MAGELLAN MIDSTREAM PARTNERS LP
Form 424B5
August 12, 2004

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Registration No. 333-083952

PROSPECTUS SUPPLEMENT
(To Prospectuses dated May 16, 2002 and November 3, 2003)

1,800,000 Common Units

Representing Limited Partner Interests

We are selling 1,800,000 common units with this prospectus supplement and the accompanying prospectus dated May 16, 2002. Our common units trade on the New York Stock Exchange under the symbol "MMP." The last reported sales price of our common units on the New York Stock Exchange on August 11, 2004 was $49.77 per common unit.

Investing in our common units involves risk. See "Risk Factors" beginning on page S-11 of this prospectus supplement and on page 2 of each of the accompanying prospectuses.

	Per Common Unit	Total
Public offering price	$49.770	$89,586,000
Underwriting discount	$ 2.115	$ 3,807,000
Proceeds to us (before expenses)	$47.655	$85,779,000

Magellan Midstream Holdings, L.P., the selling unitholder, has granted the underwriters a 30-day option to purchase up to 270,000 common units on the same terms and conditions as set forth above to cover over-allotments of common units. Magellan Midstream Holdings, L.P. will sell any such common units pursuant to this prospectus supplement and the accompanying prospectus dated November 3, 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectuses are truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the common units on or about August 17, 2004.

Joint Book-Running Managers

LEHMAN BROTHERS **CITIGROUP**

GOLDMAN, SACHS & CO. **UBS INVESTMENT BANK**

August 11, 2004

This document is in three parts. The first part is this prospectus supplement, which describes the terms of this common unit offering. The second and third parts are the accompanying prospectuses, which give more general information, some of which may not apply to this common unit offering. The prospectus dated May 16, 2002 relates to the common units offered by us and the prospectus dated November 3, 2003 relates to any common units to be sold by Magellan Midstream Holdings, L.P. upon any exercise of the underwriters' over-allotment option.

If the information about the offering varies between this prospectus supplement and the accompanying prospectuses, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectuses. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectuses is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

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Prospectus Supplement

Prospectus dated May 16, 2002

Prospectus dated November 3, 2003

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectuses. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectuses, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. You should read "Risk Factors" beginning on page S-11 of this prospectus supplement and page 2 of each of the accompanying prospectuses for more information about important factors that you should consider before buying common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option. As used in this prospectus supplement and the accompanying prospectuses, unless we indicate otherwise, the terms "our," "we," "us" and similar terms refer to Magellan Midstream Partners, L.P., together with our subsidiaries, and "Magellan Holdings" and "selling unitholder" refer to Magellan Midstream Holdings, L.P.

Magellan Midstream Partners, L.P.

We are a publicly traded Delaware limited partnership that owns and operates a diversified portfolio of complementary energy assets. We are principally engaged in the transportation, storage and distribution of refined petroleum products and ammonia. For the year ended December 31, 2003, we had revenues of $485.2 million, EBITDA of $161.6 million and net income of $88.2 million. For the six months ended June 30, 2004, we had revenues of $275.4 million, EBITDA of $85.7 million and net income of $44.3 million. For a reconciliation of EBITDA to net income and a discussion of EBITDA as a performance measure, please read " Summary Selected Financial and Operating Data."

We completed the initial public offering of our common units in February 2001 at an initial offering price of $21.50 per common unit. Since our initial public offering, we have increased our quarterly cash distribution for 13 consecutive quarters, resulting in an aggregate increase of approximately 65.7% from $0.525 per unit, or $2.10 per unit on an annualized basis, to $0.87 per unit, or $3.48 per unit on an annualized basis. Since February 2001, we have completed eight acquisitions for an aggregate purchase price of approximately $1.1 billion, and we intend to continue pursuing an asset acquisition strategy.

On June 24, 2004, we announced our agreement to acquire more than 2,000 miles of refined petroleum products pipeline systems from Shell Pipeline Company LP and Equilon Enterprises LLC, whose operations are conducted under the name Shell Oil Products US, or Shell, for $492.4 million. For more information about this pending acquisition, please read " Recent Developments Pending Acquisition of Shell Refined Petroleum Products Pipeline Systems."

