

NuStar Energy L.P.  
Form 10-Q  
November 07, 2011

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-16417

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NUSTAR ENERGY L.P.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of incorporation or organization)

74-2956831  
(I.R.S. Employer Identification No.)

2330 North Loop 1604 West  
San Antonio, Texas  
(Address of principal executive offices)

78248  
(Zip Code)

Registrant's telephone number, including area code (210) 918-2000

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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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of common units outstanding as of October 31, 2011 was 64,718,578.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars, Except Unit Data)

|   | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| Assets  |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$59,214                             | \$181,121            |
| Accounts receivable, net of allowance for doubtful accounts of \$1,742 and \$1,457 as of September 30, 2011 and December 31, 2010, respectively | 467,912                              | 302,053              |
| Inventories   | 603,683                              | 413,537              |
| Other current assets  | 69,101                               | 42,796               |
| Total current assets  | 1,199,910                            | 939,507              |
| Property, plant and equipment, at cost  | 4,328,975                            | 4,021,319            |
| Accumulated depreciation and amortization   | (943,539)                            | (833,862)            |
| Property, plant and equipment, net  | 3,385,436                            | 3,187,457            |
| Intangible assets, net  | 42,499                               | 43,033               |
| Goodwill  | 846,526                              | 813,270              |
| Investment in joint venture   | 67,203                               | 69,603               |
| Deferred income tax asset   | 9,671                                | 8,138                |
| Other long-term assets, net   | 296,903                              | 325,385              |
| Total assets  | \$5,848,148                          | \$5,386,393          |
| Liabilities and Partners' Equity  |                                      |                      |
| Current liabilities:  |                                      |                      |
| Current portion of long-term debt   | \$355,645                            | \$832                |
| Accounts payable  | 461,038                              | 282,382              |
| Payable to related party  | 12,369                               | 10,345               |
| Accrued interest payable  | 23,615                               | 29,706               |
| Accrued liabilities   | 110,934                              | 57,953               |
| Taxes other than income tax   | 16,499                               | 10,718               |
| Income tax payable  | 2,959                                | 1,293                |
| Total current liabilities   | 983,059                              | 393,229              |
| Long-term debt, less current portion  | 2,170,010                            | 2,136,248            |
| Long-term payable to related party  | 11,871                               | 10,088               |
| Deferred income tax liability   | 35,917                               | 29,565               |
| Other long-term liabilities   | 122,242                              | 114,563              |
| Commitments and contingencies (Note 5)  |                                      |                      |
| Partners' equity:   |                                      |                      |
| Limited partners (64,670,520 and 64,610,549 common units outstanding as of September 30, 2011 and December 31, 2010, respectively)              | 2,553,995                            | 2,598,873            |
| General partner   | 56,284                               | 57,327               |
| Accumulated other comprehensive (loss) income   | (97,912)                             | 46,500               |
| Total NuStar Energy L.P. partners' equity   | 2,512,367                            | 2,702,700            |

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|  |             |             |
|--|-------------|-------------|
| Noncontrolling interest                | 12,682      | —           |
| Total partners' equity                 | 2,525,049   | 2,702,700   |
| Total liabilities and partners' equity | \$5,848,148 | \$5,386,393 |

See Condensed Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

|  | Three Months Ended September |            | Nine Months Ended September |            |
|--|------------------------------|------------|-----------------------------|------------|
|  | 30,                          |            | 30,                         |            |
|  | 2011                         | 2010       | 2011                        | 2010       |
| Revenues:  |                              |            |                             |            |
| Service revenues:  |                              |            |                             |            |
| Third parties  | \$210,395                    | \$201,390  | \$607,866                   | \$585,772  |
| Related party  | 286                          | —          | 823                         | —          |
| Total service revenues                                       | 210,681                      | 201,390    | 608,689                     | 585,772    |
| Product sales  | 1,613,669                    | 936,989    | 4,039,461                   | 2,623,077  |
| Total revenues   | 1,824,350                    | 1,138,379  | 4,648,150                   | 3,208,849  |
| Costs and expenses:  |                              |            |                             |            |
| Cost of product sales  | 1,535,609                    | 860,942    | 3,797,424                   | 2,422,751  |
| Operating expenses:  |                              |            |                             |            |
| Third parties  | 98,464                       | 86,104     | 281,419                     | 259,465    |
| Related party  | 37,151                       | 35,644     | 109,061                     | 103,563    |
| Total operating expenses                                     | 135,615                      | 121,748    | 390,480                     | 363,028    |
| General and administrative expenses:                         |                              |            |                             |            |
| Third parties  | 8,746                        | 9,727      | 27,865                      | 28,633     |
| Related party  | 8,985                        | 17,133     | 41,968                      | 47,691     |
| Total general and administrative expenses                    | 17,731                       | 26,860     | 69,833                      | 76,324     |
| Depreciation and amortization expense                        | 42,418                       | 38,539     | 124,354                     | 114,653    |
| Total costs and expenses                                     | 1,731,373                    | 1,048,089  | 4,382,091                   | 2,976,756  |
| Operating income   | 92,977                       | 90,290     | 266,059                     | 232,093    |
| Equity in earnings of joint venture                          | 2,599                        | 2,454      | 6,997                       | 7,571      |
| Interest expense, net  | (21,565)                     | (20,583)   | (62,644)                    | (58,059)   |
| Other income (expense), net                                  | 767                          | (235)      | (5,699)                     | 14,882     |
| Income before income tax expense                             | 74,778                       | 71,926     | 204,713                     | 196,487    |
| Income tax expense   | 4,497                        | 3,616      | 13,311                      | 9,052      |
| Net income   | 70,281                       | 68,310     | 191,402                     | 187,435    |
| Less net income attributable to noncontrolling interest      | 123                          | —          | 143                         | —          |
| Net income attributable to NuStar Energy L.P.                | \$70,158                     | \$68,310   | \$191,259                   | \$187,435  |
| Net income per unit applicable to limited partners (Note 11) | \$0.92                       | \$0.90     | \$2.49                      | \$2.55     |
| Weighted-average limited partner units outstanding           | 64,612,423                   | 64,610,549 | 64,611,181                  | 62,386,373 |
| See Condensed Notes to Consolidated Financial Statements.    |                              |            |                             |            |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited, Thousands of Dollars)

|   | Nine Months Ended September<br>30, |              |
|---|------------------------------------|--------------|
|   | 2011                               | 2010         |
| Cash Flows from Operating Activities:   |                                    |              |
| Net income  | \$ 191,402                         | \$ 187,435   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |              |
| Depreciation and amortization expense   | 124,354                            | 114,653      |
| Amortization of debt related items  | (8,328                             | ) (5,812     |
| Gain on sale or disposition of assets, including insurance recoveries             | (117                               | ) (12,926    |
| Deferred income tax expense (benefit)   | 4,130                              | (1,932       |
| Equity in earnings of joint venture   | (6,997                             | ) (7,571     |
| Distributions of equity in earnings of joint venture                              | 9,397                              | 7,500        |
| Changes in current assets and current liabilities (Note 12)                       | (216,427                           | ) (99,815    |
| Other, net  | 4,457                              | (699         |
| Net cash provided by operating activities   | 101,871                            | 180,833      |
| Cash Flows from Investing Activities:   |                                    |              |
| Reliability capital expenditures  | (32,808                            | ) (34,927    |
| Strategic capital expenditures  | (211,150                           | ) (156,531   |
| Acquisitions  | (100,693                           | ) (43,026    |
| Proceeds from insurance recoveries  | —                                  | 13,500       |
| Investment in other long-term assets  | (8,449                             | ) (3,400     |
| Proceeds from sale or disposition of assets                                       | 445                                | 1,992        |
| Net cash used in investing activities   | (352,655                           | ) (222,392   |
| Cash Flows from Financing Activities:   |                                    |              |
| Proceeds from long-term debt borrowings   | 707,102                            | 775,434      |
| Proceeds from short-term debt borrowings  | 31,600                             | 177,041      |
| Proceeds from senior note offering, net of issuance costs                         | —                                  | 445,574      |
| Long-term debt repayments   | (348,153                           | ) (1,146,183 |
| Short-term debt repayments  | (31,600                            | ) (197,041   |
| Proceeds from issuance of common units, net of issuance costs                     | 1,583                              | 240,158      |
| Contributions from general partner  | 70                                 | 5,078        |
| Distributions to unitholders and general partner                                  | (240,571                           | ) (225,538   |
| Proceeds from termination of interest rate swaps                                  | 12,632                             | —            |
| Other, net  | (785                               | ) (8,746     |
| Net cash provided by financing activities   | 131,878                            | 65,777       |
| Effect of foreign exchange rate changes on cash                                   | (3,001                             | ) (358       |
| Net (decrease) increase in cash and cash equivalents                              | (121,907                           | ) 23,860     |
| Cash and cash equivalents as of the beginning of the period                       | 181,121                            | 62,006       |
| Cash and cash equivalents as of the end of the period                             | \$ 59,214                          | \$ 85,866    |
| See Condensed Notes to Consolidated Financial Statements.                         |                                    |              |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. Unless otherwise indicated, the terms “NuStar Energy,” “the Partnership,” “we,” “our” and “us” are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 17.6% total interest in us as of September 30, 2011.

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). We have three business segments: storage, transportation, and asphalt and fuels marketing.

Basis of Presentation

These unaudited consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Noncontrolling interests are separately disclosed on the consolidated balance sheets and consolidated statements of income. Intercompany balances and transactions have been eliminated in consolidation. We account for investments in 50% or less-owned entities using the equity method.

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and nine months ended September 30, 2011 and 2010 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Reclassifications

Certain previously reported amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Acquisitions

On April 19, 2011, we purchased certain refining and storage assets, inventory and other working capital items from AGE Refining, Inc. for \$62.0 million, including the assumption of certain environmental liabilities. The assets consist of a 14,500 barrel per day refinery in San Antonio, Texas (the San Antonio Refinery) and 200,000 barrels of storage capacity in Elmhendorf, Texas. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition, pending completion of an independent appraisal and other evaluations. The consolidated statements of income include the results of operations for our acquisition of the San Antonio Refinery and related storage assets commencing on April 19, 2011.



On February 9, 2011, we acquired 75% of the outstanding capital of a Turkish company, which owns two terminals in Mersin, Turkey, with an aggregate 1.3 million barrels of storage capacity, for approximately \$57.3 million (the Turkey Acquisition). Both terminals are connected via pipelines to an offshore platform located approximately three miles off the Mediterranean Sea coast. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired, liabilities assumed and noncontrolling interest at the date of acquisition. The purchase price allocation is pending completion of an independent appraisal and other evaluations. The consolidated statements of income include the results of operations for the Turkey Acquisition commencing on February 9, 2011, with 25% accounted for as a noncontrolling interest.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 2. NEW ACCOUNTING PRONOUNCEMENTS

## Goodwill Impairment

In September 2011, the Financial Accounting Standards Board (FASB) amended the goodwill impairment guidance to simplify testing goodwill for impairment. The amended guidance provides entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. We are evaluating whether to adopt the amended guidance for the 2011 goodwill impairment test performed in the fourth quarter, but we do not expect the amended guidance to have a material impact on our financial position or results of operations.

## Other Comprehensive Income

In June 2011, the FASB amended the disclosure requirements for the presentation of comprehensive income. The amended requirements eliminate the option to present components of other comprehensive income (OCI) as part of the statement of changes in equity. Under the amended requirements, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. In addition, entities will be required to disclose reclassification adjustments between other comprehensive income and net income separately on the face of the financial statements. The changes are effective for fiscal years and interim periods beginning after December 15, 2011, and retrospective application is required. Accordingly, we will adopt these provisions January 1, 2012. These amendments only affect financial statement presentation and will not have an impact on our financial position or results of operations.

## Fair Value Measurements

In May 2011, the FASB issued amended guidance and disclosure requirements for fair value measurements. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. These changes are effective for interim and annual periods beginning on or after December 15, 2011, and early adoption is not permitted.

Accordingly, we will adopt these provisions January 1, 2012, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

## 3. INVENTORIES

Inventories consisted of the following:

|                        | September 30,<br>2011  | December 31,<br>2010 |
|------------------------|------------------------|----------------------|
|                        | (Thousands of Dollars) |                      |
| Crude oil              | \$220,672              | \$122,945            |
| Finished products      | 372,841                | 281,197              |
| Materials and supplies | 10,170                 | 9,395                |
| Total                  | \$603,683              | \$413,537            |

## 4. DEBT

Revolving Credit Agreement

During the nine months ended September 30, 2011, we borrowed an aggregate \$615.0 million under our \$1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement) to fund a portion of our capital expenditures and working capital requirements. Additionally, we repaid \$348.2 million during the nine months ended September 30, 2011. The 2007 Revolving Credit Agreement bears interest based on either an alternative base rate or a LIBOR-based rate. As of September 30, 2011, our weighted average borrowing interest rate was 0.9%, and we had \$376.2 million available for borrowing under the 2007 Revolving Credit Agreement. Due to a covenant in our 2007 Revolving Credit Agreement that requires us to maintain, as of the end of any four consecutive fiscal quarters, a consolidated debt coverage ratio not to exceed 5.00-to-1.00, we may not be able to borrow the maximum available amount. On March 7, 2011, we amended the 2007 Revolving Credit Agreement to exclude unused proceeds from the Gulf Opportunity Zone bond issuances from total indebtedness in the calculation of the

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

consolidated debt coverage ratio. As of September 30, 2011, our consolidated debt coverage ratio was 4.5x.

**Gulf Opportunity Zone Revenue Bonds**

The Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, three separate series of tax-exempt revenue bonds in 2010 and one series of tax-exempt revenue bonds in 2011 (GoZone Bonds) associated with our St. James terminal expansion. The \$75.0 million of tax-exempt revenue bonds issued in 2011 mature on August 1, 2041. The interest rate on the GoZone Bonds is based on a weekly tax-exempt bond market interest rate, and interest is paid monthly. The interest rate was 0.2% as of September 30, 2011. Following the issuance, the proceeds were deposited with a trustee and will be disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansion. The amount remaining in trust related to the GoZone Bonds is included in “Other long-term assets, net,” and the amount of bonds issued is included in “Long-term debt, less current portion” in our consolidated balance sheets. For the nine months ended September 30, 2011, \$92.1 million was disbursed from the trustee. As of September 30, 2011, the amount remaining in trust totaled \$187.6 million.

**Lines of Credit**

As of September 30, 2011, we had one short-term line of credit with an uncommitted borrowing capacity of up to \$20.0 million. We had no outstanding borrowings on this line of credit as of September 30, 2011. During the nine months ended September 30, 2011, we borrowed and repaid \$31.6 million related to this line of credit.

**5. COMMITMENTS AND CONTINGENCIES**

**Contingencies**

We have contingent liabilities resulting from various litigation, claims and commitments, the most significant of which are discussed below. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of September 30, 2011, we have accrued \$76.5 million for contingent losses. The amount that will ultimately be paid related to these matters may differ from the amounts accrued, and the timing of such payments is uncertain.

