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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2014

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.)

**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**

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

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, 2014 was 77,886,078.

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NUSTAR ENERGY L.P.  
FORM 10-Q

TABLE OF CONTENTS

**PART I – FINANCIAL INFORMATION**

|         |   |                    |
|---------|---|--------------------|
| Item 1. | <a href="#">Financial Statements:</a>   |                    |
|         | <a href="#">Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</a>  | <a href="#">3</a>  |
|         | <a href="#">Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</a> | <a href="#">4</a>  |
|         | <a href="#">Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</a>                               | <a href="#">5</a>  |
|         | <a href="#">Condensed Notes to Consolidated Financial Statements</a>  | <a href="#">6</a>  |
| Item 2. | <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>                                     | <a href="#">28</a> |
| Item 3. | <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>  | <a href="#">43</a> |
| Item 4. | <a href="#">Controls and Procedures</a>   | <a href="#">46</a> |

**PART II – OTHER INFORMATION**

|         |   |                    |
|---------|---|--------------------|
| Item 2. | <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a> | <a href="#">47</a> |
| Item 6. | <a href="#">Exhibits</a>  | <a href="#">47</a> |
|         | <b><u>SIGNATURES</u></b>  | <a href="#">48</a> |

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements**

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Thousands of Dollars, Except Unit Data)

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 25,686             | \$ 100,743           |
| Accounts receivable, net of allowance for doubtful accounts of \$306 and \$1,224 as of September 30, 2014 and December 31, 2013, respectively | 220,841               | 281,310              |
| Receivable from related parties   | 45                    | 51,084               |
| Inventories   | 117,937               | 138,147              |
| Income tax receivable   | 3,661                 | 826                  |
| Other current assets  | 37,523                | 39,452               |
| Assets held for sale  | 2,256                 | 21,987               |
| Total current assets  | <u>407,949</u>        | <u>633,549</u>       |
| Property, plant and equipment, at cost  | 4,706,896             | 4,500,837            |
| Accumulated depreciation and amortization   | (1,315,466)           | (1,190,184)          |
| Property, plant and equipment, net  | 3,391,430             | 3,310,653            |
| Intangible assets, net  | 61,815                | 71,249               |
| Goodwill  | 617,429               | 617,429              |
| Investment in joint ventures  | 72,872                | 68,735               |
| Deferred income tax asset   | 4,902                 | 5,769                |
| Note receivable from related party  | —                     | 165,440              |
| Other long-term assets, net   | 320,970               | 159,362              |
| Total assets  | <u>\$ 4,877,367</u>   | <u>\$ 5,032,186</u>  |
| <b>Liabilities and Partners' Equity</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 177,961            | \$ 298,751           |
| Payable to related party  | 14,119                | 8,325                |
| Short-term debt   | 21,400                | —                    |
| Accrued interest payable  | 27,501                | 33,113               |
| Accrued liabilities   | 39,053                | 38,632               |
| Taxes other than income tax   | 15,053                | 9,745                |
| Income tax payable  | 4,035                 | 4,006                |
| Total current liabilities   | <u>299,122</u>        | <u>392,572</u>       |
| Long-term debt  | 2,731,551             | 2,655,553            |
| Long-term payable to related party  | 30,489                | 41,139               |
| Deferred income tax liability   | 27,785                | 27,350               |
| Other long-term liabilities   | 19,775                | 11,778               |
| Commitments and contingencies (Note 5)  |                       |                      |
| Partners' equity:   |                       |                      |
| Limited partners (77,886,078 common units outstanding as of September 30, 2014 and December 31, 2013)   | 1,788,360             | 1,921,726            |
| General partner   | 40,419                | 43,804               |
| Accumulated other comprehensive loss  | (60,134)              | (63,394)             |
| Total NuStar Energy L.P. partners' equity   | <u>1,768,645</u>      | <u>1,902,136</u>     |
| Noncontrolling interest   | —                     | 1,658                |
| Total partners' equity  | <u>1,768,645</u>      | <u>1,903,794</u>     |
| Total liabilities and partners' equity  | <u>\$ 4,877,367</u>   | <u>\$ 5,032,186</u>  |

See Condensed Notes to Consolidated Financial Statements.

