

NuStar Energy L.P.
Form 10-Q
November 12, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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

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

Delaware
(State or other jurisdiction of incorporation or
organization)

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

19003 IH-10 West
San Antonio, Texas
(Address of principal executive offices)

78257
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

The number of common units outstanding as of October 31, 2013 was 77,886,078.

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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)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$24,519	\$83,602
Accounts receivable, net of allowance for doubtful accounts of \$959 and \$808 as of September 30, 2013 and December 31, 2012, respectively	242,203	387,943
Receivable from related parties	26,529	109,833
Inventories	122,998	173,228
Income tax receivable	25	1,265
Other current assets	41,188	65,238
Assets held for sale	2,847	118,334
Total current assets	460,309	939,443
Property, plant and equipment, at cost	4,528,950	4,287,859
Accumulated depreciation and amortization	(1,167,100)	(1,049,399)
Property, plant and equipment, net	3,361,850	3,238,460
Intangible assets, net	81,710	92,435
Goodwill	950,963	951,024
Investment in joint ventures	70,812	102,945
Deferred income tax asset	5,088	3,108
Note receivable from related party	146,472	95,711
Other long-term assets, net	165,456	189,963
Total assets	\$5,242,660	\$5,613,089
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	\$33,982	\$286,422
Accounts payable	222,360	397,633
Payable to related party	19,589	1,408
Accrued interest payable	26,384	23,741
Accrued liabilities	37,444	124,203
Taxes other than income tax	13,066	9,893
Income tax payable	3,878	2,671
Total current liabilities	356,703	845,971
Long-term debt, less current portion	2,439,696	2,124,582
Long-term payable to related party	29,637	18,071
Deferred income tax liability	29,455	32,114
Other long-term liabilities	6,190	7,356
Commitments and contingencies (Note 5)		
Partners' equity:		
Limited partners (77,886,078 common units outstanding as of September 30, 2013 and December 31, 2012)	2,374,962	2,573,263

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General partner	53,277	57,986
Accumulated other comprehensive loss	(57,665) (58,865
Total NuStar Energy L.P. partners' equity	2,370,574	2,572,384
Noncontrolling interest	10,405	12,611
Total partners' equity	2,380,979	2,584,995
Total liabilities and partners' equity	\$5,242,660	\$5,613,089

See Condensed Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Service revenues	\$245,577	\$225,068	\$706,493	\$646,444
Product sales	534,433	1,368,688	1,977,423	4,324,465
Total revenues	780,010	1,593,756	2,683,916	4,970,909
Costs and expenses:				
Cost of product sales	527,217	1,329,377	1,928,237	4,211,966
Operating expenses:				
Third parties	88,974	105,165	255,490	293,012
Related party	31,517	36,872	97,647	108,636
Total operating expenses	120,491	142,037	353,137	401,648
General and administrative expenses:				
Third parties	8,336	8,773	24,171	26,566
Related party	10,495	16,180	41,807	48,688
Total general and administrative expenses	18,831	24,953	65,978	75,254
Depreciation and amortization expense	47,597	38,037	137,185	125,538
Asset impairment loss	—	—	—	249,646
Goodwill impairment loss	—	—	—	22,132
Gain on legal settlement	—	—	—	(28,738)
Total costs and expenses	714,136	1,534,404	2,484,537	5,057,446
Operating income (loss)	65,874	59,352	199,379	(86,537)
Equity in (loss) earnings of joint ventures	(5,358)	(951)	(26,629)	3,816
Interest expense, net	(31,078)	(23,894)	(93,601)	(68,118)
Interest income from related party	1,828	—	4,560	—
Other income (expense), net	1,407	(19,943)	3,978	(21,392)
Income (loss) from continuing operations before income tax (benefit) expense	32,673	14,564	87,687	(172,231)
Income tax (benefit) expense	(563)	599	6,147	20,318
Income (loss) from continuing operations	33,236	13,965	81,540	(192,549)
(Loss) income from discontinued operations, net of tax	—	(9,623)	9,069	(23,665)
Net income (loss)	33,236	4,342	90,609	(216,214)
Less net loss attributable to noncontrolling interest	(161)	(47)	(439)	(217)
Net income (loss) attributable to NuStar Energy L.P.	\$33,397	\$4,389	\$91,048	\$(215,997)
Net income (loss) per unit applicable to limited partners:				
Continuing operations	\$0.28	\$0.04	\$0.61	\$(3.07)
Discontinued operations	—	(0.13)	0.12	(0.33)
Total (Note 10)	\$0.28	\$(0.09)	\$0.73	\$(3.40)
Weighted-average limited partner units outstanding	77,886,078	72,383,578	77,886,078	71,302,538
Comprehensive income (loss)	\$38,790	\$(4,018)	\$90,042	\$(268,791)
Less comprehensive (loss) income attributable to noncontrolling interest	(729)	66	(2,206)	780
Comprehensive income (loss) attributable to	\$39,519	\$(4,084)	\$92,248	\$(269,571)

NuStar Energy L.P.
See Condensed Notes to Consolidated Financial Statements.

