

NuStar Energy L.P.  
Form 10-Q  
April 25, 2012

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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 March 31, 2012

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 March 31, 2012 was 70,756,078.

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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)

|   | March 31,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|---|----------------------------------|----------------------|
| Assets  |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$37,696                         | \$17,497             |
| Accounts receivable, net of allowance for doubtful accounts of \$1,774 and \$2,147 as of March 31, 2012 and December 31, 2011, respectively | 495,982                          | 547,808              |
| Inventories   | 774,008                          | 587,785              |
| Income tax receivable   | 9,221                            | 4,148                |
| Other current assets  | 51,489                           | 43,685               |
| Total current assets  | 1,368,396                        | 1,200,923            |
| Property, plant and equipment, at cost  | 4,526,182                        | 4,413,305            |
| Accumulated depreciation and amortization   | (1,026,553)                      | (982,837)            |
| Property, plant and equipment, net  | 3,499,629                        | 3,430,468            |
| Intangible assets, net  | 36,900                           | 38,923               |
| Goodwill  | 849,040                          | 846,717              |
| Investment in joint venture   | 69,073                           | 66,687               |
| Deferred income tax asset   | 10,479                           | 9,141                |
| Other long-term assets, net   | 249,911                          | 288,331              |
| Total assets  | \$6,083,428                      | \$5,881,190          |
| Liabilities and Partners' Equity  |                                  |                      |
| Current liabilities:  |                                  |                      |
| Current portion of long-term debt   | \$831,374                        | \$364,959            |
| Accounts payable  | 528,376                          | 454,326              |
| Payable to related party  | 15,312                           | 6,735                |
| Accrued interest payable  | 24,283                           | 29,833               |
| Accrued liabilities   | 75,711                           | 71,270               |
| Taxes other than income tax   | 13,014                           | 13,455               |
| Income tax payable  | 4,620                            | 3,222                |
| Total current liabilities   | 1,492,690                        | 943,800              |
| Long-term debt, less current portion  | 1,690,038                        | 1,928,071            |
| Long-term payable to related party  | 13,672                           | 14,502               |
| Deferred income tax liability   | 36,670                           | 35,437               |
| Other long-term liabilities   | 86,140                           | 95,045               |
| Commitments and contingencies (Note 5)  |                                  |                      |
| Partners' equity:   |                                  |                      |
| Limited partners (70,756,078 common units outstanding as of March 31, 2012 and December 31, 2011)   | 2,755,526                        | 2,817,069            |
| General partner   | 61,088                           | 62,539               |
| Accumulated other comprehensive loss  | (65,552)                         | (27,407)             |
| Total NuStar Energy L.P. partners' equity   | 2,751,062                        | 2,852,201            |

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|  |             |             |
|--|-------------|-------------|
| Noncontrolling interest                | 13,156      | 12,134      |
| Total partners' equity                 | 2,764,218   | 2,864,335   |
| Total liabilities and partners' equity | \$6,083,428 | \$5,881,190 |

See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| Revenues:   |                              |            |
| Service revenues:   |                              |            |
| Third parties   | \$205,448                    | \$198,263  |
| Related party   | 697                          | 130        |
| Total service revenues  | 206,145                      | 198,393    |
| Product sales   | 1,529,547                    | 1,036,223  |
| Total revenues  | 1,735,692                    | 1,234,616  |
| Costs and expenses:   |                              |            |
| Cost of product sales   | 1,489,837                    | 992,367    |
| Operating expenses:   |                              |            |
| Third parties   | 86,734                       | 85,130     |
| Related party   | 38,932                       | 35,109     |
| Total operating expenses  | 125,666                      | 120,239    |
| General and administrative expenses:                              |                              |            |
| Third parties   | 8,018                        | 9,035      |
| Related party   | 19,169                       | 16,948     |
| Total general and administrative expenses                         | 27,187                       | 25,983     |
| Depreciation and amortization expense                             | 44,681                       | 40,296     |
| Total costs and expenses  | 1,687,371                    | 1,178,885  |
| Operating income  | 48,321                       | 55,731     |
| Equity in earnings of joint venture                               | 2,386                        | 2,388      |
| Interest expense, net   | (22,350)                     | (20,457)   |
| Other income (expense), net                                       | 1,368                        | (5,499)    |
| Income before income tax expense                                  | 29,725                       | 32,163     |
| Income tax expense  | 3,471                        | 3,647      |
| Net income  | 26,254                       | 28,516     |
| Less net (loss) income attributable to noncontrolling interest    | (97)                         | ) 14       |
| Net income attributable to NuStar Energy L.P.                     | \$26,351                     | \$28,502   |
| Net income per unit applicable to limited partners (Note 11)      | \$0.23                       | \$0.30     |
| Weighted-average limited partner units outstanding                | 70,756,078                   | 64,610,549 |
| Comprehensive (loss) income                                       | \$(10,772)                   | ) \$40,499 |
| Less comprehensive income attributable to noncontrolling interest | 1,022                        | 566        |
| Comprehensive (loss) income attributable to NuStar Energy L.P.    | \$(11,794)                   | ) \$39,933 |
| 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)

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2012                         | 2011      |
| Cash Flows from Operating Activities:   |                              |           |
| Net income  | \$26,254                     | \$28,516  |
| Adjustments to reconcile net income to net cash used in operating activities: |                              |           |
| Depreciation and amortization expense   | 44,681                       | 40,296    |
| Amortization of debt related items  | (2,912)                      | (1,973)   |
| Deferred income tax benefit   | (1,042)                      | (551)     |
| Equity in earnings of joint venture   | (2,386)                      | (2,388)   |
| Distributions of equity in earnings of joint venture                          | —                            | 2,923     |
| Changes in current assets and current liabilities (Note 12)                   | (76,458)                     | (232,899) |
| Other, net  | 2,250                        | 278       |
| Net cash used in operating activities   | (9,613)                      | (165,798) |
| Cash Flows from Investing Activities:   |                              |           |
| Reliability capital expenditures  | (6,805)                      | (7,372)   |
| Strategic capital expenditures  | (93,479)                     | (65,874)  |
| Acquisitions  | —                            | (52,577)  |
| Investment in other long-term assets  | (94)                         | (636)     |
| Other, net  | 164                          | 58        |
| Net cash used in investing activities   | (100,214)                    | (126,401) |
| Cash Flows from Financing Activities:   |                              |           |
| Proceeds from long-term debt borrowings                                       | 454,118                      | 343,680   |
| Proceeds from short-term debt borrowings                                      | 56,430                       | 31,600    |
| Proceeds from senior note offering, net of issuance costs                     | 247,408                      | —         |
| Long-term debt repayments   | (453,944)                    | (82,394)  |
| Short-term debt repayments  | (56,430)                     | (31,600)  |
| Distributions to unitholders and general partner                              | (89,076)                     | (79,616)  |
| Payments for termination of interest rate swaps                               | (25,358)                     | —         |
| Other, net  | (3,228)                      | (1,144)   |
| Net cash provided by financing activities                                     | 129,920                      | 180,526   |
| Effect of foreign exchange rate changes on cash                               | 106                          | 989       |
| Net increase (decrease) in cash and cash equivalents                          | 20,199                       | (110,684) |
| Cash and cash equivalents as of the beginning of the period                   | 17,497                       | 181,121   |
| Cash and cash equivalents as of the end of the period                         | \$37,696                     | \$70,437  |
| 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 and Operations

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 16.2% total interest in us as of March 31, 2012.

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 condensed 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 financial statements. Inter-partnership balances and transactions have been eliminated in consolidation. We account for investments in 50% or less-owned entities using the equity method.

These unaudited condensed 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 months ended March 31, 2012 and 2011 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited condensed consolidated financial statements. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements as of that date. These unaudited condensed 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, 2011.

2. NEW ACCOUNTING PRONOUNCEMENTS

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board 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 were effective for interim and annual periods beginning on or after December 15, 2011. Accordingly, we adopted these provisions January 1, 2012, and they did not have a material impact on our financial position, results of operations or disclosures.

3. INVENTORIES

Inventories consisted of the following:



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|                        | March 31,<br>2012 | December 31,<br>2011 |
|------------------------|-------------------|----------------------|
| Crude oil              | \$270,351         | \$157,297            |
| Finished products      | 493,826           | 421,288              |
| Materials and supplies | 9,831             | 9,200                |
| Total                  | \$774,008         | \$587,785            |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. DEBT

Revolving Credit Agreements

During the three months ended March 31, 2012, we borrowed an aggregate \$436.1 million under our \$1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement) to fund working capital requirements, our capital expenditures and distributions. Additionally, we repaid \$203.9 million during the three months ended March 31, 2012. The 2007 Revolving Credit Agreement bears interest, at our option, based on either an alternative base rate or a LIBOR-based rate. As of March 31, 2012, our weighted average borrowing interest rate was 0.8%, and we had \$411.6 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. As of March 31, 2012, our consolidated debt coverage ratio was 4.6x.

NuStar Logistics' 4.75% Senior Notes

On February 2, 2012, NuStar Logistics issued \$250.0 million of 4.75% senior notes under our May 13, 2010 shelf registration statement. The net proceeds of \$247.4 million were used to repay the outstanding principal amount of NuPOP's 7.75% senior notes due February 15, 2012. The interest on the 4.75% senior notes is payable semi-annually in arrears on February 1 and August 1 of each year beginning on August 1, 2012. The notes will mature on February 1, 2022. The 4.75% senior notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness of NuStar Logistics and contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. At the option of NuStar Logistics, the 4.75% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The 4.75% senior notes are fully and unconditionally guaranteed by NuStar Energy and NuPOP.