**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<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | 2014                                | 2013             | 2014                               | 2013             |
| <b>Revenues:</b>  |                                     |                  |                                    |                  |
| Service revenues  | \$ 266,651                          | \$ 243,712       | \$ 755,551                         | \$ 700,922       |
| Product sales   | 527,771                             | 534,433          | 1,637,829                          | 1,977,423        |
| <b>Total revenues</b>   | <b>794,422</b>                      | <b>778,145</b>   | <b>2,393,380</b>                   | <b>2,678,345</b> |
| <b>Costs and expenses:</b>  |                                     |                  |                                    |                  |
| Cost of product sales   | 509,794                             | 527,217          | 1,578,508                          | 1,928,237        |
| Operating expenses:   |                                     |                  |                                    |                  |
| Third parties   | 84,570                              | 87,025           | 246,541                            | 248,493          |
| Related party   | 31,394                              | 30,076           | 91,025                             | 93,440           |
| Total operating expenses  | 115,964                             | 117,101          | 337,566                            | 341,933          |
| General and administrative expenses:                              |                                     |                  |                                    |                  |
| Third parties   | 7,567                               | 8,336            | 20,044                             | 24,171           |
| Related party   | 17,400                              | 10,495           | 48,942                             | 41,807           |
| Total general and administrative expenses                         | 24,967                              | 18,831           | 68,986                             | 65,978           |
| Depreciation and amortization expense                             | 48,599                              | 46,245           | 142,765                            | 133,116          |
| <b>Total costs and expenses</b>                                   | <b>699,324</b>                      | <b>709,394</b>   | <b>2,127,825</b>                   | <b>2,469,264</b> |
| <b>Operating income</b>   | <b>95,098</b>                       | <b>68,751</b>    | <b>265,555</b>                     | <b>209,081</b>   |
| Equity in earnings (loss) of joint ventures                       | 2,749                               | (5,358)          | 1,737                              | (26,629)         |
| Interest expense, net   | (33,007)                            | (30,823)         | (100,546)                          | (92,849)         |
| Interest income from related party                                | —                                   | 1,828            | 1,055                              | 4,560            |
| Other (expense) income, net                                       | (1,388)                             | 1,389            | 1,816                              | 3,917            |
| Income from continuing operations before income tax expense       | 63,452                              | 35,787           | 169,617                            | 98,080           |
| Income tax expense  | 4,335                               | 105              | 10,317                             | 8,087            |
| <b>Income from continuing operations</b>                          | <b>59,117</b>                       | <b>35,682</b>    | <b>159,300</b>                     | <b>89,993</b>    |
| Income (loss) from discontinued operations, net of tax            | 2,831                               | (2,446)          | (2,316)                            | 616              |
| <b>Net income</b>   | <b>61,948</b>                       | <b>33,236</b>    | <b>156,984</b>                     | <b>90,609</b>    |
| Less net loss attributable to noncontrolling interest             | (173)                               | (161)            | (395)                              | (439)            |
| <b>Net income attributable to NuStar Energy L.P.</b>              | <b>\$ 62,121</b>                    | <b>\$ 33,397</b> | <b>\$ 157,379</b>                  | <b>\$ 91,048</b> |
| <b>Net income (loss) per unit applicable to limited partners:</b> |                                     |                  |                                    |                  |
| Continuing operations   | \$ 0.61                             | \$ 0.31          | \$ 1.59                            | \$ 0.71          |
| Discontinued operations   | 0.03                                | (0.03)           | (0.03)                             | 0.02             |
| <b>Total (Note 10)</b>  | <b>\$ 0.64</b>                      | <b>\$ 0.28</b>   | <b>\$ 1.56</b>                     | <b>\$ 0.73</b>   |
| Weighted-average limited partner units outstanding                | 77,886,078                          | 77,886,078       | 77,886,078                         | 77,886,078       |
| <b>Comprehensive income</b>                                       | <b>\$ 58,167</b>                    | <b>\$ 38,790</b> | <b>\$ 159,811</b>                  | <b>\$ 90,042</b> |
| Less comprehensive loss attributable to noncontrolling interest   | (159)                               | (729)            | (828)                              | (2,206)          |
| <b>Comprehensive income attributable to NuStar Energy L.P.</b>    | <b>\$ 58,326</b>                    | <b>\$ 39,519</b> | <b>\$ 160,639</b>                  | <b>\$ 92,248</b> |

See Condensed Notes to Consolidated Financial Statements.

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

|   | Nine Months Ended<br>September 30, |                  |
|---|------------------------------------|------------------|
|   | 2014                               | 2013             |
| <b>Cash Flows from Operating Activities:</b>                                      |                                    |                  |
| Net income  | \$ 156,984                         | \$ 90,609        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                  |
| Depreciation and amortization expense   | 142,765                            | 137,185          |
| Amortization of debt related items  | 7,015                              | 1,721            |
| Gain from sale or disposition of assets   | (3,840)                            | (8,739)          |
| Asset impairment loss   | 2,067                              | —                |
| Deferred income tax expense (benefit)   | 2,453                              | (3,815)          |
| Equity in (earnings) loss of joint ventures                                       | (1,737)                            | 26,629           |
| Distributions of equity in earnings of joint ventures                             | 5,879                              | 5,787            |
| Changes in current assets and current liabilities (Note 11)                       | 1,080                              | 116,838          |
| Other, net  | 2,529                              | 12,325           |
| <b>Net cash provided by operating activities</b>                                  | <b>315,195</b>                     | <b>378,540</b>   |
| <b>Cash Flows from Investing Activities:</b>                                      |                                    |                  |
| Capital expenditures  | (229,548)                          | (260,701)        |
| Change in accounts payable related to capital expenditures                        | 10,910                             | (2,879)          |
| Proceeds from sale or disposition of assets                                       | 25,975                             | 116,467          |
| Increase in note receivable from related party                                    | (13,328)                           | (50,761)         |
| Other, net  | (853)                              | 156              |
| <b>Net cash used in investing activities</b>                                      | <b>(206,844)</b>                   | <b>(197,718)</b> |
| <b>Cash Flows from Financing Activities:</b>                                      |                                    |                  |
| Proceeds from long-term debt borrowings   | 537,436                            | 1,299,220        |
| Proceeds from note offering, net of issuance costs                                | —                                  | 687,151          |
| Proceeds from short-term debt borrowings  | 205,200                            | —                |
| Long-term debt repayments   | (451,269)                          | (1,897,182)      |
| Short-term debt repayments  | (183,800)                          | —                |
| Distributions to unitholders and general partner                                  | (294,153)                          | (294,153)        |
| Payments for termination of interest rate swaps                                   | —                                  | (33,697)         |
| Other, net  | 2,540                              | 3,168            |
| <b>Net cash used in financing activities</b>                                      | <b>(184,046)</b>                   | <b>(235,493)</b> |
| Effect of foreign exchange rate changes on cash                                   | 638                                | (4,412)          |
| Net decrease in cash and cash equivalents   | (75,057)                           | (59,083)         |
| Cash and cash equivalents as of the beginning of the period                       | 100,743                            | 83,602           |
| Cash and cash equivalents as of the end of the period                             | <b>\$ 25,686</b>                   | <b>\$ 24,519</b> |