**Grace Energy Corporation Matter.** In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of Kaneb Pipeline Partners, L.P. (KPP) and Kaneb Services LLC (KSL and collectively with KPP and their respective subsidiaries, Kaneb) in Texas state court. We acquired Kaneb on July 1, 2005. The complaint sought recovery of the cost of remediation of fuel leaks in the 1970s from a pipeline that had once connected a former Grace Energy terminal with Otis Air Force Base in Massachusetts (Otis AFB). Grace Energy alleges the Otis AFB pipeline and related environmental liabilities had been transferred in 1978 to an entity that was part of Kaneb's acquisition of Support Terminal Services, Inc. and its subsidiaries from Grace Energy in 1993. Kaneb contends that it did not acquire the Otis AFB pipeline and never assumed any responsibility for any associated environmental damage.

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of \$3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy was awarded \$1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the final judgment of the trial court to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement.

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are

allegedly associated with the Otis AFB pipeline. Relying on the final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the United States Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to us indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against us related to this matter, and we have not made any payments toward costs incurred by the DOJ. We are currently in settlement discussions with other potentially responsible parties and the DOJ, and a change in our estimate of this liability may occur in the near term. However, the proposed settlement must be approved by multiple parties and requires the approval of the bankruptcy court and the federal district court. We estimate that a settlement may be finalized in early to mid-2012.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Eres Matter. In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants breached a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provided for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contended that NuStar Asphalt and/or NuStar Marketing (together, the NuStar Entities) assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants had failed to perform under the Charter Agreement. Eres valued its damages for the alleged breach of contract claim at approximately \$78.1 million. On October 14, 2011, Eres and the Defendants entered into a Settlement Agreement and Mutual Release. Pursuant to the terms of the Settlement Agreement and Mutual Release, the NuStar Entities paid \$33.5 million in full and final settlement of all of Eres' claims against the Defendants. The settlement amount was included in the accrual for contingent losses as of September 30, 2011.

Other. We are also a party to additional claims and legal proceedings arising in the ordinary course of business. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity. It is possible that if one or more of the matters described above were decided against us, the effects could be material to our results of operations in the period in which we would be required to record or adjust the related liability and could also be material to our cash flows in the periods we would be required to pay such liability.

## 6. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists. We consider counterparty credit risk and our own credit risk in the determination of all estimated fair values.

### Product Imbalances

We value our assets and liabilities related to product imbalances using quoted market prices as of the reporting date.

### Interest Rate Swaps

We estimate the fair value of both our fixed-to-floating and forward-starting interest rate swaps using discounted cash flows, which use observable inputs such as time to maturity and market interest rates.

### Commodity Derivatives

The fair value of certain of our commodity derivative instruments are based on quoted prices on an exchange; accordingly, these are categorized in Level 1 of the fair value hierarchy. We also have derivative instruments that are valued using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, these derivative instruments are categorized in Level 2 of the fair value hierarchy. We have consistently applied these valuation techniques in all periods presented. See Note 7. Derivatives and Risk Management Activities for a discussion of our derivative instruments.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following assets and liabilities are measured at fair value:

|                              | September 30, 2011                |            |         | Total       |
|------------------------------|-----------------------------------|------------|---------|-------------|
|                              | Level 1<br>(Thousands of Dollars) | Level 2    | Level 3 |             |
| Other current assets:        |                                   |            |         |             |
| Product imbalances           | \$1,903                           | \$—        | \$—     | \$1,903     |
| Commodity derivatives        | 22,534                            | —          | —       | 22,534      |
| Other long-term assets, net: |                                   |            |         |             |
| Interest rate swaps          | —                                 | 23,125     | —       | 23,125      |
| Accrued liabilities:         |                                   |            |         |             |
| Product imbalances           | (1,069                            | ) —        | —       | (1,069 )    |
| Commodity derivatives        | (8,265                            | ) (50,433  | ) —     | (58,698 )   |
| Interest rate swaps          | —                                 | (18,624    | ) —     | (18,624 )   |
| Other long-term liabilities: |                                   |            |         |             |
| Interest rate swaps          | —                                 | (22,306    | ) —     | (22,306 )   |
| Total                        | \$15,103                          | \$(68,238  | ) \$—   | \$(53,135 ) |
|                              |                                   |            |         |             |
|                              | December 31, 2010                 |            |         | Total       |
|                              | Level 1<br>(Thousands of Dollars) | Level 2    | Level 3 |             |
| Other current assets:        |                                   |            |         |             |
| Product imbalances           | \$991                             | \$—        | \$—     | \$991       |
| Other long-term assets, net: |                                   |            |         |             |
| Interest rate swaps          | —                                 | 45,663     | —       | 45,663      |
| Accrued liabilities:         |                                   |            |         |             |
| Product imbalances           | (988                              | ) —        | —       | (988 )      |
| Commodity derivatives        | (14,741                           | ) —        | —       | (14,741 )   |
| Other long-term liabilities: |                                   |            |         |             |
| Interest rate swaps          | —                                 | (29,483    | ) —     | (29,483 )   |
| Total                        | \$(14,738                         | ) \$16,180 | \$—     | \$1,442     |

**Fair Value of Financial Instruments**

We do not record our outstanding debt at fair value in our consolidated balance sheet. The estimated fair value and carrying amount of our debt was as follows:

|                 | September 30,<br>2011<br>(Thousands of Dollars) | December 31,<br>2010 |
|-----------------|---|----------------------|
| Fair value      | \$2,595,533                                     | \$2,249,190          |
| Carrying amount | \$2,525,655                                     | \$2,137,080          |

We estimated the fair values of our debt using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements.





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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to: (i) manage our exposure to commodity price risk; (ii) engage in a trading program; and (iii) manage our exposure to interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swaps positions, as well as physical volumes, grades, locations and delivery schedules to help ensure that our hedging activities address our market risks. We have a risk management committee that oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We are a party to certain interest rate swap agreements to manage our exposure to changes in interest rates. We have fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes. We account for our fixed-to-floating interest rate swaps as fair value hedges. During the nine months ended September 30, 2011, we entered into and terminated a fixed-to-floating interest rate swap agreement with a notional amount of \$40.0 million related to the 7.65% senior notes issued in April 2008. We also terminated interest rate swap agreements with an aggregate notional amount of \$167.5 million associated with our 6.875% and 6.05% senior notes during the nine months ended September 30, 2011. We received \$12.6 million in connection with the terminations, which is being amortized into "Interest expense, net" over the remaining lives of the 7.65%, 6.875% and 6.05% senior notes. Proceeds from the termination of interest rate swap agreements are included in cash flows from financing activities on the consolidated statements of cash flows.

The total aggregate notional amount of the fixed-to-floating interest rate swaps was \$450.0 million as of September 30, 2011 and \$617.5 million as of December 31, 2010. The weighted-average interest rate that we paid under our fixed-to-floating interest rate swaps was 2.6% as of September 30, 2011.

We are also a party to forward-starting interest rate swap agreements with an aggregate notional amount of \$500.0 million as of September 30, 2011 and December 31, 2010 related to forecasted probable debt issuances in 2012 and 2013. We entered into the swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. These swaps are designated and qualify as cash flow hedges.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil and refined product prices. In order to reduce the risk of commodity price fluctuations with respect to our crude oil and finished product inventories and related firm commitments to purchase and/or sell such inventories, we utilize commodity futures and swap contracts, which qualify and we designate as fair value hedges.

During the second quarter of 2011, we entered into commodity swap contracts to hedge the price risk associated with the San Antonio Refinery. These contracts fix the purchase price of crude oil and sales prices of refined products for a portion of the expected production of the San Antonio Refinery, thereby attempting to mitigate the risk of volatility of future cash flows associated with hedged volumes. These contracts qualified and we designated them as cash flow hedges.

Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and associated gains and losses are recorded in net income. We also enter into commodity derivatives in order to attempt to profit from market fluctuations. These derivative instruments are

financial positions entered into without underlying physical inventory and are not considered hedges. Changes in the fair values are recorded in net income.

The volume of commodity contracts is based on open derivative positions and represents the combined volume of our long and short positions on an absolute basis, which totaled 31.2 million barrels and 12.8 million barrels as of September 30, 2011 and December 31, 2010, respectively.

As of December 31, 2010, we had \$17.8 million of margin deposits related to our derivative instruments and none as of September 30, 2011.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

|  | Balance Sheet Location      | Asset Derivatives  |                   | Liability Derivatives |                   |
|--|-----------------------------|--------------------|-------------------|-----------------------|-------------------|
|  |                             | September 30, 2011 | December 31, 2010 | September 30, 2011    | December 31, 2010 |
| (Thousands of Dollars)                             |                             |                    |                   |                       |                   |
| Derivatives Designated as Hedging Instruments:     |                             |                    |                   |                       |                   |
| Commodity contracts                                | Other current assets        | \$3,072            | \$—               | \$(72 )               | \$—               |
| Interest rate swaps                                | Other long-term assets, net | 23,125             | 45,663            | —                     | —                 |
| Commodity contracts                                | Accrued liabilities         | 196,026            | 2,176             | (246,459 )            | (2,522 )          |
| Interest rate swaps                                | Accrued liabilities         | —                  | —                 | (18,624 )             | —                 |
| Interest rate swaps                                | Other long-term liabilities | —                  | —                 | (22,306 )             | (29,483 )         |
| Total  |                             | 222,223            | 47,839            | (287,461 )            | (32,005 )         |
| Derivatives Not Designated as Hedging Instruments: |                             |                    |                   |                       |                   |
| Commodity contracts                                | Other current assets        | 38,774             | —                 | (19,240 )             | —                 |
| Commodity contracts                                | Accrued liabilities         | 10,826             | 46,632            | (19,091 )             | (61,027 )         |
| Total  |                             | 49,600             | 46,632            | (38,331 )             | (61,027 )         |
| Total Derivatives                                  |                             | \$271,823          | \$94,471          | \$(325,792 )          | \$(93,032 )       |

The earnings impact of our derivative activity was as follows:

| Derivatives Designated as Fair Value Hedging Instruments | Income Statement Location | Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|--|---------------------------|--|---|--|
|  |                           | (Thousands of Dollars)   |   |  |
| Three months ended September 30, 2011:                   |                           |  |   |  |
| Interest rate swaps                                      | Interest expense, net     | \$45,963   | \$(46,320 )   | \$ (357 )  |
| Commodity contracts                                      | Cost of product sales     | 3,772  | (4,508 )  | (736 )   |
| Total  |                           | \$49,735   | \$(50,828 )   | \$ (1,093 )  |
| Three months ended September 30, 2010:                   |                           |  |   |  |
| Interest rate swaps                                      | Interest expense, net     | \$3,886  | \$(3,886 )  | \$ —   |
| Commodity contracts                                      | Cost of product sales     | (6,773 )   | 12,297 )  | 5,524  |
| Total  |                           | \$(2,887 )   | \$8,411 )   | \$ 5,524   |

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Nine months ended September 30,  
2011:

|                     |                       |          |           |             |   |
|---------------------|-----------------------|----------|-----------|-------------|---|
| Interest rate swaps | Interest expense, net | \$54,577 | \$(55,172 | ) \$ (595   | ) |
| Commodity contracts | Cost of product sales | (7,292   | ) 6,212   | (1,080      | ) |
| Total               |                       | \$47,285 | \$(48,960 | ) \$ (1,675 | ) |

Nine months ended September 30,  
2010:

|                     |                       |          |          |            |  |
|---------------------|-----------------------|----------|----------|------------|--|
| Interest rate swaps | Interest expense, net | \$7,010  | \$(7,010 | ) \$ —     |  |
| Commodity contracts | Cost of product sales | 4,961    | 3,382    | 8,343      |  |
| Total               |                       | \$11,971 | \$(3,628 | ) \$ 8,343 |  |

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| Derivatives Designated as Cash Flow Hedging Instruments  | Amount of Gain<br>(Loss) Recognized in<br>OCI on Derivative<br>(Effective Portion) | Income Statement<br>Location (a) | Amount of Gain<br>(Loss) Reclassified<br>from<br>Accumulated OCI<br>into Income<br>(Effective Portion) | Amount of Gain<br>(Loss) Recognized<br>in Income on<br>Derivative<br>(Ineffective Portion) |
|--|--|----------------------------------|--|--|
|  | (Thousands of<br>Dollars)  |                                  | (Thousands of Dollars)   |  |
| Three months ended September 30, 2011:   |  |                                  |  |  |
| Interest rate swaps  | \$ (63,100 )   | Interest expense, net            | \$—  | \$ —   |
| Commodity contracts  | (46,532 )  | Cost of product sales            | (7,733 )   | 3,594  |
| Total  | \$ (109,632 )  |                                  | \$(7,733 )   | \$ 3,594   |
| Three months ended September 30, 2010:   |  |                                  |  |  |
| Interest rate swaps  | \$ (1,790 )  | Interest expense, net            | \$—  | \$ —   |
| Commodity contracts  | (1,326 )   | Cost of product sales            | —  | (284 )   |
| Total  | \$ (3,116 )  |                                  | \$—  | \$ (284 )  |
| Nine months ended September 30, 2011:  |  |                                  |  |  |
| Interest rate swaps  | \$ (75,930 )   | Interest expense, net            | \$—  | \$ —   |
| Commodity contracts  | (62,986 )  | Cost of product sales            | (8,958 )   | 3,594  |
| Total  | \$ (138,916 )  |                                  | \$(8,958 )   | \$ 3,594   |
| Nine months ended September 30, 2010:  |  |                                  |  |  |
| Interest rate swaps  | \$ (1,790 )  | Interest expense, net            | \$—  | \$ —   |
| Commodity contracts  | (1,087 )   | Cost of product sales            | (913 )   | —  |
| Total  | \$ (2,877 )  |                                  | \$(913 )   | \$ —   |
| Amounts are included in specified location for both the gain (loss) reclassified from accumulated other (a) comprehensive income into income (effective portion) and the gain (loss) recognized in income on derivative (ineffective portion). |  |                                  |  |  |
| Derivatives Not Designated as Hedging Instruments  |  | Income Statement<br>Location     |  | Amount of Gain (Loss)<br>Recognized in Income<br>(Thousands of Dollars)                    |
| Three months ended September 30, 2011:   |  |                                  |  |  |
| Commodity contracts  |  | Cost of product sales            |  | \$5,482  |
| Three months ended September 30, 2010:   |  |                                  |  |  |
| Commodity contracts  |  | Cost of product sales            |  | \$(1,963 )   |
| Nine months ended September 30, 2011:  |  |                                  |  |  |
| Commodity contracts  |  | Revenues                         |  | \$235  |

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|                     |                       |          |   |
|---------------------|-----------------------|----------|---|
| Commodity contracts | Cost of product sales | (5,685   | ) |
| Commodity contracts | Operating expenses    | 46       | ) |
| Total               |                       | \$(5,404 | ) |

Nine months ended September 30, 2010:

|                     |                       |         |   |
|---------------------|-----------------------|---------|---|
| Commodity contracts | Cost of product sales | \$4,735 | ) |
| Commodity contracts | Operating expenses    | (10     | ) |
| Total               |                       | \$4,725 | ) |

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For derivatives designated as cash flow hedging instruments, once a hedged transaction occurs, we reclassify the effective portion from accumulated OCI to “Cost of product sales” or “Interest expense, net.” As of September 30, 2011, we expect to reclassify a loss of \$25.0 million to “Cost of product sales” and a loss of \$1.2 million to “Interest expense, net” within the next twelve months. The maximum length of time over which we are hedging our exposure to the variability in future cash flows is approximately two years for our forward-starting interest rate swaps and approximately four years for our commodity contracts.