Gulf Opportunity Zone Revenue Bonds

The Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, tax-exempt revenue bonds in 2010 and 2011 (GoZone Bonds) associated with our St. James terminal expansions. The GoZone Bonds bear interest based on a weekly tax-exempt bond market interest rate, and we pay interest monthly. The interest rate was 0.1% as of March 31, 2012. The proceeds are deposited with a trustee and disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansions. We include the amount remaining in trust related to the GoZone Bonds in "Other long-term assets, net," and the amount of bonds issued in "Long-term debt, less current portion" in our consolidated balance sheets. For the three months ended March 31, 2012, we received \$18.0 million from the trustee. As of March 31, 2012, the amount remaining in trust totaled \$155.3 million.

Lines of Credit

As of March 31, 2012, 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 March 31, 2012. During the three months ended March 31, 2012, we borrowed and repaid \$56.4 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 is 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 March 31, 2012, we have accrued \$43.6 million for contingent losses. The amount that will ultimately be paid related to these matters may differ from the recorded accruals, 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.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. We reached an agreement to settle the claims of the United States government with respect to the Otis AFB pipeline and to resolve the underlying dispute between Kaneb and Grace. Pursuant to the settlement, we agreed to pay \$11.7 million plus interest to the United States. The settlement was approved by the United States Bankruptcy Court for the District of Delaware and a proposed consent decree has been filed with the United States District Court for the District of Massachusetts. We are hopeful that the consent decree will be entered and that the settlement will be finalized in the near term.

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 in active markets 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

We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, we include these derivative instruments 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:

|                              | March 31, 2012         |           |         |           |   |
|------------------------------|------------------------|-----------|---------|-----------|---|
|                              | Level 1                | Level 2   | Level 3 | Total     |   |
|                              | (Thousands of Dollars) |           |         |           |   |
| Other current assets:        |                        |           |         |           |   |
| Product imbalances           | \$1,661                | \$—       | \$—     | \$1,661   |   |
| Commodity derivatives        | 21,880                 | 329       | —       | 22,209    |   |
| Other long-term assets, net: |                        |           |         |           |   |
| Commodity derivatives        | —                      | 5,377     | —       | 5,377     |   |
| Interest rate swaps          | —                      | 581       | —       | 581       |   |
| Accrued liabilities:         |                        |           |         |           |   |
| Product imbalances           | (200                   | ) —       | —       | (200      | ) |
| Commodity derivatives        | (13,692                | ) (24,500 | ) —     | (38,192   | ) |
| Interest rate swaps          | —                      | (9,796    | ) —     | (9,796    | ) |
| Other long-term liabilities: |                        |           |         |           |   |
| Commodity derivatives        | —                      | (6,539    | ) —     | (6,539    | ) |
| Interest rate swaps          | —                      | (11,221   | ) —     | (11,221   | ) |
| Total                        | \$9,649                | \$(45,769 | ) \$—   | \$(36,120 | ) |
|                              |                        |           |         |           |   |
|                              | December 31, 2011      |           |         |           |   |
|                              | Level 1                | Level 2   | Level 3 | Total     |   |
|                              | (Thousands of Dollars) |           |         |           |   |
| Other current assets:        |                        |           |         |           |   |
| Product imbalances           | \$2,117                | \$—       | \$—     | \$2,117   |   |
| Commodity derivatives        | 10,282                 | 1,830     | —       | 12,112    |   |
| Other long-term assets, net: |                        |           |         |           |   |
| Commodity derivatives        | —                      | 27,084    | —       | 27,084    |   |
| Interest rate swaps          | —                      | 2,335     | —       | 2,335     |   |
| Accrued liabilities:         |                        |           |         |           |   |
| Product imbalances           | (1,469                 | ) —       | —       | (1,469    | ) |
| Commodity derivatives        | (5,424                 | ) —       | —       | (5,424    | ) |
| Interest rate swaps          | —                      | (22,009   | ) —     | (22,009   | ) |
| Other long-term liabilities: |                        |           |         |           |   |
| Interest rate swaps          | —                      | (27,190   | ) —     | (27,190   | ) |
| Total                        | \$5,506                | \$(17,950 | ) \$—   | \$(12,444 | ) |

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

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

## Fair Value of Financial Instruments

We recognize cash equivalents, receivables, payables and debt in our consolidated balance sheets at their carrying amount.

The fair values of these financial instruments, except for debt, approximate their carrying amounts. The estimated fair value and carrying amount of our debt was as follows:

|                 | March 31,<br>2012      | December 31,<br>2011 |
|-----------------|------------------------|----------------------|
|                 | (Thousands of Dollars) |                      |
| Fair value      | \$2,575,496            | \$2,377,565          |
| Carrying amount | \$2,521,412            | \$2,293,030          |

We estimated the fair value of our publicly-traded senior notes based upon quoted prices in active markets; therefore, we determined the fair value of our publicly-traded senior notes falls in Level 1 of the fair value hierarchy. For our other debt, for which a quoted market price is not available, we estimated the fair value using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements and determined the fair value falls in Level 2 of the fair value hierarchy.

## 7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to: (i) manage our exposure to commodity price risk; (ii) manage our exposure to interest rate risk; and (iii) attempt to profit from market fluctuations. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules, to help ensure that our hedging activities address our market risks. Our risk management committee oversees our trading controls and procedures and certain aspects of our 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, which was 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 enter into fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes. During the three months ended March 31, 2012, we entered into fixed-to-floating interest rate swap agreements with an aggregate notional amount of \$200.0 million related to the 4.75% senior notes issued on February 2, 2012. Please refer to Note 4. Debt for additional information on the 4.75% senior notes. Under the terms of these interest rate swap agreements, we receive a fixed 4.75% and will pay a variable rate based on one month USD LIBOR plus a percentage that varies with each agreement. We account for our fixed-to-floating interest rate swaps as fair value hedges, and they qualify for the shortcut method of accounting. As a result, changes in the fair value of the swaps will completely offset the changes in the fair value of the underlying hedged debt. As of March 31, 2012 and December 31, 2011, the total aggregate notional amount of the fixed-to-floating interest rate swaps was \$470.0 million and \$270.0 million, respectively. The weighted-average interest rate that we paid under our fixed-to-floating interest rate swaps was 2.9% as of March 31, 2012.

We are also a party to forward-starting interest rate swap agreements related to forecasted probable debt issuances. We entered into these 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. In connection with the issuance of the 4.75% senior notes on February 2, 2012, we terminated some of our outstanding forward-starting interest rate swap agreements with

an aggregate notional amount of \$225.0 million. We paid \$25.4 million in connection with the terminations, which is being amortized into "Interest expense, net" over the life of the 4.75% senior notes. The termination payment is included in cash flows from financing activities on the consolidated statements of cash flows. As of March 31, 2012 and December 31, 2011, the total aggregate notional amount of the forward-starting interest rate swaps was \$275.0 million and \$500.0 million, respectively.

#### 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 designated as fair value hedges.

We also enter into commodity swap contracts to hedge the price risk associated with the San Antonio refinery. These contracts



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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

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

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 qualify 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 we record associated gains and losses from such derivatives 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 42.3 million barrels and 27.8 million barrels as of March 31, 2012 and December 31, 2011, respectively.

As of March 31, 2012 and December 31, 2011, we had \$6.6 million and \$1.1 million, respectively, of margin deposits related to our derivative instruments.

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

|  | Balance Sheet Location      | Asset Derivatives |                      | Liability Derivatives |                      |
|--|-----------------------------|-------------------|----------------------|-----------------------|----------------------|
|  |                             | March 31,<br>2012 | December<br>31, 2011 | March 31,<br>2012     | December<br>31, 2011 |
| (Thousands of Dollars)                             |                             |                   |                      |                       |                      |
| Derivatives Designated as Hedging Instruments:     |                             |                   |                      |                       |                      |
| Commodity contracts                                | Other current assets        | \$—               | \$36,116             | \$—                   | \$(33,616 )          |
| Commodity contracts                                | Other long-term assets, net | 25,634            | 86,052               | (20,257 )             | (66,175 )            |
| Interest rate swaps                                | Other long-term assets, net | 581               | 2,335                | —                     | —                    |
| Commodity contracts                                | Accrued liabilities         | 640               | —                    | (24,286 )             | —                    |
| Interest rate swaps                                | Accrued liabilities         | —                 | —                    | (9,796 )              | (22,009 )            |
| Commodity contracts                                | Other long-term liabilities | —                 | —                    | (5,665 )              | —                    |
| Interest rate swaps                                | Other long-term liabilities | —                 | —                    | (11,221 )             | (27,190 )            |
| Total  |                             | 26,855            | 124,503              | (71,225 )             | (148,990 )           |
| Derivatives Not Designated as Hedging Instruments: |                             |                   |                      |                       |                      |
| Commodity contracts                                | Other current assets        | 30,863            | 15,568               | (8,654 )              | (5,956 )             |
| Commodity contracts                                | Other long-term assets, net | —                 | 7,207                | —                     | —                    |
| Commodity contracts                                | Accrued liabilities         | 21,831            | 519                  | (36,377 )             | (5,943 )             |
| Commodity contracts                                | Other long-term liabilities | —                 | —                    | (874 )                | —                    |
| Total  |                             | 52,694            | 23,294               | (45,905 )             | (11,899 )            |

|                   |          |           |              |              |
|-------------------|----------|-----------|--------------|--------------|
| Total Derivatives | \$79,549 | \$147,797 | \$(117,130 ) | \$(160,889 ) |
|-------------------|----------|-----------|--------------|--------------|