See Condensed Notes to Consolidated Financial Statements.

**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 transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. 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 15.1% total interest in us as of September 30, 2014.

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: pipeline, storage 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 our investments in joint ventures using the equity method of accounting.

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, 2014 and 2013 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The consolidated balance sheet as of December 31, 2013 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, 2013.

***New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016, using one of two retrospective transition methods. Early adoption is not permitted for public entities. We are currently assessing the impact of this new guidance on our financial statements and disclosures, and we have not yet selected a transition method.

In April 2014, the FASB amended the disclosure requirements for discontinued operations. Under the amended guidance, a discontinued operation is defined as the disposal of a component that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amended guidance also requires expanded disclosures about discontinued operations and disposals of a significant part of an entity that do not qualify as discontinued operations. The amended guidance is effective prospectively to new disposals and new classifications of assets held for sale in annual periods beginning after December 15, 2014, and interim periods within those annual periods. Accordingly, we plan to adopt the amended guidance January 1, 2015.

**2. DISPOSITIONS AND DISCONTINUED OPERATIONS**

***Dispositions***

On February 26, 2014, we sold our remaining 50% ownership interest in NuStar Asphalt LLC to Lindsay Goldberg LLC (Lindsay Goldberg), a private investment firm (the Asphalt JV Sale). Effective February 27, 2014, NuStar Asphalt LLC changed its name to Axeon Specialty Products LLC (Axeon). Lindsay Goldberg now owns 100% of Axeon. As a result of the Asphalt JV Sale, we ceased applying the equity method of accounting. Upon completion of the Asphalt JV Sale, the parties agreed to: (i) convert the \$250.0 million unsecured revolving credit facility provided by us to Axeon (the NuStar JV Facility)

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

from a revolving credit agreement into a \$190.0 million term loan (the Axeon Term Loan); (ii) terminate the terminal services agreements with respect to our terminals in Rosario, NM, Catoosa, OK and Houston, TX; (iii) amend the terminal services agreements for our terminals in Baltimore, MD and Jacksonville, FL; and (iv) transfer ownership of both the Wilmington, NC and Dumfries, VA terminals to Axeon, which were categorized as assets held for sale at December 31, 2013. See Note 8 for a discussion of our agreements with Axeon.

**Discontinued Operations**

*Terminals Held for Sale.* In addition to the terminals located in Wilmington, NC and Dumfries, VA, we have identified and plan to divest several non-strategic, underperforming terminal facilities. As a result, we have classified the associated property, plant and equipment as “Assets held for sale” on the consolidated balance sheets. We presented the results of operations for those facilities, which were previously reported in the storage segment, as discontinued operations for all periods presented. In September 2014, we sold our 75% interest in our facility in Mersin, Turkey for total proceeds of \$13.4 million. We recognized a gain of \$3.7 million, which is included in discontinued operations for the three and nine months ended September 30, 2014. In June 2014, we sold three terminals located in Mobile, AL with an aggregate storage capacity of 1.8 million barrels for total proceeds of \$13.7 million. We allocated interest expense to discontinued operations based on the ratio of net assets discontinued to consolidated net assets as follows:

|                            | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|----------------------------|-------------------------------------|--------|------------------------------------|----------|
|                            | 2014                                | 2013   | 2014                               | 2013     |
|                            | (Thousands of Dollars)              |        |                                    |          |
| Allocated interest expense | \$ 115                              | \$ 352 | \$ 811                             | \$ 1,056 |

*San Antonio Refinery.* On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets for approximately \$117.0 million (the San Antonio Refinery Sale). 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<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2014                                | 2013       | 2014                               | 2013       |
|   | (Thousands of Dollars)              |            |                                    |            |
| Revenues                                | \$ 276                              | \$ 1,865   | \$ 3,456                           | \$ 5,756   |
| Income (loss) before income tax expense | \$ 2,831                            | \$ (3,114) | \$ (2,316)                         | \$ (1,324) |

**3. INVENTORIES**

Inventories consisted of the following:

|                        | September 30,<br>2014  | December 31,<br>2013 |
|------------------------|------------------------|----------------------|
|                        | (Thousands of Dollars) |                      |
| Crude oil              | \$ 6,294               | \$ 6,485             |
| Finished products      | 102,602                | 123,656              |
| Materials and supplies | 9,041                  | 8,006                |
| Total                  | \$ 117,937             | \$ 138,147           |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**4. DEBT**

***Revolving Credit Agreement***

During the nine months ended September 30, 2014, the balance under our \$1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement) increased by \$79.4 million, which we used for general partnership purposes. The 2012 Revolving Credit Agreement bears interest, at our option, based on either an alternative base rate, a LIBOR-based rate or a EURIBOR-based rate. The interest rate on the 2012 Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or upgraded) by certain credit rating agencies. As of September 30, 2014, our weighted average interest rate was 2.2% and we had \$582.4 million outstanding.