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

	Nine Months Ended September	
	30,	
	2013	2012
Cash Flows from Operating Activities:		
Net income (loss)	\$90,609	\$(216,214)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	137,185	129,943
Amortization of debt related items	1,721	(5,718)
(Gain) loss from sale or disposition of assets	(8,739)	19,828
Asset and goodwill impairment loss	—	271,778
Gain on legal settlement	—	(28,738)
Deferred income tax (benefit) expense	(3,815)	1,403
Equity in loss (earnings) of joint ventures	26,629	(3,816)
Distributions of equity in earnings of joint ventures	5,787	6,364
Changes in current assets and current liabilities (Note 11)	116,838	108,750
Other, net	12,325	(11,701)
Net cash provided by operating activities	378,540	271,879
Cash Flows from Investing Activities:		
Capital expenditures	(260,701)	(320,778)
Change in accounts payable related to capital expenditures	(2,879)	—
Investment in other long-term assets	—	(2,364)
Proceeds from sale or disposition of assets	116,467	471,823
Increase in note receivable from related party	(50,761)	(170,711)
Other, net	156	—
Net cash used in investing activities	(197,718)	(22,030)
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	1,299,220	1,805,168
Proceeds from short-term debt borrowings	—	71,880
Proceeds from note offering, net of issuance costs	687,151	247,408
Long-term debt repayments	(1,897,182)	(2,287,178)
Short-term debt repayments	—	(71,880)
Proceeds from issuance of common units, net of issuance costs	—	336,662
Contributions from general partner	—	7,121
Distributions to unitholders and general partner	(294,153)	(267,228)
Payments for termination of interest rate swaps	(33,697)	(5,678)
Other, net	3,168	363
Net cash used in financing activities	(235,493)	(163,362)
Effect of foreign exchange rate changes on cash	(4,412)	3,472
Net (decrease) increase in cash and cash equivalents	(59,083)	89,959
Cash and cash equivalents as of the beginning of the period	83,602	17,497
Cash and cash equivalents as of the end of the period	\$24,519	\$107,456
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 fuels 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 15.0% total interest in us as of September 30, 2013.

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, pipeline 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 U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and nine months ended September 30, 2013 and 2012 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited condensed consolidated financial statements. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The consolidated balance sheet as of December 31, 2012 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, 2012.

New Accounting Pronouncements

Balance Sheet Offsetting. In December 2011, the Financial Accounting Standards Board (FASB) amended the disclosure requirements with respect to offsetting assets and liabilities. The amended guidance requires new disclosures to enable users of financial statements to reconcile differences in the offsetting requirements under U.S. GAAP and International Financial Reporting Standards. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB further amended and clarified the scope of balance sheet offsetting disclosure requirements. The amended guidance limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The disclosures are required irrespective of whether the transactions

are offset in the consolidated balance sheets. The amended guidance is effective for annual and interim reporting periods beginning on or after January 1, 2013, and retrospective application is required. Accordingly, we adopted the amended guidance January 1, 2013, and it did not have a material impact on our disclosures.

Other Comprehensive Income. In February 2013, the FASB further amended the disclosure requirements for the presentation of comprehensive income. The amended guidance requires that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The amended guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. Accordingly, we adopted the amended guidance January 1, 2013, and it did not have a material impact on our disclosures.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2. DISPOSITIONS

San Antonio Refinery

On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets, which included inventory, a terminal in Elmendorf, Texas and a pipeline connecting the terminal and refinery for approximately \$117.0 million (the San Antonio Refinery Sale), and the purchaser assumed certain related liabilities. We have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the fuels marketing and pipeline segments, as discontinued operations for all periods presented. For the three and nine months ended September 30, 2012, we allocated interest expense of \$1.0 million and \$2.9 million, respectively, to discontinued operations based on the ratio of net assets sold to consolidated net assets. We recognized a gain of \$9.3 million on the sale, which is included in discontinued operations for the nine months ended September 30, 2013.

The following table summarizes the results from discontinued operations:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012	2013	2012	2013
	(Thousands of Dollars)			
Revenues	\$—	\$151,010	\$185	\$411,454
Income (loss) before income tax expense	\$—	\$(9,600)	\$9,069	\$(23,629)

As of December 31, 2012, we reclassified the assets related to the San Antonio Refinery as “Assets held for sale” on the consolidated balance sheet. The liabilities held for sale related to the San Antonio Refinery are included within “Accrued liabilities” on the consolidated balance sheet. The total assets and liabilities held for sale consisted of the following:

	December 31, 2012 (Thousands of Dollars)
Inventories	\$15,939
Property, plant and equipment, net	93,899
Other long-term assets, net	5,650
Assets held for sale	\$115,488
Accrued liabilities (environmental reserve)	\$289
Other long-term liabilities (environmental reserve)	7,621
Liabilities held for sale	\$7,910

3. INVENTORIES

Inventories consisted of the following:

	September 30, 2013	December 31, 2012
	(Thousands of Dollars)	
Crude oil	\$8,112	\$447
Finished products	106,997	164,894
Materials and supplies	7,889	7,887
Total	\$122,998	\$173,228

4. DEBT

Revolving Credit Agreement

During the nine months ended September 30, 2013, our \$1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement) was reduced by \$154.3 million, primarily as a result of applying a portion of the proceeds from the issuance of NuStar Logistics' 6.75% senior notes in August 2013. The 2012 Revolving Credit Agreement bears interest, at our option,

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

based on either an alternative base rate or a LIBOR-based rate. The interest rate on the 2012 Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or subsequently upgraded) by certain credit rating agencies. As of September 30, 2013, our weighted average interest rate was 2.4%.