## 8. RELATED PARTY TRANSACTIONS

Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under a services agreement between NuStar Energy and NuStar GP, LLC, employees of NuStar GP, LLC perform services for our U.S. operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations. Employees of NuStar GP, LLC provide services to both NuStar Energy and NuStar GP Holdings; therefore, we reimburse NuStar GP, LLC for all costs related to its employees, other than costs associated with NuStar GP Holdings. Related party revenues result from storage agreements between our Turkey subsidiary and the noncontrolling shareholder.

The following table summarizes information pertaining to related party transactions:

|                                     | Three Months Ended September<br>30,<br>2011 |          | Nine Months Ended September<br>30,<br>2011 |           |
|-------------------------------------|---|----------|--|-----------|
|                                     | 2010  | 2010     | 2011                                       | 2010      |
|                                     | (Thousands of Dollars)                      |          |  |           |
| Revenues                            | \$286                                       | \$—      | \$823                                      | \$—       |
| Operating expenses                  | \$37,151                                    | \$35,644 | \$109,061                                  | \$103,563 |
| General and administrative expenses | \$8,985                                     | \$17,133 | \$41,968                                   | \$47,691  |

We had a payable to NuStar GP, LLC of \$12.4 million and \$10.3 million, as of September 30, 2011 and December 31, 2010, respectively, with both amounts representing payroll, employee benefit plans and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of September 30, 2011 and December 31, 2010 of \$11.9 million and \$10.1 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

## 9. OTHER INCOME (EXPENSE)

Other income (expense), net consisted of the following:

|   | Three Months Ended September<br>30,<br>2011 |       | Nine Months Ended September<br>30,<br>2011 |        |
|---|---|-------|--|--------|
|   | 2010  | 2010  | 2011                                       | 2010   |
|   | (Thousands of Dollars)                      |       |  |        |
| Contingent loss adjustment                | \$ (3,250)                                  | ) \$— | \$ (3,250)                                 | ) \$—  |
| Storage agreement early termination costs | —   | —     | (5,000)                                    | ) —    |
| Gain from insurance recoveries            | —   | —     | —  | 13,500 |

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|  |       |        |            |            |   |
|--|-------|--------|------------|------------|---|
| (Loss) gain from sale or disposition of assets | (119  | ) 114  | 117        | (574       | ) |
| Foreign exchange gains (losses)                | 3,059 | (333   | ) 2,483    | (567       | ) |
| Other, net                                     | 1,077 | (16    | ) (49      | ) 2,523    |   |
| Other income (expense), net                    | \$767 | \$(235 | ) \$(5,699 | ) \$14,882 |   |

For the three and nine months ended September 30, 2011, the contingent loss adjustment relates to the Eres matter discussed in Note 5. Commitments and Contingencies. For the nine months ended September 30, 2011, "Other income (expense), net" included \$5.0 million in costs associated with the early termination of a third-party storage agreement at our Paulsboro, New Jersey asphalt refinery. For the nine months ended September 30, 2010, the gain from insurance recoveries resulted from insurance claims related to damage in the third quarter of 2008 primarily at our Texas City, Texas terminal caused by Hurricane Ike.



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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 10. PARTNERS' EQUITY

## Partners' Equity Activity

The following table summarizes changes in the carrying amount of partners' equity and noncontrolling interest:

|  | Three Months Ended September 30, 2011        |                            |                              | Three Months Ended September 30, 2010        |                            |                              |
|--|--|----------------------------|------------------------------|--|----------------------------|------------------------------|
|  | NuStar<br>Energy L.P.<br>Partners'<br>Equity | Noncontrolling<br>Interest | Total<br>Partners'<br>Equity | NuStar<br>Energy L.P.<br>Partners'<br>Equity | Noncontrolling<br>Interest | Total<br>Partners'<br>Equity |
|  | (Thousands of Dollars)                       |                            |                              |  |                            |                              |
| Beginning balance  | \$2,644,221                                  | \$ 14,745                  | \$2,658,966                  | \$2,694,908                                  | \$—                        | \$2,694,908                  |
| Net income   | 70,158                                       | 123                        | 70,281                       | 68,310                                       | —                          | 68,310                       |
| Other comprehensive<br>income:   |  |                            |                              |  |                            |                              |
| Foreign currency<br>translation<br>adjustment                                  | (22,165 )                                    | (2,186 )                   | (24,351 )                    | 9,026  | —                          | 9,026                        |
| Unrealized gain (loss) on<br>cash flow hedges                                  | (109,632 )                                   | —                          | (109,632 )                   | (3,116 )                                     | —                          | (3,116 )                     |
| Net loss reclassified into<br>income on cash flow<br>hedges                    | 7,733  | —                          | 7,733                        | —  | —                          | —                            |
| Total other<br>comprehensive<br>(loss) income                                  | (124,064 )                                   | (2,186 )                   | (126,250 )                   | 5,910  | —                          | 5,910                        |
| Total comprehensive<br>(loss) income   | (53,906 )                                    | (2,063 )                   | (55,969 )                    | 74,220                                       | —                          | 74,220                       |
| Cash distributions to<br>partners  | (81,339 )                                    | —                          | (81,339 )                    | (78,754 )                                    | —                          | (78,754 )                    |
| Issuance of common<br>units,<br>including contribution<br>from general partner | 3,391  | —                          | 3,391                        | (139 )                                       | —                          | (139 )                       |
| Ending balance   | \$2,512,367                                  | \$ 12,682                  | \$2,525,049                  | \$2,690,235                                  | \$—                        | \$2,690,235                  |

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

|   | Nine Months Ended September 30, 2011 |                         |                        | Nine Months Ended September 30, 2010 |                         |                        |
|---|--------------------------------------|-------------------------|------------------------|--------------------------------------|-------------------------|------------------------|
|   | NuStar Energy L.P. Partners' Equity  | Noncontrolling Interest | Total Partners' Equity | NuStar Energy L.P. Partners' Equity  | Noncontrolling Interest | Total Partners' Equity |
|   | (Thousands of Dollars)               |                         |                        |                                      |                         |                        |
| Beginning balance   | \$2,702,700                          | \$—                     | \$2,702,700            | \$2,484,968                          | \$—                     | \$2,484,968            |
| Turkey acquisition  | —                                    | 15,000                  | 15,000                 | —                                    | —                       | —                      |
| Net income  | 191,259                              | 143                     | 191,402                | 187,435                              | —                       | 187,435                |
| Other comprehensive income:   |                                      |                         |                        |                                      |                         |                        |
| Foreign currency translation adjustment                               | (14,454 )                            | (2,461 )                | (16,915 )              | 98                                   | —                       | 98                     |
| Unrealized gain (loss) on cash flow hedges                            | (138,916 )                           | —                       | (138,916 )             | (2,877 )                             | —                       | (2,877 )               |
| Net loss reclassified into income on cash flow hedges                 | 8,958                                | —                       | 8,958                  | 913                                  | —                       | 913                    |
| Total other comprehensive (loss)                                      | (144,412 )                           | (2,461 )                | (146,873 )             | (1,866 )                             | —                       | (1,866 )               |
| Total comprehensive income (loss)                                     | 46,847                               | (2,318 )                | 44,529                 | 185,569                              | —                       | 185,569                |
| Cash distributions to partners  | (240,571 )                           | —                       | (240,571 )             | (225,538 )                           | —                       | (225,538 )             |
| Issuance of common units, including contribution from general partner | 3,391                                | —                       | 3,391                  | 245,236                              | —                       | 245,236                |
| Ending balance  | \$2,512,367                          | \$ 12,682               | \$2,525,049            | \$2,690,235                          | \$—                     | \$2,690,235            |

## Allocations of Net Income

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders and the general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. 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 interests. Normal allocations according to percentage interests are made after giving effect to priority income allocations, if any, in an amount equal to incentive cash distributions allocated 100% to the general partner. The following table details the calculation of net income applicable to the general partner:

|   | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|---|----------------------------------|----------|---------------------------------|-----------|
|   | 2011                             | 2010     | 2011                            | 2010      |
|   | (Thousands of Dollars)           |          |                                 |           |
| Net income attributable to NuStar Energy L.P.           | \$70,158                         | \$68,310 | \$191,259                       | \$187,435 |
| Less general partner incentive distribution             | 8,972                            | 8,568    | 26,503                          | 24,736    |
| Net income after general partner incentive distribution | 61,186                           | 59,742   | 164,756                         | 162,699   |

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|  |           |          |           |           |   |
|--|-----------|----------|-----------|-----------|---|
| General partner interest   | 2         | % 2      | % 2       | % 2       | % |
| General partner allocation of net income after<br>general partner incentive distribution | 1,223     | 1,195    | 3,294     | 3,254     |   |
| General partner incentive distribution   | 8,972     | 8,568    | 26,503    | 24,736    |   |
| Net income applicable to general partner   | \$ 10,195 | \$ 9,763 | \$ 29,797 | \$ 27,990 |   |

Cash Distributions

On August 12, 2011, we paid a quarterly cash distribution totaling \$81.3 million, or \$1.095 per unit, related to the second quarter of 2011. On October 28, 2011, we announced a quarterly cash distribution of \$1.095 per unit related to the third quarter of 2011. This distribution will be paid on November 14, 2011 to unitholders of record on November 8, 2011 and will total \$81.4 million.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

|  | Three Months Ended<br>September 30,          |          | Nine Months Ended September<br>30, |           |
|--|--|----------|------------------------------------|-----------|
|  | 2011   | 2010     | 2011                               | 2010      |
|  | (Thousands of Dollars, Except Per Unit Data) |          |                                    |           |
| General partner interest                                   | \$1,628                                      | \$1,592  | \$4,847                            | \$4,635   |
| General partner incentive distribution                     | 8,972  | 8,568    | 26,503                             | 24,736    |
| Total general partner distribution                         | 10,600                                       | 10,160   | 31,350                             | 29,371    |
| Limited partners' distribution                             | 70,814                                       | 69,456   | 211,019                            | 202,391   |
| Total cash distributions                                   | \$81,414                                     | \$79,616 | \$242,369                          | \$231,762 |
| Cash distributions per unit applicable to limited partners | \$1.095                                      | \$1.075  | \$3.265                            | \$3.205   |

## 11. NET INCOME PER UNIT

We have identified the general partner interest and incentive distribution rights (IDR) as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common units outstanding during the period. Basic and diluted net income per unit applicable to limited partners are the same because we have no potentially dilutive securities outstanding.

The following table details the calculation of earnings per unit:

|   | Three Months Ended September<br>30,                   |            | Nine Months Ended September<br>30, |            |
|---|---|------------|------------------------------------|------------|
|   | 2011  | 2010       | 2011                               | 2010       |
|   | (Thousands of Dollars, Except Unit and Per Unit Data) |            |                                    |            |
| Net income attributable to NuStar Energy L.P.           | \$70,158  | \$68,310   | \$191,259                          | \$187,435  |
| Less general partner distribution (including IDR)       | 10,600  | 10,160     | 31,350                             | 29,371     |
| Less limited partner distribution                       | 70,814  | 69,456     | 211,019                            | 202,391    |
| Distributions greater than earnings                     | \$(11,256)  | \$(11,306) | \$(51,110)                         | \$(44,327) |
| General partner earnings:                               |   |            |                                    |            |
| Distributions   | \$10,600  | \$10,160   | \$31,350                           | \$29,371   |
| Allocation of distributions greater than earnings (2%)  | (225)   | (225)      | (1,023)                            | (886)      |
| Total   | \$10,375  | \$9,935    | \$30,327                           | \$28,485   |
| Limited partner earnings:                               |   |            |                                    |            |
| Distributions   | \$70,814  | \$69,456   | \$211,019                          | \$202,391  |
| Allocation of distributions greater than earnings (98%) | (11,031)  | (11,081)   | (50,087)                           | (43,441)   |
| Total   | \$59,783  | \$58,375   | \$160,932                          | \$158,950  |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Weighted-average limited partner units outstanding | 64,612,423 | 64,610,549 | 64,611,181 | 62,386,373 |
| Net income per unit applicable to limited partners | \$0.92     | \$0.90     | \$2.49     | \$2.55     |

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 12. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

|   | Nine Months Ended September<br>30, |             |
|---|------------------------------------|-------------|
|   | 2011                               | 2010        |
|   | (Thousands of Dollars)             |             |
| Decrease (increase) in current assets:            |                                    |             |
| Accounts receivable                               | \$(148,814 )                       | \$(86,025 ) |
| Inventories                                       | (176,936 )                         | (114,885 )  |
| Other current assets                              | (25,838 )                          | 27,287      |
| Increase (decrease) in current liabilities:       |                                    |             |
| Accounts payable                                  | 153,626                            | 75,345      |
| Payable to related party                          | 2,023                              | 12,697      |
| Accrued interest payable                          | (6,092 )                           | 3,058       |
| Accrued liabilities                               | (21,471 )                          | (18,436 )   |
| Taxes other than income tax                       | 5,607                              | (858 )      |
| Income tax payable                                | 1,468                              | 2,002       |
| Changes in current assets and current liabilities | \$(216,427 )                       | \$(99,815 ) |

Cash flows related to interest and income taxes were as follows:

|   | Nine Months Ended September<br>30, |          |
|---|------------------------------------|----------|
|   | 2011                               | 2010     |
|   | (Thousands of Dollars)             |          |
| Cash paid for interest, net of amount capitalized       | \$87,576                           | \$66,243 |
| Cash paid for income taxes, net of tax refunds received | \$11,974                           | \$9,580  |

## 13. SEGMENT INFORMATION

Our reportable business segments consist of storage, transportation, and asphalt and fuels marketing. Our segments represent strategic business units that offer different services and products. We evaluate the performance of each segment based on its respective operating income, before general and administrative expenses and certain non-segmental depreciation and amortization expense. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal operations include terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. Intersegment revenues result from storage and throughput agreements with related parties at lease rates consistent with rates charged to third parties for storage and at pipeline tariff rates based upon the applicable published tariff.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Results of operations for the reportable segments were as follows:

|  | Three Months Ended September<br>30,<br>2011 |              | Nine Months Ended September<br>30,<br>2011 |              |
|--|---|--------------|--|--------------|
|  | 2010  | 2010         | 2010                                       | 2010         |
|  | (Thousands of Dollars)                      |              |  |              |
| Revenues:  |   |              |  |              |
| Storage:   |   |              |  |              |
| Third parties                                    | \$ 128,561                                  | \$ 120,793   | \$ 381,460                                 | \$ 353,337   |
| Intersegment                                     | 13,042                                      | 10,344       | 35,925                                     | 33,241       |
| Related party                                    | 286   | —            | 823  | —            |
| Total storage                                    | 141,889                                     | 131,137      | 418,208                                    | 386,578      |
| Transportation:                                  |   |              |  |              |
| Third parties                                    | 81,834                                      | 80,597       | 226,406                                    | 232,435      |
| Intersegment                                     | 65  | —            | 65   | 382          |
| Total transportation                             | 81,899                                      | 80,597       | 226,471                                    | 232,817      |
| Asphalt and fuels marketing:                     |   |              |  |              |
| Third parties                                    | 1,613,669                                   | 936,989      | 4,039,461                                  | 2,623,077    |
| Intersegment                                     | 5,024                                       | 85           | 9,618                                      | 2,917        |
| Total asphalt and fuels marketing                | 1,618,693                                   | 937,074      | 4,049,079                                  | 2,625,994    |
| Consolidation and intersegment eliminations      | (18,131 )                                   | (10,429 )    | (45,608 )                                  | (36,540 )    |
| Total revenues                                   | \$ 1,824,350                                | \$ 1,138,379 | \$ 4,648,150                               | \$ 3,208,849 |
| Operating income:                                |   |              |  |              |
| Storage  | \$ 48,778                                   | \$ 45,635    | \$ 140,322                                 | \$ 131,388   |
| Transportation                                   | 38,248                                      | 37,512       | 102,808                                    | 106,004      |
| Asphalt and fuels marketing                      | 25,418                                      | 35,457       | 97,689                                     | 75,113       |
| Consolidation and intersegment eliminations      | 29  | 1            | (16 )                                      | 278          |
| Total segment operating income                   | 112,473                                     | 118,605      | 340,803                                    | 312,783      |
| Less general and administrative expenses         | 17,731                                      | 26,860       | 69,833                                     | 76,324       |
| Less other depreciation and amortization expense | 1,765                                       | 1,455        | 4,911                                      | 4,366        |
| Total operating income                           | \$ 92,977                                   | \$ 90,290    | \$ 266,059                                 | \$ 232,093   |