The 2012 Revolving Credit Agreement contains customary restrictive covenants, such as limitations on indebtedness, liens, mergers, asset transfers and certain investing activities. In addition, the 2012 Revolving Credit Agreement requires 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 debt to consolidated EBITDA, each 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, 2014, our consolidated debt coverage ratio was 4.0x, and we had \$839.1 million available for borrowing.

On October 29, 2014, we amended and restated the 2012 Revolving Credit Agreement primarily to reduce the interest rate, to extend the maturity to October 29, 2019 and to amend certain of the restrictive covenants.

***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, 2014. Following the issuance, the proceeds were deposited with a trustee and are disbursed to us upon our 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” on the consolidated balance sheets. For the nine months ended September 30, 2014, we received \$0.8 million from the trustee. As of September 30, 2014, the amount remaining in trust totaled \$82.7 million.

***Short-term Lines of Credit***

In 2014, we entered into two short-term line of credit agreements with an aggregate uncommitted borrowing capacity of up to \$80.0 million. These agreements allow us to better manage the fluctuations in our daily cash requirements and minimize our excess cash balances. The interest rate and maturity vary and are determined at the time of the borrowing. We had \$21.4 million outstanding under these short-term lines of credit as of September 30, 2014.

**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, 2014, we have accrued \$1.1 million for contingent losses. The amount that will ultimately be paid 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.

**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.



**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Recurring Fair Value Measurements**

The following assets and liabilities are measured at fair value on a recurring basis:

|                              | September 30, 2014     |                   |                   |                   |
|------------------------------|------------------------|-------------------|-------------------|-------------------|
|                              | Level 1                | Level 2           | Level 3           | Total             |
|                              | (Thousands of Dollars) |                   |                   |                   |
| <b>Assets:</b>               |                        |                   |                   |                   |
| Other current assets:        |                        |                   |                   |                   |
| Product imbalances           | \$ 2,822               | \$ —              | \$ —              | \$ 2,822          |
| Commodity derivatives        | 6,714                  | 3,166             | —                 | 9,880             |
| Other long-term assets, net: |                        |                   |                   |                   |
| Commodity derivatives        | —                      | 233               | —                 | 233               |
| <b>Total</b>                 | <b>\$ 9,536</b>        | <b>\$ 3,399</b>   | <b>\$ —</b>       | <b>\$ 12,935</b>  |
| <b>Liabilities:</b>          |                        |                   |                   |                   |
| Accrued liabilities:         |                        |                   |                   |                   |
| Product imbalances           | \$ (2,335)             | \$ —              | \$ —              | \$ (2,335)        |
| Commodity derivatives        | —                      | (1,615)           | —                 | (1,615)           |
| Other long-term liabilities: |                        |                   |                   |                   |
| Commodity derivatives        | —                      | (105)             | —                 | (105)             |
| Guarantee liability          | —                      | —                 | (1,730)           | (1,730)           |
| <b>Total</b>                 | <b>\$ (2,335)</b>      | <b>\$ (1,720)</b> | <b>\$ (1,730)</b> | <b>\$ (5,785)</b> |

|                              | December 31, 2013      |                   |                   |                   |
|------------------------------|------------------------|-------------------|-------------------|-------------------|
|                              | Level 1                | Level 2           | Level 3           | Total             |
|                              | (Thousands of Dollars) |                   |                   |                   |
| <b>Assets:</b>               |                        |                   |                   |                   |
| Other current assets:        |                        |                   |                   |                   |
| Product imbalances           | \$ 1,980               | \$ —              | \$ —              | \$ 1,980          |
| Commodity derivatives        | —                      | 4,948             | —                 | 4,948             |
| Other long-term assets, net: |                        |                   |                   |                   |
| Commodity derivatives        | —                      | 6,977             | —                 | 6,977             |
| <b>Total</b>                 | <b>\$ 1,980</b>        | <b>\$ 11,925</b>  | <b>\$ —</b>       | <b>\$ 13,905</b>  |
| <b>Liabilities:</b>          |                        |                   |                   |                   |
| Accrued liabilities:         |                        |                   |                   |                   |
| Product imbalances           | \$ (2,190)             | \$ —              | \$ —              | \$ (2,190)        |
| Commodity derivatives        | (1,433)                | (800)             | —                 | (2,233)           |
| Contingent consideration     | —                      | —                 | (1,318)           | (1,318)           |
| Other long-term liabilities: |                        |                   |                   |                   |
| Commodity derivatives        | —                      | (1,575)           | —                 | (1,575)           |
| Guarantee liability          | —                      | —                 | (1,880)           | (1,880)           |
| <b>Total</b>                 | <b>\$ (3,623)</b>      | <b>\$ (2,375)</b> | <b>\$ (3,198)</b> | <b>\$ (9,196)</b> |

*Product Imbalances.* We value our assets and liabilities related to product imbalances using quoted market prices in active markets as of the reporting date.