The 2012 Revolving Credit Agreement contains customary restrictive covenants, including requiring us to maintain, as of the end of each rolling period, which consists of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2012 Revolving Credit Agreement) not to exceed 5.00-to-1.00. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the 2012 Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of September 30, 2013, our consolidated debt coverage ratio was 4.3x, and we had \$1,055.5 million available for borrowing.

6.75% Senior Notes

On August 19, 2013, NuStar Logistics issued \$300.0 million of 6.75% senior notes due February 1, 2021 (the 6.75% Senior Notes). We received proceeds of approximately \$296.3 million, net of the underwriters' discount and deferred issuance costs of \$3.7 million, which we used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The interest on the 6.75% Senior Notes is payable semi-annually in arrears on February 1 and August 1 of each year beginning on February 1, 2014.

The 6.75% Senior Notes rank equally with existing senior unsecured indebtedness of NuStar Logistics and do not have sinking fund requirements. The 6.75% Senior Notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy and NuPOP. NuPOP will be released from its guarantee when it no longer guarantees any obligations of NuStar Energy, or any of its subsidiaries, including NuStar Logistics, under any bank facility or public debt instrument. The 6.75% Senior Notes contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the notes. In addition, the 6.75% Senior Notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens, to engage in certain sale-leaseback transactions and to engage in certain consolidations, mergers or asset sales. At the option of NuStar Logistics, the 6.75% Senior Notes may be redeemed in whole or in part at any time at a redemption price, which may include a make-whole premium, plus accrued and unpaid interest to the redemption date.

7.625% Fixed-to-Floating Rate Subordinated Notes

On January 22, 2013, NuStar Logistics issued \$402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 (the Subordinated Notes), including the underwriters' option to purchase up to an additional \$52.5 million principal amount of the notes, which was exercised in full. We received proceeds of approximately \$390.9 million, net of \$11.6 million of deferred issuance costs, which we used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The Subordinated Notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The Subordinated Notes bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018.

Thereafter, the Subordinated Notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period, plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes.

NuStar Logistics may elect to defer interest payments on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to the Subordinated Notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred.

The Subordinated Notes do not have sinking fund requirements and are subordinated to existing senior unsecured indebtedness of NuStar Logistics and NuPOP. The Subordinated Notes do not contain restrictions on NuStar Logistics' ability to incur additional indebtedness, including debt that ranks senior in priority of payment to the notes. In addition, the Subordinated Notes do not limit NuStar Logistics' ability to incur indebtedness secured by certain liens or to engage in certain sale-leaseback transactions. At the option of NuStar Logistics, the Subordinated Notes may be redeemed in whole or in part at any time at a redemption price, which may include a make-whole premium, plus accrued and unpaid interest to the redemption date.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, tax-exempt revenue bonds (the GoZone Bonds) associated with our St. James, Louisiana 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 September 30, 2013. Following the issuance, the proceeds were deposited with a trustee and are disbursed to us upon our

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

request for reimbursement of expenditures related to our St. James terminal expansions. We include the amount remaining in trust in “Other long-term assets, net,” and we include the amount of bonds issued in “Long-term debt, less current portion” on the consolidated balance sheets. For the nine months ended September 30, 2013, we received \$38.5 million from the trustee. As of September 30, 2013, the amount remaining in trust totaled \$88.1 million.

Other

In February 2013, we repaid the remaining principal balance of \$0.6 million on our \$12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas. During the nine months ended September 30, 2013, we repaid NuStar Logistics’ \$229.9 million of 6.05% senior notes due March 15, 2013 and NuPOP’s \$250.0 million of 5.875% senior notes due June 1, 2013 with borrowings under our 2012 Revolving Credit Agreement.

In January 2013, Moody’s Investor Service lowered our credit rating to Ba1 from Baa3. This downgrade caused the interest rates on the 2012 Revolving Credit Agreement, NuStar Terminals Limited’s £21 million amended and restated term loan agreement and NuStar Logistics’ \$350.0 million of 7.65% senior notes due 2018 to increase by 0.375%, 0.375% and 0.25%, respectively, effective January 2013. This downgrade may also require us to provide additional credit support for certain contracts, although as of September 30, 2013, we have not been required to provide any additional credit support.

5. COMMITMENTS AND CONTINGENCIES

Contingencies

We have contingent liabilities resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of September 30, 2013, we have accrued \$0.6 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. In addition, 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.

Commitments

On November 6, 2013, we came to a mutual agreement with PDVSA-Petróleo S.A. (PDVSA) to terminate that certain Crude Oil Sales Agreement dated effective as of March 1, 2008 (the CSA). We previously amended the CSA to reduce the crude oil purchase obligations from 75,000 barrels per day to 30,000 barrels per day, which remains in effect for the remainder the year. The termination is effective January 1, 2014, and will also terminate our crude oil supply agreement with NuStar Asphalt LLC (Asphalt JV) effective January 1, 2014. See Note 8. Related Party Transactions for a discussion of our crude oil supply agreement with Asphalt JV.