Our asset portfolio, not including the assets to be acquired from Shell, consists of:

- a 6,700-mile petroleum products pipeline system, including 39 petroleum products terminals, serving the mid-continent region of the United States;
- five petroleum products terminal facilities located along the Gulf Coast and near the New York harbor, referred to as "marine terminal facilities";
- 29 petroleum products terminals (three of which we partially own) located principally in the southeastern United States, referred to as "inland terminals"; and
- an 1,100-mile ammonia pipeline system, including six ammonia terminals, serving the mid-continent region of the United States.

Our petroleum products pipeline system is a common carrier pipeline that provides transportation, storage and distribution services for petroleum products and liquefied petroleum gases, or LPGs, in 11 states from Oklahoma through the Midwest to North Dakota, Minnesota and Illinois. This system generates revenues principally from tariffs regulated by the Federal Energy Regulatory Commission, or FERC, based on the volumes transported and also from storage and other ancillary fees. Through direct refinery connections and interconnections with other pipelines, our petroleum products pipeline system can access approximately 41% of the refinery capacity in the United States and is well- positioned to adapt to shifts in product supply or demand. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our petroleum products pipeline system generated approximately 80% of our total revenues.

Our inland terminals and marine terminal facilities, which we refer to collectively as our petroleum products terminals, store and distribute gasoline and other petroleum products throughout 11 states. Our inland terminals are part of a distribution network throughout the southeastern United States used by retail suppliers, wholesalers and marketers to receive gasoline and other petroleum products from large, interstate pipelines and to transfer these products to trucks, railcars or barges for delivery to their final destination. Our marine terminal facilities are large storage terminals that principally serve refiners, marketers and large end-users of petroleum products and are strategically located near major refining hubs along the U.S. Gulf Coast and near the New York harbor. Our petroleum products terminals generate revenues principally from volume-based fees charged for storage and delivery of the gasoline and other petroleum products handled by these terminals. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our petroleum products terminals generated approximately 17% and 18%, respectively, of our total revenues.

Our ammonia pipeline system transports and distributes ammonia from production facilities in Texas and Oklahoma to various distribution points in the Midwest for use as an agricultural fertilizer. Our ammonia pipeline system generates revenues principally from volume-based fees charged for transportation of ammonia on the pipeline system. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our ammonia pipeline system generated approximately 3% and 2%, respectively, of our total revenues.

Business Strategies

Our primary business strategies are to:

- grow through strategic acquisitions and expansion projects that increase per unit cash flow;
- generate stable cash flows to make quarterly cash distributions; and
- conduct safe and efficient operations.

Competitive Strengths

We believe we are well-positioned to execute our business strategies successfully because of the following competitive strengths:

- our assets are strategically located in areas with high demand for our services;
- we have little direct commodity price exposure;
- we have long-term relationships with many of our customers that utilize our pipeline and terminal assets;
- we have a strong financial position with additional borrowing capacity and cash reserves available for making acquisitions and completing expansion projects; and
- our senior management has extensive industry experience.

Recent Developments

Distribution Increase. On July 22, 2004, the board of directors of our general partner declared a quarterly cash distribution of $0.87 per common and subordinated unit for the period of April 1 through June 30, 2004. This distribution represents an 11.5% increase over the distribution for the second quarter of 2003 of $0.78 per unit and an approximate 65.7% increase in our distribution since our initial public offering in February 2001. The distribution will be paid on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.

Pending Acquisition of Shell Refined Petroleum Products Pipeline Systems. On June 24, 2004, we announced our agreement to acquire more than 2,000 miles of refined petroleum products pipeline systems from Shell for $492.4 million. In addition to the purchase price, we will pay approximately $12.0 million for net working capital, which includes approximately $26.0 million of inventory offset by $14.0 million of escrow cash, and $9.5 million for transaction costs, and will assume approximately $12.5 million in existing liabilities. These assets are located in Colorado, Kansas, Oklahoma and Texas and primarily comprise the following four refined petroleum products pipeline systems, which include five active terminals and seven system storage facilities that have a combined storage capacity of approximately 6.4 million barrels:

Orion refined products system: an approximate 1,000-mile pipeline originating in Houston, Texas that delivers refined products to (i) a terminal in Odessa, Texas that we will acquire as part of this acquisition, (ii) a third-party terminal in El Paso, Texas, (iii) third-party facilities in central Texas and (iv) the mid-continent region of the United States through an interconnection with our existing petroleum products pipeline system at Duncan, Oklahoma;

Hearne refined products system: an approximate 145-mile pipeline originating in Hearne, Texas that delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas;

Chase refined products system: an approximate 700-mile pipeline originating in El Dorado, Kansas that delivers refined products to (i) two terminals that we will acquire as part of this acquisition and one third-party terminal in Kansas, (ii) a terminal near Denver, Colorado that we will acquire as part of this acquisition and (iii) the Denver International Airport; and

Cimarron refined products system: an approximate 175-mile pipeline with origin points in Glenpool and Cushing, Oklahoma that delivers refined products to the Chase pipeline connection at El Dorado, Kansas. Our existing petroleum products pipeline system serves as an interconnect between the Orion pipeline at Duncan, Oklahoma and the Cimarron pipeline at Cushing, Oklahoma.

The acquisition of the Shell refined petroleum products pipeline systems will provide us with a direct connection to the U.S. Gulf Coast, which is the primary refining region of the United States and a major point of entry for foreign imports of refined petroleum products. The acquisition will also extend the reach of our existing petroleum products pipeline system into key markets in Colorado and western and northern Texas, including the growing metropolitan centers of Denver, Dallas/Fort Worth and El Paso.

The Orion, Chase and Cimarron refined products systems already have connections to our existing petroleum products pipeline system. Given the strategic importance of these assets to us and their connections to our existing assets, we believe that opportunities exist for several expansion projects to improve the utilization of, and integrate the acquired assets into, our existing operations.

Giving effect to the anticipated expansion projects and our marketing of these assets to third parties, including Shell, we expect annual operating profit from the acquired assets to be between $40.0 and $45.0 million by 2007 and to average approximately $37.0 million for the period 2005 to 2007. We expect the related book depreciation to average approximately $18.0 million per year for the period 2005 to 2007, and the maintenance capital for the acquired assets to be approximately $2.0 million annually. For information about certain factors that could cause the actual operating results attributable to the acquired assets to materially differ from that which we expect, please read "Information Regarding Forward-Looking Statements" in this prospectus supplement and "Risk Factors" included in and incorporated by reference into this prospectus supplement and the accompanying prospectuses.

In connection with this acquisition, we have amended our partnership agreement to reduce the incentive cash distributions to be paid to our general partner by $5.0 million and $3.0 million for 2005 and 2006, respectively. In addition, the amended partnership agreement reduces the incentive cash distributions to be paid to our general partner for the remainder of 2004 based on the timing of the closing of this acquisition. These reductions will accelerate the accretion attributable to the acquisition and increase the cash available for distribution to our limited partners.

We currently expect to close the Shell acquisition by October 1, 2004, subject to customary due diligence, regulatory approvals and other customary closing conditions. We expect to finance the acquisition initially with cash on hand, the net proceeds from this offering and short-term bank borrowings. An affiliate of Lehman Brothers Inc. has committed to provide up to $400.0 million of these short-term bank borrowings. We anticipate that the net proceeds from this offering will reduce the portion of the purchase price that we will finance with such borrowings. We plan to finance the acquisition permanently with further issuances of common units and long-term debt securities. For more information about the acquisition and our related financing plan, please read "Overview of the Acquisition," "Use of Proceeds" and "Underwriting."

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. Upon consummation of this offering of our common units:

- There will be 22,925,000 publicly held common units outstanding, representing a 74.4% limited partner interest in us;
- Magellan Holdings will own 3,005,541 common units and 4,259,771 subordinated units, representing an aggregate 23.6% limited partner interest in us; and
- Magellan GP, LLC, our general partner, will continue to own a 2.0% general partner interest in us and all of the incentive distribution rights.

Our general partner has sole responsibility for conducting our business and managing our operations. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but it is reimbursed for direct and indirect expenses incurred on our behalf.