Total assets by reportable segment were as follows:

|                             | September 30,<br>2011  | December 31,<br>2010 |
|-----------------------------|------------------------|----------------------|
|                             | (Thousands of Dollars) |                      |
| Storage                     | \$ 2,556,356           | \$ 2,454,264         |
| Transportation              | 1,251,463              | 1,256,614            |
| Asphalt and fuels marketing | 1,655,442              | 1,154,499            |
| Total segment assets        | 5,463,261              | 4,865,377            |
| Other partnership assets    | 384,887                | 521,016              |
| Total consolidated assets   | \$ 5,848,148           | \$ 5,386,393         |





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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 14. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and NuPOP, both wholly owned subsidiaries. The senior notes issued by NuStar Logistics and NuPOP are fully and unconditionally guaranteed by NuStar Energy, and each of NuStar Logistics and NuPOP fully and unconditionally guarantee the outstanding senior notes of the other. As a result, the following condensed consolidating financial statements are presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

## Condensed Consolidating Balance Sheets

September 30, 2011

(Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP       | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations  | Consolidated |
|--|------------------|---------------------|-------------|--------------------------------------|---------------|--------------|
| <b>Assets</b>                              |                  |                     |             |                                      |               |              |
| Cash and cash equivalents                  | \$122            | \$6                 | \$—         | \$59,086                             | \$—           | \$59,214     |
| Receivables, net                           | 1,738            | 17,781              | 12,425      | 435,968                              | —             | 467,912      |
| Inventories                                | —                | 2,277               | 14,686      | 586,969                              | (249 )        | 603,683      |
| Other current assets                       | —                | 13,429              | 2,378       | 53,294                               | —             | 69,101       |
| Intercompany receivable                    | —                | 853,945             | 745,079     | —                                    | (1,599,024 )  | —            |
| Total current assets                       | 1,860            | 887,438             | 774,568     | 1,135,317                            | (1,599,273 )  | 1,199,910    |
| Property, plant and equipment,<br>net      | —                | 1,119,814           | 599,770     | 1,665,852                            | —             | 3,385,436    |
| Intangible assets, net                     | —                | 2,001               | —           | 40,498                               | —             | 42,499       |
| Goodwill                                   | —                | 18,094              | 170,652     | 657,780                              | —             | 846,526      |
| Investment in wholly owned<br>subsidiaries | 3,119,736        | 249,458             | 1,137,467   | 2,315,991                            | (6,822,652 )  | —            |
| Investment in joint venture                | —                | —                   | —           | 67,203                               | —             | 67,203       |
| Deferred income tax asset                  | —                | —                   | —           | 9,671                                | —             | 9,671        |
| Other long-term assets, net                | 217              | 227,657             | 26,329      | 42,700                               | —             | 296,903      |
| Total assets                               | \$3,121,813      | \$2,504,462         | \$2,708,786 | \$5,935,012                          | \$(8,421,925) | \$5,848,148  |
| <b>Liabilities and Partners' Equity</b>    |                  |                     |             |                                      |               |              |
| Current portion of long-term<br>debt       | \$—              | \$102,510           | \$253,135   | \$—                                  | \$—           | \$355,645    |
| Payables                                   | 63               | 35,459              | 7,953       | 429,932                              | —             | 473,407      |
| Accrued interest payable                   | —                | 16,273              | 7,318       | 24                                   | —             | 23,615       |
| Accrued liabilities                        | 755              | 30,857              | 3,925       | 75,397                               | —             | 110,934      |
| Taxes other than income tax                | 63               | 4,812               | 3,586       | 8,038                                | —             | 16,499       |
| Income tax payable                         | —                | 1,462               | —           | 1,497                                | —             | 2,959        |
| Intercompany payable                       | 510,653          | —                   | —           | 1,088,371                            | (1,599,024 )  | —            |
| Total current liabilities                  | 511,534          | 191,373             | 275,917     | 1,603,259                            | (1,599,024 )  | 983,059      |
| Long-term debt, less current<br>portion    | —                | 1,883,485           | 253,709     | 32,816                               | —             | 2,170,010    |
| Long-term payable to related<br>party      | —                | 5,390               | —           | 6,481                                | —             | 11,871       |

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|  |             |             |             |             |               |             |
|--|-------------|-------------|-------------|-------------|---------------|-------------|
| Deferred income tax liability          | —           | —           | —           | 35,917      | —             | 35,917      |
| Other long-term liabilities            | —           | 25,299      | 245         | 96,698      | —             | 122,242     |
| Total partners' equity                 | 2,610,279   | 398,915     | 2,178,915   | 4,159,841   | (6,822,901 )  | 2,525,049   |
| Total liabilities and partners' equity | \$3,121,813 | \$2,504,462 | \$2,708,786 | \$5,935,012 | \$(8,421,925) | \$5,848,148 |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Balance Sheets

December 31, 2010

(Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP       | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations  | Consolidated |
|--|------------------|---------------------|-------------|--------------------------------------|---------------|--------------|
| <b>Assets</b>                              |                  |                     |             |                                      |               |              |
| Cash and cash equivalents                  | \$53             | \$107,655           | \$—         | \$73,413                             | \$—           | \$181,121    |
| Receivables, net                           | —                | 27,708              | 10,648      | 266,885                              | (3,188 )      | 302,053      |
| Inventories                                | —                | 1,776               | 6,712       | 405,521                              | (472 )        | 413,537      |
| Other current assets                       | —                | 10,116              | 1,202       | 31,478                               | —             | 42,796       |
| Intercompany receivable                    | —                | 786,658             | 729,365     | —                                    | (1,516,023 )  | —            |
| Total current assets                       | 53               | 933,913             | 747,927     | 777,297                              | (1,519,683 )  | 939,507      |
| Property, plant and equipment,<br>net      | —                | 1,006,479           | 614,762     | 1,566,216                            | —             | 3,187,457    |
| Intangible assets, net                     | —                | 2,106               | —           | 40,927                               | —             | 43,033       |
| Goodwill                                   | —                | 18,094              | 170,652     | 624,524                              | —             | 813,270      |
| Investment in wholly owned<br>subsidiaries | 3,167,764        | 159,813             | 994,249     | 2,112,355                            | (6,434,181 )  | —            |
| Investment in joint venture                | —                | —                   | —           | 69,603                               | —             | 69,603       |
| Deferred income tax asset                  | —                | —                   | —           | 8,138                                | —             | 8,138        |
| Other long-term assets, net                | —                | 267,532             | 26,329      | 31,524                               | —             | 325,385      |
| Total assets                               | \$3,167,817      | \$2,387,937         | \$2,553,919 | \$5,230,584                          | \$(7,953,864) | \$5,386,393  |
| <b>Liabilities and Partners' Equity</b>    |                  |                     |             |                                      |               |              |
| Current portion of long-term<br>debt       | \$—              | \$832               | \$—         | \$—                                  | \$—           | \$832        |
| Payables                                   | —                | 28,705              | 9,559       | 257,651                              | (3,188 )      | 292,727      |
| Accrued interest payable                   | —                | 21,180              | 8,490       | 36                                   | —             | 29,706       |
| Accrued liabilities                        | 680              | 18,154              | 3,973       | 35,146                               | —             | 57,953       |
| Taxes other than income tax                | 125              | 4,273               | 2,587       | 3,733                                | —             | 10,718       |
| Income tax payable                         | —                | 1,140               | —           | 153                                  | —             | 1,293        |
| Intercompany payable                       | 510,812          | —                   | —           | 1,005,211                            | (1,516,023 )  | —            |
| Total current liabilities                  | 511,617          | 74,284              | 24,609      | 1,301,930                            | (1,519,211 )  | 393,229      |
| Long-term debt, less current<br>portion    | —                | 1,589,189           | 514,270     | 32,789                               | —             | 2,136,248    |
| Long-term payable to related<br>party      | —                | 3,571               | —           | 6,517                                | —             | 10,088       |
| Deferred income tax liability              | —                | —                   | —           | 29,565                               | —             | 29,565       |
| Other long-term liabilities                | —                | 33,458              | 228         | 80,877                               | —             | 114,563      |
| Total partners' equity                     | 2,656,200        | 687,435             | 2,014,812   | 3,778,906                            | (6,434,653 )  | 2,702,700    |
| Total liabilities and<br>partners' equity  | \$3,167,817      | \$2,387,937         | \$2,553,919 | \$5,230,584                          | \$(7,953,864) | \$5,386,393  |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.



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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Income  
 For the Three Months Ended September 30, 2011  
 (Thousands of Dollars)

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP    | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|---|------------------|---------------------|----------|--------------------------------------|--------------|--------------|
| Revenues  | \$—              | \$78,554            | \$46,076 | \$ 1,708,288                         | \$(8,568 )   | \$1,824,350  |
| Costs and expenses                                      | 482              | 38,068              | 32,090   | 1,669,422                            | (8,689 )     | 1,731,373    |
| Operating (loss) income                                 | (482 )           | 40,486              | 13,986   | 38,866                               | 121          | 92,977       |
| Equity in earnings of subsidiaries                      | 70,641           | 7,285               | 29,828   | 51,102                               | (158,856 )   | —            |
| Equity in earnings of joint venture                     | —                | —                   | —        | 2,599                                | —            | 2,599        |
| Interest expense, net                                   | —                | (15,210 )           | (5,685 ) | (670 )                               | —            | (21,565 )    |
| Other income, net                                       | —                | 109                 | 246      | 412                                  | —            | 767          |
| Income (loss) before income tax expense                 | 70,159           | 32,670              | 38,375   | 92,309                               | (158,735 )   | 74,778       |
| Income tax expense                                      | 1                | 542                 | —        | 3,954                                | —            | 4,497        |
| Net income (loss)                                       | 70,158           | 32,128              | 38,375   | 88,355                               | (158,735 )   | 70,281       |
| Less net income attributable to noncontrolling interest | —                | —                   | —        | 123                                  | —            | 123          |
| Net income (loss) attributable to NuStar Energy L.P.    | \$70,158         | \$32,128            | \$38,375 | \$ 88,232                            | \$(158,735 ) | \$70,158     |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Income  
 For the Three Months Ended September 30, 2010  
 (Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP    | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|--|------------------|---------------------|----------|--------------------------------------|--------------|--------------|
| Revenues                                   | \$—              | \$72,051            | \$44,675 | \$ 1,025,036                         | \$(3,383 )   | \$1,138,379  |
| Costs and expenses                         | 367              | 46,664              | 31,267   | 973,091                              | (3,300 )     | 1,048,089    |
| Operating (loss) income                    | (367 )           | 25,387              | 13,408   | 51,945                               | (83 )        | 90,290       |
| Equity in earnings of<br>subsidiaries      | 68,677           | 24,837              | 25,808   | 39,563                               | (158,885 )   | —            |
| Equity in earnings of joint<br>venture     | —                | —                   | —        | 2,454                                | —            | 2,454        |
| Interest expense, net                      | —                | (14,330 )           | (5,827 ) | (426 )                               | —            | (20,583 )    |
| Other income, net                          | —                | 69                  | (16 )    | (288 )                               | —            | (235 )       |
| Income (loss) before income<br>tax expense | 68,310           | 35,963              | 33,373   | 93,248                               | (158,968 )   | 71,926       |
| Income tax expense                         | —                | 465                 | —        | 3,151                                | —            | 3,616        |
| Net income (loss)                          | \$68,310         | \$35,498            | \$33,373 | \$ 90,097                            | \$(158,968 ) | \$68,310     |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Income  
 For the Nine Months Ended September 30, 2011  
 (Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP     | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|--|------------------|---------------------|-----------|--------------------------------------|--------------|--------------|
| Revenues   | \$—              | \$212,483           | \$136,525 | \$4,325,226                          | \$(26,084 )  | \$4,648,150  |
| Costs and expenses   | 1,283            | 124,399             | 98,669    | 4,184,028                            | (26,288 )    | 4,382,091    |
| Operating (loss) income                                    | (1,283 )         | 88,084              | 37,856    | 141,198                              | 204          | 266,059      |
| Equity in earnings of<br>subsidiaries                      | 192,543          | 41,827              | 86,491    | 146,940                              | (467,801 )   | —            |
| Equity in earnings of joint<br>venture                     | —                | —                   | —         | 6,997                                | —            | 6,997        |
| Interest expense, net                                      | —                | (43,234 )           | (17,236 ) | (2,174 )                             | —            | (62,644 )    |
| Other income, net  | —                | 292                 | 265       | (6,256 )                             | —            | (5,699 )     |
| Income (loss) before income<br>tax expense                 | 191,260          | 86,969              | 107,376   | 286,705                              | (467,597 )   | 204,713      |
| Income tax expense   | 1                | 1,569               | —         | 11,741                               | —            | 13,311       |
| Net income (loss)  | 191,259          | 85,400              | 107,376   | 274,964                              | (467,597 )   | 191,402      |
| Less net income attributable to<br>noncontrolling interest | —                | —                   | —         | 143                                  | —            | 143          |
| Net income (loss) attributable<br>to<br>NuStar Energy L.P. | \$191,259        | \$85,400            | \$107,376 | \$274,821                            | \$(467,597 ) | \$191,259    |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Income

For the Nine Months Ended September 30, 2010

(Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP     | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|--|------------------|---------------------|-----------|--------------------------------------|--------------|--------------|
| Revenues                                   | \$—              | \$219,277           | \$117,535 | \$2,888,095                          | \$(16,058 )  | \$3,208,849  |
| Costs and expenses                         | 1,042            | 139,698             | 87,245    | 2,766,926                            | (18,155 )    | 2,976,756    |
| Operating (loss) income                    | (1,042 )         | 79,579              | 30,290    | 121,169                              | 2,097        | 232,093      |
| Equity in earnings of<br>subsidiaries      | 188,476          | 39,295              | 93,698    | 134,457                              | (455,926 )   | —            |
| Equity in earnings of joint<br>venture     | —                | —                   | —         | 7,571                                | —            | 7,571        |
| Interest expense, net                      | 1                | (38,744 )           | (17,671 ) | (1,645 )                             | —            | (58,059 )    |
| Other income, net                          | —                | 1,308               | 243       | 13,331                               | —            | 14,882       |
| Income (loss) before income<br>tax expense | 187,435          | 81,438              | 106,560   | 274,883                              | (453,829 )   | 196,487      |
| Income tax expense                         | —                | 1,191               | —         | 7,861                                | —            | 9,052        |
| Net income (loss)                          | \$187,435        | \$80,247            | \$106,560 | \$267,022                            | \$(453,829 ) | \$187,435    |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.