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

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

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)<br>(Thousands of Dollars) | Amount of Gain (Loss) Recognized in Income on Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|--|---------------------------|--|---|--|
| Three months ended March 31, 2012:                       |                           |  |   |  |
| Interest rate swaps                                      | Interest expense, net     | \$2,228  | \$(2,228)   | \$ —   |
| Commodity contracts                                      | Cost of product sales     | (2,587)  | ) 2,390   | (197)  |
| Total  |                           | \$(359)  | ) \$162   | \$ (197)   |

Three months ended March 31, 2011:

|                     |                       |            |            |        |
|---------------------|-----------------------|------------|------------|--------|
| Interest rate swaps | Interest expense, net | \$(5,914)  | ) \$5,960  | \$ 46  |
| Commodity contracts | Cost of product sales | (12,066)   | ) 12,370   | 304    |
| Total               |                       | \$(17,980) | ) \$18,330 | \$ 350 |

| Derivatives Designated as Cash Flow Hedging Instruments | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)<br>(Thousands of Dollars) | Income Statement Location (a) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)<br>(Thousands of Dollars) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---|---|-------------------------------|---|--|
| Three months ended March 31, 2012:                      |   |                               |   |  |
| Interest rate swaps                                     | \$ 3,298  | Interest expense, net         | \$(423)   | \$ —   |
| Commodity contracts                                     | (57,121)  | ) Cost of product sales       | (7,344)   | ) 4,010  |
| Total   | \$ (53,823)   | )                             | \$(7,767)   | ) \$ 4,010   |
| Three months ended March 31, 2011:                      |   |                               |   |  |
| Interest rate swaps                                     | \$ 2,878  | Interest expense, net         | \$—   | \$ —   |

Amounts are included in specified location for both the gain (loss) reclassified from accumulated other (a) comprehensive income (OCI) into income (effective portion) and the gain (loss) recognized in income on derivative (ineffective portion).

| Derivatives Not Designated as Hedging Instruments | Income Statement Location | Amount of Gain (Loss) Recognized in Income<br>(Thousands of Dollars) |
|---|---------------------------|--|
| Three months ended March 31, 2012:                |                           |  |
| Commodity contracts                               | Revenues                  | \$510  |
| Commodity contracts                               | Cost of product sales     | (4,318)  |
|   |                           | \$(3,808)  |
| Three months ended March 31, 2011:                |                           |  |
| Commodity contracts                               | Revenues                  | \$264  |

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|                     |                       |           |   |
|---------------------|-----------------------|-----------|---|
| Commodity contracts | Cost of product sales | (15,629   | ) |
| Commodity contracts | Operating expenses    | 46        | ) |
|                     |                       | \$(15,319 | ) |

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 March 31, 2012, we expect to reclassify a loss of \$24.3 million to “Cost of product sales” and a loss of \$2.5 million to “Interest expense, net” within the next

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

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

twelve months. The maximum length of time over which we are hedging our exposure to the variability in future cash flows is approximately three years for our commodity contracts and one year for our forward-starting interest rate swaps.

## 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 March 31, |          |
|-------------------------------------|------------------------------|----------|
|                                     | 2012                         | 2011     |
|                                     | (Thousands of Dollars)       |          |
| Revenues                            | \$697                        | \$130    |
| Operating expenses                  | \$38,932                     | \$35,109 |
| General and administrative expenses | \$19,169                     | \$16,948 |

We had a payable to NuStar GP, LLC of \$15.3 million and \$6.7 million as of March 31, 2012 and December 31, 2011, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of March 31, 2012 and December 31, 2011 of \$13.7 million and \$14.5 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 March 31, |           |   |
|---|------------------------------|-----------|---|
|   | 2012                         | 2011      |   |
|   | (Thousands of Dollars)       |           |   |
| Storage agreement early termination costs | \$—                          | \$(5,000) | ) |
| Foreign exchange gains (losses)           | 380                          | (610)     | ) |
| Other, net                                | 988                          | 111       | ) |
| Other income (expense), net               | \$1,368                      | \$(5,499) | ) |

For the three months ended March 31, 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.

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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 equity attributable to NuStar Energy L.P. partners and noncontrolling interest:

|   | Three Months Ended March 31, 2012   |                         |                        | Three Months Ended March 31, 2011   |                         |                        |
|---|-------------------------------------|-------------------------|------------------------|-------------------------------------|-------------------------|------------------------|
|   | 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                                     | \$2,852,201                         | \$ 12,134               | \$2,864,335            | \$2,702,700                         | \$ —                    | \$2,702,700            |
| Acquisition   | —                                   | —                       | —                      | —                                   | 15,000                  | 15,000                 |
| Net income  | 26,351                              | (97                     | ) 26,254               | 28,502                              | 14                      | 28,516                 |
| Other comprehensive income (loss):                    |                                     |                         |                        |                                     |                         |                        |
| Foreign currency translation adjustment               | 7,911                               | 1,119                   | 9,030                  | 8,553                               | 552                     | 9,105                  |
| Net unrealized (loss) gain on cash flow hedges        | (53,823                             | ) —                     | (53,823                | ) 2,878                             | —                       | 2,878                  |
| Net loss reclassified into income on cash flow hedges | 7,767                               | —                       | 7,767                  | —                                   | —                       | —                      |
| Total other comprehensive (loss) income               | (38,145                             | ) 1,119                 | (37,026                | ) 11,431                            | 552                     | 11,983                 |
| Cash distributions to partners                        | (89,076                             | ) —                     | (89,076                | ) (79,616                           | ) —                     | (79,616                |
| Other   | (269                                | ) —                     | (269                   | ) —                                 | —                       | —                      |
| Ending balance  | \$2,751,062                         | \$ 13,156               | \$2,764,218            | \$2,663,017                         | \$ 15,566               | \$2,678,583            |

## 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 March 31, |          |
|---|------------------------------|----------|
|   | 2012                         | 2011     |
|   | (Thousands of Dollars)       |          |
| Net income attributable to NuStar Energy L.P. | \$26,351                     | \$28,502 |
| Less general partner incentive distribution   | 9,816                        | 8,568    |

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|   |          |         |   |
|---|----------|---------|---|
| Net income after general partner incentive distribution                               | 16,535   | 19,934  |   |
| General partner interest  | 2        | % 2     | % |
| General partner allocation of net income after general partner incentive distribution | 331      | 398     |   |
| General partner incentive distribution  | 9,816    | 8,568   |   |
| Net income applicable to general partner  | \$10,147 | \$8,966 |   |

Cash Distributions

On February 10, 2012, we paid a quarterly cash distribution totaling \$89.1 million, or \$1.095 per unit, related to the fourth quarter of 2011. On April 25, 2012, we announced a quarterly cash distribution of \$1.095 per unit related to the first quarter of 2012. This distribution will be paid on May 11, 2012 to unitholders of record on May 8, 2012 and will total \$89.1 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 March 31,                 |          |
|--|--|----------|
|  | 2012   | 2011     |
|  | (Thousands of Dollars, Except Per Unit Data) |          |
| General partner interest                                   | \$1,782                                      | \$1,592  |
| General partner incentive distribution                     | 9,816  | 8,568    |
| Total general partner distribution                         | 11,598                                       | 10,160   |
| Limited partners' distribution                             | 77,478                                       | 69,456   |
| Total cash distributions                                   | \$89,076                                     | \$79,616 |
| Cash distributions per unit applicable to limited partners | \$1.095                                      | \$1.075  |

## 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 March 31,                          |            |
|---|---|------------|
|   | 2012  | 2011       |
|   | (Thousands of Dollars, Except Unit and Per Unit Data) |            |
| Net income attributable to NuStar Energy L.P.           | \$26,351  | \$28,502   |
| Less general partner distribution (including IDR)       | 11,598  | 10,160     |
| Less limited partner distribution                       | 77,478  | 69,456     |
| Distributions greater than earnings                     | \$(62,725)  | \$(51,114) |
| General partner earnings:                               |   |            |
| Distributions   | \$11,598  | \$10,160   |
| Allocation of distributions greater than earnings (2%)  | (1,255)   | (1,023)    |
| Total   | \$10,343  | \$9,137    |
| Limited partner earnings:                               |   |            |
| Distributions   | \$77,478  | \$69,456   |
| Allocation of distributions greater than earnings (98%) | (61,470)  | (50,091)   |
| Total   | \$16,008  | \$19,365   |
| Weighted-average limited partner units outstanding      | 70,756,078  | 64,610,549 |
| Net income per unit applicable to limited partners      | \$0.23  | \$0.30     |





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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:

|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2012                         | 2011         |
|   | (Thousands of Dollars)       |              |
| Decrease (increase) in current assets:            |                              |              |
| Accounts receivable                               | \$52,418                     | \$(94,104 )  |
| Inventories                                       | (186,135 )                   | (184,765 )   |
| Income tax receivable                             | (4,989 )                     | —            |
| Other current assets                              | (9,677 )                     | (21,572 )    |
| Increase (decrease) in current liabilities:       |                              |              |
| Accounts payable                                  | 76,683                       | 76,922       |
| Payable to related party                          | 8,566                        | 1,826        |
| Accrued interest payable                          | (5,550 )                     | (6,070 )     |
| Accrued liabilities                               | (8,513 )                     | (5,702 )     |
| Taxes other than income tax                       | (664 )                       | (830 )       |
| Income tax payable                                | 1,403                        | 1,396        |
| Changes in current assets and current liabilities | \$(76,458 )                  | \$(232,899 ) |

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

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2012                         | 2011     |
|   | (Thousands of Dollars)       |          |
| Cash paid for interest, net of amount capitalized       | \$31,961                     | \$32,512 |
| Cash paid for income taxes, net of tax refunds received | \$8,106                      | \$2,856  |