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 for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; 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 used 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 items 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. See Note 7. Derivatives and Risk Management Activities for a discussion of our derivative instruments.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following assets and liabilities are measured at fair value:

	September 30, 2013			Total
	Level 1	Level 2	Level 3	
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	\$970	\$—	\$—	\$970
Commodity derivatives	202	4,200	—	4,402
Other long-term assets, net:				
Commodity derivatives	—	6,575	—	6,575
Accrued liabilities:				
Product imbalances	(1,476	) —	—	(1,476
Commodity derivatives	—	(5,006	) —	(5,006
Contingent consideration	—	—	(2,818	) (2,818
Other long-term liabilities:				
Commodity derivatives	—	(208	) —	(208
Total	\$ (304	) \$5,561	\$ (2,818	) \$2,439
	December 31, 2012			Total
	Level 1	Level 2	Level 3	
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	\$1,232	\$—	\$—	\$1,232
Commodity derivatives	1,001	8,357	—	9,358
Other long-term assets, net:				
Commodity derivatives	—	9,206	—	9,206
Accrued liabilities:				
Product imbalances	(1,686	) —	—	(1,686
Commodity derivatives	—	(19,210	) —	(19,210
Interest rate swaps	—	(40,911	) —	(40,911
Contingent consideration	—	—	(9,600	) (9,600
Total	\$547	\$ (42,558	) \$ (9,600	) \$ (51,611

Contingent Consideration

On December 13, 2012, NuStar Logistics acquired certain assets, including 100% of the partnership interest in TexStar Crude Oil Pipeline, LP, from TexStar Midstream Services, LP and certain of its affiliates (collectively, TexStar) for approximately \$325.0 million (the TexStar Asset Acquisition), including contingent consideration.

In connection with the TexStar Asset Acquisition, we could be obligated to pay additional consideration to TexStar. Such obligations are dependent upon the cost of work required to complete certain assets and obtain outstanding real estate rights (collectively, the Contingent Consideration). We estimated the fair value of the Contingent Consideration using a probability-weighted discounted cash flow model, which reflects possible outcomes and our estimates of the probabilities of those outcomes. Our estimate of the fair value is based on significant inputs not observable in the market and thus falls within Level 3 of the fair value hierarchy. The probability-weighted cash flows were discounted using a discount rate of 11%.

Based on our assessment of the costs necessary to complete the assets in accordance with our agreement with TexStar, and considering the probability of possible outcomes, we determined that it is unlikely we would be obligated to pay a portion of the Contingent Consideration. The undiscounted amount of potential future payments that we could be required to make under the applicable agreements is between \$0 and \$9.3 million.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the activity in our Level 3 liabilities for contingent consideration:

	Nine Months Ended September 30, 2013 (Thousands of Dollars)	
Beginning balance	\$9,600	
Amounts settled	(1,114)
Changes in fair value recorded in earnings:		
Operating expenses	(6,500)
Interest expense, net	832	
Ending balance	\$2,818	

Fair Value of Financial Instruments

We recognize cash equivalents, receivables, note receivables from related parties, payables and debt in our consolidated balance sheets at their carrying amount. The fair values of these financial instruments, except for a note receivable from related party and debt, approximate their carrying amounts. The estimated fair value and carrying amounts of the note receivable from related party and debt were as follows:

	September 30, 2013		December 31, 2012	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(Thousands of Dollars)			
Debt	\$2,429,001	\$2,473,678	\$2,377,120	\$2,411,004
Note receivable from related party	\$109,505	\$146,472	\$91,705	\$95,711

We estimated the fair value of our publicly-traded senior notes based upon quoted prices in active markets; therefore, we determined that 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 that the fair value falls in Level 2 of the fair value hierarchy.

We estimated the fair value of the note receivable from related party using discounted cash flows, which use inputs such as time to maturity and estimated market interest rates, and determined the fair value falls in Level 3 of the fair value hierarchy. See Note 8. Related Party Transactions for additional information on the note receivable from Asphalt JV.

7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to commodity price risk and interest rate risk. 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 commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We were a party to certain interest rate swap agreements to manage our exposure to changes in interest rates, which included forward-starting interest rate swap agreements related to the interest payments associated with forecasted

probable debt issuances in 2013. 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 qualified, and we designated them, as cash flow hedges of future interest payments associated with forecasted debt issuances. In connection with the maturity of the 6.05% senior notes due March 15, 2013 and 5.875% senior notes due June 1, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of \$275.0 million. We paid \$33.7 million in connection with the terminations, which we reclassify out of “Accumulated other comprehensive loss” and into “Interest expense, net” as the interest payments occur or if the interest payments are probable not to occur. During the second quarter of 2013, we determined that one forecasted interest payment was probable not to occur, and we reclassified \$2.0 million out of “Accumulated other comprehensive loss” to “Interest expense, net.” As of September 30, 2013, we had no forward-starting interest rate swaps.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We were also a party to fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes, which we accounted for as fair value hedges. We terminated all remaining fixed-to-floating interest rate swap agreements during the year ended December 31, 2012.