The chart on the following page depicts our organizational and ownership structure after giving effect to this offering. The percentages reflected in the organizational chart represent the approximate ownership interests in us and our operating subsidiaries.

The Offering

Common units offered by us	1,800,000 common units.
Common units offered by Magellan Holdings	270,000 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	25,930,541 common units and 4,259,771 subordinated units.
Use of proceeds	We intend to use the net proceeds from this offering and our general partner's related capital contribution to pay a portion of the $492.4 million cash purchase price for the assets we expect to acquire from Shell. If we do not consummate the acquisition from Shell, we intend to use the net proceeds of this offering and our general partner's related capital contribution for general partnership purposes.
	We will not receive any proceeds from any common units to be sold by Magellan Holdings upon any exercise of the underwriters' over-allotment option.
Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand as of the end of each quarter, less reserves established by our general partner. We refer to this cash as "available cash," and we define it in our partnership agreement.
	We declared a quarterly cash distribution for the second quarter of 2004 of $0.87 per common and subordinated unit, or $3.48 per unit on an annualized basis. We will pay this cash distribution on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.
	When our quarterly cash distributions exceed $0.578 per unit in any given quarter, our general partner receives a higher percentage of the cash distributed in excess of that amount, in increasing percentages up to 50% if the quarterly cash distributions exceed $0.788 per unit. For a description of our cash distribution policy, please read "Cash Distributions" in each of the accompanying prospectuses.
Subordination period	The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before December 31, 2005.
	When the subordination period ends, all remaining subordinated units will convert into common units, and the common units will no longer be entitled to arrearages.

Early conversion of subordinated units	We met the financial tests in our partnership agreement for the quarter ending on December 31, 2003 for the early conversion of a portion of our subordinated units. As a result, on February 7, 2004, 25%, or 1,419,923, of our subordinated units converted into common units. If we meet these tests for any quarter ending on or after December 31, 2004, an additional 25% of the subordinated units will convert into common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of the subordinated units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for the distribution for the fourth calendar quarter of 2006, then you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed with respect to that period. Please read "Tax Considerations" in this prospectus supplement for the basis of this estimate.
New York Stock Exchange symbol	MMP

Summary Selected Financial and Operating Data

We have derived the summary selected historical financial data as of and for the years ended December 31, 2001, 2002 and 2003 from our audited consolidated financial statements and related notes. We have derived the summary selected historical financial data as of and for the six months ended June 30, 2003 and 2004 from our unaudited financial statements, which, in the opinion of our management, include all adjustments necessary for a fair presentation of the data. This financial data is an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto, which are incorporated by reference and have been filed with the Securities and Exchange Commission, or SEC. All other amounts have been prepared from our financial records. Information concerning significant trends in our financial condition and results of operations is contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," which has been filed with the SEC and is incorporated by reference.

The non-generally accepted accounting principle financial measures of EBITDA and operating margin are presented in the summary selected historical financial data. We have presented these financial measures because we believe that investors benefit from having access to the same financial measures utilized by management.

EBITDA is defined as net income plus provision for income taxes, debt placement fee amortization, write-off of unamortized debt placement fees, interest expense (net of interest income) and depreciation and amortization. EBITDA should not be considered an alternative to net income, operating income, cash flow from operations or any other measure of financial performance presented in accordance with generally accepted accounting principles, or GAAP. EBITDA is not intended to represent cash flow. Because EBITDA excludes some but not all items that affect net income and these measures may vary among other companies, the EBITDA data presented may not be comparable to similarly titled measures of other companies. Our management uses EBITDA as a performance measure to assess the viability of projects and to determine overall rates of return on alternative investment opportunities. We believe investors can use EBITDA as a simplified means of measuring cash generated by operations before maintenance capital and fluctuations in working capital. The reconciliation of EBITDA to net income, which is its nearest comparable GAAP measure, is included under the heading "Other Data" presented on the following page.