## 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 March 31,<br>2012                      2011<br>(Thousands of Dollars) |             |
|--|--|-------------|
| Revenues:  |  |             |
| Storage:   |  |             |
| Third parties                                    | \$127,687  | \$125,253   |
| Intersegment                                     | 17,045   | 11,392      |
| Related party                                    | 697  | 130         |
| Total storage                                    | 145,429  | 136,775     |
| Transportation:                                  |  |             |
| Third parties                                    | 77,761   | 73,010      |
| Intersegment                                     | —  | —           |
| Total transportation                             | 77,761   | 73,010      |
| Asphalt and fuels marketing:                     |  |             |
| Third parties                                    | 1,529,547  | 1,036,223   |
| Intersegment                                     | 129  | 3,845       |
| Total asphalt and fuels marketing                | 1,529,676  | 1,040,068   |
| Consolidation and intersegment eliminations      | (17,174)   | (15,237)    |
| Total revenues                                   | \$1,735,692  | \$1,234,616 |
| Operating income:                                |  |             |
| Storage  | \$56,147   | \$48,696    |
| Transportation                                   | 36,951   | 34,397      |
| Asphalt and fuels marketing                      | (15,775)   | ) 118       |
| Consolidation and intersegment eliminations      | (1)  | ) 65        |
| Total segment operating income                   | 77,322   | 83,276      |
| Less general and administrative expenses         | 27,187   | 25,983      |
| Less other depreciation and amortization expense | 1,814  | 1,562       |
| Total operating income                           | \$48,321   | \$55,731    |

Total assets by reportable segment were as follows:

|                             | March 31,<br>2012      | December 31,<br>2011 |
|-----------------------------|------------------------|----------------------|
|                             | (Thousands of Dollars) |                      |
| Storage                     | \$2,622,491            | \$2,597,904          |
| Transportation              | 1,276,156              | 1,251,474            |
| Asphalt and fuels marketing | 1,860,324              | 1,717,960            |
| Total segment assets        | 5,758,971              | 5,567,338            |
| Other partnership assets    | 324,457                | 313,852              |
| Total consolidated assets   | \$6,083,428            | \$5,881,190          |

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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

March 31, 2012

(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                  | \$ 135           | \$ 20               | \$—          | \$ 37,541                            | \$—            | \$ 37,696    |
| Receivables, net                           | 16               | 41,794              | 8,819        | 464,700                              | (19,347 )      | 495,982      |
| Inventories                                | —                | 2,692               | 4,891        | 766,485                              | (60 )          | 774,008      |
| Income tax receivable                      | —                | —                   | —            | 9,221                                | —              | 9,221        |
| Other current assets                       | —                | 6,975               | 1,811        | 42,703                               | —              | 51,489       |
| Intercompany receivable                    | —                | 1,205,898           | 541,121      | —                                    | (1,747,019 )   | —            |
| Total current assets                       | 151              | 1,257,379           | 556,642      | 1,320,650                            | (1,766,426 )   | 1,368,396    |
| Property, plant and equipment,<br>net      | —                | 1,210,755           | 591,803      | 1,697,071                            | —              | 3,499,629    |
| Intangible assets, net                     | —                | 1,954               | —            | 34,946                               | —              | 36,900       |
| Goodwill                                   | —                | 18,094              | 170,652      | 660,294                              | —              | 849,040      |
| Investment in wholly owned<br>subsidiaries | 3,323,880        | 195,342             | 1,185,526    | 2,252,840                            | (6,957,588 )   | —            |
| Investment in joint venture                | —                | —                   | —            | 69,073                               | —              | 69,073       |
| Deferred income tax asset                  | —                | —                   | —            | 10,479                               | —              | 10,479       |
| Other long-term assets, net                | 461              | 173,874             | 26,329       | 49,247                               | —              | 249,911      |
| Total assets                               | \$ 3,324,492     | \$ 2,857,398        | \$ 2,530,952 | \$ 6,094,600                         | \$ (8,724,014) | \$ 6,083,428 |
| <b>Liabilities and Partners' Equity</b>    |                  |                     |              |                                      |                |              |
| Current portion of long-term<br>debt       | \$—              | \$ 797,791          | \$—          | \$ 33,583                            | \$—            | \$ 831,374   |
| Payables                                   | 88               | 34,702              | 13,400       | 514,845                              | (19,347 )      | 543,688      |
| Accrued interest payable                   | —                | 19,374              | 4,896        | 13                                   | —              | 24,283       |
| Accrued liabilities                        | 653              | 17,187              | 3,653        | 54,218                               | —              | 75,711       |
| Taxes other than income tax                | 188              | 4,847               | 3,347        | 4,632                                | —              | 13,014       |
| Income tax payable                         | —                | 442                 | 8            | 4,170                                | —              | 4,620        |
| Intercompany payable                       | 506,949          | —                   | —            | 1,240,070                            | (1,747,019 )   | —            |
| Total current liabilities                  | 507,878          | 874,343             | 25,304       | 1,851,531                            | (1,766,366 )   | 1,492,690    |
| Long-term debt, less current<br>portion    | —                | 1,437,397           | 252,641      | —                                    | —              | 1,690,038    |
| Long-term payable to related<br>party      | —                | 7,203               | —            | 6,469                                | —              | 13,672       |

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|  |             |             |             |             |               |             |
|--|-------------|-------------|-------------|-------------|---------------|-------------|
| Deferred income tax liability          | —           | —           | —           | 36,670      | —             | 36,670      |
| Other long-term liabilities            | —           | 14,189      | 198         | 71,753      | —             | 86,140      |
| Total partners' equity                 | 2,816,614   | 524,266     | 2,252,809   | 4,128,177   | (6,957,648 )  | 2,764,218   |
| Total liabilities and partners' equity | \$3,324,492 | \$2,857,398 | \$2,530,952 | \$6,094,600 | \$(8,724,014) | \$6,083,428 |

(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, 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                  | \$ 139           | \$ 14               | \$—          | \$ 17,344                            | \$—            | \$ 17,497    |
| Receivables, net                           | —                | 27,533              | 6,877        | 514,477                              | (1,079 )       | 547,808      |
| Inventories                                | —                | 2,311               | 6,370        | 579,152                              | (48 )          | 587,785      |
| Income tax receivable                      | —                | —                   | —            | 4,148                                | —              | 4,148        |
| Other current assets                       | —                | 9,796               | 2,423        | 31,466                               | —              | 43,685       |
| Intercompany receivable                    | —                | 893,268             | 780,066      | —                                    | (1,673,334 )   | —            |
| Total current assets                       | 139              | 932,922             | 795,736      | 1,146,587                            | (1,674,461 )   | 1,200,923    |
| Property, plant and equipment,<br>net      | —                | 1,150,318           | 596,229      | 1,683,921                            | —              | 3,430,468    |
| Intangible assets, net                     | —                | 1,966               | —            | 36,957                               | —              | 38,923       |
| Goodwill                                   | —                | 18,094              | 170,652      | 657,971                              | —              | 846,717      |
| Investment in wholly owned<br>subsidiaries | 3,386,170        | 220,513             | 1,159,620    | 2,216,792                            | (6,983,095 )   | —            |
| Investment in joint venture                | —                | —                   | —            | 66,687                               | —              | 66,687       |
| Deferred income tax asset                  | —                | —                   | —            | 9,141                                | —              | 9,141        |
| Other long-term assets, net                | 364              | 192,007             | 26,329       | 69,631                               | —              | 288,331      |
| Total assets                               | \$ 3,386,673     | \$ 2,515,820        | \$ 2,748,566 | \$ 5,887,687                         | \$ (8,657,556) | \$ 5,881,190 |
| <b>Liabilities and Partners' Equity</b>    |                  |                     |              |                                      |                |              |
| Current portion of long-term<br>debt       | \$—              | \$ 331,317          | \$ 1,060     | \$ 32,582                            | \$—            | \$ 364,959   |
| Payables                                   | —                | 32,590              | 11,512       | 418,038                              | (1,079 )       | 461,061      |
| Accrued interest payable                   | —                | 21,332              | 8,489        | 12                                   | —              | 29,833       |
| Accrued liabilities                        | 829              | 42,788              | 4,661        | 22,992                               | —              | 71,270       |
| Taxes other than income tax                | 125              | 5,661               | 2,678        | 4,991                                | —              | 13,455       |
| Income tax payable                         | —                | 352                 | 7            | 2,863                                | —              | 3,222        |
| Intercompany payable                       | 506,111          | —                   | —            | 1,167,223                            | (1,673,334 )   | —            |
| Total current liabilities                  | 507,065          | 434,040             | 28,407       | 1,648,701                            | (1,674,413 )   | 943,800      |
| Long-term debt, less current<br>portion    | —                | 1,424,891           | 503,180      | —                                    | —              | 1,928,071    |
| Long-term payable to related<br>party      | —                | 8,027               | —            | 6,475                                | —              | 14,502       |
| Deferred income tax liability              | —                | —                   | —            | 35,437                               | —              | 35,437       |
| Other long-term liabilities                | —                | 29,939              | 220          | 64,886                               | —              | 95,045       |
| Total partners' equity                     | 2,879,608        | 618,923             | 2,216,759    | 4,132,188                            | (6,983,143 )   | 2,864,335    |
| Total liabilities and<br>partners' equity  | \$ 3,386,673     | \$ 2,515,820        | \$ 2,748,566 | \$ 5,887,687                         | \$ (8,657,556) | \$ 5,881,190 |

(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 Comprehensive Income

For the Three Months Ended March 31, 2012

(Thousands of Dollars)

