subsidiaries of the Partnership (the “2023 Guarantors”) and U.S. Bank National Association, as trustee (the “2023 Trustee”). The 2023 Senior Notes will mature on April 1, 2023 and interest is payable semi-annually on April 1 and October 1 of each year, commencing October 1, 2015. The 2023 Senior Notes are senior obligations of the 2023 Issuers and are guaranteed on a senior basis by all of the Partnership’s existing subsidiaries. The 2023 Senior Notes and guarantees are unsecured and rank equally with all of the 2023 Issuers’ and each 2023 Guarantor’s existing and future senior obligations. The 2023 Senior Notes and guarantees are effectively subordinated to the 2023 Issuers’ and each 2023 Guarantor’s secured obligations, including obligations under the Partnership’s 2014 Revolver (as defined below), to the extent of the value of the collateral securing such obligations, and structurally subordinated to all indebtedness and obligations, including trade payables, of the Partnership’s subsidiaries that do not guarantee the 2023 Senior Notes. ETC M-A guarantees collection to the 2023 Issuers with respect to the payment of the principal amount of the 2023 Senior Notes. ETC M-A is not subject to any of the covenants under the 2023 Indenture.

Net proceeds of approximately \$787 million were used to fund the Sunoco Cash Consideration and to repay borrowings under our 2014 Revolver (as defined below).

In connection with our issuance of the 2023 Senior Notes, we entered into a registration rights agreement with the initial purchasers pursuant to which we agreed to complete an offer to exchange the 2023 Senior Notes for an issue of registered notes with terms substantively identical to the 2023 Senior Notes on or before April 1, 2016. The exchange offer was completed on October 4, 2016 and we paid the holders of the 2023 Senior Notes an aggregate of \$2 million in liquidated damages in the form of additional interest as a result of the delayed registration.

Revolving Credit Agreement

On September 25, 2014, we entered into a \$1.25 billion revolving credit facility (the “2014 Revolver”) among the Partnership, as borrower, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent, collateral agent, swingline lender and an LC issuer. Proceeds from the revolving credit facility were used to pay off the Partnership’s then-existing revolving credit facility entered into on September 25, 2012. On April 10, 2015, we received a \$250 million increase in commitments under the 2014 Revolver and, as a result, we are permitted to borrow up to \$1.5 billion on a revolving credit basis.

The 2014 Revolver expires on September 25, 2019 (which date may be extended in accordance with the terms of the 2014 Revolver). Borrowings under the 2014 Revolver bear interest at a base rate (a rate based off of the higher of (i) the Federal Funds Rate (as defined in the revolving credit facility) plus 0.500% , (ii) Bank of America’s prime rate or (iii) one-month LIBOR (as defined in the 2014 Revolver) plus 1.000%) or LIBOR, in each case plus an applicable margin ranging from 1.500% to 3.000% , in the case of a LIBOR loan, or from 0.500% to 2.000% , in the case of a base rate loan (determined with reference to the Partnership’s Leverage Ratio (as defined in the 2014 Revolver)). Upon the first achievement by the Partnership of an investment grade credit rating, the applicable margin will decrease to a

range of 1.125% to 2.000% , in the case of a LIBOR loan, or from 0.125% to 1.000% , in the case of a base rate loan (determined with reference to the credit rating for the Partnership's senior, unsecured, non-credit enhanced long-term debt). Interest is payable quarterly if the base rate applies, at the end of the applicable interest period if LIBOR applies and at the end of the month if daily floating LIBOR applies. In addition, the unused portion of the revolving credit facility will be subject to a commitment fee ranging from 0.250% to 0.500% , based on the Partnership's Leverage Ratio. Upon the first achievement by the Partnership of an investment grade credit rating, the commitment fee will decrease to a range of 0.125% to 0.275% , based on the Partnership's credit rating as described above. The 2014 Revolver requires the Partnership to maintain a Leverage Ratio of not more than (i) as of the last day of each fiscal quarter through December 31, 2017, 6.75 to 1.0, (ii) as of March 31, 2018, 6.5 to 1.0, (iii) as of June 30, 2018, 6.25 to 1.0, (iv) as of September 30, 2018, 6.0 to 1.0, (v) as of December 31, 2018, 5.75 to 1.0 and (vi) thereafter, 5.5 to 1.0 (in the case of the quarter ending March 31, 2019 and thereafter, subject to increases to 6.0 to 1.0 in connection with certain specified acquisitions in excess of \$50 million , as permitted under the 2014 Revolver.

On January 31, 2017, the Partnership entered into a limited waiver (the "Revolver Waiver") of the 2014 Revolver. Under the Revolver Waiver, the Agents and lenders party thereto waived and deemed remedied, among other matters, the miscalculations of the Partnership's leverage ratio as set forth in its previously delivered compliance certificates and the resulting failure to pay incremental interest owed under the 2014 Revolver from December 21, 2016 through the effective date of the Revolver Waiver. The incremental interest owed was remedied prior to the effectiveness of the Revolver Waiver. As a result of the restatement of the compliance certificates for the fiscal quarter ended September 30, 2016 delivered in connection with the Revolver Waiver, the margin applicable to the obligations under the 2014 Revolver increased from (i) 2.75% in respect of LIBOR rate loans and 1.75% in respect of base rate loans to (ii) 3.00% in respect of LIBOR rate loans and 2.00% in respect of base rate loans, until the delivery of the next compliance certificates.

Indebtedness under the 2014 Revolver is secured by a security interest in, among other things, all of the Partnership's present and future personal property and all of the present and future personal property of its guarantors, the capital stock of its material subsidiaries (or 66% of the capital stock of material foreign subsidiaries), and any intercompany debt. Upon the first achievement by the Partnership of an investment grade credit rating, all security interests securing borrowings under the revolving credit facility will be released. Indebtedness incurred under the 2014 Revolver is secured on a pari passu basis with the indebtedness incurred under the Term Loan pursuant to a collateral trust arrangement whereby a financial institution agrees to act as common collateral agent for pari passu indebtedness.

As of June 30, 2017 , the balance on the 2014 Revolver was \$825 million , and \$20 million in standby letters of credit were outstanding. The unused availability on the 2014 Revolver at June 30, 2017 was \$655 million . The Partnership was in compliance with all financial covenants at June 30, 2017 .

Sale Leaseback Financing Obligation

On April 4, 2013, Southside completed a sale leaseback transaction with two separate companies for 50 of its dealer operated sites. As Southside did not meet the criteria for sale leaseback accounting, this transaction was accounted for as a financing arrangement over the course of the lease agreement. The obligations mature in varying dates through 2033, require monthly interest and principal payments, and bear interest at 5.125% . The obligation related to this transaction is included in long-term debt and the balance outstanding as of June 30, 2017 was \$115 million .

Fair Value Measurements

We use fair value measurements to measure, among other items, purchased assets, investments, leases and derivative contracts. We also use them to assess impairment of properties, equipment, intangible assets and goodwill. An asset's fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters, or is derived from such prices or parameters. Where observable prices or inputs are not available, unobservable prices or inputs are used to estimate the current fair value, often using an internal valuation model. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the item being valued.

ASC 820 "*Fair Value Measurements and Disclosures*" prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The estimated fair value of debt is calculated using Level 2 inputs. The fair value of debt as of June 30, 2017 , is estimated to be approximately \$4.5 billion , based on outstanding balances as of the end of the period using current interest rates for similar securities.

11. Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	June 30, 2017	December 31, 2016
	<i>(in millions)</i>	
Accrued straight-line rent	\$ 5	\$ 5
Reserve for underground storage tank removal	15	14
Reserve for environmental remediation, long-term	33	35
Unfavorable lease liability	11	12
Others	42	30
Total	<u>\$ 106</u>	<u>\$ 96</u>

12. Related-Party Transactions

We are party to the following fee-based commercial agreements with various affiliates of ETP:

- Philadelphia Energy Solutions Products Purchase Agreements – two related products purchase agreements, one with Philadelphia Energy Solutions Refining & Marketing (“PES”) and one with PES’s product financier Merrill Lynch Commodities; both purchase agreements contain 12 -month terms that automatically renew for consecutive 12 -month terms until either party cancels with notice. ETP Retail owns a noncontrolling interest in the parent of PES.
- ETP Transportation and Terminalling Contracts – various agreements with subsidiaries of ETP for pipeline, terminalling and storage services. We also have agreements with subsidiaries of ETP for the purchase and sale of fuel.

We are party to the Susser Distribution Contract, a 10 -year agreement under which we are the exclusive distributor of motor fuel at cost (including tax and transportation costs), plus a fixed profit margin of three cents per gallon to Susser’s existing Stripes convenience stores and independently operated consignment locations. This profit margin is eliminated through consolidation from the date of common control, September 1, 2014, and thereafter, in the accompanying Consolidated Statements of Operations and Comprehensive Income.

We are party to the Sunoco Distribution Contract, a 10 -year agreement under which we are the exclusive distributor of motor fuel to Sunoco Retail’s convenience stores. Pursuant to the agreement, pricing is cost plus a fixed margin of four cents per gallon. This profit margin is eliminated through consolidation from the date of common control, September 1, 2014, and thereafter, in the accompanying Consolidated Statements of Operations and Comprehensive Income.

In connection with the closing of our IPO on September 25, 2012, we also entered into an Omnibus Agreement with Susser (the “Omnibus Agreement”). Pursuant to the Omnibus Agreement, among other things, the Partnership received a three -year option to purchase from Susser up to 75 of Susser’s new or recently constructed Stripes convenience stores at Susser’s cost and lease the stores back to Susser at a specified rate for a 15 -year initial term. The Partnership is the exclusive distributor of motor fuel to such stores for a period of 10 years from the date of purchase. During 2015, we completed all 75 sale-leaseback transactions under the Omnibus Agreement.

Summary of Transactions

Significant affiliate activity related to the Consolidated Balance Sheets and Statements of Operations and Comprehensive Income is as follows:

- Net advances from affiliates were \$86 million and \$87 million as of June 30, 2017 and December 31, 2016 , respectively. Advances to and from affiliates are primarily related to the cash management services that affiliates of ETP provided to Sunoco LLC and Sunoco Retail.
- Net accounts receivable from affiliates were \$148 million and \$3 million as of June 30, 2017 and December 31, 2016 , respectively, which are primarily related to motor fuel purchases from us.
- Net accounts payable to affiliates was \$169 million and \$109 million as of June 30, 2017 and December 31, 2016 , respectively, which are related to operational expenses and fuel pipeline purchases.
- Wholesale motor fuel sales to affiliates of \$6 million and \$10 million for the three months ended June 30, 2017 and 2016 , respectively.
- Wholesale motor fuel sales to affiliates of \$28 million and \$17 million for the six months ended June 30, 2017 and 2016 , respectively.