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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2011

(Thousands of Dollars)

|  | NuStar<br>Energy | NuStar<br>Logistics | NuPOP     | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations  | Consolidated |
|--|------------------|---------------------|-----------|--------------------------------------|---------------|--------------|
| Net cash provided by (used in) operating activities  | \$ 239,146       | \$ 84,681           | \$ 20,883 | \$ (2,244 )                          | \$ (240,595 ) | \$ 101,871   |
| Cash flows from investing activities:                |                  |                     |           |                                      |               |              |
| Capital expenditures                                 | —                | (152,764 )          | (4,954 )  | (86,240 )                            | —             | (243,958 )   |
| Acquisitions   | —                | —                   | —         | (100,693 )                           | —             | (100,693 )   |
| Investment in other long-term assets                 | —                | —                   | —         | (8,449 )                             | —             | (8,449 )     |
| Proceeds from sale or disposition of assets          | —                | 57                  | 79        | 309                                  | —             | 445          |
| Investment in subsidiaries                           | (57,300 )        | (47,820 )           | (56,727 ) | (56,727 )                            | 218,574       | —            |
| Net cash used in investing activities                | (57,300 )        | (200,527 )          | (61,602 ) | (251,800 )                           | 218,574       | (352,655 )   |
| Cash flows from financing activities:                |                  |                     |           |                                      |               |              |
| Debt borrowings                                      | —                | 738,702             | —         | —                                    | —             | 738,702      |
| Debt repayments                                      | —                | (379,753 )          | —         | —                                    | —             | (379,753 )   |
| Issuance of common units, net of issuance costs      | 1,583            | —                   | —         | —                                    | —             | 1,583        |
| General partner contribution                         | 70               | —                   | —         | —                                    | —             | 70           |
| Distributions to unitholders and general partner     | (240,571 )       | (240,571 )          | —         | (24 )                                | 240,595       | (240,571 )   |
| Contributions from (distributions to) affiliates     | 57,300           | (57,300 )           | 56,727    | 161,847                              | (218,574 )    | —            |
| Proceeds from termination of interest rate swaps     | —                | 12,632              | —         | —                                    | —             | 12,632       |
| Net intercompany borrowings (repayments)             | (159 )           | (66,833 )           | (16,008 ) | 83,000                               | —             | —            |
| Other, net   | —                | 181                 | —         | (966 )                               | —             | (785 )       |
| Net cash provided by (used in) financing activities  | (181,777 )       | 7,058               | 40,719    | 243,857                              | 22,021        | 131,878      |
| Effect of foreign exchange rate changes on cash      | —                | 1,139               | —         | (4,140 )                             | —             | (3,001 )     |
| Net (decrease) increase in cash and cash equivalents | 69               | (107,649 )          | —         | (14,327 )                            | —             | (121,907 )   |
| Cash and cash equivalents as of 53 the               |                  | 107,655             | —         | 73,413                               | —             | 181,121      |

|                                 |        |      |      |           |      |           |
|---------------------------------|--------|------|------|-----------|------|-----------|
| beginning of the period         |        |      |      |           |      |           |
| Cash and cash equivalents as of |        |      |      |           |      |           |
| the                             | \$ 122 | \$ 6 | \$ — | \$ 59,086 | \$ — | \$ 59,214 |
| end of the period               |        |      |      |           |      |           |

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2010

(Thousands of Dollars)

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP    | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|---|------------------|---------------------|----------|--------------------------------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$223,178        | \$122,613           | \$14,937 | \$45,666                             | \$(225,561)  | \$180,833    |
| Cash flows from investing activities:               |                  |                     |          |                                      |              |              |
| Capital expenditures                                | —                | (75,175)            | (10,017) | (106,266)                            | —            | (191,458)    |
| Acquisition   | —                | —                   | —        | (43,026)                             | —            | (43,026)     |
| Proceeds from insurance recoveries                  | —                | —                   | —        | 13,500                               | —            | 13,500       |
| Investment in other long-term assets                | —                | —                   | —        | (3,400)                              | —            | (3,400)      |
| Proceeds from sale or disposition of assets         | —                | 16                  | 28       | 1,948                                | —            | 1,992        |
| Investment in subsidiaries                          | (245,604)        | —                   | —        | (25)                                 | 245,629      | —            |
| Net cash used in investing activities               | (245,604)        | (75,159)            | (9,989)  | (137,269)                            | 245,629      | (222,392)    |
| Cash flows from financing activities:               |                  |                     |          |                                      |              |              |
| Debt borrowings                                     | —                | 952,475             | —        | —                                    | —            | 952,475      |
| Debt repayments                                     | —                | (1,343,224)         | —        | —                                    | —            | (1,343,224)  |
| Senior note offering, net                           | —                | 445,574             | —        | —                                    | —            | 445,574      |
| Issuance of common units, net of issuance costs     | 240,158          | —                   | —        | —                                    | —            | 240,158      |
| General partner contribution                        | 5,078            | —                   | —        | —                                    | —            | 5,078        |
| Contributions from (distributions to) affiliates    | —                | 245,604             | —        | 25                                   | (245,629)    | —            |
| Distributions to unitholders and general partner    | (225,538)        | (225,538)           | —        | (23)                                 | 225,561      | (225,538)    |
| Net intercompany borrowings (repayments)            | 2,728            | (90,801)            | (4,947)  | 93,020                               | —            | —            |
| Other, net  | —                | (6,987)             | (1)      | (1,758)                              | —            | (8,746)      |
| Net cash provided by (used in) financing activities | 22,426           | (22,897)            | (4,948)  | 91,264                               | (20,068)     | 65,777       |
| Effect of foreign exchange rate changes on cash     | —                | (5,290)             | —        | 4,932                                | —            | (358)        |
| Net decrease in cash and cash equivalents           | —                | 19,267              | —        | 4,593                                | —            | 23,860       |
|   | 53               | 1,602               | —        | 60,351                               | —            | 62,006       |

Cash and cash equivalents as of  
the  
beginning of the period

|   |      |          |     |          |     |          |
|---|------|----------|-----|----------|-----|----------|
| Cash and cash equivalents as of<br>the<br>end of the period | \$53 | \$20,869 | \$— | \$64,944 | \$— | \$85,866 |
|---|------|----------|-----|----------|-----|----------|

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "forecasts," "budgets," "projects," "could," "should," "may" and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our Annual Report on Form 10-K for the year ended December 31, 2010, Part I, Item 1A "Risk Factors," as well as our subsequent current and quarterly reports, for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

OVERVIEW

NuStar Energy L.P. (NuStar Energy) is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. Unless otherwise indicated, the terms "NuStar Energy," "the Partnership," "we," "our" and "us" are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 17.6% total interest in us as of September 30, 2011. Our Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in six sections:

- Overview
- Results of Operations
- Outlook
- Liquidity and Capital Resources
- Related Party Transactions
- Critical Accounting Policies

Acquisitions

On April 19, 2011, we purchased certain refining and storage assets, inventory and other working capital items from AGE Refining, Inc. for \$62.0 million, including the assumption of certain environmental liabilities (the San Antonio Refinery Acquisition). The assets consist of a 14,500 barrel per day refinery in San Antonio, Texas and 200,000 barrels of storage capacity in Elmendorf, Texas. The consolidated statements of income include the results of operations for the San Antonio Refinery Acquisition commencing on April 19, 2011.

On February 9, 2011, we acquired 75% of the outstanding capital of a Turkish company, which owns two terminals in Mersin, Turkey, with an aggregate 1.3 million barrels of storage capacity, for approximately \$57.3 million (the Turkey Acquisition). Both terminals are connected via pipelines to an offshore platform located approximately three miles off

the Mediterranean Sea coast. The operations of the Turkey Acquisition are included in the Results of Operations commencing on February 9, 2011.

#### Operations

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). Our operations are divided into three reportable business segments: storage, transportation, and asphalt and fuels marketing.

**Storage.** We own terminals and storage facilities in the United States, Canada, Mexico, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom and Turkey providing approximately 85.0 million barrels of storage capacity. Our terminals and storage facilities provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including crude oil and other feedstocks.

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Transportation. We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 5,478 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. The East and North Pipelines also include 21 terminals providing storage capacity of 4.6 million barrels, and the East Pipeline includes two tank farms providing storage capacity of 1.2 million barrels. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 939 miles of crude oil pipelines in Texas, Oklahoma, Kansas, Colorado and Illinois, as well as 1.9 million barrels of crude storage in Texas and Oklahoma that is located along those crude oil pipelines. We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in our ammonia pipeline.

Asphalt and Fuels Marketing. Our asphalt and fuels marketing segment includes our refining operations and fuels marketing operations. We refine crude oil to produce asphalt and other refined products from our asphalt operations. Our two asphalt refineries have a combined throughput capacity of 104,000 barrels per day, and the related terminal facilities provide storage capacity of 5.0 million barrels. This segment also include a fuels refinery in San Antonio, Texas with throughput capacity of 14,500 barrels per day. Additionally, as part of our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. The results of operations for the asphalt and fuels marketing segment depend largely on the gross margin between our costs and the sales price of the products we market. Therefore, the results of operations for this segment are more sensitive to changes in commodity prices compared to the operations of our storage and transportation segments. We enter into derivative contracts to attempt to mitigate the effect of commodity price fluctuations.

The following factors affect the results of our operations:

- company-specific factors, such as facility integrity issues and maintenance requirements that impact the throughput rates of our assets;
- seasonal factors that affect the demand for products transported by and/or stored in our assets and the demand for products we sell, particularly asphalt;
- industry factors, such as changes in the prices of petroleum products, that affect demand and operations of our competitors;
- factors such as commodity price volatility and market structure; and
- other factors, such as refinery utilization rates and maintenance turnaround schedules, that impact our refineries, as well as the operations of refineries served by our storage and transportation assets.

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## RESULTS OF OPERATIONS

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

## Financial Highlights

(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

|  | Three Months Ended September |            |          |
|--|------------------------------|------------|----------|
|  | 30,                          | 2010       | Change   |
|  | 2011                         |            |          |
| Statement of Income Data:                          |                              |            |          |
| Revenues:  |                              |            |          |
| Services revenues                                  | \$210,681                    | \$201,390  | \$9,291  |
| Product sales                                      | 1,613,669                    | 936,989    | 676,680  |
| Total revenues                                     | 1,824,350                    | 1,138,379  | 685,971  |
| Costs and expenses:                                |                              |            |          |
| Cost of product sales                              | 1,535,609                    | 860,942    | 674,667  |
| Operating expenses                                 | 135,615                      | 121,748    | 13,867   |
| General and administrative expenses                | 17,731                       | 26,860     | (9,129 ) |
| Depreciation and amortization expense              | 42,418                       | 38,539     | 3,879    |
| Total costs and expenses                           | 1,731,373                    | 1,048,089  | 683,284  |
| Operating income                                   | 92,977                       | 90,290     | 2,687    |
| Equity in earnings of joint venture                | 2,599                        | 2,454      | 145      |
| Interest expense, net                              | (21,565 )                    | (20,583 )  | (982 )   |
| Other income (expense), net                        | 767                          | (235 )     | 1,002    |
| Income before income tax expense                   | 74,778                       | 71,926     | 2,852    |
| Income tax expense                                 | 4,497                        | 3,616      | 881      |
| Net income   | \$70,281                     | \$68,310   | \$1,971  |
| Net income per unit applicable to limited partners | \$0.92                       | \$0.90     | \$0.02   |
| Weighted-average limited partner units outstanding | 64,612,423                   | 64,610,549 | 1,874    |

## Highlights

Net income increased \$2.0 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to a decrease in general and administrative expenses, partially offset by lower segment operating income.



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## Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

|   | Three Months Ended September |             |             |
|---|------------------------------|-------------|-------------|
|   | 30,                          |             | Change      |
|   | 2011                         | 2010        |             |
| <b>Storage:</b>                                     |                              |             |             |
| Throughput (barrels/day)                            | 721,618                      | 673,121     | 48,497      |
| Throughput revenues                                 | \$21,743                     | \$19,139    | \$2,604     |
| Storage lease revenues                              | 120,146                      | 111,998     | 8,148       |
| Total revenues                                      | 141,889                      | 131,137     | 10,752      |
| Operating expenses                                  | 71,386                       | 66,153      | 5,233       |
| Depreciation and amortization expense               | 21,725                       | 19,349      | 2,376       |
| Segment operating income                            | \$48,778                     | \$45,635    | \$3,143     |
| <b>Transportation:</b>                              |                              |             |             |
| Refined products pipelines throughput (barrels/day) | 523,279                      | 526,825     | (3,546 )    |
| Crude oil pipelines throughput (barrels/day)        | 319,103                      | 382,845     | (63,742 )   |
| Total throughput (barrels/day)                      | 842,382                      | 909,670     | (67,288 )   |
| Throughput revenues                                 | \$81,899                     | \$80,597    | \$1,302     |
| Operating expenses                                  | 30,796                       | 30,488      | 308         |
| Depreciation and amortization expense               | 12,855                       | 12,597      | 258         |
| Segment operating income                            | \$38,248                     | \$37,512    | \$736       |
| <b>Asphalt and Fuels Marketing:</b>                 |                              |             |             |
| Product sales                                       | \$1,618,693                  | \$937,074   | \$681,619   |
| Cost of product sales                               | 1,545,340                    | 864,904     | 680,436     |
| Gross margin  | 73,353                       | 72,170      | 1,183       |
| Operating expenses                                  | 41,862                       | 31,575      | 10,287      |
| Depreciation and amortization expense               | 6,073                        | 5,138       | 935         |
| Segment operating income                            | \$25,418                     | \$35,457    | \$(10,039 ) |
| <b>Consolidation and Intersegment Eliminations:</b> |                              |             |             |
| Revenues  | \$(18,131 )                  | \$(10,429 ) | \$(7,702 )  |
| Cost of product sales                               | (9,731 )                     | (3,962 )    | (5,769 )    |
| Operating expenses                                  | (8,429 )                     | (6,468 )    | (1,961 )    |
| Total   | \$29                         | \$1         | \$28        |
| <b>Consolidated Information:</b>                    |                              |             |             |
| Revenues  | \$1,824,350                  | \$1,138,379 | \$685,971   |
| Cost of product sales                               | 1,535,609                    | 860,942     | 674,667     |
| Operating expenses                                  | 135,615                      | 121,748     | 13,867      |
| Depreciation and amortization expense               | 40,653                       | 37,084      | 3,569       |
| Segment operating income                            | 112,473                      | 118,605     | (6,132 )    |
| General and administrative expenses                 | 17,731                       | 26,860      | (9,129 )    |
| Other depreciation and amortization expense         | 1,765                        | 1,455       | 310         |
| Consolidated operating income                       | \$92,977                     | \$90,290    | \$2,687     |



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### Storage

Throughputs increased 48,497 barrels per day and throughput revenues increased \$2.6 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to operational issues at the refinery served by our Benicia crude oil storage tanks in the third quarter of 2010.