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP      | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|---|------------------|---------------------|------------|--------------------------------------|--------------|--------------|
| Revenues  | \$—              | \$80,221            | \$49,092   | \$1,612,603                          | \$(6,224)    | \$1,735,692  |
| Costs and expenses  | 435              | 46,374              | 34,957     | 1,611,826                            | (6,221)      | 1,687,371    |
| Operating (loss) income   | (435)            | ) 33,847            | 14,135     | 777                                  | (3)          | ) 48,321     |
| Equity in earnings of subsidiaries                                | 26,786           | (25,171)            | ) 25,905   | 36,057                               | (63,577)     | ) —          |
| Equity in earnings of joint venture                               | —                | —                   | —          | 2,386                                | —            | 2,386        |
| Interest expense, net   | —                | (18,078)            | ) (4,171)  | ) (101)                              | ) —          | (22,350)     |
| Other income, net   | —                | 189                 | 182        | 997                                  | —            | 1,368        |
| Income (loss) before income tax expense                           | 26,351           | (9,213)             | ) 36,051   | 40,116                               | (63,580)     | ) 29,725     |
| Income tax expense  | —                | 90                  | 2          | 3,379                                | —            | 3,471        |
| Net income (loss)   | 26,351           | (9,303)             | ) 36,049   | 36,737                               | (63,580)     | ) 26,254     |
| Less net loss attributable to noncontrolling interest             | —                | —                   | —          | (97)                                 | ) —          | (97)         |
| Net income (loss) attributable to NuStar Energy L.P.              | \$26,351         | \$(9,303)           | ) \$36,049 | \$36,834                             | \$(63,580)   | ) \$26,351   |
| Comprehensive income (loss)                                       | \$26,351         | \$(5,582)           | ) \$36,049 | \$4,010                              | ) \$(63,580) | ) \$(10,772) |
| Less comprehensive income attributable to noncontrolling interest | —                | —                   | —          | 1,022                                | —            | 1,022        |
| Comprehensive income (loss) attributable to NuStar Energy L.P.    | \$26,351         | \$(5,582)           | ) \$36,049 | \$(5,032)                            | ) \$(63,580) | ) \$(11,794) |

(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 Comprehensive Income

For the Three Months Ended March 31, 2011

(Thousands of Dollars)

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP    | Non-Guarantor<br>Subsidiaries<br>(a) | Eliminations | Consolidated |
|---|------------------|---------------------|----------|--------------------------------------|--------------|--------------|
| Revenues  | \$—              | \$66,158            | \$50,347 | \$ 1,130,306                         | \$(12,195 )  | \$1,234,616  |
| Costs and expenses  | 415              | 43,272              | 35,973   | 1,111,869                            | (12,644 )    | 1,178,885    |
| Operating (loss) income   | (415 )           | 22,886              | 14,374   | 18,437                               | 449          | 55,731       |
| Equity in earnings of subsidiaries                                | 28,917           | (16,990 )           | 28,520   | 48,545                               | (88,992 )    | —            |
| Equity in earnings of joint venture                               | —                | —                   | —        | 2,388                                | —            | 2,388        |
| Interest expense, net   | —                | (13,788 )           | (5,792 ) | (877 )                               | —            | (20,457 )    |
| Other income (loss), net  | —                | 57                  | 13       | (5,569 )                             | —            | (5,499 )     |
| Income (loss) before income tax expense                           | 28,502           | (7,835 )            | 37,115   | 62,924                               | (88,543 )    | 32,163       |
| Income tax expense  | —                | 363                 | —        | 3,284                                | —            | 3,647        |
| Net income (loss)   | 28,502           | (8,198 )            | 37,115   | 59,640                               | (88,543 )    | 28,516       |
| Less net income attributable to noncontrolling interest           | —                | —                   | —        | 14                                   | —            | 14           |
| Net income (loss) attributable to NuStar Energy L.P.              | \$28,502         | \$(8,198 )          | \$37,115 | \$ 59,626                            | \$(88,543 )  | \$28,502     |
| Comprehensive income (loss)                                       | \$28,502         | \$(5,320 )          | \$37,115 | \$ 68,745                            | \$(88,543 )  | \$40,499     |
| Less comprehensive income attributable to noncontrolling interest | —                | —                   | —        | 566                                  | —            | 566          |
| Comprehensive income (loss) attributable to NuStar Energy L.P.    | \$28,502         | \$(5,320 )          | \$37,115 | \$ 68,179                            | \$(88,543 )  | \$39,933     |

(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 Three Months Ended March 31, 2012

(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         | \$88,503         | \$5,831             | \$13,470   | \$ (28,340 )                         | \$ (89,077 ) | \$ (9,613 )  |
| Cash flows from investing activities:                       |                  |                     |            |                                      |              |              |
| Capital expenditures  | —                | (75,008 )           | (2,285 )   | (22,991 )                            | —            | (100,284 )   |
| Acquisitions  | —                | —                   | —          | —                                    | —            | —            |
| Investment in other long-term assets                        | —                | —                   | —          | (94 )                                | —            | (94 )        |
| Other, net  | —                | 135                 | 7          | 22                                   | —            | 164          |
| Net cash used in investing activities                       | —                | (74,873 )           | (2,278 )   | (23,063 )                            | —            | (100,214 )   |
| Cash flows from financing activities:                       |                  |                     |            |                                      |              |              |
| Debt borrowings   | —                | 510,548             | —          | —                                    | —            | 510,548      |
| Debt repayments   | —                | (260,374 )          | (250,000 ) | —                                    | —            | (510,374 )   |
| Senior note offering, net                                   | —                | 247,408             | —          | —                                    | —            | 247,408      |
| Distributions to unitholders and general partner            | (89,076 )        | (89,076 )           | —          | (9 )                                 | 89,085       | (89,076 )    |
| Payments for termination of interest rate swaps             | —                | (25,358 )           | —          | —                                    | —            | (25,358 )    |
| Net intercompany borrowings (repayments)                    | 838              | (312,383 )          | 238,808    | 72,745                               | (8 )         | —            |
| Other, net  | (269 )           | (3,598 )            | —          | 639                                  | —            | (3,228 )     |
| Net cash provided by (used in) financing activities         | (88,507 )        | 67,167              | (11,192 )  | 73,375                               | 89,077       | 129,920      |
| Effect of foreign exchange rate changes on cash             | —                | 1,881               | —          | (1,775 )                             | —            | 106          |
| Net (decrease) increase in cash and cash equivalents        | (4 )             | 6                   | —          | 20,197                               | —            | 20,199       |
| Cash and cash equivalents as of the beginning of the period | 139              | 14                  | —          | 17,344                               | —            | 17,497       |
| Cash and cash equivalents as of the end of the period       | \$135            | \$20                | \$—        | \$37,541                             | \$—          | \$37,696     |

(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 Three Months Ended March 31, 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         | \$79,041         | \$23,162            | \$13,552  | \$ (201,929 )                        | \$ (79,624 ) | \$ (165,798 ) |
| Cash flows from investing activities:                       |                  |                     |           |                                      |              |               |
| Capital expenditures  | —                | (45,340 )           | (430 )    | (27,476 )                            | —            | (73,246 )     |
| Acquisition   | —                | —                   | —         | (52,577 )                            | —            | (52,577 )     |
| Investment in other long-term assets                        | —                | —                   | —         | (636 )                               | —            | (636 )        |
| Investment in subsidiaries                                  | (57,300 )        | —                   | (56,727 ) | (56,727 )                            | 170,754      | —             |
| Other, net  | —                | —                   | 13        | 45                                   | —            | 58            |
| Net cash used in investing activities                       | (57,300 )        | (45,340 )           | (57,144 ) | (137,371 )                           | 170,754      | (126,401 )    |
| Cash flows from financing activities:                       |                  |                     |           |                                      |              |               |
| Debt borrowings   | —                | 375,280             | —         | —                                    | —            | 375,280       |
| Debt repayments   | —                | (113,994 )          | —         | —                                    | —            | (113,994 )    |
| Distributions to unitholders and general partner            | (79,616 )        | (79,616 )           | —         | (8 )                                 | 79,624       | (79,616 )     |
| Contributions from (distributions to) affiliates            | 57,300           | (57,300 )           | 56,727    | 114,027                              | (170,754 )   | —             |
| Net intercompany borrowings (repayments)                    | 575              | (203,572 )          | (13,135 ) | 216,132                              | —            | —             |
| Other, net  | —                | (263 )              | —         | (881 )                               | —            | (1,144 )      |
| Net cash (used in) provided by financing activities         | (21,741 )        | (79,465 )           | 43,592    | 329,270                              | (91,130 )    | 180,526       |
| Effect of foreign exchange rate changes on cash             | —                | 5,002               | —         | (4,013 )                             | —            | 989           |
| Net decrease in cash and cash equivalents                   | —                | (96,641 )           | —         | (14,043 )                            | —            | (110,684 )    |
| Cash and cash equivalents as of the beginning of the period | 53               | 107,655             | —         | 73,413                               | —            | 181,121       |
| Cash and cash equivalents as of the end of the period       | \$53             | \$11,014            | \$—       | \$ 59,370                            | \$—          | \$70,437      |

(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, 2011, 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 16.2% total interest in us as of March 31, 2012. 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

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 83.0 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.

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 5,480 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 4.5 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 940 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 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.