- Bulk fuel purchases from affiliates of \$545 million and \$545 million for the three months ended June 30, 2017 and 2016 , respectively, which is included in wholesale motor fuel cost of sales in our Consolidated Statements of Operations and Comprehensive Income.
- Bulk fuel purchases from affiliates of \$1.1 billion and \$886 million for the six months ended June 30, 2017 and 2016 , respectively, which is included in wholesale motor fuel cost of sales in our Consolidated Statements of Operations and Comprehensive Income.

13. Commitments and Contingencies

Leases

The Partnership leases certain convenience store and other properties under non-cancellable operating leases whose initial terms are typically 5 to 15 years, with some having a term of 40 years or more, along with options that permit renewals for additional periods. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition, certain leases require additional contingent payments based on sales or motor fuel volumes. We typically are responsible for payment of real estate taxes, maintenance expenses and insurance. These properties are either sublet to third parties or used for our convenience store operations.

Net rent expense consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Cash rent:				
Store base rent (1)	\$ 10	\$ 8	\$ 18	\$ 17
Equipment and other rent (2)	2	4	6	7
Total cash rent	12	12	24	24
Non-cash rent:				
Straight-line rent	—	—	1	—
Net rent expense	\$ 12	\$ 12	\$ 25	\$ 24

- (1) Store base rent includes the Partnership's rent expense for sites subleased to dealers. The sublease income from these sites is recorded in rental income on the statement of operations and totaled \$7 million and \$6 million for the three months ended June 30, 2017 and 2016 , respectively, and \$13 million and \$12 million for the six months ended June 30, 2017 and 2016 , respectively.
- (2) Equipment and other rent consists primarily of store equipment and vehicles.

Certain contingent liabilities related to unidentified environmental obligations of the retail operations are not being assumed by 7-Eleven in the Purchase Agreement. The Partnership may incur future liabilities related to currently unidentified environmental obligations related to sites included in the Purchase Agreement. The Partnership has not recorded liabilities for these contingent obligations as the existence of those environmental obligations are not known at this time. Liabilities have been recorded for all identified environmental liabilities.

14. Interest Expense, net

Components of net interest expense were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Interest expense	\$ 57	\$ 44	\$ 111	\$ 64
Amortization of deferred financing fees	4	3	8	4
Interest income	(7)	(3)	(8)	(4)
Interest expense, net	\$ 54	\$ 44	\$ 111	\$ 64

15. Income Tax Expense

As a partnership, we are generally not subject to federal income tax and most state income taxes. However, the Partnership conducts certain activities through corporate subsidiaries which are subject to federal and state income taxes.

Our effective tax rate differs from the statutory rate primarily due to Partnership earnings that are not subject to U.S. federal and most state income taxes at the Partnership level. A reconciliation of income tax expense from continuing operations at the U.S. federal statutory rate to net income tax expense is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in million)</i>			
Tax at statutory federal rate	\$ (8)	\$ 21	\$ (8)	\$ 45
Partnership earnings not subject to tax	(43)	(26)	(56)	(61)
State and local tax, net of federal benefit	(4)	—	(4)	—
Statutory tax rate changes	—	1	—	12
Other	(2)	7	(2)	9
Net income tax expense (benefit)	<u>\$ (57)</u>	<u>\$ 3</u>	<u>\$ (70)</u>	<u>\$ 5</u>

16. Partners' Capital

As of June 30, 2017, Energy Transfer Equity, L.P. ("ETE") and ETP or their subsidiaries owned all of our 12,000,000 Series A Preferred Units and 45,750,826 common units, which constitutes 46% of our outstanding common units. As of June 30, 2017, our fully consolidating subsidiaries owned 16,410,780 Class C units representing limited partner interests in the Partnership (the "Class C Units") and the public owned 53,718,058 common units.

Series A Preferred Units

On March 30, 2017, the Partnership entered into a Series A Preferred Unit Purchase Agreement with ETE, relating to the issue and sale by the Partnership to ETE of 12,000,000 Series A Preferred Units (the "Preferred Units") representing limited partner interests in the Partnership at a price per Preferred Unit of \$25.00 (the "Offering"). The distribution rate for the Preferred Units is 10.00%, per annum, of the \$25.00 liquidation preference per unit (the "Liquidation Preference") (equal to \$2.50 per Preferred Unit per annum) until March 30, 2022, at which point the distribution rate will become a floating rate of 8.00% plus three-month LIBOR of the Liquidation Preference. The Preferred Units are redeemable at any time, and from time to time, in whole or in part, at the Partnership's option at a price per Preferred Unit equal to the Liquidation Preference plus all accrued and unpaid distributions; provided that, if the Partnership redeems the Preferred Units prior to March 30, 2022, then the Partnership will redeem the Preferred Units at 101% of the Liquidation Preference, plus all accrued and unpaid distributions. The Preferred Units are not entitled to any redemption rights or conversion rights. Holders of Preferred Units will generally have no voting rights except in certain limited circumstances or as required by law. The Preferred Units were issued in a private transaction exempt from registration under section 4(a)(2) of the Securities Act.

Distributions on Preferred Units are cumulative beginning March 30, 2017, and payable quarterly in arrears, within 60 days, after the end of each quarter, commencing with the quarter ending June 30, 2017. The distribution payable for the three months ended June 30, 2017 was \$8 million.

The Offering closed on March 30, 2017, and the Partnership received proceeds from the Offering of \$300 million, which it used to repay indebtedness under its revolving credit facility.

Common Units

On October 4, 2016, the Partnership entered into an equity distribution agreement for an at-the-market ("ATM") offering with RBC Capital Markets, LLC, Barclays Capital Inc., Citigroup Global Markets Inc., Credit Agricole Securities (USA) Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mizuho Securities USA Inc., Morgan Stanley & Co. LLC, MUFG Securities Americas Inc., Natixis Securities Americas LLC, SMBC Nikko Securities America, Inc., TD Securities (USA) LLC, UBS Securities LLC and Wells Fargo Securities, LLC (collectively, the "Managers"). Pursuant to the terms of the equity distribution agreement, the Partnership may sell from time to time through the Managers the Partnership's common units representing limited partner interests having an aggregate offering price of up to \$400 million. The Partnership issued 1,268,750 common units from January 1, 2017 through June 30, 2017 in connection with the ATM for \$33 million, net of commissions of \$0.3 million. As of June 30, 2017, \$295 million of our common units remained available to be issued under the equity distribution agreement.

Activity of our common units for the six months ended June 30, 2017 is as follows:

	Number of Units
Number of common units at December 31, 2016	98,181,046
Common units issued in connection with the ATM	1,268,750
Phantom unit vesting	19,088
Number of common units at June 30, 2017	99,468,884

Allocation of Net Income

Our Partnership Agreement contains provisions for the allocation of net income and loss to the unitholders. For purposes of maintaining partner capital accounts, the Partnership Agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interest. Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to ETE.

The calculation of net income allocated to the partners is as follows (in millions, except per unit amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Attributable to Common Units				
Distributions (a)	\$ 82	\$ 79	\$ 164	\$ 157
Distributions in excess of net income	(324)	(28)	(428)	(65)
Limited partners' interest in net income (loss)	\$ (242)	\$ 51	\$ (264)	\$ 92
(a) Distributions declared per unit to unitholders as of record date	\$ 0.8255	\$ 0.8255	\$ 1.6510	\$ 1.6428

Class C Units

On January 1, 2016, the Partnership issued an aggregate of 16,410,780 Class C Units consisting of (i) 5,242,113 Class C Units that were issued to Aloha as consideration for the contribution by Aloha to an indirect wholly owned subsidiary of the Partnership of all of Aloha's assets relating to the wholesale supply of fuel and lubricants, and (ii) 11,168,667 Class C Units that were issued to indirect wholly owned subsidiaries of the Partnership in exchange for all outstanding Class A Units held by such subsidiaries. The Class C Units were valued at \$38.5856 per Class C Unit (the "Class C Unit Issue Price"), based on the volume-weighted average price of the Partnership's Common Units for the five -day trading period ending on December 31, 2015. The Class C Units were issued in private transactions exempt from registration under section 4(a)(2) of the Securities Act.

Class C Units (i) are not convertible or exchangeable into Common Units or any other units of the Partnership and are non-redeemable; (ii) are entitled to receive distributions of available cash of the Partnership (other than available cash derived from or attributable to any distribution received by the Partnership from PropCo, the proceeds of any sale of the membership interests of PropCo, or any interest or principal payments received by the Partnership with respect to indebtedness of PropCo or its subsidiaries) at a fixed rate equal to \$0.8682 per quarter for each Class C Unit outstanding, (iii) do not have the right to vote on any matter except as otherwise required by any non-waivable provision of law, (iv) are not allocated any items of income, gain, loss, deduction or credit attributable to the Partnership's ownership of, or sale or other disposition of, the membership interests of PropCo, or the Partnership's ownership of any indebtedness of PropCo or any of its subsidiaries ("PropCo Items"), (v) will be allocated gross income (other than from PropCo Items) in an amount equal to the cash distributed to the holders of Class C Units and (vi) will be allocated depreciation, amortization and cost recovery deductions as if the Class C Units were Common Units and 1% of certain allocations of net termination gain (other than from PropCo Items).

Pursuant to the terms described above, these distributions do not have an impact on the Partnership's consolidated cash flows and as such, are excluded from total cash distributions and allocation of limited partners' interest in net income. For the six months ended June 30, 2017, Class C distributions declared totaled \$28 million.

Incentive Distribution Rights

The following table illustrates the percentage allocations of available cash from operating surplus between our common unitholders and the holder of our incentive distribution rights (“IDRs”) based on the specified target distribution levels, after the payment of distributions to Class C unitholders. The amounts set forth under “marginal percentage interest in distributions” are the percentage interests of our IDR holder and the common unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column “total quarterly distribution per unit target amount.” The percentage interests shown for our common unitholders and our IDR holder for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

	Total quarterly distribution per Common Unit target amount	Marginal percentage interest in distributions	
		Common Unitholders	Holder of IDRs
Minimum Quarterly Distribution	\$0.4375	100%	—
First Target Distribution	Above \$0.4375 up to \$0.503125	100%	—
Second Target Distribution	Above \$0.503125 up to \$0.546875	85%	15%
Third Target Distribution	Above \$0.546875 up to \$0.656250	75%	25%
Thereafter	Above \$0.656250	50%	50%

Cash Distributions

Our Partnership Agreement sets forth the calculation used to determine the amount and priority of cash distributions that the common unitholders receive.