Storage lease revenues increased \$8.1 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to an increase of \$5.2 million from completed tank expansion projects at our St. Eustatius and St. James terminals. In addition, revenues increased \$2.9 million at our St. Eustatius facility mainly due to higher throughput and related handling fees, as well as new customer contracts and rate escalations.

Operating expenses increased \$5.2 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to maintenance on tanks and increased expenses at our St. Eustatius terminal due to increased marine vessel activity.

Depreciation and amortization expense increased \$2.4 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to the completion of various terminal upgrade and expansion projects.

### Transportation

Revenues increased \$1.3 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to:

- an increase in revenues of \$3.1 million and an increase in throughputs of 17,562 barrels per day on refined product pipelines serving the McKee refinery due to operational issues at the refinery during the third quarter of 2010;
- an increase in revenues of \$0.9 million and an increase in throughputs of 22,464 barrels per day from the reactivation of a previously idled pipeline in South Texas;
- an increase in revenues of \$0.9 million, despite decreased throughputs of 4,633 barrels per day, on crude oil pipelines serving the McKee refinery mainly because volumes were shifted to a crude oil pipeline with a higher tariff; and
- an increase in revenues of \$0.7 million on the East Pipeline, despite decreased throughputs of 6,316 barrels per day, due to a tariff increase in July 2011 and increased long-haul deliveries resulting in a higher average tariff.

These increases in revenues were partially offset by:

- a decrease in revenues of \$1.8 million and a decrease in throughputs of 34,568 barrels per day on our Corpus Christi to Three Rivers crude oil pipeline due to a customer receiving crude oil from alternate sources, thus reducing the volume transported on our pipeline;
- a decrease in revenues of \$1.6 million and a decrease in throughputs of 47,574 barrels per day on our crude oil pipelines serving the Ardmore refinery mainly due to operational issues at the refinery and a shift in supply volumes; and
- a decrease in revenues of \$1.3 million on the ammonia pipeline, despite only slightly lower throughputs, due to fewer long-haul movements as flooding in the second quarter continued to cause operational issues in the third quarter of 2011.

### Asphalt and Fuels Marketing

Sales and cost of product sales increased \$681.6 million and \$680.4 million, respectively, resulting in an increase in total gross margin of \$1.2 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010. The change in total gross margin was due to an increase of \$19.6 million in the gross margin from our fuels marketing operations, partially offset by a decrease of \$18.4 million in the gross margin from our asphalt operations.

The gross margin from our fuels marketing operations increased for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, mainly due to increased volumes and higher sales prices in 2011 for our bunker fuel sales, fuel oil trading and crude trading. The San Antonio Refinery Acquisition in April 2011 also contributed to the increase in gross margin.

The gross margin per barrel for our asphalt operations decreased to \$5.96 for the three months ended September 30, 2011, compared to \$7.83 for the three months ended September 30, 2010. Weak demand for asphalt in our market combined with asphalt produced by Midwest refiners, which have access to lower cost crude oil, that is being sold in our market contributed to the decrease in gross margin per barrel. The decrease in gross margin was partially offset by a \$6.3 million crude oil pricing adjustment associated with our crude supply agreement with PDVSA that serves to keep our actual crude costs in line with a market reference price.

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Operating expenses increased \$10.3 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to higher idle capacity costs at our asphalt refineries, the San Antonio Refinery Acquisition in April 2011 and increased rental expenses associated with our fuels marketing operations.

Depreciation and amortization expense increased \$0.9 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due the San Antonio Refinery Acquisition in April 2011 and amortization of deferred costs related to completed turnarounds at our asphalt refineries.

Consolidation and Intersegment Eliminations

Revenue, cost of product sales and operating expense eliminations primarily relate to storage and transportation fees charged to the asphalt and fuels marketing segment by the transportation and storage segments.

General

General and administrative expenses decreased \$9.1 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, primarily due to lower compensation expense associated with our long-term incentive plans, which fluctuates with our unit price.

Interest expense, net increased \$1.0 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, mainly due to the issuance of \$450.0 million of 4.80% senior notes in August 2010. This increase in interest expense was partially offset by the amortization of deferred gains related to terminated interest rate swaps, which reduce interest expense over the remaining lives of the associated senior notes.

Other income (expense), net changed by \$1.0 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010. Other income (expense), net included a foreign exchange gain of \$3.1 million in 2011, compared to a foreign exchange loss of \$0.3 million in 2010, mainly related to one of our Canadian subsidiaries. For the three months ended September 30, 2011, other income (expense), net also includes a contingent loss adjustment of \$3.3 million.

Income tax expense increased \$0.9 million for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, mainly due to higher taxable income.

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## RESULTS OF OPERATIONS

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

## Financial Highlights

(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

|  | Nine Months Ended September |            | Change    |
|--|-----------------------------|------------|-----------|
|  | 30,                         | 2010       |           |
|  | 2011                        |            |           |
| Statement of Income Data:                          |                             |            |           |
| Revenues:  |                             |            |           |
| Services revenues                                  | \$608,689                   | \$585,772  | \$22,917  |
| Product sales                                      | 4,039,461                   | 2,623,077  | 1,416,384 |
| Total revenues                                     | 4,648,150                   | 3,208,849  | 1,439,301 |
| Costs and expenses:                                |                             |            |           |
| Cost of product sales                              | 3,797,424                   | 2,422,751  | 1,374,673 |
| Operating expenses                                 | 390,480                     | 363,028    | 27,452    |
| General and administrative expenses                | 69,833                      | 76,324     | (6,491 )  |
| Depreciation and amortization expense              | 124,354                     | 114,653    | 9,701     |
| Total costs and expenses                           | 4,382,091                   | 2,976,756  | 1,405,335 |
| Operating income                                   | 266,059                     | 232,093    | 33,966    |
| Equity in earnings of joint venture                | 6,997                       | 7,571      | (574 )    |
| Interest expense, net                              | (62,644 )                   | (58,059 )  | (4,585 )  |
| Other (expense) income, net                        | (5,699 )                    | 14,882     | (20,581 ) |
| Income before income tax expense                   | 204,713                     | 196,487    | 8,226     |
| Income tax expense                                 | 13,311                      | 9,052      | 4,259     |
| Net income   | \$191,402                   | \$187,435  | \$3,967   |
| Net income per unit applicable to limited partners | \$2.49                      | \$2.55     | \$(0.06 ) |
| Weighted-average limited partner units outstanding | 64,611,181                  | 62,386,373 | 2,224,808 |

## Highlights

Net income increased \$4.0 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to an increase in segment operating income, partially offset by a decrease in other income. Segment operating income increased \$28.0 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, due to increased operating income from the asphalt and fuels marketing segment and storage segment, partially offset by a decrease in operating income from the transportation segment.

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## Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

|   | Nine Months Ended September |             |             |
|---|-----------------------------|-------------|-------------|
|   | 30,                         |             | Change      |
|   | 2011                        | 2010        |             |
| <b>Storage:</b>                                     |                             |             |             |
| Throughput (barrels/day)                            | 679,031                     | 666,635     | 12,396      |
| Throughput revenues                                 | \$58,388                    | \$56,085    | \$2,303     |
| Storage lease revenues                              | 359,820                     | 330,493     | 29,327      |
| Total revenues                                      | 418,208                     | 386,578     | 31,630      |
| Operating expenses                                  | 213,230                     | 198,186     | 15,044      |
| Depreciation and amortization expense               | 64,656                      | 57,004      | 7,652       |
| Segment operating income                            | \$140,322                   | \$131,388   | \$8,934     |
| <b>Transportation:</b>                              |                             |             |             |
| Refined products pipelines throughput (barrels/day) | 509,354                     | 529,380     | (20,026 )   |
| Crude oil pipelines throughput (barrels/day)        | 304,554                     | 381,606     | (77,052 )   |
| Total throughput (barrels/day)                      | 813,908                     | 910,986     | (97,078 )   |
| Throughput revenues                                 | \$226,471                   | \$232,817   | \$(6,346 )  |
| Operating expenses                                  | 85,381                      | 88,784      | (3,403 )    |
| Depreciation and amortization expense               | 38,282                      | 38,029      | 253         |
| Segment operating income                            | \$102,808                   | \$106,004   | \$(3,196 )  |
| <b>Asphalt and Fuels Marketing:</b>                 |                             |             |             |
| Product sales                                       | \$4,049,079                 | \$2,625,994 | \$1,423,085 |
| Cost of product sales                               | 3,821,379                   | 2,438,703   | 1,382,676   |
| Gross margin  | 227,700                     | 187,291     | 40,409      |
| Operating expenses                                  | 113,506                     | 96,924      | 16,582      |
| Depreciation and amortization expense               | 16,505                      | 15,254      | 1,251       |
| Segment operating income                            | \$97,689                    | \$75,113    | \$22,576    |
| <b>Consolidation and Intersegment Eliminations:</b> |                             |             |             |
| Revenues  | \$(45,608 )                 | \$(36,540 ) | \$(9,068 )  |
| Cost of product sales                               | (23,955 )                   | (15,952 )   | (8,003 )    |
| Operating expenses                                  | (21,637 )                   | (20,866 )   | (771 )      |
| Total   | \$(16 )                     | \$278       | \$(294 )    |
| <b>Consolidated Information:</b>                    |                             |             |             |
| Revenues  | \$4,648,150                 | \$3,208,849 | \$1,439,301 |
| Cost of product sales                               | 3,797,424                   | 2,422,751   | 1,374,673   |
| Operating expenses                                  | 390,480                     | 363,028     | 27,452      |
| Depreciation and amortization expense               | 119,443                     | 110,287     | 9,156       |
| Segment operating income                            | 340,803                     | 312,783     | 28,020      |
| General and administrative expenses                 | 69,833                      | 76,324      | (6,491 )    |
| Other depreciation and amortization expense         | 4,911                       | 4,366       | 545         |
| Consolidated operating income                       | \$266,059                   | \$232,093   | \$33,966    |





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### Storage

Storage revenues increased \$31.6 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to:

- an increase of \$11.5 million due to completed tank expansion projects at our St. Eustatius and St. James terminals;
- an increase of \$5.9 million related to our acquisition of three terminals in Mobile County, Alabama in May 2010 and the Turkey Acquisition;
- an increase of \$5.7 million at our St. Eustatius facility mainly due to higher throughput and related handling fees, as well as new customer contracts, rate escalations and higher reimbursable revenues; and
- an increase of \$5.2 million at our UK and Amsterdam terminals, primarily due to the effect of foreign exchange rates, new customer contracts and increased customer utilization.

Operating expenses increased \$15.0 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to cancelled capital projects, increased expenses at our St. Eustatius, Amsterdam and UK terminals, the Turkey Acquisition in February 2011 and a full nine months of operating expenses from our three terminals in Mobile County, Alabama acquired in May 2010.

Depreciation and amortization expense increased \$7.7 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to the completion of various terminal upgrade and expansion projects, the Turkey Acquisition and our acquisition of three terminals in Mobile County, Alabama in May 2010.

### Transportation

Throughputs decreased 97,078 barrels per day and revenues decreased \$6.3 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to:

- a decrease of 61,087 barrels per day and a decrease of \$5.9 million on our pipelines serving the Ardmore refinery, mainly due to a turnaround in March and April 2011, followed by operational issues and a shift in supply volumes;
- a decrease of 25,562 barrels per day and a decrease of \$5.6 million on the Houston pipeline mainly due to market conditions that favored exporting instead of shipping on our pipeline;
- a decrease of 17,721 barrels per day and a decrease of \$3.7 million on our Corpus Christi to Three Rivers crude oil pipeline due to a customer receiving crude oil from alternate sources, thus reducing the volume transported on our pipeline; and
- a decrease of 8,710 barrels per day and a decrease of \$1.9 million on our refined product pipelines serving the Three Rivers refinery mainly due to operational issues and the start of a turnaround at the refinery in 2011.

These decreases were partially offset by:

- an increase of 16,909 barrels per day and an increase in revenues of \$7.3 million on pipelines serving the McKee refinery mainly due to increased production in 2011 and operational issues and turnaround activity at the refinery in 2010; and
- an increase of 5,806 barrels per day and an increase in revenues of \$4.1 million on the North Pipeline mainly due to turnaround activity during the second quarter of 2010 at the refinery served by the pipeline.

Operating expenses decreased \$3.4 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to a reduction in overhead expenses and lower power expenses consistent with the decrease in throughputs.

### Asphalt and Fuels Marketing

Sales and cost of product sales increased \$1,423.1 million and \$1,382.7 million, respectively, resulting in an increase in total gross margin of \$40.4 million for the nine months ended September 30, 2011, compared to the nine months

ended September 30, 2010. The increase in total gross margin was primarily due to an increase in the gross margin from our fuels marketing operations resulting from increased volumes and higher sales prices in 2011 for our fuel oil trading and crude trading. The San Antonio Refinery Acquisition in April 2011 also contributed to the increase in gross margin.

Operating expenses increased \$16.6 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to higher idle capacity costs at our asphalt refineries, the San Antonio Refinery Acquisition in April 2011 and increased rental expenses associated with our fuels marketing operations.

Depreciation and amortization expense increased \$1.3 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to the San Antonio Refinery Acquisition in April 2011 and amortization of deferred costs related to completed turnarounds at our asphalt refineries.

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### Consolidation and Intersegment Eliminations

Revenue, cost of product sales and operating expense eliminations primarily relate to storage and transportation fees charged to the asphalt and fuels marketing segment by the transportation and storage segments.

### General

General and administrative expenses decreased \$6.5 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, primarily due to lower compensation expense associated with our long-term incentive plans, which fluctuates with our unit price.

Interest expense, net increased \$4.6 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, mainly due to the issuance of \$450.0 million of 4.80% senior notes in August 2010. This increase in interest expense was partially offset by the effect of additional fixed-to-floating interest rate swap agreements we entered into in September and October 2010 and the amortization of deferred gains related to terminated interest rate swaps, which reduce interest expense over the remaining lives of the associated senior notes.

Other (expense) income, net changed by \$20.6 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010. Other expense, net for the nine months ended September 30, 2011 included \$5.0 million of expense associated with the early termination of a third-party storage agreement at our Paulsboro, New Jersey asphalt refinery and a contingent loss adjustment of \$3.3 million. Other income, net for the nine months ended September 30, 2010 included a \$13.5 million gain from insurance recoveries, which resulted from insurance claims related to damage in the third quarter of 2008 primarily at our Texas City, Texas terminal caused by Hurricane Ike. In addition, other expense, net included a foreign exchange gain of \$2.5 million in 2011, compared to a foreign exchange loss of \$0.6 million in 2010, related to one of our Canadian subsidiaries.

Income tax expense increased \$4.3 million for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, mainly due to the reversal of a deferred tax asset valuation allowance included in 2010 income tax expense, which was partially offset by lower taxable income in 2011.