The components of operating margin are computed by using amounts that are determined in accordance with GAAP. The reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included under the heading "Income Statement Data" presented on the following page. Operating profit includes expense items, such as depreciation and amortization and general and administrative expenses, that management does not consider when evaluating the core profitability of an operation. Our management uses operating margin in deciding how to allocate capital resources between our business segments. We believe that operating margin is an important measure for investors of the economic performance of our core operations.

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
	($ in thousands, except per unit amounts)				
Income Statement Data:					
Transportation and terminals revenues	$ 339,412	$ 363,740	$ 372,848	$ 183,430	$ 192,629
Product sales revenues	108,169	70,527	112,312	44,210	82,735
Affiliate construction and management fee revenues	1,018	210			
Total revenues	448,599	434,477	485,160	227,640	275,364
Operating expenses including environmental expenses net of indemnifications	160,880	155,146	166,883	76,402	80,915
Product purchases	95,268	63,982	99,907	39,851	70,881
Equity earnings(a)					(268)
Operating margin	192,451	215,349	218,370	111,387	123,836
Depreciation and amortization	35,767	35,096	36,081	18,262	19,344
General and administrative	47,365	43,182	56,846	26,923	26,394
Operating profit	109,319	137,071	125,443	66,202	78,098
Interest expense, net	12,113	21,758	34,536	16,976	15,773
Debt placement fee amortization	253	9,950	2,830	1,309	1,338
Debt prepayment premium					12,666
Write-off of unamortized debt placement fees					5,002
Gain on derivative					(953)
Other income, net	(431)	(2,112)	(92)		
Income before income taxes	97,384	107,475	88,169	47,917	44,272
Provision for income taxes(b)	29,512	8,322			
Net income	$ 67,872	$ 99,153	$ 88,169	$ 47,917	$ 44,272
Basic net income per limited partner unit	$ 1.87	$ 3.68	$ 3.32	$ 1.75	$ 1.50
Diluted net income per limited partner unit	$ 1.87	$ 3.67	$ 3.31	$ 1.74	$ 1.50
Balance Sheet Data:					
Working capital (deficit)	$ (2,211)	$ 47,328	$ 77,438	$ 64,523	$ 70,261
Total assets	1,104,559	1,120,359	1,194,930	1,147,999	1,248,680
Total debt	139,500	570,000	570,000	570,000	551,690
Affiliate long-term note payable(c)	138,172				
Partners' capital	589,682	451,757	498,149	484,742	547,242
Cash Flow Data:					
Cash distributions declared per unit(d)	$ 2.02	$ 2.71	$ 3.17	$ 1.53	$ 1.72
Other Data:					
Operating margin:					
Petroleum products pipeline system	$ 143,711	$ 163,233	$ 162,494	$ 81,583	$ 89,711
Petroleum products terminals	38,240	43,844	46,909	26,890	28,517
Ammonia pipeline system	10,500	8,272	8,094	2,914	4,160
Allocated partnership depreciation costs			873		1,448

	Year Ended December 31,			Six Months Ended June 30,	
Operating margin	$ 192,451	$ 215,349	$ 218,370	$ 111,387	$ 123,836
EBITDA:					
Net income	$ 67,872	$ 99,153	$ 88,169	$ 47,917	$ 44,272
Income taxes(b)	29,512	8,322			
Debt placement fee amortization	253	9,950	2,830	1,309	1,338
Write-off of unamortized debt placement fees					5,002
Interest expense, net	12,113	21,758	34,536	16,976	15,773
Depreciation and amortization	35,767	35,096	36,081	18,262	19,344
EBITDA(e)	$ 145,517	$ 174,279	$ 161,616	$ 84,464	$ 85,729

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Operating Statistics:					
Petroleum products pipeline system:					
Transportation revenue per barrel shipped (cents per barrel)	90.8	94.9	96.4	98.9	99.1
Transportation barrels shipped (millions)	236.1	234.6	237.6	111.7	115.4
Barrel miles (billions)	70.5	71.0	70.5	33.3	32.1
Petroleum products terminals:					
Marine terminal average storage capacity utilized per month (million barrels)	15.7	16.2	15.2	15.7	15.6
Marine terminal throughput (million barrels)(f)	11.5	20.5	22.2	10.4	11.2
Inland terminal throughput (million barrels)	56.7	57.3	61.2	28.3	46.6
Ammonia pipeline system:					
Volume shipped (thousand tons)	763	712	614	236	381

(a) Represents equity earnings related to our 50% ownership interest in Osage Pipe Line Company, LLC.