Commodity Price Risk

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

To determine the volume represented by commodity contracts, we combined the volume of our long and short open positions on an absolute basis, which totaled 20.9 million barrels and 22.7 million barrels as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013 and December 31, 2012, we had \$4.5 million and \$6.2 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	
		September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
(Thousands of Dollars)					
Derivatives Designated as Hedging Instruments:					
Commodity contracts	Other current assets	\$412	\$1,471	\$—	\$(811)
Interest rate swaps	Accrued liabilities	—	—	—	(40,911)
Total		412	1,471	—	(41,722)
Derivatives Not Designated as Hedging Instruments:					
Commodity contracts	Other current assets	19,120	22,269	(15,130)	(13,571)
Commodity contracts	Other long-term assets, net	18,034	39,322	(11,459)	(30,116)
Commodity contracts	Accrued liabilities	7,199	17,406	(12,205)	(36,616)
Commodity contracts	Other long-term liabilities	7,165	—	(7,373)	—
Total		51,518	78,997	(46,167)	(80,303)
Total Derivatives		\$51,930	\$80,468	\$(46,167)	\$(122,025)

Certain of our derivative instruments are eligible for offset in the consolidated balance sheets and subject to master netting arrangements. Under our master netting arrangements, there is a legally enforceable right to offset amounts, and we intend to settle such amounts on a net basis. The following are the net amounts presented on the consolidated

balance sheets:

Commodity Contracts	September 30, 2013	December 31, 2012
	(Thousands of Dollars)	
Net amounts of assets presented in the consolidated balance sheets	\$10,977	\$18,564
Net amounts of liabilities presented in the consolidated balance sheets	\$(5,214) \$(19,210

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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) (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 September 30, 2013:				
Commodity contracts	Cost of product sales	\$(3,853)	\$4,184	\$ 331
Three months ended September 30, 2012:				
Commodity contracts	Cost of product sales	\$(23,131)	\$22,505	\$ (626)
Nine months ended September 30, 2013:				
Commodity contracts	Cost of product sales	\$4,059	\$(6,298)	\$ (2,239)
Nine months ended September 30, 2012:				
Interest rate swaps	Interest expense, net	\$(17,345)	\$17,345	\$ —
Commodity contracts	Cost of product sales	(20,496)	19,058	(1,438)
Total		\$(37,841)	\$36,403	\$ (1,438)

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) (Thousands of Dollars)	Income Statement Location (a)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (Thousands of Dollars)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Three months ended September 30, 2013:				
Interest rate swaps	\$ —	Interest expense, net	\$(1,653)	\$ —
Three months ended September 30, 2012:				
Interest rate swaps	\$ (3,825)	Interest expense, net	\$(645)	\$ —
Commodity contracts	(20,629)	Income (loss) from discontinued operations	(8,728)	277
Total	\$ (24,454)		\$(9,373)	\$ 277

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Nine months ended September 30,
2013:

Interest rate swaps	\$ 7,213	Interest expense, net	\$(4,615)) \$ —
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Nine months ended September 30,
2012:

Interest rate swaps	\$ (17,276)) Interest expense, net	\$(1,697)) \$ —
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Commodity contracts	(73,289)) Income (loss) from discontinued operations	(24,590)) 4,287
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Total	\$ (90,565))	\$ (26,287)) \$ 4,287
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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).

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income (Thousands of Dollars)
Three months ended September 30, 2013:		
Commodity contracts	Cost of product sales	\$ (4,941)
Three months ended September 30, 2012:		
Commodity contracts	Cost of product sales	\$ (710)
Commodity contracts	Income (loss) from discontinued operations	(136)
Total		\$ (846)
Nine months ended September 30, 2013:		
Commodity contracts	Cost of product sales	\$ (4,492)
Commodity contracts	Income (loss) from discontinued operations	(218)
Total		\$ (4,710)
Nine months ended September 30, 2012:		
Commodity contracts	Revenues	\$ (7,654)
Commodity contracts	Cost of product sales	20,679
Commodity contracts	Income (loss) from discontinued operations	2,412
Total		\$ 15,437

For derivatives designated as cash flow hedging instruments, once a hedged transaction occurs, we reclassify the effective portion from accumulated OCI to “Cost of product sales” or “Interest expense, net.” As of September 30, 2013, we expect to reclassify a loss of \$11.0 million to “Interest expense, net” within the next twelve months.

8. RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2013	2012	2013	2012
	(Thousands of Dollars)			
Revenues	\$2,376	\$713	\$16,183	\$2,198
Operating expenses	\$31,517	\$36,872	\$97,647	\$108,636
General and administrative expenses	\$10,495	\$16,180	\$41,807	\$48,688
Interest income	\$1,828	\$—	\$4,560	\$—
Expenses included in discontinued operations, net of tax	\$—	\$2,161	\$196	\$6,451

NuStar GP, LLC

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 employee costs, other than the expenses allocated to NuStar GP Holdings.

We had a payable to NuStar GP, LLC of \$19.6 million and \$1.4 million as of September 30, 2013 and December 31, 2012, 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 September 30, 2013 and December 31, 2012 of \$29.6 million and \$18.1 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Asphalt JV

On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy. Unless otherwise indicated, the term “Asphalt JV” is used in this report to refer to NuStar Asphalt LLC, to one or more of its consolidated subsidiaries or to all of them taken as a whole.