*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

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

exchange for similar derivative instruments. Therefore, we include these derivative instruments in Level 2 of the fair value hierarchy. See Note 7 for a discussion of our derivative instruments.

*Contingent Consideration.* On December 13, 2012, NuStar Logistics acquired certain assets 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 have been obligated to pay additional consideration to TexStar, depending upon the cost of work required to complete certain assets and obtain outstanding real estate rights (collectively, the Contingent Consideration). In August 2014, we settled with TexStar and reduced the associated liability to \$0.

*Guarantees.* As of September 30, 2014, we recorded a liability of \$1.7 million representing the fair value of guarantees we have issued on behalf of Axeon. We estimated the fair value considering the probability of default by Axeon and an estimate of the amount we would be obligated to pay under the guarantees at the time of default. We calculated the fair value based on the guarantees outstanding as of September 30, 2014, totaling \$73.3 million, plus two guarantees that do not specify a maximum amount. 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. See Note 8 for a discussion of our agreements with Axeon.

In the event we are obligated to perform under any of these guarantees, the amount paid by us will be treated as additional borrowings under the Axeon Term Loan. As a result, we increased the carrying value of the note receivable from Axeon by the same amount as the increase to the liability for the fair value of the guarantees outstanding as of September 30, 2014.

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

|   | <b>Nine Months Ended<br/>September 30, 2014</b> |       |
|---|---|-------|
|   | (Thousands of Dollars)                          |       |
| Beginning balance                           | \$  | 3,198 |
| Amounts settled                             |   | (870) |
| Adjustments to guarantee liability          |   | (150) |
| Changes in fair value recorded in earnings: |   |       |
| Operating expenses                          |   | (448) |
| Ending balance                              | \$  | 1,730 |

***Non-recurring Fair Value Measurements***

We classified the property, plant and equipment associated with certain terminals as “Assets held for sale” on the consolidated balance sheet and recorded those assets at fair value, less costs to sell. We estimated the fair values of \$2.3 million and \$22.0 million as of September 30, 2014 and December 31, 2013, respectively, using a weighted-average of values calculated using an income approach and a market approach. The income approach calculates fair value by discounting the estimated net cash flows generated by the related terminal. The market approach involves estimating the fair value measurement on an earnings multiple based on public company transaction data. 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.

***Fair Value of Financial Instruments***

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

|                            | September 30, 2014     |                 | December 31, 2013 |                 |
|----------------------------|------------------------|-----------------|-------------------|-----------------|
|                            | Fair Value             | Carrying Amount | Fair Value        | Carrying Amount |
|                            | (Thousands of Dollars) |                 |                   |                 |
| Long-term debt             | \$ 2,783,666           | \$ 2,731,551    | \$ 2,636,734      | \$ 2,655,553    |
| Note receivable from Axeon | \$ 148,300             | \$ 170,385      | \$ 133,416        | \$ 165,440      |

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,

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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.

The carrying amount of the Axeon Term Loan is \$170.4 million, consisting of the following: (i) the outstanding principal amount of \$190.0 million; (ii) plus the fair value of guarantees of \$1.7 million as of September 30, 2014 (iii) less equity losses from our investment in Axeon of \$21.3 million incurred prior to the Asphalt JV Sale and after the carrying value of our equity investment in Axeon was reduced to zero. We review the financial information of Axeon monthly for possible non-payment indicators.

We estimated the fair value of the note receivable using discounted cash flows, which use observable inputs such as time to maturity and market interest rates, and determined the fair value falls in Level 2 of the fair value hierarchy. See Note 8 for additional information on the note receivable from Axeon.

**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***

As of September 30, 2014, we had no forward-starting interest rate swap agreements. However, we previously entered into certain interest rate swap agreements to manage our exposure to changes in interest rates, which included forward-starting interest rate swap agreements. These swaps qualified, and we designated them, as cash flow hedges. In 2013, we terminated our remaining forward-starting interest rate swap agreements. We recorded the effective portion of mark-to-market adjustments as a component of “Accumulated other comprehensive loss.” The amount in accumulated other comprehensive income (OCI) is amortized into “Interest expense, net” as the interest payments occur or expensed immediately if the interest payments are probable not to occur.

***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.

The volume of commodity contracts is based on open derivative positions and represents the combined volume of our long and short open positions on an absolute basis, which totaled 15.6 million barrels and 15.2 million barrels as of September 30, 2014 and December 31, 2013, respectively.

As of December 31, 2013, we had \$3.3 million of margin deposits related to our derivative instruments and none as of September 30, 2014.