(b) Prior to our initial public offering on February 9, 2001, our petroleum products terminals and ammonia pipeline system operations were subject to income taxes. Prior to our acquisition of Magellan Pipeline Company, which primarily comprises our existing petroleum products pipeline system, on April 11, 2002, Magellan Pipeline Company was also subject to income taxes. Because we are a partnership, the petroleum products terminals and ammonia pipeline system were no longer subject to income taxes after our initial public offering, and Magellan Pipeline Company was no longer subject to income taxes following our acquisition of it.

(c) At the closing of our acquisition of Magellan Pipeline Company, its affiliate note payable was contributed to us as a capital contribution by an affiliate of The Williams Companies, Inc., or Williams.

(d) Represents cash distributions declared associated with each respective calendar year. Cash distributions were declared and paid within 45 days following the close of each quarter. Cash distributions declared for 2001 include a prorated distribution for the first quarter, which included the period from February 10, 2001 through March 31, 2001.

(e) Includes $5.9 million and $3.6 million of reimbursable general and administrative expenses and $10.8 million and $0.8 million of transition costs for the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

(f) For the year ended December 31, 2001, represents a full year of activity for the New Haven facility (9.3 million barrels) and two months of activity for the Gibson facility (2.2 million barrels), which was acquired in October 2001.

RISK FACTORS

An investment in our common units involves risk. You should carefully read the risk factors set forth below, the risk factors included under the caption "Risk Factors" beginning on page 2 of each of the accompanying prospectuses, and those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this prospectus supplement and the accompanying prospectuses.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for federal income tax purposes.

The common units that may be sold by Magellan Holdings upon any exercise of the underwriters' over-allotment option represent an approximate 1% interest in our capital and profits for tax purposes. In May 2004 and June 2004, Magellan Holdings sold 2,350,000 common units, which represented an approximate 9% interest in our capital and profits for tax purposes. In December 2003 and January 2004, Magellan Holdings also sold 4,975,000 common units, which represented an approximate 18% interest in our capital and profits for tax purposes. We will be considered to have been terminated for federal income tax purposes if the common units sold by Magellan Holdings, together with all common units sold within a 12-month period, which includes this offering, represent a sale or exchange of 50% or more of our capital and profits interests. Our termination for tax purposes would, among other things, result in a significant deferral of the depreciation deductions allowable in computing our taxable income for the year in which the termination occurs. For a discussion of the consequences of our termination for federal income tax purposes, please read "Material Tax Consequences Dispositions of Common Units Constructive Termination" in the accompanying prospectuses.

Our general partner and its affiliates may have conflicts with our partnership.

The directors and officers of our general partner and its affiliates have duties to manage our general partner in a manner that is beneficial to Magellan Holdings, its sole member. At the same time, our general partner has duties to manage us in a manner that is beneficial to us. Therefore, our general partner's duties to us may conflict with the duties of its officers and directors to Magellan Holdings.

Such conflicts may include, among others, the following:

- decisions of our general partner regarding the amount and timing of cash expenditures, borrowings and issuances of additional limited partnership units or other securities can affect the amount of incentive distribution payments we make to our general partner;

- under our partnership agreement, we reimburse our general partner for the costs of managing and operating us; and

- under our partnership agreement, it is not a breach of our general partner's fiduciary duties for affiliates of our general partner to engage in activities that compete with us. For example, an affiliate of our general partner also owns the general partner of another publicly traded limited partnership that engages in businesses similar to ours and may compete with us in the future to acquire assets that we may also wish to acquire.

Our pending acquisition of the Shell refined petroleum products pipeline systems may not be consummated.

The purchase agreement for the Shell refined petroleum products pipeline systems contains conditions that, if not satisfied or waived, would result in the acquisition not occurring. These conditions include, among others:

- the continued accuracy of the representations and warranties contained in the purchase agreement;
- the performance by each party of its obligations under the purchase agreement;
- the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; and
- the absence of any decree, order, injunction or law that prohibits, restricts or substantially delays the transactions or makes the transactions unlawful.