Financing Agreements and Credit Support. The NuStar JV Facility is an unsecured revolving credit facility provided by NuStar Energy to Asphalt JV in an aggregate principal amount not to exceed \$250.0 million for a term of seven years. As of September 30, 2013 and December 31, 2012, the balance due under the NuStar JV Facility totaled \$146.5 million and \$95.7 million, respectively.

In addition, during the term of the NuStar JV Facility, NuStar Energy will provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to \$150.0 million. As of September 30, 2013, NuStar Energy has provided guarantees for commodity purchases, lease obligations and certain utilities for Asphalt JV with an aggregate maximum potential exposure of \$105.0 million. In addition, NuStar Energy has provided two guarantees to Asphalt JV suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. A majority of these guarantees have no expiration date. As of September 30, 2013, NuStar Energy has also provided \$2.2 million in letters of credit on behalf of Asphalt JV. In the event that NuStar Energy must fund its obligation under these guarantees or letters of credit, that amount will be added to borrowings under the NuStar JV Facility, but it will not reduce the availability under the NuStar JV Facility.

Crude Oil Supply Agreement. We entered into a crude oil supply agreement with Asphalt JV (the Asphalt JV Crude Oil Supply Agreement) that commits Asphalt JV to purchase from us in a given year the lesser of (i) the number of barrels of crude oil required to be purchased by us from PDVSA under the CSA for such year or (ii) 35,000 barrels per day of crude oil multiplied by the number of days in such year. As a result of the termination of the CSA, the Asphalt JV Crude Oil Supply Agreement will also terminate effective January 1, 2014. See Note 5. Commitments and Contingencies for additional discussion of the CSA. As of September 30, 2013 and December 31, 2012, we had a receivable from Asphalt JV of \$26.5 million and \$109.4 million, respectively, mainly associated with crude oil sales under the Asphalt JV Crude Oil Supply Agreement.

Variable Interest Entity. We determined the equity of Asphalt JV is not sufficient to finance its activities without additional subordinated support, including support provided by us as described above. Therefore, we determined Asphalt JV is a variable interest entity (VIE). We analyzed our relationship with Asphalt JV, including our representation on the board of members, our equity interests and our rights under the various agreements with Asphalt JV and determined that we do not have the power to direct the activities most significant to the economic performance of Asphalt JV. As a result, we are not the primary beneficiary of Asphalt JV, and we report our 50% ownership in Asphalt JV using the equity method of accounting. Therefore, we have presented our investment in Asphalt JV within “Investment in joint ventures” on the consolidated balance sheets as of September 30, 2013 and December 31, 2012.

As of September 30, 2013, our maximum exposure to loss as a result of our involvement with Asphalt JV is approximately \$431.0 million, which consists of: (i) our investment in Asphalt JV of \$4.5 million; (ii) up to \$250.0 million under the NuStar JV Facility; (iii) up to \$150.0 million for credit support, including guarantees; and (iv) a receivable from Asphalt JV of \$26.5 million.

Services Agreement Between Asphalt JV and NuStar GP, LLC. In conjunction with the Asphalt Sale, NuStar GP, LLC entered into a services agreement with Asphalt JV, effective September 28, 2012 (the Asphalt JV Services

Agreement). The Asphalt JV Services Agreement provides that NuStar GP, LLC will furnish certain administrative and other operating services necessary to conduct the business of Asphalt JV. Asphalt JV will compensate NuStar GP, LLC for these services through an annual fee totaling \$10.0 million, subject to adjustment based on the annual merit increase percentage applicable to NuStar GP, LLC employees for the most recently completed contract year. The Asphalt JV Services Agreement will terminate on December 31, 2017 and will automatically renew for successive two-year terms. Asphalt JV may terminate the Asphalt JV Services Agreement at any time, with 180 days prior written notice or reduce the level of service with 45 days prior written notice. During the nine months ended September 30, 2013, Asphalt JV provided written notice to reduce the level of services that NuStar GP, LLC provides to Asphalt JV, which is currently at 63% of the original service level.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

9. 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 September 30, 2013			Three Months Ended September 30, 2012		
	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	\$2,429,132	\$ 11,134	\$2,440,266	\$2,408,269	\$ 12,848	\$2,421,117
Net income (loss)	33,397	(161	) 33,236	4,389	(47	) 4,342
Other comprehensive income (loss):						
Foreign currency translation adjustment	4,469	(568	) 3,901	6,608	113	6,721
Net unrealized loss on cash flow hedges	—	—	—	(24,454	) —	(24,454
Net loss on cash flow hedges reclassified into interest expense, net	1,653	—	1,653	645	—	645
Net loss on cash flow hedges reclassified into income (loss) from discontinued operations	—	—	—	8,728	—	8,728
Total other comprehensive income (loss)	6,122	(568	) 5,554	(8,473	) 113	(8,360
Cash distributions to partners	(98,051	) —	(98,051	) (89,076	) —	(89,076
Issuance of common units, including contribution from general partner	—	—	—	344,076	—	344,076
Other	(26) —	(26) —	—	—
Ending balance	\$2,370,574	\$ 10,405	\$2,380,979	\$2,659,185	\$ 12,914	\$2,672,099