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

| Balance Sheet Location                                    | Asset Derivatives           |                      | Liability Derivatives |                      |                    |
|---|-----------------------------|----------------------|-----------------------|----------------------|--------------------|
|   | September 30,<br>2014       | December 31,<br>2013 | September 30,<br>2014 | December 31,<br>2013 |                    |
| (Thousands of Dollars)                                    |                             |                      |                       |                      |                    |
| <b>Derivatives Designated as Hedging Instruments:</b>     |                             |                      |                       |                      |                    |
| Commodity contracts                                       | Other current assets        | \$ 470               | \$ —                  | \$ (63)              | \$ —               |
| Commodity contracts                                       | Accrued liabilities         | —                    | —                     | —                    | (130)              |
| <b>Derivatives Not Designated as Hedging Instruments:</b> |                             |                      |                       |                      |                    |
| Commodity contracts                                       | Other current assets        | 25,508               | 16,168                | (16,035)             | (11,220)           |
| Commodity contracts                                       | Other long-term assets, net | 1,754                | 15,883                | (1,521)              | (8,906)            |
| Commodity contracts                                       | Accrued liabilities         | 2,807                | 4,523                 | (4,422)              | (6,626)            |
| Commodity contracts                                       | Other long-term liabilities | 246                  | 5,448                 | (351)                | (7,023)            |
| Total   |                             | <u>30,315</u>        | <u>42,022</u>         | <u>(22,329)</u>      | <u>(33,775)</u>    |
| <b>Total Derivatives</b>                                  |                             | <u>\$ 30,785</u>     | <u>\$ 42,022</u>      | <u>\$ (22,392)</u>   | <u>\$ (33,905)</u> |

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,<br>2014 | December 31, 2013 |
|---|-----------------------|-------------------|
| (Thousands of Dollars)  |                       |                   |
| Net amounts of assets presented in the consolidated balance sheets      | \$ 10,113             | \$ 11,925         |
| Net amounts of liabilities presented in the consolidated balance sheets | \$ (1,720)            | \$ (3,808)        |

The earnings impact of our derivative activity was as follows:

| Derivatives Designated as Fair Value Hedging Instruments | Income Statement Location | Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|--|---------------------------|--|---|--|
| (Thousands of Dollars)                                   |                           |  |   |  |
| <b>Three months ended September 30, 2014:</b>            |                           |  |   |  |
| Commodity contracts                                      | Cost of product sales     | \$ 1,219   | \$ (1,058)  | \$ 161   |
| <b>Three months ended September 30, 2013:</b>            |                           |  |   |  |
| Commodity contracts                                      | Cost of product sales     | \$ (3,853)   | \$ 4,184  | \$ 331   |
| <b>Nine months ended September 30, 2014:</b>             |                           |  |   |  |
| Commodity contracts                                      | Cost of product sales     | \$ 2,178   | \$ (2,840)  | \$ (662)   |
| <b>Nine months ended September 30, 2013:</b>             |                           |  |   |  |
| Commodity contracts                                      | Cost of product sales     | \$ 4,059   | \$ (6,298)  | \$ (2,239)   |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

| Derivatives Designated as Cash Flow Hedging Instruments | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | Income Statement Location (a) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---|---|-------------------------------|---|--|
|   | (Thousands of Dollars)  |                               | (Thousands of Dollars)  |  |
| <b>Three months ended September 30, 2014:</b>           |   |                               |   |  |
| Interest rate swaps                                     | \$ —  | Interest expense, net         | \$ (2,625)  | \$ —   |
| <b>Three months ended September 30, 2013:</b>           |   |                               |   |  |
| Interest rate swaps                                     | \$ —  | Interest expense, net         | \$ (1,653)  | \$ —   |
| <b>Nine months ended September 30, 2014:</b>            |   |                               |   |  |
| Interest rate swaps                                     | \$ —  | Interest expense, net         | \$ (8,062)  | \$ —   |
| <b>Nine months ended September 30, 2013:</b>            |   |                               |   |  |
| Interest rate swaps                                     | \$ 7,213  | Interest expense, net         | \$ (4,615)  | \$ —   |

(a) Amounts are included in specified location for both the gain (loss) reclassified from accumulated 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 |
|---|--|--|
|   |  | (Thousands of Dollars)                     |
| <b>Three months ended September 30, 2014:</b>     |  |  |
| Commodity contracts                               | Cost of product sales                      | \$ 6,680                                   |
| <b>Three months ended September 30, 2013:</b>     |  |  |
| Commodity contracts                               | Cost of product sales                      | \$ (4,941)                                 |
| <b>Nine months ended September 30, 2014:</b>      |  |  |
| Commodity contracts                               | Cost of product sales                      | \$ 2,270                                   |
| <b>Nine months ended September 30, 2013:</b>      |  |  |
| Commodity contracts                               | Cost of product sales                      | \$ (4,492)                                 |
| Commodity contracts                               | (Loss) income from discontinued operations | (218)                                      |
| Total   |  | <u>\$ (4,710)</u>                          |

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, 2014, we expect to reclassify a loss of \$10.0 million to “Interest expense, net” within the next twelve months.