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Asphalt and Fuels Marketing. Our asphalt and fuels marketing segment includes our asphalt operations, fuels marketing operations and our San Antonio refinery. Our asphalt operations include two asphalt refineries with a combined throughput capacity of 104,000 barrels per day at which we refine crude oil to produce asphalt and certain other refined products. Within our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. Additionally, this segment includes a fuels refinery in San Antonio, Texas, with a throughput capacity of 14,500 barrels per day at which we refine crude oil to produce various refined petroleum products. The results of operations for the asphalt and fuels marketing segment depend largely on the margin between our cost and the sales prices 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 the storage and transportation segments. We enter into derivative contracts to attempt to mitigate the effects 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 that impact our asphalt and fuels marketing segment; 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 March 31, 2012 Compared to Three Months Ended March 31, 2011

## Financial Highlights

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

|  | Three Months Ended March 31, |            | Change     |
|--|------------------------------|------------|------------|
|  | 2012                         | 2011       |            |
| Statement of Income Data:                          |                              |            |            |
| Revenues:  |                              |            |            |
| Services revenues                                  | \$206,145                    | \$198,393  | \$7,752    |
| Product sales                                      | 1,529,547                    | 1,036,223  | 493,324    |
| Total revenues                                     | 1,735,692                    | 1,234,616  | 501,076    |
| Costs and expenses:                                |                              |            |            |
| Cost of product sales                              | 1,489,837                    | 992,367    | 497,470    |
| Operating expenses                                 | 125,666                      | 120,239    | 5,427      |
| General and administrative expenses                | 27,187                       | 25,983     | 1,204      |
| Depreciation and amortization expense              | 44,681                       | 40,296     | 4,385      |
| Total costs and expenses                           | 1,687,371                    | 1,178,885  | 508,486    |
| Operating income                                   | 48,321                       | 55,731     | (7,410 )   |
| Equity in earnings of joint venture                | 2,386                        | 2,388      | (2 )       |
| Interest expense, net                              | (22,350 )                    | (20,457 )  | (1,893 )   |
| Other income (expense), net                        | 1,368                        | (5,499 )   | 6,867 )    |
| Income before income tax expense                   | 29,725                       | 32,163     | (2,438 )   |
| Income tax expense                                 | 3,471                        | 3,647      | (176 )     |
| Net income   | \$26,254                     | \$28,516   | \$(2,262 ) |
| Net income per unit applicable to limited partners | \$0.23                       | \$0.30     | \$(0.07 )  |
| Weighted-average limited partner units outstanding | 70,756,078                   | 64,610,549 | 6,145,529  |

## Highlights

Net income decreased \$2.3 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to decreased segment operating income. Segment operating income decreased \$6.0 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, due to decreased operating income from the asphalt and fuels marketing segment, partially offset by increased operating income from the storage and transportation segments.

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## Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

|   | Three Months Ended March 31, |             | Change      |
|---|------------------------------|-------------|-------------|
|   | 2012                         | 2011        |             |
| <b>Storage:</b>                                     |                              |             |             |
| Throughput (barrels/day)                            | 739,076                      | 620,582     | 118,494     |
| Throughput revenues                                 | \$22,264                     | \$17,048    | \$5,216     |
| Storage lease revenues                              | 123,165                      | 119,727     | 3,438       |
| Total revenues                                      | 145,429                      | 136,775     | 8,654       |
| Operating expenses                                  | 65,982                       | 66,949      | (967 )      |
| Depreciation and amortization expense               | 23,300                       | 21,130      | 2,170       |
| Segment operating income                            | \$56,147                     | \$48,696    | \$7,451     |
| <b>Transportation:</b>                              |                              |             |             |
| Refined products pipelines throughput (barrels/day) | 491,570                      | 502,610     | (11,040 )   |
| Crude oil pipelines throughput (barrels/day)        | 303,691                      | 310,865     | (7,174 )    |
| Total throughput (barrels/day)                      | 795,261                      | 813,475     | (18,214 )   |
| Throughput revenues                                 | \$77,761                     | \$73,010    | \$4,751     |
| Operating expenses                                  | 27,820                       | 25,906      | 1,914       |
| Depreciation and amortization expense               | 12,990                       | 12,707      | 283         |
| Segment operating income                            | \$36,951                     | \$34,397    | \$2,554     |
| <b>Asphalt and Fuels Marketing:</b>                 |                              |             |             |
| Product sales                                       | \$1,529,676                  | \$1,040,068 | \$489,608   |
| Cost of product sales                               | 1,495,923                    | 1,001,073   | 494,850     |
| Gross margin  | 33,753                       | 38,995      | (5,242 )    |
| Operating expenses                                  | 42,951                       | 33,980      | 8,971       |
| Depreciation and amortization expense               | 6,577                        | 4,897       | 1,680       |
| Segment operating income                            | \$(15,775 )                  | \$118       | \$(15,893 ) |
| <b>Consolidation and Intersegment Eliminations:</b> |                              |             |             |
| Revenues  | \$(17,174 )                  | \$(15,237 ) | \$(1,937 )  |
| Cost of product sales                               | (6,086 )                     | (8,706 )    | 2,620       |
| Operating expenses                                  | (11,087 )                    | (6,596 )    | (4,491 )    |
| Total   | \$(1 )                       | \$65        | \$(66 )     |
| <b>Consolidated Information:</b>                    |                              |             |             |
| Revenues  | \$1,735,692                  | \$1,234,616 | \$501,076   |
| Cost of product sales                               | 1,489,837                    | 992,367     | 497,470     |
| Operating expenses                                  | 125,666                      | 120,239     | 5,427       |
| Depreciation and amortization expense               | 42,867                       | 38,734      | 4,133       |
| Segment operating income                            | 77,322                       | 83,276      | (5,954 )    |
| General and administrative expenses                 | 27,187                       | 25,983      | 1,204       |
| Other depreciation and amortization expense         | 1,814                        | 1,562       | 252         |
| Consolidated operating income                       | \$48,321                     | \$55,731    | \$(7,410 )  |



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### Storage

Throughputs increased 118,494 barrels per day and throughput revenues increased \$5.2 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to a turnaround in 2011 at the refinery served by our Benicia crude oil storage tanks.

Storage lease revenues increased \$3.4 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to an increase of \$6.5 million at our St. James terminal resulting from completed tank expansion projects and new customer contracts and rate escalations. This increase was partially offset by a decrease of \$2.7 million at our Point Tupper terminal facility mainly due to decreased throughput and related handling fees, partially offset by higher storage and miscellaneous revenues.

Depreciation and amortization expense increased \$2.2 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to the completion of various terminal upgrade and expansion projects.

### Transportation

Revenues increased \$4.8 million, despite a slight decrease in throughputs, for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to:

- an increase in revenues of \$3.1 million and an increase in throughputs of 32,429 barrels per day on pipelines that were placed in service in the second and third quarters of 2011 to serve Eagle Ford shale production in South Texas;
- an increase in revenues of \$1.6 million and an increase in throughputs of 1,998 barrels per day on the Ammonia Pipeline due to a warm spring that led to the early application of ammonia; and
- an increase in revenues of \$1.5 million, despite a decrease in throughputs of 2,238 barrels per day, on refined product pipelines that serve the McKee refinery, mainly due to higher average tariffs, which increased partially due to the annual index adjustment effective July 1, 2011.

These increases in revenues were partially offset by:

- a decrease in revenues of \$1.6 million and a decrease in throughputs of 39,551 barrels per day on the crude oil pipeline serving the Three Rivers refinery, mainly due to the customer receiving crude oil from alternate sources, thus reducing the volume transported on our pipeline; and
- a decrease in revenues of \$1.3 million and a decrease in throughputs of 21,029 barrels per day on crude oil pipelines serving the McKee refinery primarily due to decreased crude oil run rates in 2012 resulting from less favorable economic conditions compared to 2011.

Operating expenses increased \$1.9 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, mainly due to increased regulatory expenses on several refined product pipelines.

### Asphalt and Fuels Marketing

Sales and cost of product sales increased \$489.6 million and \$494.9 million, respectively, resulting in a decrease in total gross margin of \$5.2 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011. The San Antonio refinery, acquired in the second quarter of 2011, recorded negative gross margin totaling \$9.0 million for the three months ended March 31, 2012. The cost of crude oil processed by the San Antonio refinery has risen significantly, and currently trades at a premium to benchmark WTI prices. As a result, we recognized hedge losses in excess of product sales margins resulting in overall negative gross margin. The gross margin from our asphalt operations decreased \$4.6 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, mainly due to a decrease in volumes sold. The gross margin per barrel remained flat at \$6.70 for the three months ended March 31, 2012, compared to \$6.72 for the three months ended March 31, 2011. Partially offsetting these decreases, the gross margin from our fuels marketing operations increased

\$8.5 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, mainly due to more favorable margins from our crude oil trading activity, which benefited from rising crude oil prices.

Operating expenses increased \$9.0 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to increased rental expenses associated with our fuels marketing operations, higher idle capacity costs at our asphalt refineries and increased fuel and vessel costs associated with our bunker fuel sales.

Depreciation and amortization expense increased \$1.7 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due the acquisition of a fuels refinery in San Antonio, Texas in April 2011 and amortization of deferred costs related to completed turnarounds at our 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 increased \$1.2 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, primarily due to higher compensation expense associated with our long-term incentive plans, which fluctuates with our unit price.

Interest expense, net increased \$1.9 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, mainly due to higher balances on our revolving credit agreement and a higher weighted-average interest rate as we had fewer interest rate swaps in 2012.

Other income (expense), net changed by \$6.9 million for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, mainly due to \$5.0 million in costs associated with the early termination of a third-party storage agreement in the first quarter of 2011 at our Paulsboro, New Jersey asphalt refinery.

## TRENDS AND OUTLOOK

We expect our results for 2012 to improve compared to 2011 due to higher segmental operating income in all of our reportable business segments. Net income should benefit from higher operating income, but we expect higher interest expense to partially offset the operating income benefit.

### Storage Segment

For 2012, we expect the storage segment earnings to increase compared to 2011. Internal growth projects completed in 2011 as well as those expected to be completed in 2012, mainly at our St. Eustatius terminal in the Caribbean and our St. James, Louisiana terminal, should contribute to the higher earnings in 2012.