Cash distributions paid or payable during 2017 were as follows:

Payment Date	Limited Partners		Distribution to IDR Holders
	Per Unit Distribution	Total Cash Distribution	
	(in millions, except per unit amounts)		
August 15, 2017	\$ 0.8255	\$ 82	\$ 21
May 16, 2017	\$ 0.8255	\$ 82	\$ 21
February 21, 2017	\$ 0.8255	\$ 81	\$ 21

17. Unit-Based Compensation

Unit-based compensation expense related to the Partnership included in our Consolidated Statements of Operations and Comprehensive Income was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Phantom common units	\$ 5	\$ 3	\$ 9	\$ 5
Allocated expense from Parent	—	—	—	1
Total unit-based compensation expense	\$ 5	\$ 3	\$ 9	\$ 6

Phantom Common Unit Awards

The Partnership issues phantom units which have the right to receive distributions prior to vesting. The units vest 60% after three years and 40% after five years. The fair value of these units is the market price of our common units on the grant date, and is amortized over the five-year vesting period using the straight-line method. Unrecognized compensation cost related to our nonvested restricted phantom units totaled \$31 million as of June 30, 2017, which is expected to be recognized over a weighted average period of 3.87 years. The fair value of nonvested phantom units outstanding as of June 30, 2017 totaled \$66 million.

A summary of our phantom unit award activity is as follows:

	Number of Phantom Common Units	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	1,147,048	\$ 41.19
Granted	966,337	26.95
Vested	(1,240)	36.98
Forfeited	(98,511)	39.77
Outstanding at December 31, 2016	2,013,634	34.43
Granted	20,112	26.27
Vested	(28,292)	45.61
Forfeited	(80,735)	36.91
Outstanding at June 30, 2017	1,924,719	\$ 34.04

Cash Awards

In January 2015, the Partnership granted 30,710 awards that are settled in cash under the terms of the Sunoco LP Long-Term Cash Restricted Unit Plan. An additional 1,000 awards were granted in September 2015. During the six months ended June 30, 2017, 3,400 units were forfeited. These awards do not have the right to receive distributions prior to vesting. The awards vest 100% after three years. Unrecognized compensation cost related to our nonvested cash awards totaled \$0.2 million as of June 30, 2017, which is expected to be recognized during 2017. The fair value of nonvested cash awards outstanding as of June 30, 2017 totaled \$1 million.

18. Segment Reporting

Segment information is prepared on the same basis that our Chief Operating Decision Maker (“CODM”) reviews financial information for operational decision-making purposes. We operate our business in two primary segments, wholesale and retail, both of which are included as reportable segments. No operating segments have been aggregated in identifying the two reportable segments.

We allocate shared revenue and costs to each segment based on the way our CODM measures segment performance. Partnership overhead costs, interest and other expenses not directly attributable to a reportable segment are allocated based on segment gross profit.

We report EBITDA and Adjusted EBITDA by segment as a measure of segment performance. We define EBITDA as net income before net interest expense, income tax expense and depreciation, amortization and accretion expense. We define Adjusted EBITDA to include adjustments for non-cash compensation expense, gains and losses on disposal of assets and impairment charges, unrealized gains and losses on commodity derivatives and inventory adjustments.

Wholesale Segment

Our wholesale segment purchases motor fuel primarily from independent refiners and major oil companies and supplies it to our retail segment, to independently-operated dealer stations under long-term supply agreements, and to distributors and other consumers of motor fuel. Also included in the wholesale segment are motor fuel sales to consignment locations and sales and costs related to processing transmix. We distribute motor fuels across more than 30 states throughout the East Coast and Southeast regions of the United States from Maine to Florida and from Florida to New Mexico, as well as Hawaii. Sales of fuel from our wholesale segment to our retail segment are delivered at cost plus a profit margin. These amounts are reflected in intercompany eliminations of motor fuel revenue and motor fuel cost of sales. Also included in our wholesale segment is rental income from properties that we lease or sublease.

Retail Segment

Our retail segment primarily operates branded retail convenience stores across more than 20 states throughout the East Coast and Southeast regions of the United States with a significant presence in Texas, Pennsylvania, New York, Florida, and Hawaii. These stores offer motor fuel, merchandise, foodservice, and a variety of other services including car washes, lottery, automated teller machines, money orders, prepaid phone cards and wireless services. These operations located in the Continental United States are included in discontinued operations in the following segment information. The remaining retail segment includes the Partnership's ethanol plant, credit card services, franchise royalties, and its retail operations in Hawaii.

The following tables present financial information by segment for the three and six months ended June 30, 2017 and 2016 (operating performance related to the retail assets held for sale are included in discontinued operations in segment financial information):

	For the Three Months Ended June 30,							
	2017				2016			
	Wholesale Segment	Retail Segment	Intercompany Eliminations	Totals	Wholesale Segment	Retail Segment	Intercompany Eliminations	Totals
<i>(in millions)</i>								
Revenue								
Retail motor fuel	\$ —	\$ 39		\$ 39	\$ —	\$ 46		\$ 46
Wholesale motor fuel sales to third parties	2,281	—		2,281	1,997	—		1,997
Wholesale motor fuel sales to affiliates	6	—		6	10	—		10
Merchandise	—	18		18	—	17		17
Rental income	19	3		22	19	3		22
Other	12	22		34	6	25		31
Intersegment sales	108	24	(132)	—	79	30	(109)	—
Total revenue	2,426	106	(132)	2,400	2,111	121	(109)	2,123
Gross profit								
Retail motor fuel	—	6		6	—	3		3
Wholesale motor fuel	102	—		102	168	—		168
Merchandise	—	5		5	—	5		5
Rental and other	27	25		52	24	27		51
Total gross profit	129	36		165	192	35		227
Total operating expenses	111	23		134	89	34		123
Operating income	18	13		31	103	1		104
Interest expense, net	14	40		54	17	27		44
Income (loss) from continuing operations before income taxes	4	(27)		(23)	86	(26)		60
Income tax expense (benefit)	(1)	(56)		(57)	—	3		3
Income (loss) from continuing operations	5	29		34	86	(29)		57
Income (loss) from discontinued operations, net of income taxes (See Note 4)	—	(256)		(256)	—	15		15
Net income (loss) and comprehensive income (loss)	\$ 5	\$ (227)		\$ (222)	\$ 86	\$ (14)		\$ 72
Depreciation, amortization and accretion (1)	37	2		39	18	61		79
Interest expense, net (1)	14	44		58	17	34		51
Income tax expense (benefit) (1)	(1)	(22)		(23)	—	1		1
EBITDA	55	(203)		(148)	121	82		203
Non-cash compensation expense (1)	1	4		5	2	1		3
Loss on disposal of assets and impairment charges (1)	2	324		326	—	2		2
Unrealized gain on commodity derivatives (1)	5	—		5	6	—		6
Inventory adjustments (1)	30	2		32	(49)	(1)		(50)
Adjusted EBITDA	\$ 93	\$ 127		\$ 220	\$ 80	\$ 84		\$ 164
Capital expenditures (1)	\$ 14	\$ 19		\$ 33	\$ 37	\$ 47		\$ 84
Total assets as of June 30, 2017 and December 31, 2016, respectively	\$ 3,095	\$ 5,216		\$ 8,311	\$ 3,201	\$ 5,500		\$ 8,701

(1) Includes amounts from discontinued operations.

	For the Six Months Ended June 30,							
	2017				2016			
	Wholesale Segment	Retail Segment	Intercompany Eliminations	Totals	Wholesale Segment	Retail Segment	Intercompany Eliminations	Totals
	(in millions)							
Revenue								
Retail motor fuel	\$ —	\$ 77		\$ 77	\$ —	\$ 91		\$ 91
Wholesale motor fuel sales to third parties	4,525	—		4,525	3,493	—		3,493
Wholesale motor fuel sales to affiliates	28	—		28	17	—		17
Merchandise	—	34		34	—	33		33
Rental income	38	6		44	38	5		43
Other	24	43		67	13	61		74
Intersegment sales	220	59	(279)	—	148	61	(209)	—
Total revenue	4,835	219	(279)	4,775	3,709	251	(209)	3,751
Gross profit								
Retail motor fuel	—	11		11	—	8		8
Wholesale motor fuel	225	—		225	305	—		305
Merchandise	—	10		10	—	10		10
Rental and other	55	48		103	48	65		113
Total gross profit	280	69		349	353	83		436
Total operating expenses	203	56		259	169	76		245
Operating income	77	13		90	184	7		191
Interest expense, net	33	78		111	26	38		64
Income (loss) from continuing operations before income taxes	44	(65)		(21)	158	(31)		127
Income tax expense (benefit)	—	(70)		(70)	—	5		5
Income (loss) from continuing operations	44	5		49	158	(36)		122
Income (loss) from discontinued operations, net of income taxes (See Note 4)	—	(270)		(270)	—	12		12
Net income (loss) and comprehensive income (loss)	\$ 44	\$ (265)		\$ (221)	\$ 158	\$ (24)		\$ 134
Depreciation, amortization and accretion (1)	59	67		126	34	122		156
Interest expense, net (1)	33	87		120	26	53		79
Income tax expense (benefit) (1)	—	(40)		(40)	—	3		3
EBITDA	136	(151)		(15)	218	154		372
Non-cash compensation expense (1)	1	8		9	5	1		6
Loss (gain) on disposal of assets and impairment charges (1)	4	329		333	(1)	3		2
Unrealized gain on commodity derivatives (1)	—	—		—	3	—		3
Inventory fair value adjustments (1)	43	5		48	(59)	(1)		(60)
Adjusted EBITDA	\$ 184	\$ 191		\$ 375	\$ 166	\$ 157		\$ 323
Capital expenditures(1)	\$ 26	\$ 73		\$ 99	\$ 69	\$ 111		\$ 180
Total assets as of June 30, 2017 and December 31, 2016, respectively	\$ 3,095	\$ 5,216		\$ 8,311	\$ 3,201	\$ 5,500		\$ 8,701

(1) Includes amounts from discontinued operations.

19. Net Income per Unit

Net income per unit applicable to limited partners is computed by dividing limited partners' interest in net income by the weighted-average number of outstanding common units. Our net income is allocated to the limited partners in accordance with their respective partnership percentages, after giving effect to any priority income allocations for incentive distributions and distributions on employee unit awards. Earnings in excess of distributions are allocated to the limited partners based on their respective ownership interests. Payments made to our unitholders are determined in relation to actual distributions declared and are not based on the net income allocations used in the calculation of net income per unit.

In addition to the common units, we identify the IDRs as participating securities and use the two-class method when calculating net income per unit applicable to limited partners, which is based on the weighted-average number of common units outstanding during the period. Diluted net income per unit includes the effects of potentially dilutive units on our common units, consisting of unvested phantom units.