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**8. RELATED PARTY TRANSACTIONS**

The following table summarizes information pertaining to related party transactions:

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2014                                | 2013      | 2014                               | 2013      |
|  | (Thousands of Dollars)              |           |                                    |           |
| Revenues   | \$ —                                | \$ 1,491  | \$ 929                             | \$ 13,308 |
| Operating expenses                                       | \$ 31,394                           | \$ 30,076 | \$ 91,025                          | \$ 93,440 |
| General and administrative expenses                      | \$ 17,400                           | \$ 10,495 | \$ 48,942                          | \$ 41,807 |
| Interest income  | \$ —                                | \$ 1,828  | \$ 1,055                           | \$ 4,560  |
| Revenues included in discontinued operations, net of tax | \$ 36                               | \$ 885    | \$ 528                             | \$ 2,875  |
| Expenses included in discontinued operations, net of tax | \$ 184                              | \$ 1,441  | \$ 1,596                           | \$ 4,403  |

***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 \$14.1 million and \$8.3 million as of September 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 of \$30.5 million and \$41.1 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

***Axeon***

As a result of the Asphalt JV Sale, we ceased reporting transactions between us and Axeon as related party transactions in our consolidated financial statements on February 26, 2014.

***Financing Agreements and Credit Support.*** Effective upon the Asphalt JV Sale, the NuStar JV Facility was converted into the Axeon Term Loan. The Axeon Term Loan will step down from \$190.0 million over time: first, to \$175.0 million on December 31, 2014 and then to \$150.0 million on September 30, 2015. While the Axeon Term Loan does not provide for any other scheduled payments, Axeon is required to use all of its excess cash, as defined in the Axeon Term Loan, to repay the Axeon Term Loan. The Axeon Term Loan must be repaid in full on September 28, 2019. All repayments of the Axeon Term Loan, including those scheduled in 2014 and 2015, are subject to Axeon meeting certain restrictive requirements contained in its third-party credit facility. The carrying value of the Axeon Term Loan is included in “Other long-term assets, net” on the consolidated balance sheet as of September 30, 2014.

NuStar Energy will continue to provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to \$150.0 million. Our obligation to provide credit support will be reduced by a minimum of \$25.0 million beginning February 2016 and will terminate in full no later than September 28, 2019. As of September 30, 2014, we provided guarantees for commodity purchases, lease obligations and certain utilities for Axeon with an aggregate maximum potential exposure of \$73.3 million, plus two guarantees to 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, 2014, we have also provided \$61.9 million in letters of credit on behalf of Axeon. In the event we are obligated to perform under any of these guarantees or letters of credit, the amount paid by us will be treated as additional borrowings under the Axeon Term Loan.

***Crude Oil Supply Agreement.*** We were a party to a crude oil supply agreement with Axeon (the Axeon Crude Oil Supply Agreement) that committed Axeon to purchase from us a minimum number of barrels of crude oil in a given year. The Axeon Crude Oil Supply Agreement terminated effective January 1, 2014. As of December 31, 2013, we had a receivable from Axeon of \$50.7 million, mainly associated with crude oil sales under the Axeon Crude Oil Supply Agreement.

***Services Agreement between Axeon and NuStar GP, LLC.*** NuStar GP, LLC and Axeon were a party to a services agreement, which provided that NuStar GP, LLC furnish certain administrative and other operating services necessary to conduct the

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

business of Axeon for an annual fee totaling \$10.0 million, subject to adjustment (the Axeon Services Agreement). The Axeon Services Agreement terminated on June 30, 2014.

**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, 2014  |                         |                           | Three Months Ended September 30, 2013  |                            |                           |
|--|--|-------------------------|---------------------------|--|----------------------------|---------------------------|
|  | NuStar Energy L.P.<br>Partners' Equity | Noncontrolling Interest | Total Partners'<br>Equity | NuStar Energy L.P.<br>Partners' Equity | Noncontrolling<br>Interest | Total Partners'<br>Equity |
|  | (Thousands of Dollars)                 |                         |                           |  |                            |                           |
| Beginning balance  | \$ 1,808,370                           | \$ 989                  | \$ 1,809,359              | \$ 2,429,132                           | \$ 11,134                  | \$ 2,440,266              |
| Net income (loss)  | 62,121                                 | (173)                   | 61,948                    | 33,397                                 | (161)                      | 33,236                    |
| Other comprehensive income (loss):                                   |  |                         |                           |  |                            |                           |
| Foreign currency translation adjustment                              | (6,420)                                | 14                      | (6,406)                   | 4,469                                  | (568)                      | 3,901                     |
| Net loss on cash flow hedges reclassified into interest expense, net | 2,625                                  | —                       | 2,625                     | 1,653                                  | —                          | 1,653                     |
| Total other comprehensive income (loss)                              | (3,795)                                | 14                      | (3,781)                   | 6,122                                  | (568)                      | 5,554                     |
| Cash distributions to partners                                       | (98,051)                               | —                       | (98,051)                  | (98,051)                               | —                          | (98,051)                  |
| Other  | —                                      | (830)                   | (830)                     | (26)                                   | —                          | (26)                      |
| Ending balance   | <u>\$ 1,768,645</u>                    | <u>\$ —</u>             | <u>\$ 1,768,645</u>       | <u>\$ 2,370,574</u>                    | <u>\$ 10,405</u>           | <u>\$ 2,380,979</u>       |