### Transportation Segment

We expect full year results for the transportation segment to improve in 2012 compared to 2011. Transportation segment earnings should benefit from higher throughputs related to the pipeline expansion projects completed in 2011 that serve Eagle Ford shale production as well as additional expansion projects we expect to complete in 2012. Additionally, the tariffs on our pipelines regulated by the Federal Energy Regulatory Commission, which adjust annually based upon changes in the producer price index, are expected to increase effective July 1, 2012, when the annual adjustment takes effect. However, lower expected throughputs in the second quarter of 2012, mainly due to planned refinery maintenance, may cause earnings for the segment to fall below earnings for the second quarter of 2011.

### Asphalt and Fuels Marketing Segment

We expect the asphalt and fuels marketing segment earnings for 2012 to increase compared to 2011 mainly due to higher earnings from our asphalt operations. Investments made in 2011 to upgrade our crude oil processing capability have allowed us to diversify our sources of crude oil. The alternative sources of crude oil that we are now able to process currently trade at a discount to Venezuelan crude oil, the historical source of crude oil for our asphalt operations. During 2012, we expect to increase the amount of lower-cost crude oil processed at our asphalt operations, which should benefit the earnings of our asphalt operations.

We expect lower results from the San Antonio refinery to partially offset the expected benefit from improved asphalt earnings. Our first quarter results were negatively affected by the substantial rise in the cost of crude oil processed at our San Antonio refinery over the benchmark WTI. This may continue during 2012 resulting in a premium price for

the crude oil processed at the San Antonio refinery. Generally, we expect to be able to increase the price of products we produce at the San Antonio refinery to offset the higher cost of crude oil. However, much of our crude oil supply for the San Antonio refinery is currently hedged with swap contracts based on WTI. If the crude oil processed at the San Antonio refinery continues to trade at a premium to WTI, we expect the losses on the swap contracts to more than offset the earnings from operations of the San Antonio refinery, and may result in the San Antonio refinery reporting an operating loss for 2012. As a result, we are currently evaluating our hedging strategy with respect to the San Antonio refinery and our other fuels marketing operations.

Our outlook for the partnership overall could change depending on, among other things, crude oil prices, 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.

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## LIQUIDITY AND CAPITAL RESOURCES

## General

Our primary cash requirements are for distributions to partners, working capital, 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 Three Months Ended March 31, 2012 and 2011

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

|  | Three Months Ended March 31, |              |
|--|------------------------------|--------------|
|  | 2012                         | 2011         |
|  | (Thousands of Dollars)       |              |
| Net cash provided by (used in):                      |                              |              |
| Operating activities                                 | \$(9,613 )                   | \$(165,798 ) |
| Investing activities                                 | (100,214 )                   | (126,401 )   |
| Financing activities                                 | 129,920                      | 180,526      |
| Effect of foreign exchange rate changes on cash      | 106                          | 989          |
| Net increase (decrease) in cash and cash equivalents | \$20,199                     | \$(110,684 ) |

Net cash used in operating activities for the three months ended March 31, 2012 was \$9.6 million, compared to \$165.8 million for the three months ended March 31, 2011, primarily due to lower investments in working capital in 2012 compared to the same period in 2011. Our working capital increased by \$76.5 million in 2012, compared to \$232.9 million in 2011. Please refer to the Working Capital Requirements section below for a discussion of the changes in working capital.

For the three months ended March 31, 2012 and 2011, our operations resulted in a cash shortfall. As a result, we utilized borrowings under our revolving credit agreement to fund that shortfall and our remaining cash requirements.

## 2007 Revolving Credit Agreement

As of March 31, 2012, we had \$411.6 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. As of March 31, 2012, the consolidated debt coverage ratio was 4.6x.

## Shelf Registration Statements

Our two shelf registration statements on Form S-3 permit us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP. The shelf registration statement that became effective on April 29, 2011 permits us to sell securities 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 February 2, 2012, NuStar Logistics issued \$250.0 million of 4.75% senior notes under our 2010 Shelf Registration Statement. The net proceeds of \$247.4 million were used to repay the outstanding principal amount of NuPOP's 7.75% senior notes due February 15, 2012. 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.

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.

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Capital Requirements

Our operations require significant investments to maintain, upgrade or enhance the operating capacity of our existing assets. Our capital expenditures consist of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety; and
- strategic capital expenditures, such as those to expand and upgrade pipeline capacity, terminal facilities 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 three months ended March 31, 2012, our reliability capital expenditures totaled \$6.9 million, consisting of \$6.8 million primarily related to maintenance upgrade projects at our terminals, which are classified as “Reliability capital expenditures” in the consolidated statements of cash flows, and \$0.1 million of turnaround expenditures at our refineries, which are classified as “Investment in other long-term assets” in our consolidated statements of cash flows. Strategic capital expenditures for the three months ended March 31, 2012 totaled \$93.5 million and were primarily related to projects associated with Eagle Ford shale production in South Texas, projects at our St. James, Louisiana terminal and our corporate office.

For the full year 2012, we expect to incur approximately \$450.0 million to \$505.0 million of capital expenditures, including \$50.0 million to \$55.0 million for reliability capital projects and \$400.0 million to \$450.0 million for strategic capital projects, not including acquisitions. We continue to evaluate our capital budget and make changes as economic conditions warrant. Depending upon current economic conditions, our actual capital expenditures for 2012 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 2012, 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, accounts receivable decreased by \$52.4 million during the three months ended March 31, 2012, compared to an increase of \$94.1 million during the three months ended March 31, 2011, mainly due to the timing of payments and increased bunker fuel sales and crude trading activity during the first quarter of 2011.

Distributions

On February 10, 2012, we paid a quarterly cash distribution totaling \$89.1 million, or \$1.095 per unit, related to the fourth quarter of 2011. On April 25, 2012, we announced a quarterly cash distribution of \$1.095 per unit related to the first quarter of 2012. This distribution will be paid on May 11, 2012 to unitholders of record on May 8, 2012 and will total \$89.1 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 March 31, |      |
|------------------------------|------|
| 2012                         | 2011 |

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|  | (Thousands of Dollars, Except Per<br>Unit Data) |          |
|--|---|----------|
| General partner interest                                   | \$1,782   | \$ 1,592 |
| General partner incentive distribution                     | 9,816   | 8,568    |
| Total general partner distribution                         | 11,598  | 10,160   |
| Limited partners' distribution                             | 77,478  | 69,456   |
| Total cash distributions                                   | \$89,076  | \$79,616 |
| <br>   |   |          |
| Cash distributions per unit applicable to limited partners | \$1.095   | \$ 1.075 |

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 \$463.3 million as of March 31, 2012;

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; 4.80% senior notes due September 1, 2020 with a face value of \$450.0 million; and 4.75% senior notes due February 1, 2022 with a face value of \$250.0 million;

NuPOP's 5.875% senior notes due June 1, 2013 with a face value of \$250.0 million;

NuStar Logistics' \$365.4 million Gulf Opportunity Zone Revenue Bonds due from 2038 to 2041;

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 \$0.9 million as of March 31, 2012, associated with the construction of a crude oil storage facility in Corpus Christi, Texas.

Management believes that, as of March 31, 2012, 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. We are currently in negotiations to renew our 2007 Revolving Credit Agreement in the second quarter of 2012.

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 March 31, 2012 and December 31, 2011, 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 following table aggregates information on our interest rate swap agreements:

|  | Notional Amount        |                   | Fair Value Asset (Liability) |                   |
|--|------------------------|-------------------|------------------------------|-------------------|
|  | March 31, 2012         | December 31, 2011 | March 31, 2012               | December 31, 2011 |
|  | (Thousands of Dollars) |                   |                              |                   |
| Type of interest rate swap agreements: |                        |                   |                              |                   |
| Fixed-to-floating                      | \$470,000              | \$270,000         | \$107                        | \$2,335           |
| Forward-starting                       | \$275,000              | \$500,000         | \$(20,543)                   | \$(49,199)        |

During the three months ended March 31, 2012, we entered into fixed-to-floating interest rate swap agreements with an aggregate notional amount of \$200.0 million related to the 4.75% senior notes issued on February 2, 2012. In addition, in connection with the issuance of the 4.75% senior notes on February 2, 2012, we terminated some of our outstanding forward-starting interest rate swap agreements with an aggregate notional amount of \$225.0 million. We paid \$25.4 million in connection with the terminations, which is being amortized into "Interest expense, net" over the life of the 4.75% senior notes. The termination payment is included in cash flows from financing activities on the consolidated statements of cash flows. 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.

#### 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."

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**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, 2011.

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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.