A reconciliation of the numerators and denominators of the basic and diluted per unit computations is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions, except units and per unit amounts)</i>			
Income from continuing operations	\$ 34	\$ 57	\$ 49	\$ 122
Less:				
Distributions on Series A Preferred units	8	—	8	—
Incentive distribution rights	21	20	42	40
Distributions on nonvested phantom unit awards	2	1	3	2
Limited partners' interest in income from continuing operations	<u>\$ 3</u>	<u>\$ 36</u>	<u>\$ (4)</u>	<u>\$ 80</u>
Income (loss) from discontinued operations	<u>\$ (256)</u>	<u>\$ 15</u>	<u>\$ (270)</u>	<u>\$ 12</u>
Weighted average limited partner units outstanding:				
Common - basic	99,466,424	95,339,786	99,040,383	91,396,560
Common - equivalents	433,583	55,956	265,662	55,956
Common - diluted	99,900,007	95,395,742	99,306,045	91,452,516
Income (loss) from continuing operations per limited partner unit:				
Common - basic	\$ 0.04	\$ 0.38	\$ (0.05)	\$ 0.88
Common - diluted	\$ 0.03	\$ 0.38	\$ (0.05)	\$ 0.88
Income (loss) from discontinued operations per limited partner unit:				
Common - basic	\$ (2.56)	\$ 0.15	\$ (2.72)	\$ 0.13
Common - diluted	\$ (2.56)	\$ 0.15	\$ (2.72)	\$ 0.13

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report. Additional discussion and analysis related to our Partnership is contained in our Annual Report on Form 10-K including the audited financial statements for the fiscal year ended December 31, 2016.

EBITDA, Adjusted EBITDA, and distributable cash flow are non-GAAP financial measures of performance that have limitations and should not be considered as a substitute for net income or cash provided by (used in) operating activities. Please see "Key Measures Used to Evaluate and Assess Our Business" below for a discussion of our use of EBITDA, Adjusted EBITDA, and distributable cash flow in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and a reconciliation to net income for the periods presented.

Forward-Looking Statements

This report, including without limitation, our discussion and analysis of our financial condition and results of operations, and any information incorporated by reference, contains statements that we believe are "forward-looking statements". These forward-looking statements generally can be identified by use of phrases such as "believe," "plan," "expect," "anticipate," "intend," "forecast" or other similar words or phrases. Descriptions of our objectives, goals, targets, plans, strategies, costs, anticipated capital expenditures, expected cost savings and benefits are also forward-looking statements. These forward-looking statements are based on our current plans and expectations and involve a number of risks and uncertainties that could cause actual results and events to vary materially from the results and events anticipated or implied by such forward-looking statements, including:

- the possibility that we may not complete the sale of our company-operated retail fuel outlets and ancillary businesses and assets to 7-Eleven, Inc. (the "7-Eleven Transaction") in a timely manner, or at all, including due to the failure to receive any necessary governmental or regulatory approvals required to be completed by the transactions contemplated by the asset purchase agreement;

- the risk that the 7-Eleven Transaction disrupts current plans and operations, results in management distraction and the potential difficulties in maintaining relationships with customers, suppliers and other third parties and employee retention as a result of the announcement and consummation of the 7-Eleven Transaction;
- the outcome of any legal proceedings that may be instituted against us following the announcement of the 7-Eleven Transaction;
- the occurrence of any event, change or other circumstance that would give rise to the termination of the 7-Eleven asset purchase agreement;
- limitations placed on our ability to materially change our retail business operations under the pending 7-Eleven asset purchase agreement;
- the possibility of the purchase price adjustments pursuant to the terms of the 7-Eleven asset purchase agreement, which can reduce the cash proceeds ultimately received by us in the 7-Eleven Transaction, even if it is complete;
- the possibility that we may not be able to complete the sale of the remaining company-operated retail assets in a timely manner, or at all;
- our ability to make, complete and integrate acquisitions from affiliates or third-parties;
- business strategy and operations of Energy Transfer Partners, L.P. (“ETP”) and Energy Transfer Equity, L.P. (“ETE”) and ETP’s and ETE’s conflicts of interest with us;
- changes in the price of and demand for the motor fuel that we distribute and our ability to appropriately hedge any motor fuel we hold in inventory;
- our dependence on limited principal suppliers;
- competition in the wholesale motor fuel distribution and convenience store industry;
- changing customer preferences for alternate fuel sources or improvement in fuel efficiency;
- environmental, tax and other federal, state and local laws and regulations;
- the fact that we are not fully insured against all risk incidents to our business;
- dangers inherent in the storage and transportation of motor fuel;
- our reliance on senior management, supplier trade credit and information technology; and
- our partnership structure, which may create conflicts of interest between us and Sunoco GP LLC, our general partner (“General Partner”), and its affiliates, and limits the fiduciary duties of our General Partner and its affiliates.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

For a discussion of these and other risks and uncertainties, please refer to “Item 1A. Risk Factors” included herein, in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. The list of factors that could affect future performance and the accuracy of forward-looking statements is illustrative but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. The forward-looking statements included in this report are based on, and include, our estimates as of the filing of this report. We anticipate that subsequent events and market developments will cause our estimates to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so except as required by law, even if new information becomes available in the future.

Overview

As used in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, the terms “Partnership”, “SUN”, “we”, “us”, or “our” should be understood to refer to Sunoco LP and our consolidated subsidiaries, unless the context clearly indicates otherwise.

We are a growth-oriented Delaware master limited partnership engaged in the retail sale of motor fuels and merchandise through our company-operated convenience stores and retail fuel sites, as well as the wholesale distribution of motor fuels to convenience stores, independent dealers, commercial customers and distributors. Additionally, we are the exclusive wholesale supplier of the iconic Sunoco-branded motor fuel, supplying an extensive distribution network of 5,341 Sunoco-branded company and third-party operated locations throughout the East Coast, Midwest and Southeast regions of the United States including 246 company-operated Sunoco-branded Stripes locations in Texas and Louisiana.

We are managed by our General Partner. As of August 4, 2017, ETE, a publicly traded master limited partnership, owns 100% of the membership interests in our General Partner, 2.3% of our outstanding common units, and all of our incentive distribution rights and

Series A Preferred Units. ETP, another publicly traded master limited partnership which is also controlled by ETE, owns 43.7% of our outstanding common units as of August 4, 2017. Additional information is provided in Note 1 of our Notes to Consolidated Financial Statements.

In late 2015, we announced plans to open a corporate office in Dallas, Texas. Certain employees have relocated to Dallas from Philadelphia, Pennsylvania, Houston, Texas and Corpus Christi, Texas. The costs incurred in 2016 were \$18 million, and substantially reflects the total costs for the relocation. We do not anticipate any further material costs related to the relocation during 2017.

We believe we are one of the largest independent motor fuel distributors by gallons in Texas and one of the largest distributors of Chevron, Exxon, and Valero branded motor fuel in the United States. In addition to distributing motor fuel, we also distribute other petroleum products such as propane and lubricating oil, and we receive rental income from real estate that we lease or sublease.

We purchase motor fuel primarily from independent refiners and major oil companies and distribute it across more than 30 states throughout the East Coast, Midwest and Southeast regions of the United States, as well as Hawaii to:

- 1,353 company-operated convenience stores and fuel outlets;
- 159 independently operated consignment locations where we sell motor fuel to retail customers under consignment arrangements with such operators;
- 5,523 convenience stores and retail fuel outlets operated by independent operators, which we refer to as “dealers” or “distributors,” pursuant to long-term distribution agreements; and
- 2,255 other commercial customers, including unbranded convenience stores, other fuel distributors, school districts, municipalities and other industrial customers.

Our retail segment operates 1,353 convenience stores and fuel outlets. Our retail convenience stores operate under several brands, including our proprietary brands Stripes, APlus, and Aloha Island Mart, and offer a broad selection of food, beverages, snacks, grocery and non-food merchandise, motor fuels and other services. We sold 650 million and 1.2 billion retail motor fuel gallons at these sites during the three and six months ended June 30, 2017. We opened 10 new retail sites during the six months ended June 30, 2017, which is reflected in retail activity for the period.

We operate 748 Stripes convenience stores that carry a broad selection of food, beverages, snacks, grocery and non-food merchandise. Our proprietary, in-house Laredo Taco Company restaurant is implemented in 477 Stripes convenience stores. Additionally, we have 56 national branded restaurant offerings in our Stripes stores.

We operate 446 retail convenience stores and fuel outlets under our proprietary and iconic Sunoco fuel brand, which are primarily located in Pennsylvania, New York, and Florida, including 408 APlus convenience stores.

We operate 159 MACS and Aloha convenience stores and fuel outlets in Virginia, Maryland, Tennessee, Georgia, and Hawaii offering merchandise, foodservice, motor fuels and other services.

Assets Held For Sale, Acquisitions and Recent Developments

On April 6, 2017, we entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with 7-Eleven, Inc., a Texas corporation (“7-Eleven”) and SEI Fuel Services, Inc., a Texas corporation and wholly-owned subsidiary of 7-Eleven. Pursuant to the Asset Purchase Agreement, we have agreed to sell a portfolio of approximately 1,112 company-operated retail fuel outlets in 19 geographic regions, together with ancillary businesses and related assets, including the Laredo Taco Company, for an aggregate purchase price of \$3.3 billion. The closing of the transaction contemplated by the Asset Purchase Agreement is expected to occur in the fourth quarter of 2017, and is subject to the satisfaction or waiver of customary closing conditions for a transaction of this type, including the receipt of any approvals required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

With the assistance of a third-party brokerage firm, we have begun marketing efforts with respect to approximately 208 Stripes sites located in certain West Texas, Oklahoma and New Mexico markets in which 7-Eleven is prohibited from operating convenience stores. There can be no assurance of our success in selling the remaining company-operated retail assets, nor the price or terms of such sale, and even if a sale is consummated, we may remain contingently responsible for certain risks and obligations related to the divested retail assets.

On March 30, 2017, the Partnership entered into a Series A Preferred Unit Purchase Agreement with ETE, relating to the issue and sale by the Partnership to ETE of 12,000,000 Series A Preferred Units (the “Preferred Units”) representing limited partner interests in the Partnership at a price per Preferred Unit of \$25.00 (the “Offering”). The distribution rate for the Preferred Units will be 10.00%, per annum, of the \$25.00 liquidation preference per unit (the “Liquidation Preference”) (equal to \$2.50 per Preferred Unit per annum) until March 30, 2022, at which point the distribution rate will become a floating rate of 8.00% plus three-month LIBOR of the Liquidation Preference. The Offering closed on March 30, 2017, and the Partnership received proceeds from the Offering of \$300 million, which was used to repay indebtedness under the revolving credit facility.

On January 18, 2017, with the assistance of a third-party brokerage firm, we launched a portfolio optimization plan to market and sell 97 real estate assets. Real estate assets included in this process are company-owned locations, undeveloped greenfield sites and other excess real estate. Properties are located in Florida, Louisiana, Massachusetts, Michigan, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Texas and Virginia. The properties will be sold through a sealed-bid sale.

Of the 97 properties, 16 have been sold and an additional 20 are under contract to be sold. 31 are being sold to 7-Eleven and 9 are being sold in another transaction. The remaining 21 continue to be marketed by the third-party brokerage firm.