If we do not consummate the acquisition from Shell, we will not realize any of the anticipated benefits of owning and operating the assets. In addition, we would likely not undertake anticipated expansion projects on our existing petroleum products pipeline system or our existing terminal network related to the acquisition. If we do not consummate the acquisition from Shell, we intend to use the net proceeds of this offering and our general partner's related capital contribution for general partnership purposes.

The assets to be acquired from Shell are subject to ongoing remediation obligations and may incur substantial environmental costs and liabilities that are not covered by Shell's indemnification of us.

Some of the assets to be acquired from Shell have been used for many years to distribute, store or transport petroleum products, and releases may have occurred from terminals or along pipeline rights-of-way that require remediation. In addition, past releases may have occurred but have not yet been discovered, which could require costly future remediation. As part of the acquisition, Shell has agreed to retain liabilities and expenses related to active environmental remediation projects, other than those relating to the consent decree discussed in the paragraph below. In addition, Shell has agreed to indemnify us for certain environmental liabilities arising from pre-closing conditions so long as we provide notice of those conditions within two years of the consummation of the acquisition. Shell's indemnification obligation is subject to a $250,000 per-claim deductible and a $30.0 million aggregate cap.

In 2003, Shell entered into a consent decree with the United States Environmental Protection Agency arising out of a June 1999 incident unrelated to the assets we expect to acquire from Shell. In order to resolve Shell's civil liability for the incident, Shell agreed to pay civil penalties of $10.0 million and to comply with certain terms set out in the consent decree. These terms include requirements for testing and maintenance of a number of Shell's pipelines, including the Chase and Orion pipelines, the creation of a damage prevention program, submission to independent monitoring and various reporting requirements. The consent decree imposes penalties for non-compliance for a period of at least five years from the date of the consent decree. Under our purchase agreement with Shell, we have agreed, at our own expense, to complete any remediation work remaining under the consent decree with respect to the Chase and Orion pipelines. Shell has agreed to retain responsibility under the consent decree for the ongoing independent monitoring obligations related to the Chase pipeline.

If a significant accident or event occurred in the past for which indemnification is not available or if the costs of performing any remediation significantly exceed our expectations, it could adversely affect our financial position, results of operations and our ability to make distributions to our unitholders.

USE OF PROCEEDS

We will receive net proceeds of approximately $87.3 million from the sale of the 1,800,000 common units we are offering and our general partner's related capital contribution, after deducting underwriting discounts and the estimated offering expenses payable by us.

We intend to use the net proceeds from this offering and our general partner's related capital contribution to pay a portion of the $492.4 million cash purchase price for the assets we expect to acquire from Shell. Pending such use, we may invest the net proceeds and our general partner's related capital contribution in short-term, interest-bearing securities or accounts. The remainder of the purchase price for the Shell assets, as well as the related transaction fees and expenses, will be financed initially with cash on hand and short-term bank borrowings. An affiliate of Lehman Brothers Inc. has committed to provide up to $400.0 million of such borrowings to us. We anticipate that the net proceeds from this offering will reduce the portion of the purchase price that we will finance with such borrowings. Following the closing of the acquisition, we intend to repay the majority of the bank borrowings with the proceeds from further issuances of common units and long-term debt securities.

If we do not consummate the acquisition from Shell, we intend to use the net proceeds from this offering and our general partner's related capital contribution for general partnership purposes.

We will not receive any proceeds from the common units to be sold by Magellan Holdings upon any exercise of the underwriters' over-allotment option.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004:

- on a historical basis; and

- as adjusted to give effect to the sale of common units offered by us, our general partner's related capital contribution and the application of the net proceeds therefrom in the manner described under "Use of Proceeds."

The net proceeds from the common units offered by us and our general partner's related capital contribution are approximately $87.3 million, after deducting the underwriting discount and estimated offering expenses payable by us. Please read "Use of Proceeds."

This table should be read together with our historical financial statements and the accompanying notes incorporated by reference into this prospectus supplement and the accompanying prospectuses.