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	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	\$2,572,384	\$ 12,611	\$2,584,995	\$2,852,201	\$ 12,134	\$2,864,335
Net income (loss)	91,048	(439)	90,609	(215,997)	(217)	(216,214)
Other comprehensive income (loss):						
Foreign currency translation adjustment	(10,628)	(1,767)	(12,395)	10,704	997	11,701
Net unrealized gain (loss) on cash flow hedges	7,213	—	7,213	(90,565)	—	(90,565)
Net loss on cash flow hedges reclassified into interest expense, net	4,615	—	4,615	1,697	—	1,697
Net loss on cash flow hedges reclassified into income (loss) from discontinued operations	—	—	—	24,590	—	24,590
Total other comprehensive income (loss)	1,200	(1,767)	(567)	(53,574)	997	(52,577)
Cash distributions to partners	(294,153)	—	(294,153)	(267,228)	—	(267,228)
Issuance of common units, including contribution from general partner	—	—	—	344,076	—	344,076
Other	95	—	95	(293)	—	(293)
Ending balance	\$2,370,574	\$ 10,405	\$2,380,979	\$2,659,185	\$ 12,914	\$2,672,099

Allocations of Net Income

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

Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	2012	2013	2012

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	(Thousands of Dollars)			
Net income (loss) attributable to NuStar Energy L.P.	\$33,397	\$4,389	\$91,048	\$(215,997)
Less general partner incentive distribution	10,805	10,805	32,415	30,437
Net income (loss) after general partner incentive distribution	22,592	(6,416)	58,633	(246,434)
General partner interest	2	% 2	% 2	% 2 %
General partner allocation of net income (loss) after general partner incentive distribution	452	(128)	1,174	(4,928)
General partner incentive distribution	10,805	10,805	32,415	30,437
Net income applicable to general partner	\$11,257	\$10,677	\$33,589	\$25,509

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Cash Distributions

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Thousands of Dollars, Except Per Unit Data)			
General partner interest	\$1,961	\$1,961	\$5,883	\$5,525
General partner incentive distribution	10,805	10,805	32,415	30,437
Total general partner distribution	12,766	12,766	38,298	35,962
Limited partners' distribution	85,285	85,285	255,855	240,241
Total cash distributions	\$98,051	\$98,051	\$294,153	\$276,203
Cash distributions per unit applicable to limited partners	\$1.095	\$1.095	\$3.285	\$3.285

The following table summarizes information related to our quarterly cash distributions:

Quarter Ended	Cash Distributions Per Unit	Total Cash Distributions (Thousands of Dollars)	Record Date	Payment Date
September 30, 2013 (a)	\$1.095	\$98,051	November 11, 2013	November 14, 2013
June 30, 2013	\$1.095	\$98,051	August 5, 2013	August 9, 2013
March 31, 2013	\$1.095	\$98,051	May 6, 2013	May 10, 2013
December 31, 2012	\$1.095	\$98,051	February 11, 2013	February 14, 2013

(a) The distribution was announced on October 31, 2013.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

10. NET INCOME (LOSS) 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 (loss) per unit:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2013	2012	2013	2012
	(Thousands of Dollars, Except Unit and Per Unit Data)			
Net income (loss) attributable to NuStar Energy L.P.	\$33,397	\$4,389	\$91,048	\$(215,997)
Less general partner distribution (including IDR)	12,766	12,766	38,298	35,962
Less limited partner distribution	85,285	85,285	255,855	240,241
Distributions in excess of earnings	\$(64,654)	\$(93,662)	\$(203,105)	\$(492,200)
General partner earnings:				
Distributions	\$12,766	\$12,766	\$38,298	\$35,962
Allocation of distributions in excess of earnings (2%)	(1,293)	(1,874)	(4,061)	(9,846)
Total	\$11,473	\$10,892	\$34,237	\$26,116
Limited partner earnings:				
Distributions	\$85,285	\$85,285	\$255,855	\$240,241
Allocation of distributions in excess of earnings (98%)	(63,361)	(91,788)	(199,044)	(482,354)
Total	\$21,924	\$(6,503)	\$56,811	\$(242,113)
Weighted-average limited partner units outstanding	77,886,078	72,383,578	77,886,078	71,302,538
Net income (loss) per unit applicable to limited partners	\$0.28	\$(0.09)	\$0.73	\$(3.40)

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

	Nine Months Ended September 30,	
	2013	2012
	(Thousands of Dollars)	
Decrease (increase) in current assets:		
Accounts receivable	\$145,803	\$95,213
Receivable from related parties	83,265	(3,149)
Inventories	47,145	60,878
Income tax receivable	1,204	3,190
Other current assets	24,026	(17,571)
Increase (decrease) in current liabilities:		
Accounts payable	(176,161)	(11,854)
Payable to related party	18,180	6,976
Accrued interest payable	2,643	(5,867)
Accrued liabilities	(33,618)	(21,253)
Taxes other than income tax	3,144	2,662
Income tax payable	1,207	(475)
Changes in current assets and current liabilities	\$116,838	\$108,750

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable balance sheets due to current assets and current liabilities disposed of during the period and the effect of foreign currency translation.

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

	Nine Months Ended September 30,	
	2013	2012
	(Thousands of Dollars)	
Cash paid for interest, net of amount capitalized	\$88,529	\$85,583
Cash paid for income taxes, net of tax refunds received	\$8,183	\$18,308

12. SEGMENT INFORMATION

Our reportable business segments consist of storage, pipeline (formerly known as the transportation segment), and fuels marketing. In 2013, we renamed the “Asphalt and Fuels Marketing Segment” the “Fuels Marketing Segment” since this name more accurately reflects the operations that remain after our deconsolidation of Asphalt JV in 2012 and the San Antonio Refinery Sale.