March 31, 2012

Expected Maturity Dates

|  | 2012 | 2013 | 2014 | 2015 | 2016 | There-<br>after | Total | Fair<br>Value |
|--|------|------|------|------|------|-----------------|-------|---------------|
|--|------|------|------|------|------|-----------------|-------|---------------|

(Thousands of Dollars, Except Interest Rates)

## Long-term Debt:

|            |           |           |     |     |     |             |             |             |
|------------|-----------|-----------|-----|-----|-----|-------------|-------------|-------------|
| Fixed rate | \$134,458 | \$479,932 | \$— | \$— | \$— | \$1,050,000 | \$1,664,390 | \$1,758,051 |
|------------|-----------|-----------|-----|-----|-----|-------------|-------------|-------------|

|                                |     |       |     |   |   |     |       |   |
|--------------------------------|-----|-------|-----|---|---|-----|-------|---|
| Weighted-average interest rate | 6.8 | % 6.0 | % — | — | — | 5.7 | % 5.9 | % |
|--------------------------------|-----|-------|-----|---|---|-----|-------|---|

|               |           |     |     |     |     |           |           |           |
|---------------|-----------|-----|-----|-----|-----|-----------|-----------|-----------|
| Variable rate | \$463,321 | \$— | \$— | \$— | \$— | \$365,440 | \$828,761 | \$817,445 |
|---------------|-----------|-----|-----|-----|-----|-----------|-----------|-----------|

|                                |     |     |   |   |   |     |       |   |
|--------------------------------|-----|-----|---|---|---|-----|-------|---|
| Weighted-average interest rate | 0.8 | % — | — | — | — | 0.2 | % 0.5 | % |
|--------------------------------|-----|-----|---|---|---|-----|-------|---|

## Interest Rate Swaps

## Fixed-to-Floating:

|                 |     |     |     |     |     |           |           |           |
|-----------------|-----|-----|-----|-----|-----|-----------|-----------|-----------|
| Notional amount | \$— | \$— | \$— | \$— | \$— | \$470,000 | \$470,000 | \$107,536 |
|-----------------|-----|-----|-----|-----|-----|-----------|-----------|-----------|

|                           |     |       |       |       |       |       |       |   |
|---------------------------|-----|-------|-------|-------|-------|-------|-------|---|
| Weighted-average pay rate | 3.0 | % 3.1 | % 3.5 | % 4.2 | % 4.8 | % 5.9 | % 4.8 | % |
|---------------------------|-----|-------|-------|-------|-------|-------|-------|---|

|                               |     |       |       |       |       |       |       |   |
|-------------------------------|-----|-------|-------|-------|-------|-------|-------|---|
| Weighted-average receive rate | 4.8 | % 4.8 | % 4.8 | % 4.8 | % 4.8 | % 4.8 | % 4.8 | % |
|-------------------------------|-----|-------|-------|-------|-------|-------|-------|---|

December 31, 2011

Expected Maturity Dates

|  | 2012 | 2013 | 2014 | 2015 | 2016 | There-<br>after | Total | Fair<br>Value |
|--|------|------|------|------|------|-----------------|-------|---------------|
|--|------|------|------|------|------|-----------------|-------|---------------|

(Thousands of Dollars, Except Interest Rates)

## Long-term Debt:

|            |           |           |     |     |     |           |             |             |
|------------|-----------|-----------|-----|-----|-----|-----------|-------------|-------------|
| Fixed rate | \$383,456 | \$479,932 | \$— | \$— | \$— | \$800,000 | \$1,663,388 | \$1,787,532 |
|------------|-----------|-----------|-----|-----|-----|-----------|-------------|-------------|

|                                |     |       |     |   |   |     |       |   |
|--------------------------------|-----|-------|-----|---|---|-----|-------|---|
| Weighted-average interest rate | 7.4 | % 6.0 | % — | — | — | 6.0 | % 6.3 | % |
|--------------------------------|-----|-------|-----|---|---|-----|-------|---|

|               |           |     |     |     |     |           |           |           |
|---------------|-----------|-----|-----|-----|-----|-----------|-----------|-----------|
| Variable rate | \$229,295 | \$— | \$— | \$— | \$— | \$365,440 | \$594,735 | \$590,033 |
|---------------|-----------|-----|-----|-----|-----|-----------|-----------|-----------|

|                                |     |     |   |   |   |     |       |   |
|--------------------------------|-----|-----|---|---|---|-----|-------|---|
| Weighted-average interest rate | 1.2 | % — | — | — | — | 0.1 | % 0.5 | % |
|--------------------------------|-----|-----|---|---|---|-----|-------|---|

## Interest Rate Swaps

## Fixed-to-Floating:

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|                               |     |   |       |     |     |     |     |     |     |           |           |         |   |     |   |
|-------------------------------|-----|---|-------|-----|-----|-----|-----|-----|-----|-----------|-----------|---------|---|-----|---|
| Notional amount               | \$— |   | \$—   |     | \$— |     | \$— |     | \$— | \$270,000 | \$270,000 | \$2,335 |   |     |   |
| Weighted-average pay rate     | 3.2 | % | 0.034 | 3.4 | %   | 3.7 | %   | 4.4 | %   | 4.9       | %         | 5.7     | % | 4.7 | % |
| Weighted-average receive rate | 4.8 | % |       | 4.8 | %   | 4.8 | %   | 4.8 | %   | 4.8       | %         | 4.8     | % | 4.8 | % |

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

| Notional Amount        |                      | Period of Hedge | Weighted-Average<br>Fixed Rate | Fair Value             |                      |
|------------------------|----------------------|-----------------|--------------------------------|------------------------|----------------------|
| March 31, 2012         | December 31,<br>2011 |                 |                                | March 31, 2012         | December 31,<br>2011 |
| (Thousands of Dollars) |                      |                 |                                | (Thousands of Dollars) |                      |
| \$ 125,000             | \$ 125,000           | 03/13 - 03/23   | 3.5                            | % \$ (9,796            | ) \$ (12,720 )       |
| 150,000                | 150,000              | 06/13 - 06/23   | 3.5                            | % (10,747              | ) (14,470 )          |
| —                      | 225,000              | 02/12 - 02/22   | 3.1                            | % —                    | (22,009 )            |
| \$ 275,000             | \$ 500,000           |                 | 3.3                            | % \$ (20,543           | ) \$ (49,199 )       |

In connection with the issuance of the 4.75% senior notes on February 2, 2012, we terminated interest rate swap agreements with an aggregate notional amount of \$225.0 million. 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.

**Commodity Price Risk**

Since the operations of our asphalt and fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to mitigate the effects 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.

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 "Cost of product sales." 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" or "Operating expenses."

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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.

|  | March 31, 2012         |                            |               |   |
|--|------------------------|----------------------------|---------------|---|
|  | Contract Volumes       | Weighted Average Pay Price | Receive Price | Fair Value of Current Asset (Liability) |
|  | (Thousands of Barrels) |                            |               | (Thousands of Dollars)                  |
| Cash Flow Hedges:  |                        |                            |               |   |
| Swaps – long:  |                        |                            |               |   |
| (crude oil)  | 8,410                  | \$ 106.46                  | N/A           | \$ (37,602 )                            |
| Swaps – short:   |                        |                            |               |   |
| (refined products)   | 7,863                  | N/A                        | \$ 128.06     | \$ 13,197                               |
| Economic Hedges and Other Derivatives:                             |                        |                            |               |   |
| Futures – long:  |                        |                            |               |   |
| (crude oil and refined products)                                   | 2,266                  | \$ 113.75                  | N/A           | \$ (3,229 )                             |
| Futures – short:   |                        |                            |               |   |
| (crude oil and refined products)                                   | 2,041                  | N/A                        | \$ 113.68     | \$ 4,556                                |
| Swaps – long:  |                        |                            |               |   |
| (crude oil and refined products)                                   | 3,732                  | \$ 78.97                   | N/A           | \$ 7,446                                |
| Swaps – short:   |                        |                            |               |   |
| (crude oil and refined products)                                   | 4,235                  | N/A                        | \$ 82.82      | \$ (8,787 )                             |
| Forward purchase contracts:  |                        |                            |               |   |
| (crude oil)  | 6,871                  | \$ 110.24                  | N/A           | \$ 34,921                               |
| Forward sales contracts:   |                        |                            |               |   |
| (crude oil)  | 6,871                  | N/A                        | \$ 109.78     | \$ (23,764 )                            |
| Total fair value of open positions exposed to commodity price risk |                        |                            |               | \$ (13,262 )                            |

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|   | December 31, 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 |  |
| Fair Value Hedges:  |  |  |  |
| Futures – short:<br>(refined products)                                | 20   | N/A      \$121.65                                | \$ (15      )  |
| Cash Flow Hedges:   |  |  |  |
| Swaps – long:<br>(crude oil)  | 9,353  | \$106.69      N/A                                | \$ (103,078      )   |
| Swaps – short:<br>(refined products)                                  | 8,805  | N/A      \$127.97                                | \$ 126,067   |
| Economic Hedges and Other Derivatives:                                |  |  |  |
| Futures – long:<br>(crude oil and refined products)                   | 643  | \$98.79      N/A                                 | \$ 919   |
| Futures – short:<br>(crude oil and refined products)                  | 800  | N/A      \$101.77                                | \$ (2,075      )   |
| Swaps – long:<br>(refined products)                                   | 1,355  | \$97.25      N/A                                 | \$ (1,455      )   |
| Swaps – short:<br>(refined products)                                  | 2,283  | N/A      \$101.20                                | \$ 8,756   |
| Forward purchase contracts:<br>(crude oil)                            | 2,294  | \$106.01      N/A                                | \$ (1,803      )   |
| Forward sales contracts:<br>(crude oil)                               | 2,294  | N/A      \$105.20                                | \$ 3,683   |
| Total fair value of open positions exposed to<br>commodity price risk |  |  | \$ 30,999  |

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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 March 31, 2012.

(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, 2011.

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. We reached an agreement to settle the claims of the United States government with respect to the Otis AFB pipeline and to resolve the underlying dispute between Kaneb and Grace. Pursuant to the settlement, we agreed to pay \$11.7 million plus interest to the United States. The settlement was approved by the United States Bankruptcy Court for the District of Delaware and a proposed consent decree was filed with the United States District Court for the District of Massachusetts. We are hopeful that the consent decree will be entered and that the settlement will be finalized in the near term.

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Item 6. Exhibits

| Exhibit<br>Number | Description  |
|-------------------|--|
| *12.01            | 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 March 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Comprehensive 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  
April 25, 2012

By: /s/ Steven A. Blank  
Steven A. Blank  
Executive Vice President, Chief Financial Officer and Treasurer  
April 25, 2012

By: /s/ Thomas R. Shoaf  
Thomas R. Shoaf  
Senior Vice President and Controller  
April 25, 2012