Key Measures Used to Evaluate and Assess Our Business

Management uses a variety of financial measurements to analyze business performance, including the following key measures:

- *Wholesale and retail motor fuel gallons sold* . One of the primary drivers of our business is the total volume of motor fuel sold through our wholesale and retail channels. Fuel distribution contracts with our wholesale customers generally provide that we distribute motor fuel at a fixed, volume-based profit margin or at an agreed upon level of price support. As a result, wholesale gross profit is directly tied to the volume of motor fuel that we distribute.
- *Gross profit per gallon* . Gross profit per gallon is calculated as the gross profit on motor fuel (excluding non-cash fair value adjustments) divided by the number of gallons sold, and is typically expressed as cents per gallon. Our gross profit per gallon varies amongst our third-party relationships and is impacted by the availability of certain discounts and rebates from suppliers. Retail gross profit per gallon is heavily impacted by volatile pricing and intense competition from convenience stores, supermarkets, club stores and other retail formats, which varies based on the market.
- *Merchandise gross profit and margin* . Merchandise gross profit is calculated as the gross sales price of merchandise less direct cost of goods and shortages, including bad merchandise and theft. Merchandise margin is calculated as merchandise gross profit as a percentage of merchandise sales. We do not include gross profit from ancillary products and services in the calculation of merchandise gross profit.
- *EBITDA, Adjusted EBITDA and distributable cash flow* . EBITDA as used throughout this document, is defined as earnings before net interest expense, income taxes, depreciation, amortization and accretion expense. Adjusted EBITDA is further adjusted to exclude allocated non-cash compensation expense, unrealized gains and losses on commodity derivatives and inventory fair value adjustments, and certain other operating expenses reflected in net income that we do not believe are indicative of ongoing core operations, such as gain or loss on disposal of assets and non-cash impairment charges. We define distributable cash flow as Adjusted EBITDA less cash interest expense, including the accrual of interest expense related to our long-term debt which is paid on a semi-annual basis, Series A Preferred distribution, current income tax expense, maintenance capital expenditures and other non-cash adjustments.

Adjusted EBITDA and distributable cash flow are not financial measures calculated in accordance with GAAP. For a reconciliation of Adjusted EBITDA and distributable cash flow to their most directly comparable financial measure calculated and presented in accordance with GAAP, read “Key Operating Metrics” below.

We believe EBITDA, Adjusted EBITDA and distributable cash flow are useful to investors in evaluating our operating performance because:

- Adjusted EBITDA is used as a performance measure under our revolving credit facility;
- securities analysts and other interested parties use such metrics as measures of financial performance, ability to make distributions to our unitholders and debt service capabilities;
- our management uses them for internal planning purposes, including aspects of our consolidated operating budget, and capital expenditures; and
- distributable cash flow provides useful information to investors as it is a widely accepted financial indicator used by investors to compare partnership performance, and as it provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating.

EBITDA, Adjusted EBITDA and distributable cash flow are not recognized terms under GAAP and do not purport to be alternatives to net income (loss) as measures of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA, Adjusted EBITDA and distributable cash flow have limitations as analytical tools, and one should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations include:

- they do not reflect our total cash expenditures, or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, working capital;

- they do not reflect interest expense or the cash requirements necessary to service interest or principal payments on our revolving credit facility or term loan;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- as not all companies use identical calculations, our presentation of EBITDA, Adjusted EBITDA and distributable cash flow may not be comparable to similarly titled measures of other companies.

Key Operating Metrics

The following information is intended to provide investors with a reasonable basis for assessing our historical operations but should not serve as the only criteria for predicting our future performance. We operate our business in two primary operating divisions, wholesale and retail, both of which are included as reportable segments.

Key operating metrics set forth below are presented as of and for the three and six months ended June 30, 2017 and 2016 and have been derived from our historical consolidated financial statements.

The operating results for the discontinued operations are shown in the retail operations segment for the purposes of presenting the key operating metrics.

The following table sets forth, for the periods indicated, information concerning key measures we rely on to gauge our operating performance:

	For the Three Months Ended June 30,					
	2017			2016		
	Wholesale	Retail	Total	Wholesale	Retail	Total
<i>(dollars and gallons in millions, except motor fuel gross profit per gallon)</i>						
Revenues:						
Retail motor fuel	\$ —	\$ 39	\$ 39	\$ —	\$ 46	\$ 46
Wholesale motor fuel sales to third parties	2,281	—	2,281	1,997	—	1,997
Wholesale motor fuel sale to affiliates	6	—	6	10	—	10
Merchandise	—	18	18	—	17	17
Rental income	19	3	22	19	3	22
Other	12	22	34	6	25	31
Total revenues	\$ 2,318	\$ 82	\$ 2,400	\$ 2,032	\$ 91	\$ 2,123
Gross profit:						
Retail motor fuel	\$ —	\$ 6	\$ 6	\$ —	\$ 3	\$ 3
Wholesale motor fuel	102	—	102	168	—	168
Merchandise	—	5	5	—	5	5
Rental and other	27	25	52	24	27	51
Total gross profit	\$ 129	\$ 36	\$ 165	\$ 192	\$ 35	\$ 227
Net income (loss) and comprehensive income (loss) from continuing operations	5	29	34	86	(29)	57
Net income (loss) and comprehensive income (loss) from discontinued operations	—	(256)	(256)	—	15	15
Net income (loss) and comprehensive income (loss)	\$ 5	\$ (227)	\$ (222)	\$ 86	\$ (14)	\$ 72
Adjusted EBITDA (2)	\$ 93	\$ 127	\$ 220	\$ 80	\$ 84	\$ 164
Distributable cash flow, as adjusted (2)			\$ 158			\$ 92
Operating Data:						
Total motor fuel gallons sold:						
Retail (3)		650	650		641	641
Wholesale	1,374		1,374	1,316		1,316
Motor fuel gross profit cents per gallon (1):						
Retail (3)		29.2¢	29.2¢		24.0¢	24.0¢
Wholesale	10.1¢		10.1¢	8.8¢		8.8¢
Volume-weighted average for all gallons (3)			16.2¢			13.8¢
Retail merchandise margin (3)		32.1%			32.5%	

(1) Excludes the impact of inventory adjustments consistent with the definition of Adjusted EBITDA.

(2) We define EBITDA, Adjusted EBITDA, and distributable cash flow as described above under “Key Measures Used to Evaluate and Assess Our Business”.

(3) Includes amounts from discontinued operations.

The following table presents a reconciliation of net income to EBITDA, Adjusted EBITDA and distributable cash flow for the three months ended June 30, 2017 and 2016 :

	For the Three Months Ended June 30,					
	2017			2016		
	Wholesale	Retail	Total	Wholesale	Retail	Total
	<i>(in millions)</i>					
Net income (loss) and comprehensive income (loss)	\$ 5	\$ (227)	\$ (222)	\$ 86	\$ (14)	\$ 72
Depreciation, amortization and accretion (1)	37	2	39	18	61	79
Interest expense, net (1)	14	44	58	17	34	51
Income tax expense (benefit) (1)	(1)	(22)	(23)	—	1	1
EBITDA	\$ 55	\$ (203)	\$ (148)	\$ 121	\$ 82	\$ 203
Non-cash compensation expense (1)	1	4	5	2	1	3
Loss on disposal of assets and impairment charges (1)	2	324	326	—	2	2
Unrealized gain on commodity derivatives (1)	5	—	5	6	—	6
Inventory adjustments (1)	30	2	32	(49)	(1)	(50)
Adjusted EBITDA	\$ 93	\$ 127	\$ 220	\$ 80	\$ 84	\$ 164
Cash interest expense (1)			53			48
Income tax expense (current) (1)			2			—
Maintenance capital expenditures (1)			7			24
Distributable cash flow			\$ 158			\$ 92
Transaction-related expenses (1)			8			—
Series A Preferred distribution			(8)			—
Distributable cash flow, as adjusted			\$ 158			\$ 92

(1) Includes amounts from discontinued operations.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

The following discussion of results compares the operations for the three months ended June 30, 2017 and 2016 .

Revenue. Total revenue for the second quarter of 2017 was \$2.4 billion , an increase of \$277 million from the second quarter of 2016 . The increase is primarily attributable to the following:

- an increase in wholesale motor fuel revenue of \$280 million due to a 9.1% , or a \$0.14 , increase in the sales price per wholesale motor fuel gallon, and an increase in wholesale motor fuel gallons sold of approximately 58 million ; slightly offset by
- a net decrease in other revenue consisting of merchandise, rental income and retail motor fuel of \$3 million .

Gross Profit . Gross profit for the second quarter of 2017 was \$165 million , a decrease of \$62 million from the second quarter of 2016 . The decrease in gross profit is primarily attributable to the following:

- a decrease in reported gross profit on wholesale motor fuel of \$66 million primarily due to a \$78 million unfavorable inventory adjustment change from 2016. Excluding the inventory adjustment change, we had a 14.8% , or a \$0.013 , increase in the gross profit per wholesale motor fuel gallon and an increase in wholesale motor fuel gallons sold of approximately 58 million ; slightly offset by
- a net decrease in other gross profit consisting of merchandise, rental and retail motor fuel of \$3 million .

Total Operating Expenses . Total operating expenses for the second quarter of 2017 were \$134 million , an increase of \$11 million from the second quarter of 2016 . The increase in total operating expenses is primarily attributable to the following:

- an increase in depreciation, amortization and accretion expense of \$5 million due to recent acquisitions and capital expenditures ;
- an increase in general and administrative expenses of \$4 million primarily due to higher transaction costs;
- an increase in loss on disposal of assets of \$3 million ; offset by
- a decrease in other operating expenses of \$1 million .

Interest Expense . Interest expense for the second quarter of 2017 was \$54 million , an increase of \$10 million from the second quarter of 2016 . This increase is primarily attributable to higher interest rates on our borrowings under our term loan agreement that we entered into on March 31, 2016 (“Term Loan”) and our revolving credit facility that we entered into on September 25, 2014 (the “2014 Revolver”).

Income Tax Expense/(Benefit). Income tax benefit for the second quarter of 2017 was \$57 million , a change of \$60 million from income tax expense of \$3 million for the second quarter of 2016 . This change is primarily attributable to lower earnings from the Partnership's consolidated corporate subsidiaries.

Discontinued Operations. Net income (loss) and comprehensive income (loss) from discontinued operations decreased by \$271 million , which was primarily attributable to a goodwill impairment of \$320 million and a \$7 million increase in total operating, interest and income tax expenses, which was offset by an increase in the gross profit of \$56 million . See footnote 4 of the consolidated financial statements for the results from the discontinued operations.