## TRENDS AND OUTLOOK

For the full year 2011, we expect our operating income to be higher than 2010 due to increased earnings from our storage segment. However, net income for the full year likely will decline mainly due to a decline in other income. Other income in 2010 included a gain related to insurance proceeds. Lower net income combined with the dilutive effect of our equity issuance in 2010 should cause earnings per unit to decline.

### Storage Segment

We are continuing our pursuit of growth in this segment through expansion and optimization of our existing assets. We expect to continue to benefit from internal growth projects in this segment that were completed in the second half of 2010 and in 2011, including our 3.2 million barrel storage tank expansion project at our St. James, Louisiana terminal facility, which was completed during the third quarter of 2011, and projects at our St. Eustatius terminal in the Caribbean. As a result, we expect the storage segment results for the fourth quarter and for the full year 2011 to exceed 2010.

### Transportation Segment

We expect throughputs in our transportation segment for the fourth quarter and the full year 2011 to be less than the comparable periods in 2010. Fourth quarter throughputs are expected to be negatively affected by planned turnaround activity at several refineries served by our pipelines. The tariffs on our pipelines regulated by the Federal Energy Regulatory Commission were increased by 6.9 percent effective July 1, 2011. In addition, we completed pipeline

projects at the end of the second and third quarter that serve Eagle Ford Shale production, including the reactivation and reversal of a previously idle eight-inch refined products pipeline that now gives us capability to transport Eagle Ford crude and condensate to Valero Energy's Corpus Christi refinery, which should contribute positively to our earnings for the remainder of 2011. However, the tariff increase and the pipeline projects will only partially offset the impact from the lower throughputs. Therefore, we expect the fourth quarter and full year 2011 earnings for this segment to be lower than 2010.

We are continuing our strategy for growth in this segment through construction of new assets and optimization of existing assets, including a plan to construct a new 12-inch pipeline that will connect existing pipeline segments and move crude oil from Corpus Christi to Valero's Three Rivers refinery, as well as a plan to reverse our 16-inch Corpus Christi crude oil pipeline. This new pipeline and the reversal are expected to be completed in the third quarter of 2012. We expect that completion of these and our other announced growth projects will have a favorable impact on our results of operations in future periods.

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## Asphalt and Fuels Marketing Segment

During the third quarter 2011, the results for our asphalt and fuels marketing segment, compared to the same period in the prior year, were negatively affected by lower earnings from our asphalt operations. As a result, overall earnings for the segment declined despite improved earnings in our fuels marketing operations and the addition of the San Antonio refinery.

Weak demand for asphalt in our markets contributed to the reduced earnings from our asphalt operations. Additionally, asphalt produced by Midwest refiners, which currently have access to lower-cost crude oil, is being sold in our markets. The combination of weak demand and the pressure of lower-cost asphalt from Midwest refiners have adversely affected our asphalt margins. We expect these factors to continue to exert downward pressure on the margin for our asphalt operations in the fourth quarter. As a result, our asphalt operations could generate a loss for the fourth quarter that could more than offset expected improvements from our fuels marketing operations and the San Antonio refinery, which may result in a loss for the entire segment for the fourth quarter. Nevertheless, we expect the full year 2011 results for the segment to be comparable to 2010 as the expected improvement in our fuels marketing operations and the addition of the San Antonio refinery should offset reduced full-year earnings from our asphalt operations.

The factors negatively affecting the results of our asphalt operations could continue into 2012. In that case, our results from our asphalt operations could continue to deteriorate. However, in 2012 we expect to take steps to address these factors, including obtaining and processing alternative, lower-cost crude for our asphalt refineries. We currently expect the results in 2012 for the asphalt and fuels marketing segment to improve compared to 2011.

Our outlook for the company overall could change depending on, among other things, the prices of crude oil, the state of the economy, changes to refinery maintenance schedules, and other factors that affect overall demand for the products we store, transport and sell, as well as changes in commodity prices for the products we market.

## LIQUIDITY AND CAPITAL RESOURCES

## General

Our primary cash requirements are for distributions to partners, working capital requirements, including inventory purchases, debt service, capital expenditures, acquisitions and operating expenses. On an annual basis, we attempt to fund our operating expenses, interest expense, reliability capital expenditures and distribution requirements with cash generated from our operations. If we do not generate sufficient cash from operations to meet those requirements, we utilize available borrowing capacity under our revolving credit agreement and, to the extent necessary, funds raised through equity or debt offerings under our shelf registration statements. Additionally, we typically fund our strategic capital expenditures from external sources, primarily borrowings under our revolving credit agreement or funds raised through equity or debt offerings. However, our ability to raise funds by issuing debt or equity depends on many factors beyond our control. The volatility of the capital and credit markets could restrict our ability to issue debt or equity or may increase our cost of capital beyond rates acceptable to us.

## Cash Flows for the Nine Months Ended September 30, 2011 and 2010

The following table summarizes our cash flows from operating, investing and financing activities:

|                                 | Nine Months Ended September 30, |            |
|---------------------------------|---------------------------------|------------|
|                                 | 2011                            | 2010       |
|                                 | (Thousands of Dollars)          |            |
| Net cash provided by (used in): |                                 |            |
| Operating activities            | \$ 101,871                      | \$ 180,833 |
| Investing activities            | (352,655)                       | (222,392)  |

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|   |            |            |   |
|---|------------|------------|---|
| Financing activities                            | 131,878    | 65,777     |   |
| Effect of foreign exchange rate changes on cash | (3,001     | ) (358     | ) |
| Net decrease in cash and cash equivalents       | \$(121,907 | ) \$23,860 |   |

Net cash provided by operating activities for the nine months ended September 30, 2011 was \$101.9 million, compared to \$180.8 million for the nine months ended September 30, 2010, primarily due to higher investments in working capital in 2011 compared to the same period in 2010. Our working capital increased by \$216.4 million in 2011, compared to \$99.8 million in 2010. Please refer to the Working Capital Requirements section below for a discussion on the changes in working capital.

For the nine months ended September 30, 2011, net cash provided by operating activities, proceeds from long-term debt

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borrowings, net of repayments, combined with cash on hand, were used to fund our distributions to unitholders and our general partner, capital expenditures primarily related to various terminal projects and two acquisitions.

For the nine months ended September 30, 2010, cash from operating activities, proceeds from long-term and short-term debt borrowings, net of repayments, our issuance of common units and cash on hand were used to fund our distributions to unitholders and our general partner, capital expenditures and an acquisition. Cash flows from investing activities also included insurance proceeds of \$13.5 million related to damages caused by Hurricane Ike in the third quarter of 2008 primarily at our Texas City terminal.

### 2007 Revolving Credit Agreement

As of September 30, 2011, we had \$376.2 million available for borrowing under our \$1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement). Due to a covenant in our 2007 Revolving Credit Agreement that requires us to maintain, as of the end of any four consecutive fiscal quarters, a consolidated debt coverage ratio not to exceed 5.00-to-1.00, we may not be able to borrow the maximum available amount. On March 7, 2011, we amended the 2007 Revolving Credit Agreement to exclude unused proceeds from the Gulf Opportunity Zone bond issuances from total indebtedness in the calculation of the consolidated debt coverage ratio. As of September 30, 2011, the consolidated debt coverage ratio was 4.5x. The 2007 Revolving Credit Agreement matures in December 2012, and we do not have any other significant debt maturing until 2012.

### Shelf Registration Statements

On April 29, 2011, the Securities and Exchange Commission declared effective our shelf registration statement on Form S-3, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP, having an aggregate value of up to \$200.0 million (the 2011 Shelf Registration Statement). The 2011 Shelf Registration Statement is in addition to our shelf registration statement on Form S-3 the Securities and Exchange Commission declared effective in May 2010.

On May 23, 2011, in connection with the 2011 Shelf Registration Statement, we entered into an Equity Distribution Agreement (the Equity Distribution Agreement) with Citigroup Global Markets Inc. (Citigroup). Under the Equity Distribution Agreement, we may from time to time sell an aggregate of up to \$200.0 million NuStar Energy common units representing limited partner interests, using Citigroup as our sales agent. Sales of common units will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, in block transactions or as otherwise agreed by us and Citigroup. Under the terms of the Equity Distribution Agreement, we may also sell common units to Citigroup as principal for its own account at a price to be agreed upon at the time of sale.

In September 2011, we sold 59,971 NuStar Energy common units under the Equity Distribution Agreement for approximately \$3.3 million. We also received \$0.1 million from our general partner in order to maintain its 2% general partner interest.

If the capital markets become more volatile, our access to the capital markets may be limited, or we could face increased costs. In addition, it is possible that our ability to access the capital markets may be limited at a time when we would like or need access, which could have an impact on our ability to refinance maturing debt and/or react to changing economic and business conditions.

### Capital Requirements

Our operations are capital intensive, requiring significant investments to maintain, upgrade or enhance existing operations and to comply with environmental and safety laws and regulations. Our capital expenditures consist of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental and safety regulations; and

- strategic capital expenditures, such as those to expand and upgrade pipeline capacity or refinery operations and to construct new pipelines, terminals and storage tanks. In addition, strategic capital expenditures may include acquisitions of pipelines, terminals or storage tank assets, as well as certain capital expenditures related to support functions.

During the nine months ended September 30, 2011, our reliability capital expenditures totaled \$41.3 million, consisting of \$32.8 million primarily related to maintenance upgrade projects at our terminals, which is classified as "Reliability capital expenditures" in the consolidated statements of cash flows, and \$8.5 million of turnaround expenditures at our refineries, which is classified as "Investment in other long-term assets" in our consolidated statements of cash flows. Strategic capital expenditures for the nine months ended September 30, 2011 totaled \$211.2 million and were primarily related to projects at our St. James, Louisiana and St. Eustatius terminals and our corporate office.



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For the full year 2011, we expect to incur approximately \$370.0 million of capital expenditures, including \$60.0 million for reliability capital projects and \$310.0 million for strategic capital projects, not including acquisitions. Thus far in 2011, we have spent approximately \$100.0 million, including working capital, related to the Turkey Acquisition and the San Antonio Refinery Acquisition. We continue to evaluate our capital budget and make changes as economic conditions warrant. Depending upon current economic conditions, our actual capital expenditures for 2011 may exceed or be lower than the budgeted amounts. We believe cash generated from operations, combined with other sources of liquidity previously described, will be sufficient to fund our capital expenditures in 2011, and our internal growth projects can be accelerated or scaled back depending on the condition of the capital markets.

**Working Capital Requirements**

Our asphalt and fuels marketing segment requires us to make substantial investments in working capital. Increases in the prices of the commodities we purchase cause our working capital requirements to increase, which reduces our liquidity. Our working capital requirements vary with the seasonal nature of asphalt demand as we build and store asphalt inventories during periods of lower demand in order to sell it during periods of higher demand. This seasonal variance in demand also affects our accounts receivable and accounts payable balances, which vary depending on timing of payments.

Within working capital, our inventory balances increased by \$176.9 million during the nine months ended September 30, 2011, compared to \$114.9 million during the nine months ended September 30, 2010, due to rising crude oil prices in 2011. In addition, accounts receivable increased by \$148.8 million during the nine months ended September 30, 2011, compared to \$86.0 million during the nine months ended September 30, 2010, mainly due to the timing of payments and higher overall sales, resulting mainly from increased crude trading activity and the San Antonio Refinery Acquisition. Other current assets increased \$25.8 million during the nine months ended September 30, 2011, compared to a decrease of \$27.3 million during the nine months ended September 30, 2010, primarily due to variations in our derivative positions and an increase in prepaid assets in 2011.

Higher inventory balances also result in higher amounts of accounts payable, offsetting the impact to working capital. In 2011, accounts payable increased \$153.6 million, compared to \$75.3 million in 2010, due to higher inventory costs and the timing of payments.

**Distributions**

On August 12, 2011, we paid a quarterly cash distribution totaling \$81.3 million, or \$1.095 per unit, related to the second quarter of 2011. On October 28, 2011, we announced a quarterly cash distribution of \$1.095 per unit related to the third quarter of 2011. This distribution will be paid on November 14, 2011 to unitholders of record on November 8, 2011 and will total \$81.4 million.

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

|  | Three Months Ended<br>September 30,          |          | Nine Months Ended September<br>30, |           |
|--|--|----------|------------------------------------|-----------|
|  | 2011   | 2010     | 2011                               | 2010      |
|  | (Thousands of Dollars, Except Per Unit Data) |          |                                    |           |
| General partner interest               | \$1,628                                      | \$1,592  | \$4,847                            | \$4,635   |
| General partner incentive distribution | 8,972  | 8,568    | 26,503                             | 24,736    |
| Total general partner distribution     | 10,600                                       | 10,160   | 31,350                             | 29,371    |
| Limited partners' distribution         | 70,814                                       | 69,456   | 211,019                            | 202,391   |
| Total cash distributions               | \$81,414                                     | \$79,616 | \$242,369                          | \$231,762 |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Cash distributions per unit applicable to limited partners | \$1.095 | \$1.075 | \$3.265 | \$3.205 |
|--|---------|---------|---------|---------|

Distributions declared for the quarter are paid within 45 days following the end of each quarter based on the partnership interests outstanding as of a record date that is set after the end of each quarter.

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## Debt Obligations

We are a party to the following debt agreements:

the 2007 Revolving Credit Agreement due December 10, 2012, with a balance of \$456.3 million as of September 30, 2011;

NuStar Logistics' 6.875% senior notes due July 15, 2012 with a face value of \$100.0 million; 6.05% senior notes due March 15, 2013 with a face value of \$229.9 million; 7.65% senior notes due April 15, 2018 with a face value of \$350.0 million; and 4.80% senior notes due September 1, 2020 with a face value of \$450.0 million;

NuPOP's 7.75% senior notes due February 15, 2012; and 5.875% senior notes due June 1, 2013 with an aggregate face value of \$500.0 million;

\$55.4 million revenue bonds due June 1, 2038; \$100.0 million revenue bonds due July 1, 2040; \$50.0 million revenue bonds due October 1, 2040; \$85.0 million revenue bonds due December 1, 2040; and \$75.0 million revenue bonds due August 1, 2041 associated with the St. James terminal expansion (Gulf Opportunity Zone Revenue Bonds);

the £21 million term loan due December 11, 2012 (UK Term Loan); and

the \$12.0 million note payable in annual installments through December 31, 2015 to the Port of Corpus Christi Authority of Nueces County, Texas, with a balance of \$1.8 million as of September 30, 2011, associated with the construction of a crude oil storage facility in Corpus Christi, Texas.

Management believes that, as of September 30, 2011, we are in compliance with all ratios and covenants of both the 2007 Revolving Credit Agreement and the UK Term Loan, which has substantially the same covenants as the 2007 Revolving Credit Agreement. Our other long-term debt obligations do not contain any financial covenants that are different than those contained in the 2007 Revolving Credit Agreement. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments.

Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on certain of our long-term debt agreements.

## Interest Rate Swaps

As of September 30, 2011 and December 31, 2010, we were a party to fixed-to-floating interest rate swap agreements and forward-starting swap agreements for the purpose of hedging interest rate risk. The weighted-average interest rate that we paid under our fixed-to-floating interest rate swaps was 2.6% as of September 30, 2011.