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 fuels marketing. Intersegment revenues result from storage and throughput

agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage and at pipeline tariff rates based upon the applicable published tariff. Related party revenues mainly result from storage agreements with our joint ventures and the noncontrolling shareholder of our Turkey subsidiary.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Results of operations for the reportable segments were as follows:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012		2012	
	(Thousands of Dollars)			
Revenues:				
Storage:				
Third parties	\$131,207	\$128,538	\$396,086	\$389,412
Intersegment	6,933	19,679	26,326	55,542
Related party	2,376	713	7,538	2,198
Total storage	140,516	148,930	429,950	447,152
Pipeline	111,508	92,570	301,761	244,938
Fuels marketing:				
Third parties	534,919	1,371,935	1,969,886	4,334,361
Related party	—	—	8,645	—
Total fuels marketing	534,919	1,371,935	1,978,531	4,334,361
Consolidation and intersegment eliminations	(6,933)	) (19,679)	) (26,326)	) (55,542)
Total revenues	\$780,010	\$1,593,756	\$2,683,916	\$4,970,909
Operating income:				
Storage	\$38,217	\$50,422	\$131,132	\$160,696
Pipeline	58,018	41,864	149,126	110,640
Fuels marketing	(9,079)	) (6,517)	) (7,240)	) (302,783)
Consolidation and intersegment eliminations	80	175	(33)	) 213
Total segment operating income (loss)	87,236	85,944	272,985	(31,234)
General and administrative expenses	18,831	24,953	65,978	75,254
Other depreciation and amortization expense	2,531	1,639	7,628	5,492
Other asset impairment loss	—	—	—	3,295
Gain on legal settlement	—	—	—	(28,738)
Total operating income (loss)	\$65,874	\$59,352	\$199,379	\$(86,537)

Total assets by reportable segment were as follows:

	September 30, 2013	December 31, 2012
	(Thousands of Dollars)	
Storage	\$2,675,227	\$2,627,946
Pipeline	1,769,036	1,720,711
Fuels marketing	517,540	885,661
Total segment assets	4,961,803	5,234,318
Other partnership assets	280,857	378,771
Total consolidated assets	\$5,242,660	\$5,613,089

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. 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 and subordinated notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy and NuPOP. As a result, the following condensed consolidating financial statements are presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

Condensed Consolidating Balance Sheets

September 30, 2013

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$286	\$9	\$—	\$ 24,224	\$—	\$24,519
Receivables, net	—	48,527	11,331	194,930	13,944	268,732
Inventories	—	2,055	10,552	110,454	(63)	122,998
Income tax receivable	—	—	—	25	—	25
Other current assets	22	21,896	1,577	17,693	—	41,188
Assets held for sale	—	2,847	—	—	—	2,847
Intercompany receivable	—	324,347	387,731	—	(712,078)	—
Total current assets	308	399,681	411,191	347,326	(698,197)	460,309
Property, plant and equipment, net	—	1,539,777	575,143	1,246,930	—	3,361,850
Intangible assets, net	—	17,428	—	64,282	—	81,710
Goodwill	—	149,453	170,652	630,858	—	950,963
Investment in wholly owned subsidiaries	2,931,570	177,736	1,229,345	2,392,178	(6,730,829)	—
Investment in joint ventures	—	4,453	—	66,359	—	70,812
Deferred income tax asset	—	—	—	5,088	—	5,088
Note receivable from related party	—	146,472	—	—	—	146,472
Other long-term assets, net	490	123,982	26,331	14,653	—	165,456
Total assets	\$2,932,368	\$2,558,982	\$2,412,662	\$ 4,767,674	\$(7,429,026)	\$5,242,660
Liabilities and Partners' Equity						
Current portion of long-term debt	\$—	\$—	\$—	\$ 33,982	\$—	\$33,982
Payables	—	62,791	10,704	154,510	13,944	241,949
Accrued interest payable	—	26,380	—	4	—	26,384
Accrued liabilities	750	14,300	5,558	16,836	—	37,444
Taxes other than income tax	63	6,526	3,780	2,697	—	13,066
Income tax payable	—	358	3	3,517	—	3,878
Intercompany payable	503,316	—	—	208,762	(712,078)	—
Total current liabilities	504,129	110,355	20,045	420,308	(698,134)	356,703
Long-term debt, less current portion	—	2,439,696	—	—	—	2,439,696

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Long-term payable to related party	—	24,195	—	5,442	—	29,637
Deferred income tax liability	—	—	—	29,455	—	29,455
Other long-term liabilities	—	843	404	4,943	—	6,190
Total partners' equity	2,428,239	(16,107)	2,392,213	4,307,526	(6,730,892)	2,380,979
Total liabilities and partners' equity	\$2,932,368	\$2,558,982	\$2,412,662	\$ 4,767,674	\$(7,429,026)	\$5,242,660

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NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Balance Sheets

December 31, 2012

(Thousands of Dollars)

NuStar	NuStar
Energy	Logistics