The following table sets forth, for the periods indicated, information concerning key measures we rely on to gauge our operating performance:

	For the Six Months Ended June 30,					
	2017			2016		
	Wholesale	Retail	Total	Wholesale	Retail	Total
<i>(dollars and gallons in millions, except motor fuel gross profit per gallon)</i>						
Revenues:						
Retail motor fuel	\$ —	\$ 77	\$ 77	\$ —	\$ 91	\$ 91
Wholesale motor fuel sales to third parties	4,525	—	4,525	3,493	—	3,493
Wholesale motor fuel sale to affiliates	28	—	28	17	—	17
Merchandise	—	34	34	—	33	33
Rental income	38	6	44	38	5	43
Other	24	43	67	13	61	74
Total revenues	\$ 4,615	\$ 160	\$ 4,775	\$ 3,561	\$ 190	\$ 3,751
Gross profit:						
Retail motor fuel	\$ —	\$ 11	\$ 11	\$ —	\$ 8	\$ 8
Wholesale motor fuel	225	—	225	305	—	305
Merchandise	—	10	10	—	10	10
Rental and other	55	48	103	48	65	113
Total gross profit	\$ 280	\$ 69	\$ 349	\$ 353	\$ 83	\$ 436
Net income (loss) and comprehensive income (loss) from continuing operations	44	5	49	158	(36)	122
Net income (loss) and comprehensive income (loss) from discontinued operations	—	(270)	(270)	—	12	12
Net income (loss) and comprehensive income (loss)	\$ 44	\$ (265)	\$ (221)	\$ 158	\$ (24)	\$ 134
Adjusted EBITDA (2)	\$ 184	\$ 191	\$ 375	\$ 166	\$ 157	\$ 323
Distributable cash flow, as adjusted (2)			\$ 235			\$ 204
Operating Data:						
Total motor fuel gallons sold:						
Retail (3)		1,244	1,244		1,249	1,249
Wholesale	2,687		2,687	2,548		2,548
Motor fuel gross profit cents per gallon (1):						
Retail (3)		26.3¢	26.3¢		22.7¢	22.7¢
Wholesale	10.4¢		10.4¢	10.0¢		10.0¢
Volume-weighted average for all gallons (3)			15.4¢			14.2¢
Retail merchandise margin (3)		31.9%			32.1%	

(1) Excludes the impact of inventory adjustments consistent with the definition of Adjusted EBITDA.

(2) We define EBITDA, Adjusted EBITDA, and distributable cash flow as described above under “Key Measures Used to Evaluate and Assess Our Business”.

(3) Includes amounts from discontinued operations.

The following table presents a reconciliation of net income to EBITDA, Adjusted EBITDA and distributable cash flow for the six months ended June 30, 2017 and 2016 :

	For the Six Months Ended June 30,					
	2017			2016		
	Wholesale	Retail	Total	Wholesale	Retail	Total
<i>(in millions)</i>						
Net income (loss) and comprehensive income (loss)	\$ 44	\$ (265)	\$ (221)	\$ 158	\$ (24)	\$ 134
Depreciation, amortization and accretion (1)	59	67	126	34	122	156
Interest expense, net (1)	33	87	120	26	53	79
Income tax expense (benefit) (1)	—	(40)	(40)	—	3	3
EBITDA	\$ 136	\$ (151)	\$ (15)	\$ 218	\$ 154	\$ 372
Non-cash compensation expense (1)	1	8	9	5	1	6
Loss on disposal of assets and impairment charges (1)	4	329	333	(1)	3	2
Unrealized gain on commodity derivatives (1)	—	—	—	3	—	3
Inventory adjustments (1)	43	5	48	(59)	(1)	(60)
Adjusted EBITDA	\$ 184	\$ 191	\$ 375	\$ 166	\$ 157	\$ 323
Cash interest expense (1)			113			74
Income tax expense (current) (1)			2			2
Maintenance capital expenditures (1)			25			44
Distributable cash flow			\$ 235			\$ 203
Transaction-related expenses (1)			8			1
Series A Preferred distribution			(8)			—
Distributable cash flow, as adjusted			\$ 235			\$ 204

(1) Includes amounts from discontinued operations.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

The following discussion of results compares the operations for the six months ended June 30, 2017 and 2016 .

Revenue. Total revenue for the first six months ended June 30, 2017 was \$4.8 billion , an increase of \$1.0 billion from the first six months ended June 30, 2016 . The increase is primarily attributable to the following:

- an increase in wholesale motor fuel revenue of \$1.0 billion due to a 23.0% , or a \$0.32 , increase in the sales price per wholesale motor fuel gallon, and an increase in wholesale motor fuel gallons sold of approximately 139 million ;

Gross Profit . Gross profit for the first six months ended June 30, 2017 was \$349 million , a decrease of \$87 million from the first six months ended June 30, 2016 . The decrease in gross profit is primarily attributable to the following:

- a decrease in the gross profit on wholesale motor fuel of \$80 million primarily due to a \$102 million unfavorable inventory adjustment change from 2016. Excluding the inventory adjustment change, we had a 4.0% , or a \$0.004 , increase in the gross profit per wholesale motor fuel gallon and an increase in wholesale motor fuel gallons sold of approximately 139 million ;
- a net decrease in other gross profit consisting of merchandise, rental and retail motor fuel of \$7 million.

Total Operating Expenses . Total operating expenses for the first six months ended June 30, 2017 were \$259 million , an increase of \$14 million from the first six months ended June 30, 2016 . The increase in total operating expenses is primarily attributable to the following:

- an increase in other operating expenses of \$10 million primarily attributable to our retail business which has expanded through third-party acquisitions as well as through the construction of new-to-industry sites, resulting in a collective increase of utilities, maintenance expenses, property taxes and credit card processing fees;
- an increase in depreciation, amortization and accretion expense of \$9 million due to higher capital expenditures over the past year;
- an increase in loss on disposal of assets of \$5 million ;
- an increase in rent expense of \$1 million ; offset by
- a decrease in general and administrative expenses of \$11 million primarily due to higher transaction costs and salaries and wages in the six months ended June 30, 2016.

Interest Expense . Interest expense for the first six months ended June 30, 2017 was \$111 million , an increase of \$47 million from the first six months ended June 30, 2016 . This increase is primarily attributable to the borrowings under our term loan agreement that we entered into on March 31, 2016 (“Term Loan”), the issuance of our \$800 million 6.250% senior notes due 2021(the “2021 Senior Notes”) on April 7, 2016, as well as the increase in borrowings under our revolving credit facility that we entered into on September 25, 2014 (the “2014 Revolver”).

Income Tax Expense/(Benefit). Income tax benefit for the first six months ended June 30, 2017 was \$70 million , a change of \$75 million from income tax expense of \$5 million for the first six months ended June 30, 2016 . This change is primarily attributable to lower earnings from the Partnership's consolidated corporate subsidiaries.

Discontinued Operations. Net income (loss) and comprehensive income (loss) from discontinued operations decreased by \$282 million change in net loss, which was primarily attributable to a goodwill impairment of \$320 million , offset by an increase in the gross profit of \$73 million and a decrease in depreciation, amortization and accretion expense of \$39 million due to the discontinuance of depreciation expense on the assets held. See footnote 4 of the consolidated financial statements for the results from the discontinued operations.

Liquidity and Capital Resources

Liquidity

Our principal liquidity requirements are to finance current operations, to fund capital expenditures, including acquisitions from time to time, to service our debt and to make distributions. We expect our ongoing sources of liquidity to include cash generated from operations, borrowings under our revolving credit facility and the issuance of additional long-term debt or partnership units as appropriate given market conditions. We expect that these sources of funds will be adequate to provide for our short-term and long-term liquidity needs.

Our ability to meet our debt service obligations and other capital requirements, including capital expenditures and acquisitions, will depend on our future operating performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond our control. As a normal part of our business, depending on market conditions, we will from time to time consider opportunities to repay, redeem, repurchase or refinance our indebtedness. Changes in our operating plans, lower than anticipated sales, increased expenses, acquisitions or other events may cause us to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms or at all. Debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions. In addition, any of the items discussed in detail under “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 may also significantly impact our liquidity.

We had \$97 million and \$99 million of cash and cash equivalents on hand as of June 30, 2017 and December 31, 2016, respectively, all of which were unrestricted. As of June 30, 2017, the balance under the 2014 Revolver was \$ 825 million, and \$ 20 million in standby letters of credit were outstanding. The unused availability on the 2014 Revolver at June 30, 2017 was \$ 655 million. The Partnership was in compliance with all financial covenants at June 30, 2017.

Cash Flows

	For the Six Months Ended June 30,	
	2017	2016
	(in millions)	
Net cash provided by (used in)		
Operating activities - continuing operations	\$ (14)	\$ 60
Investing activities - continuing operations	(49)	(47)
Financing activities - continuing operations	(30)	2,332
Discontinued operations	91	(2,326)
Net increase (decrease) in cash and cash equivalents	\$ (2)	\$ 19

Cash Flows Provided by (Used in) Operating Activities - Continuing Operations. Our daily working capital requirements fluctuate within each month, primarily in response to the timing of payments for motor fuels, motor fuels tax and rent. Net cash provided by (used in) operations was \$(14) million and \$60 million for the first six months of 2017 and 2016, respectively. The first six months of 2017 were primarily impacted by changes in current assets and liabilities. Cash flows fluctuate with increases or decreases in accounts receivable and accounts payable which are impacted by increasing or decreasing motor fuel prices and costs, as well as organic growth in volumes sold and volume increases due to acquisitions.

Cash Flows Used in Investing Activities - Continuing Operations. Net cash used in investing activities was \$49 million and \$47 million for the first six months of 2017 and 2016, respectively. Capital expenditures were \$27 million and \$25 million for the first six months of 2017 and 2016, respectively.

Cash Flows Provided by (Used in) Financing Activities - Continuing Operations. Net cash provided by (used in) financing activities was \$(30) million and \$2.3 billion for the first six months of 2017 and 2016, respectively. During the six months ended June 30, 2017, we:

- received \$300 million proceeds from issuance of Series A Preferred Units;
- borrowed \$1.4 billion and repaid \$1.6 billion under our 2014 Revolver to fund daily operations; and
- paid \$209 million in distributions to our unitholders, of which \$119 million was paid to ETP and ETE collectively.

We intend to pay cash distributions to the holders of our common units, Class C units representing limited partner interests in the Partnership (“Class C Units”) and Series A Preferred Units (“Series A Units”) on a quarterly basis, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our General Partner and its affiliates. Class C unitholders receive distributions at a fixed rate equal to \$0.8682 per quarter for each Class C Unit outstanding. Series A unitholders receive distributions at a fixed rate equal to \$0.625 per quarter for each Series A Unit outstanding. There is no guarantee that we will pay a distribution on our units. On July 26, 2017, we declared a quarterly distribution totaling \$82 million, or \$0.8255 per common unit based on the results for the three months ended June 30, 2017, excluding distributions to Class C and Series A unitholders. The declared distribution will be paid on August 15, 2017 to unitholders of record on August 7, 2017.

Cash Flows Provided by (Used in) Discontinued Operations.