The following table aggregates information on our interest rate swap agreements:

|  | Notional Amount        |                   | Fair Value         |                   |
|--|------------------------|-------------------|--------------------|-------------------|
|  | September 30, 2011     | December 31, 2010 | September 30, 2011 | December 31, 2010 |
|  | (Thousands of Dollars) |                   |                    |                   |
| Type of interest rate swap agreements: |                        |                   |                    |                   |
| Fixed-to-floating                      | \$450,000              | \$617,500         | \$23,125           | \$(18,820)        |
| Forward-starting                       | \$500,000              | \$500,000         | \$(40,930)         | \$35,000          |

During the nine months ended September 30, 2011, we terminated interest rate swap agreements with an aggregate notional amount of \$207.5 million associated with our 6.875%, 6.05% and 7.65% senior notes. We received \$12.6 million in connection with the terminations, which is being amortized into "Interest expense, net" over the remaining lives of the related senior notes. Please refer to Note 7 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion of our interest rate swaps.

## Environmental, Health and Safety

We are subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications, among others. Because more stringent environmental and safety laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental, health and safety matters is expected to increase.

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Contingencies

We are subject to certain loss contingencies, the outcomes of which could have an adverse effect on our cash flows and results of operations, as further disclosed in Note 5 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements.”

RELATED PARTY TRANSACTIONS

Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a detailed discussion of our related party transactions.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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## Item 3. Quantitative and Qualitative Disclosures About Market Risk

## Interest Rate Risk

We manage our exposure to changing interest rates principally through the use of a combination of fixed-rate debt and variable-rate debt. In addition, we utilize fixed-to-floating interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt. We also enter into forward-starting interest rate swap agreements to lock in the rate on the interest payments related to forecasted debt issuances. Borrowings under the 2007 Revolving Credit Agreement and Gulf Opportunity Zone Revenue Bonds expose us to increases in applicable interest rates.

The following tables provide information about our long-term debt and interest rate derivative instruments, all of which are sensitive to changes in interest rates. For long-term debt, principal cash flows and related weighted-average interest rates by expected maturity dates are presented. For our fixed-to-floating interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected (contractual) maturity dates. Weighted-average variable rates are based on implied forward interest rates in the yield curve at the reporting date.

September 30, 2011

Expected Maturity Dates

|   | 2011  | 2012      | 2013      | 2014  | 2015  | There-<br>after | Total       | Fair<br>Value |
|---|-------|-----------|-----------|-------|-------|-----------------|-------------|---------------|
| (Thousands of Dollars, Except Interest Rates) |       |           |           |       |       |                 |             |               |
| Long-term Debt:                               |       |           |           |       |       |                 |             |               |
| Fixed rate                                    | \$832 | \$383,713 | \$479,994 | \$—   | \$—   | \$800,000       | \$1,664,539 | \$1,787,353   |
| Weighted average interest rate                | 8.0 % | 7.4 %     | 6.0 %     | — %   | — %   | 6.0 %           | 6.3 %       | %             |
| Variable rate                                 | \$—   | \$456,259 | \$—       | \$—   | \$—   | \$365,440       | \$821,699   | \$808,180     |
| Weighted average interest rate                | — %   | 0.9 %     | — %       | — %   | — %   | 0.2 %           | 0.6 %       | %             |
| Interest Rate Swaps                           |       |           |           |       |       |                 |             |               |
| Fixed-to-Floating:                            |       |           |           |       |       |                 |             |               |
| Notional amount                               | \$—   | \$—       | \$—       | \$—   | \$—   | \$450,000       | \$450,000   | \$23,125      |
| Weighted average pay rate                     | 2.5 % | 2.6 %     | 2.8 %     | 3.4 % | 4.0 % | 4.9 %           | 4.0 %       | %             |
| Weighted average receive rate                 | 4.8 % | 4.8 %     | 4.8 %     | 4.8 % | 4.8 % | 4.8 %           | 4.8 %       | %             |

December 31, 2010

Expected Maturity Dates

|   | 2011  | 2012      | 2013      | 2014 | 2015 | There-<br>after | Total       | Fair<br>Value |
|---|-------|-----------|-----------|------|------|-----------------|-------------|---------------|
| (Thousands of Dollars, Except Interest Rates) |       |           |           |      |      |                 |             |               |
| Long-term Debt:                               |       |           |           |      |      |                 |             |               |
| Fixed rate                                    | \$832 | \$383,687 | \$479,986 | \$—  | \$—  | \$800,000       | \$1,664,505 | \$1,775,842   |
| Weighted average interest rate                | 8.0 % | 7.4 %     | 6.0 %     | — %  | — %  | 6.0 %           | 6.3 %       | %             |
| Variable rate                                 | \$—   | \$188,282 | \$—       | \$—  | \$—  | \$290,440       | \$478,722   | \$473,348     |
| Weighted average interest rate                | — %   | 1.0 %     | — %       | — %  | — %  | 0.3 %           | 0.6 %       | %             |
| Interest Rate Swaps                           |       |           |           |      |      |                 |             |               |
| Fixed-to-Floating:                            |       |           |           |      |      |                 |             |               |

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|                               |     |          |           |       |       |           |           |             |
|-------------------------------|-----|----------|-----------|-------|-------|-----------|-----------|-------------|
| Notional amount               | \$— | \$60,000 | \$107,500 | \$—   | \$—   | \$450,000 | \$617,500 | \$(18,820 ) |
| Weighted average pay rate     | 2.5 | % 3.3    | % 4.3     | % 5.3 | % 6.1 | % 6.8     | % 5.4     | %           |
| Weighted average receive rate | 5.2 | % 5.2    | % 5.0     | % 4.8 | % 4.8 | % 4.8     | % 4.9     | %           |

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The following table presents information regarding our forward-starting interest rate swap agreements:

| Notional Amount        | Period of Hedge | Weighted-<br>Average<br>Fixed Rate | Fair Value             |                      |
|------------------------|-----------------|------------------------------------|------------------------|----------------------|
|                        |                 |                                    | September 30,<br>2011  | December 31,<br>2010 |
| (Thousands of Dollars) |                 |                                    | (Thousands of Dollars) |                      |
| \$ 125,000             | 03/13 - 03/23   | 3.5                                | % \$(10,588            | ) \$8,717            |
| 150,000                | 06/13 - 06/23   | 3.5                                | % (11,718              | ) 11,243             |
| 225,000                | 02/12 - 02/22   | 3.1                                | % (18,624              | ) 15,040             |
| \$ 500,000             |                 | 3.3                                | % \$(40,930            | ) \$ 35,000          |

**Commodity Price Risk**

Since the operations of our asphalt and fuels marketing segment exposes us to commodity price risk, we enter into derivative instruments to mitigate the effect of commodity price fluctuations. The derivative instruments we use consist primarily of commodity futures and swap contracts. We have a risk management committee that oversees our trading controls and procedures and certain aspects of risk management. Our risk management committee also reviews all new risk management strategies in accordance with our risk management policy, which was approved by our board of directors.

During the second quarter of 2011, we entered into commodity swap contracts to hedge the price risk associated with the San Antonio Refinery. These contracts fix the purchase price of crude oil and sales prices of refined products for a portion of the expected production of the San Antonio Refinery, thereby mitigating the risk of volatility of future cash flows associated with hedged volumes. These contracts qualified and we designated them as cash flow hedges.

We record commodity derivative instruments in the consolidated balance sheets as assets or liabilities at fair value. We recognize mark-to-market adjustments for derivative instruments designated and qualifying as fair value hedges (Fair Value Hedges) and the related change in the fair value of the associated hedged physical inventory or firm commitment within "Cost of product sales." For derivative instruments designated and qualifying as cash flow hedges (Cash Flow Hedges), we record the effective portion of mark-to-market adjustments as a component of "Accumulated other comprehensive income" until the underlying hedged forecasted transactions occur and are recognized in income. For derivative instruments that do not qualify for hedge accounting (Economic Hedges and Other Derivatives), we record the mark-to-market adjustments in "Cost of product sales."



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The commodity contracts disclosed below represent only those contracts exposed to commodity price risk at the end of the period. Please refer to Note 7 of Condensed Notes to Consolidated Financial Statement in Item 1. "Financial Statements" for the volume and related fair value of all commodity contracts.

|   | September 30, 2011                               |                               |               | Fair Value of<br>Current<br>Asset (Liability)<br>(Thousands of<br>Dollars) |
|---|--|-------------------------------|---------------|--|
|   | Contract<br>Volumes<br>(Thousands<br>of Barrels) | Weighted Average<br>Pay Price | Receive Price |  |
| <b>Fair Value Hedges:</b>   |  |                               |               |  |
| Futures – long:<br>(refined products)                                 | 15   | \$ 117.19                     | N/A           | \$ 7   |
| Futures – short:<br>(refined products)                                | 50   | N/A                           | \$ 118.78     | \$ 103   |
| Swaps – long:<br>(refined products)                                   | 196  | \$ 95.13                      | N/A           | \$ 581   |
| Swaps – short:<br>(refined products)                                  | 1,067  | N/A                           | \$ 96.17      | \$ 3,986   |
| <b>Cash Flow Hedges:</b>  |  |                               |               |  |
| Swaps – long:<br>(crude oil)  | 9,988  | 106.80                        | N/A           | \$ (238,832 )  |
| Swaps – short:<br>(refined products)                                  | 9,988  | N/A                           | 127.55        | \$ 186,724   |
| <b>Economic Hedges and Other Derivatives:</b>                         |  |                               |               |  |
| Futures – long:<br>(crude oil and refined products)                   | 337  | \$ 79.74                      | N/A           | \$ (2,157 )  |
| Futures – short:<br>(crude oil and refined products)                  | 422  | N/A                           | \$ 85.91      | \$ 2,428   |
| Swaps – long:<br>(refined products)                                   | 434  | \$ 90.98                      | N/A           | \$ (2,432 )  |
| Swaps – short:<br>(refined products)                                  | 673  | N/A                           | \$ 86.65      | \$ 3,319   |
| Forward purchase contracts:<br>(crude oil)                            | 4,016  | \$ 100.72                     | N/A           | \$ (23,479 )   |
| Forward sales contracts:<br>(crude oil)                               | 4,016  | N/A                           | \$ 102.23     | \$ 29,544  |
| Total fair value of open positions exposed to<br>commodity price risk |  |                               |               | \$ (40,208 )   |

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|  | December 31, 2010 |                  |               |                   |
|--|-------------------|------------------|---------------|-------------------|
|  | Contract          | Weighted Average |               | Fair Value of     |
|  | Volumes           | Pay Price        | Receive Price | Current           |
|  | (Thousands        |                  |               | Asset (Liability) |
|  | of Barrels)       |                  |               | (Thousands of     |
|  |                   |                  |               | Dollars)          |
| Fair Value Hedges:   |                   |                  |               |                   |
| Futures – short:   |                   |                  |               |                   |
| (crude oil and refined products)                                   | 436               | N/A              | \$96.00       | \$ (1,015 )       |
| Swaps – long:  |                   |                  |               |                   |
| (refined products)   | 380               | \$76.05          | N/A           | \$ (557 )         |
| Swaps – short:   |                   |                  |               |                   |
| (refined products)   | 823               | N/A              | \$74.53       | \$ (2,541 )       |
| Economic Hedges and Other Derivatives:                             |                   |                  |               |                   |
| Futures – long:  |                   |                  |               |                   |
| (crude oil and refined products)                                   | 278               | \$93.80          | N/A           | \$ 802            |
| Futures – short:   |                   |                  |               |                   |
| (crude oil and refined products)                                   | 936               | N/A              | \$100.74      | \$ (2,102 )       |
| Swaps – long:  |                   |                  |               |                   |
| (refined products)   | 385               | \$76.27          | N/A           | \$ 1,684          |
| Swaps – short:   |                   |                  |               |                   |
| (refined products)   | 157               | N/A              | \$73.22       | \$ (698 )         |
| Forward purchase contracts:  |                   |                  |               |                   |
| (crude oil)  | 4,680             | \$85.81          | N/A           | \$ 38,434         |
| Forward sales contracts:   |                   |                  |               |                   |
| (crude oil)  | 4,680             | N/A              | \$86.48       | \$ (38,989 )      |
| Total fair value of open positions exposed to commodity price risk |                   |                  |               | \$ (4,982 )       |

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of September 30, 2011.

(b) Changes in internal control over financial reporting.

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information below describes new proceedings or material developments in proceedings that we previously reported in our annual report on Form 10-K for the year ended December 31, 2010.

**Grace Energy Corporation Matter.** In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of Kaneb Pipeline Partners, L.P. (KPP) and Kaneb Services LLC (KSL and collectively with KPP and their respective subsidiaries, Kaneb) in Texas state court. We acquired Kaneb on July 1, 2005. The complaint sought recovery of the cost of remediation of fuel leaks in the 1970s from a pipeline that had once connected a former Grace Energy terminal with Otis Air Force Base in Massachusetts (Otis AFB). Grace Energy alleges the Otis AFB pipeline and related environmental liabilities had been transferred in 1978 to an entity that was part of Kaneb's acquisition of Support Terminal Services, Inc. and its subsidiaries from Grace Energy in 1993. Kaneb contends that it did not acquire the Otis AFB pipeline and never assumed any responsibility for any associated environmental damage.

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of \$3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy was awarded \$1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the final judgment of the trial court to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement.

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the United States Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to us indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against us related to this matter, and we have not made any payments toward costs incurred by the DOJ. We are currently in settlement discussions with other potentially responsible parties and the DOJ, and a change in our estimate of this liability may occur in the near term. However, the proposed settlement must be approved by multiple parties and requires the approval of the bankruptcy court and the federal district court. We estimate that a settlement may be finalized in early to mid-2012.

**Eres Matter.** In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants breached a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provided for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contended that NuStar Asphalt and/or NuStar Marketing (together, the NuStar Entities) assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants had failed to perform under the Charter Agreement. Eres valued its damages for the alleged breach of contract claim at approximately \$78.1 million. On October 14, 2011, Eres and the Defendants entered into a Settlement Agreement and Mutual Release. Pursuant to the terms of the Settlement Agreement and Mutual Release, the NuStar Entities paid \$33.5 million in full and final settlement of all of Eres' claims against the Defendants. The settlement amount was included in the accrual for contingent losses as of September 30, 2011.



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Item 6. Exhibits

| Exhibit<br>Number | Description  |
|-------------------|--|
| *12.1             | Statement of Computation of Ratio of Earnings to Fixed Charges   |
| *31.01            | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer  |
| *31.02            | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer  |
| *32.01            | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal executive officer  |
| *32.02            | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal financial officer  |
| **101             | The following interactive data files pursuant to Rule 405 of Regulation S-T from NuStar Energy L.P.'s Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements. |
| *                 | Filed herewith.  |
| **                | Filed electronically herewith.   |

In accordance with Rule 406T of regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act. The financial information contained in the XBRL-related documents is "unaudited" or "unreviewed."

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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.

NUSTAR ENERGY L.P.

(Registrant)

By: Riverwalk Logistics, L.P., its general partner

By: NuStar GP, LLC, its general partner

By: /s/ Curtis V. Anastasio  
Curtis V. Anastasio  
President and Chief Executive Officer  
November 7, 2011

By: /s/ Steven A. Blank  
Steven A. Blank  
Senior Vice President, Chief Financial Officer and Treasurer  
November 7, 2011

By: /s/ Thomas R. Shoaf  
Thomas R. Shoaf  
Vice President and Controller  
November 7, 2011