Cash provided by (used in) discontinued operations was \$91 million million for the first six months of 2017 and \$(2.3) billion for the first six months of 2016 . Cash provided by discontinued operations for operating activities was \$165 million or the first six months of 2017 and \$139 million for the first six months of 2016 . Cash used by discontinued operations for investing activities was \$72 million for the first six months of 2017 and \$2.5 billion for the first six months of 2016 , of which \$2.2 billion in the first six months of 2016 were due to acquisitions. Changes in cash included in current assets held for sale was \$2 million for the first six months of 2017 and \$9 million for the first six months of 2016 .

Capital Expenditures

Included in our capital expenditures for the continuing and discontinued operations for the first six months of 2017 was \$25 million in maintenance capital and \$74 million in growth capital. Growth capital relates primarily to new store construction and dealer supply contracts.

We currently expect to spend approximately \$150 million on growth capital and approximately \$80 million on maintenance capital for the full year 2017 .

Contractual Obligations and Commitments

Contractual Obligations . We have contractual obligations that are required to be settled in cash. As of June 30, 2017 , we have \$825 million borrowed on the 2014 Revolver compared to \$1.0 billion borrowed at December 31, 2016 . Further, as of June 30, 2017 , we had \$2.2 billion outstanding under our Senior Notes, and \$ 1.2 billion outstanding under our Term Loan. As a condition of the Purchase Agreement entered into on April 6, 2017 with the Buyers previously discussed, we are required to obtain waivers on our Senior Notes as a condition precedent to the sale.

See Note 10 in the accompanying Notes to Consolidated Financial Statements for more information on our debt transactions.

We periodically enter into derivatives, such as futures and options, to manage our fuel price risk on inventory in the distribution system. Fuel hedging positions are not significant to our operations. We had 463 positions, representing 19 million gallons, outstanding at June 30, 2017 with aggregated unrealized losses of \$4.0 million .

Properties . Most of our leases are net leases requiring us to pay taxes, insurance and maintenance costs. We believe that no individual site is material to us. The following table summarizes the number of owned and leased properties as of June 30, 2017 :

	Owned	Leased
Wholesale dealer and consignment sites	471	218
Company-operated convenience stores and fuel outlets	863	490
Warehouses, offices and other	100	70
Total	1,434	778

Summary of Significant Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Critical accounting policies are those we believe are both most important to the portrayal of our financial condition and results of operations, and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. Our significant accounting policies are described in Note 2 in the accompanying Notes to Consolidated Financial Statements and in our Annual Report on Form 10-K for the year ended December 31, 2016 .

Estimates and Critical Accounting Policies

The Partnership's critical accounting policies have not changed subsequent to those reported in its Annual Report on Form 10-K for the year ended December 31, 2016. The following information is provided to supplement the Form 10-K disclosures specifically related to impairment of long-lived assets and goodwill.

Impairment of Long-Lived Assets and Goodwill. Long-lived assets are required to be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill and intangibles with indefinite lives must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the related asset might be impaired. An impairment loss should be recognized only if the carrying amount of the asset/goodwill is not recoverable and exceeds its fair value.

In order to test for recoverability when performing a quantitative impairment test, we must make estimates of projected cash flows related to the asset, which include, but are not limited to, assumptions about the use or disposition of the asset, estimated remaining life of the asset, and future expenditures necessary to maintain the asset's existing service potential. In order to determine fair value, we make certain estimates and assumptions, including, among other things, changes in general economic conditions in regions in which our markets are located, oil production and our ability to negotiate favorable sales agreements. While we believe we have made reasonable assumptions to calculate the fair value, if future results are not consistent with our estimates, we could be exposed to future impairment losses that could be material to our results of operations.

The Partnership determined the fair value of its reporting units using a weighted combination of the discounted cash flow method and the guideline company method. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, operating margins, weighted average costs of capital and future market conditions, among others. The Partnership believes the estimates and assumptions used in our impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated. Under the discounted cash flow method, the Partnership determined fair value based on estimated future cash flows of each reporting unit including estimates for capital expenditures, discounted to present value using the risk-adjusted industry rate, which reflect the overall level of inherent risk of the reporting unit. Cash flow projections are derived from one year budgeted amounts and five year operating forecasts plus an estimate of later period cash flows, all of which are evaluated by management. Subsequent period cash flows are developed for each reporting unit using growth rates that management believes are reasonably likely to occur. Under the guideline company method, the Partnership determined the estimated fair value of each of our reporting units by applying valuation multiples of comparable publicly-traded companies to each reporting unit's projected EBITDA and then averaging that estimate with similar historical calculations using a three year average. In addition, the Partnership estimated a reasonable control premium representing the incremental value that accrues to the majority owner from the opportunity to dictate the strategic and operational actions of the business.

One key assumption for the measurement of goodwill impairment is management's estimate of future cash flows and EBITDA. These estimates are based on the annual budget for the upcoming year and forecasted amounts for multiple subsequent years. The annual budget process is typically completed near the annual goodwill impairment testing date, and management uses the most recent information for the annual impairment tests. The forecast is also subjected to a comprehensive update annually in conjunction with the annual budget process and is revised periodically to reflect new information and/or revised expectations. The estimates of future cash flows and EBITDA are subjective in nature and are subject to impacts from the business risks described in "Item 1A. Risk Factors." Therefore, the actual results could differ significantly from the amounts used for goodwill impairment testing, and significant changes in fair value estimates could occur in a given period.

The impairment of \$642 million during the year ended December 31, 2016 represented a portion of the goodwill within our retail reporting unit. In the discounted cash flow model used to measure the goodwill impairment in our retail reporting unit, the key assumptions were developed as follows:

- The estimated future cash flows were based on management's forecasted cash flows and reflected long-term growth that management believed was reasonable.
- The discount rate applied to the estimated cash flows was based on an assumed weighted average cost of capital calculated using information on the capital structures of six peer companies.

The key assumptions in the guideline company model used to measure the goodwill impairment in our retail reporting unit were developed as follows:

- A multiple was applied to expected EBITDA for 2017, with the multiple based on consideration of the reporting unit's growth, size, profitability, geographic diversity, and risk profile compared with those of the same peer group that was used in the calculation of the discount rate discussed in the discounted cash flow model assumptions above.

- The model also reflected a control premium, which was estimated at an equity level based on observed transaction premiums and based on the hypothetical capital structure for the industry, as well as considering the specific attributes of the reporting unit.

During the three months ended June 30, 2017, Sunoco LP announced the sale of a majority of the assets in its retail reporting unit. Sunoco LP's retail reporting unit includes the retail operations in the continental United States but excludes the retail convenience store operations in Hawaii that comprise the Aloha reporting unit. Upon the classification of assets and related liabilities as held for sale, Sunoco LP's management applied the measurement guidance in ASC 360, *Property, Plant and Equipment*, to calculate the fair value less cost to sell of the disposal group. In accordance with ASC 360-10-35-39, management first tested the goodwill included within the disposal group for impairment prior to measuring the disposal group's fair value less the cost to sell. In the determination of the classification of assets held for sale and the related liabilities, management allocated a portion of the goodwill balance previously included in the Sunoco LP retail reporting unit to assets held for sale based on the relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained in accordance with ASC 350-20-40-3. The amount of goodwill allocated to assets held for sale was approximately \$1.6 billion, and the amount of goodwill allocated to the remainder of the retail reporting unit, which is comprised of Sunoco LP's ethanol plant, credit card processing services and franchise royalties, was approximately \$188 million.

Once the retail reporting unit's goodwill was allocated between assets held for sale and continuing operations, management performed goodwill impairment tests on both reporting units to which the goodwill balances were allocated. No goodwill impairment was identified for the \$188 million goodwill balance that remained in the retail reporting unit. The result of the impairment test of the goodwill included within the assets held for sale was an impairment charge of \$320 million. The key assumption in the impairment test for the \$1.6 billion goodwill balance classified as held for sale was the fair value of the disposal group, which was based on the assumed proceeds from the sale of those assets. The announced purchase and sale agreement includes the majority of the retail sites that have been classified as held for sale; thus, a key assumption in the goodwill impairment test was the assumed sales proceeds (less the related costs to sell) for the remainder of the sites, which represent approximately 15% of the total number of sites. Management is currently marketing the remaining sites for sale and utilized information from that sales process to develop the assumed sales proceeds for those sites. While management believes that the assumed sales proceeds for these remaining held-for-sale sites are reasonable and likely to be obtained in a sale of those sites, an agreement has not been negotiated and therefore the ultimate outcome could be different than the assumption used in the impairment test. Subsequent to the impairment of goodwill included within the assets held for sale, no further impairments of any other assets held for sale were deemed necessary as the remaining carrying value of the disposal group approximated the assumed proceeds from the sale of those assets less the cost to sell.

For goodwill included in the Aloha and Wholesale reporting units, which goodwill balances total \$112 million and \$732 million, respectively, and which were not classified as held for sale, no impairments were deemed necessary during the three months ended June 30, 2017. Management does not believe that the goodwill associated with either of these reporting units or the remaining goodwill of \$188 million within the retail reporting unit is at significant risk of impairment, and the goodwill will continue to be subjected to annual goodwill impairment testing on October 1.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are subject to market risk from exposure to changes in interest rates based on our financing, investing and cash management activities. We had outstanding borrowings on the 2014 Revolver of \$825 million and \$1.2 billion under our Term Loan as of June 30, 2017. The annualized effect of a one percentage point change in floating interest rates on our variable rate debt obligations outstanding at June 30, 2017, would be to change interest expense by approximately \$21 million. Our primary exposure relates to:

- interest rate risk on short-term borrowings; and
- the impact of interest rate movements on our ability to obtain adequate financing to fund future acquisitions.

While we cannot predict or manage our ability to refinance existing debt or the impact interest rate movements will have on our existing debt, management evaluates our financial position on an ongoing basis. From time to time, we may enter into interest rate swaps to reduce the impact of changes in interest rates on our floating rate debt. We had no interest rate swaps in effect during the first six months of 2017 or 2016.

Commodity Price Risk

Aloha has terminals on all four major Hawaiian Islands that hold purchased fuel until it is delivered to customers (typically over a two to three week period). Commodity price risks relating to this inventory are not currently hedged. The terminal inventory balance was \$ 15 million at June 30, 2017.

Sunoco LLC holds working inventories of refined petroleum products, renewable fuels, gasoline blendstocks and transmix in storage. As of June 30, 2017, Sunoco LLC held approximately \$ 306 million of such inventory. While in storage, volatility and declines in the market price of stored motor fuel could adversely impact the price at which we can later sell the motor fuel. However, Sunoco LLC uses futures, forwards and other derivative instruments to hedge a variety of price risks relating to deviations in that inventory from a target base operating level established by management. Derivative instruments utilized consist primarily of exchange-traded futures contracts traded on the NYMEX, CME and ICE as well as over-the-counter transactions (including swap agreements) entered into with established financial institutions and other credit-approved energy companies. Sunoco LLC's policy is generally to purchase only products for which there is a market and to structure sales contracts so that price fluctuations do not materially affect profit. Sunoco LLC also engages in controlled trading in accordance with specific parameters set forth in a written risk management policy. For the 2016 fiscal year, Sunoco LLC maintained an average eleven day working inventory. While these derivative instruments represent economic hedges, they are not designated as hedges for accounting purposes.

On a consolidated basis, the Partnership had 463 positions, representing 19 million gallons with aggregate unrealized losses of \$4 million outstanding at June 30, 2017.

Item 4. Controls and Procedures

As required by paragraph (b) of Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at the reasonable assurance level for which they were designed in that the information required to be disclosed by the Partnership in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting (as defined in Rule 13(a)–15(f) or Rule 15d–15(f) of the Exchange Act) that occurred during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

From time to time, we make changes to our internal control over financial reporting that are intended to enhance its effectiveness and which do not have a material effect on our overall internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are party to any litigation that will have a material adverse impact.

Item 1A. Risk Factors

You should carefully consider the risks described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016 and “Item 1A. Risk Factors” of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 as well as the section within this report entitled “Forward-Looking Statements” under Part I. Financial Information - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, before making any investment decision with respect to our securities. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, could negatively impact our results of operations or financial condition in the future. If any of such risks actually occur, our business, financial condition or results of operations could be materially adversely affected.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The list of exhibits attached to this Quarterly Report on Form 10-Q is incorporated herein by reference.

SIGNATURES

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

Date: August 9, 2017

SUNOCO LP

By Sunoco GP LLC, its general partner

By /s/ Thomas R. Miller

Thomas R. Miller

Chief Financial Officer

(On behalf of the registrant and in his capacity as chief financial officer)

By /s/ Leta McKinley

Leta McKinley

Vice President, Controller and

Principal Accounting Officer

(In her capacity as principal accounting officer)

EXHIBIT INDEX

Exhibit No.	Description
2.1	Asset Purchase Agreement by and among Susser Petroleum Property Company LLC, Sunoco Retail LLC, Stripes LLC, Town & Country Food Stores, Inc., MACS Retail LLC, 7-Eleven, Inc. and SEI Fuel Services, Inc., and, solely for the limited purposes referenced therein, Sunoco, LP, Sunoco Finance Corp. and Sunoco, LLC, dated as of April 6, 2017 (incorporated by reference to Exhibit 2.1 of the current report on Form 8-K filed by registrant on April 6, 2017)
10.1	Guarantee Agreement by and among Sunoco LP, Sunoco, LLC, 7-Eleven, Inc. and SEI Fuel Services, dated as of April 6, 2017 (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by registrant on April 6, 2017)
10.2	Retention Agreement dated June 9, 2017 (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by registrant on June 9, 2017)
10.3	Form of Owens Separation Agreement (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by registrant on June 23, 2017)
10.4	Form of Owens Consulting Agreement (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by registrant on June 23, 2017)
10.5	Form of Archer Separation Agreement (incorporated by reference to Exhibit 10.3 of the current report on Form 8-K filed by registrant on June 23, 2017)
31.1 *	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act
31.2 *	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act
32.1 **	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act
32.2 **	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act
99.1 *	Information Related to ETC M-A Acquisition LLC
101.INS *	XBRL Instance Document
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation
101.DEF *	XBRL Taxonomy Extension Definition
101.LAB *	XBRL Taxonomy Extension Label Linkbase
101.PRE *	XBRL Taxonomy Extension Presentation
	* - Filed herewith.
	** - Furnished herewith

CERTIFICATION

I, Robert W. Owens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunoco LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Robert W. Owens

Robert W. Owens

President and Chief Executive Officer of Sunoco GP LLC, the
general partner of Sunoco LP

CERTIFICATION

I, Thomas R. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunoco LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Thomas R. Miller

Thomas R. Miller

Chief Financial Officer of Sunoco GP LLC, the general partner of Sunoco LP

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Sunoco LP (the "Partnership") for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert W. Owens, as President and Chief Executive Officer of Sunoco GP LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 9, 2017

/s/ Robert W. Owens

Robert W. Owens

President and Chief Executive Officer of Sunoco GP LLC, the
general partner of Sunoco LP

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Partnership for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Sunoco LP (the “Partnership”) for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas R. Miller, as Chief Financial Officer of Sunoco GP LLC, the general partner of Sunoco LP, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 9, 2017

/s/ Thomas R. Miller

Thomas R. Miller

Chief Financial Officer of Sunoco GP LLC, the general
partner of Sunoco LP

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Partnership for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

ETC M-A Acquisition LLC

Combined Financial Statements

As of June 30, 2017 and December 31, 2016

Three and Six Months Ended June 30, 2017 and 2016

ETC M-A Acquisition LLC
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ETC M-A Acquisition LLC
Balance Sheets
(Dollars in millions)
(unaudited)

	June 30, 2017	December 31 2016
<u>ASSETS</u>		
Current Assets:		
Advances to affiliated companies	\$ 34	\$ 17
Total current assets	34	17
Investment in unconsolidated affiliate	267	313
Total assets	<u>\$ 301</u>	<u>\$ 330</u>
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accrued and other current liabilities	\$ 3	\$ 3
Total current liabilities	3	3
Commitments and contingencies		
Equity:		
Member's equity	298	327
Total equity	298	327
Total liabilities and equity	<u>\$ 301</u>	<u>\$ 330</u>

The accompanying notes are an integral part of these financial statements.

ETC M-A Acquisition LLC
Combined Statements of Operations
(Dollars in millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(Loss) income from unconsolidated affiliate	\$ (27)	\$ 5	\$ (29)	\$ 10
Net (loss) income	\$ (27)	\$ 5	\$ (29)	\$ 10

The accompanying notes are an integral part of these financial statements.

ETC M-A Acquisition LLC
Statement of Equity
(Dollars in millions)
(unaudited)

	Total
Balance, December 31, 2016	\$ 327
Net loss	(29)
Balance, June 30, 2017	\$ 298

The accompanying notes are an integral part of these financial statements.

ETC M-A Acquisition LLC
Combined Statements of Cash Flows
(Dollars in millions)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	\$ (29)	\$ 10
Reconciliation of net income to net cash provided by (used in) operating activities:		
Loss (income) from unconsolidated affiliate	29	(10)
Distributions from unconsolidated affiliate	17	12
Net cash provided by operating activities	17	12
Cash flows from investing activities:		
Proceeds from Sunoco Retail Transaction	—	2,200
Net cash provided by investing activities	—	2,200
Cash flows from financing activities:		
Advances to Sunoco, Inc.	(17)	(12)
R&M and Atlantic Distribution	—	(2,200)
Net cash used in financing activities	(17)	(2,212)
Change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	\$ —	\$ —

The accompanying notes are an integral part of these financial statements.

ETC M-A Acquisition LLC
Notes to Financial Statements
(unaudited)

1. Operations and Organization:

In April 2017, Energy Transfer Partners, L.P. (“ETP”) merged with a subsidiary of Sunoco Logistics Partners L.P., at which time ETP changed its name from “Energy Transfer Partners, L.P.” to “Energy Transfer, LP” and Sunoco Logistics Partners L.P. changed its name to “Energy Transfer Partners, L.P.” References to “ETP” refer to the entity named Energy Transfer Partners, L.P. prior to the close of the merger, and Energy Transfer, LP subsequent to the close of the merger.

Energy Transfer, LP is a wholly-owned subsidiary of Energy Transfer Partners, L.P.

ETC M-A Acquisition LLC, a Delaware limited liability company formed in August 2013, (the “Company”) is an indirect wholly-owned subsidiary of Energy Transfer, LP. Prior to December 2, 2016, the Company’s membership interests were owned 99% by ETP Retail Holdings, LLC (“Retail Holdings”), an indirect wholly-owned subsidiary of ETP, and 1% by another indirect wholly-owned subsidiary of ETP. On December 2, 2016, the 1% membership interest was contributed to Retail Holdings; therefore, the Company is now a direct wholly-owned subsidiary of Retail Holdings.

2. Summary of Significant Accounting Policies:

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

On December 2, 2016, Retail Holdings contributed 6,506,404 Sunoco LP common units to the Company, in exchange for the Company’s assumption of the guarantees of certain Sunoco LP senior notes, which guarantees are further discussed in Note 4. Prior to the December 2016 contribution from Retail Holdings, the Company directly owned a total of 3,983,540 Sunoco LP common units. For purposes of these combined financial statements, the aggregate total of 10,489,944 Sunoco LP common units are presented as the investment in affiliate held by the predecessor on a combined basis. Given that no change in cost basis occurred with respect to the December 2016 contribution from Retail Holdings, predecessor and successor periods are not separately presented herein.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash

The Company considers cash and cash equivalents to include investments with original maturities of three months or less.

Investments in Unconsolidated Affiliate

The Company owns an interest in Sunoco LP which is accounted for by the equity method for which the Company exercises significant influence over, but does not control, the investee’s operating and financial policies.

Fair Value of Financial Instruments

The carrying amounts recorded for advances to affiliated companies and accrued and other current liabilities in the combined financial statements approximate fair value because of the short-term maturity of the instruments.

3. Investments in Unconsolidated Affiliate:

During the periods presented, the Company’s investment in unconsolidated affiliate reflected 10,489,944 Sunoco LP common units. The Company’s investment represented approximately 11% of the total outstanding Sunoco LP common units at June 30, 2017. The Company’s investment in Sunoco LP is accounted for in our financial statements using the equity method, because the Company is presumed to have significant influence over Sunoco LP due to the affiliate relationship resulting from both entities being under the common control of Energy Transfer Equity, L.P., the parent of ETP and Sunoco LP.

4. Commitments and Contingencies:

ETC M-A Acquisition LLC Guarantee of Sunoco LP Notes

In April 2015, Sunoco LP issued \$800 million principal amount of 6.375% senior notes due 2023. Retail Holdings entered into a guarantee of collection with Sunoco LP and Sunoco Finance Corp., a wholly owned subsidiary of Sunoco LP, pursuant to which Retail Holdings agreed to provide a guarantee of collection, but not of payment, to Sunoco LP with respect to the principal amount of the 6.375% senior notes issued by Sunoco LP.

In April 2016, Sunoco LP issued \$800 million of 6.250% senior notes due 2021 (the “Senior Notes”). Retail Holdings entered into a limited contingent guarantee on the obligation to pay the principal on the Senior Notes once all remedies have been fully exhausted against Sunoco LP with respect to such payment obligation, and holders of the Senior Notes are still owed amounts in respect of the principal of the Senior Notes.

In connection with Retail Holdings’ contribution of 6,506,404 Sunoco LP common units, as discussed in Note 2, on December 2, 2016, Retail Holdings assigned to the Company the guarantees of Sunoco LP’s \$800 million principal amount of 6.375% senior notes and \$800 million principal amount of 6.250% senior notes.