|  | Nine Months Ended September 30, 2014   |                         |                           | Nine Months Ended September 30, 2013   |                            |                           |
|--|--|-------------------------|---------------------------|--|----------------------------|---------------------------|
|  | NuStar Energy L.P.<br>Partners' Equity | Noncontrolling Interest | Total Partners'<br>Equity | NuStar Energy L.P.<br>Partners' Equity | Noncontrolling<br>Interest | Total Partners'<br>Equity |
|  | (Thousands of Dollars)                 |                         |                           |  |                            |                           |
| Beginning balance  | \$ 1,902,136                           | \$ 1,658                | \$ 1,903,794              | \$ 2,572,384                           | \$ 12,611                  | \$ 2,584,995              |
| Net income (loss)  | 157,379                                | (395)                   | 156,984                   | 91,048                                 | (439)                      | 90,609                    |
| Other comprehensive income (loss):                                   |  |                         |                           |  |                            |                           |
| Foreign currency translation adjustment                              | (4,802)                                | (433)                   | (5,235)                   | (10,628)                               | (1,767)                    | (12,395)                  |
| Net unrealized gain on cash flow hedges                              | —                                      | —                       | —                         | 7,213                                  | —                          | 7,213                     |
| Net loss on cash flow hedges reclassified into interest expense, net | 8,062                                  | —                       | 8,062                     | 4,615                                  | —                          | 4,615                     |
| Total other comprehensive income (loss)                              | 3,260                                  | (433)                   | 2,827                     | 1,200                                  | (1,767)                    | (567)                     |
| Cash distributions to partners                                       | (294,153)                              | —                       | (294,153)                 | (294,153)                              | —                          | (294,153)                 |
| Other  | 23                                     | (830)                   | (807)                     | 95                                     | —                          | 95                        |
| Ending balance   | <u>\$ 1,768,645</u>                    | <u>\$ —</u>             | <u>\$ 1,768,645</u>       | <u>\$ 2,370,574</u>                    | <u>\$ 10,405</u>           | <u>\$ 2,380,979</u>       |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Accumulated Other Comprehensive Loss**

The balance of and changes in the components included in “Accumulated other comprehensive loss” were as follows:

|                                  | Foreign<br>Currency<br>Translation | Cash Flow Hedges   | Total              |
|----------------------------------|------------------------------------|--------------------|--------------------|
|                                  | (Thousands of Dollars)             |                    |                    |
| Balance as of January 1, 2014    | \$ (13,658)                        | \$ (49,736)        | \$ (63,394)        |
| Activity                         | (4,802)                            | 8,062              | 3,260              |
| Balance as of September 30, 2014 | <u>\$ (18,460)</u>                 | <u>\$ (41,674)</u> | <u>\$ (60,134)</u> |

**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<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | 2014                                | 2013             | 2014                               | 2013             |
|   | (Thousands of Dollars)              |                  |                                    |                  |
| Net income attributable to NuStar Energy L.P.   | \$ 62,121                           | \$ 33,397        | \$ 157,379                         | \$ 91,048        |
| Less general partner incentive distribution   | 10,805                              | 10,805           | 32,415                             | 32,415           |
| Net income after general partner incentive distribution                               | 51,316                              | 22,592           | 124,964                            | 58,633           |
| General partner interest  | 2%                                  | 2%               | 2%                                 | 2%               |
| General partner allocation of net income after general partner incentive distribution | 1,025                               | 452              | 2,498                              | 1,174            |
| General partner incentive distribution  | 10,805                              | 10,805           | 32,415                             | 32,415           |
| Net income applicable to general partner  | <u>\$ 11,830</u>                    | <u>\$ 11,257</u> | <u>\$ 34,913</u>                   | <u>\$ 33,589</u> |

**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<br>September 30,          |                  | Nine Months Ended<br>September 30, |                   |
|--|--|------------------|------------------------------------|-------------------|
|  | 2014   | 2013             | 2014                               | 2013              |
|  | (Thousands of Dollars, Except Per Unit Data) |                  |                                    |                   |
| General partner interest                                   | \$ 1,961                                     | \$ 1,961         | \$ 5,883                           | \$ 5,883          |
| General partner incentive distribution                     | 10,805                                       | 10,805           | 32,415                             | 32,415            |
| Total general partner distribution                         | 12,766                                       | 12,766           | 38,298                             | 38,298            |
| Limited partners' distribution                             | 85,285                                       | 85,285           | 255,855                            | 255,855           |
| Total cash distributions                                   | <u>\$ 98,051</u>                             | <u>\$ 98,051</u> | <u>\$ 294,153</u>                  | <u>\$ 294,153</u> |
| Cash distributions per unit applicable to limited partners | <u>\$ 1.095</u>                              | <u>\$ 1.095</u>  | <u>\$ 3.285</u>                    | <u>\$ 3.285</u>   |



**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

| Quarter Ended          | Cash Distributions Per Unit | Total Cash Distributions | Record Date       | Payment Date      |
|------------------------|-----------------------------|--------------------------|-------------------|-------------------|
| (Thousands of Dollars) |                             |                          |                   |                   |
| September 30, 2014 (a) | \$ 1.095                    | \$ 98,051                | November 10, 2014 | November 14, 2014 |
| June 30, 2014          | \$ 1.095                    | \$ 98,051                | August 6, 2014    | August 11, 2014   |
| March 31, 2014         | \$ 1.095                    | \$ 98,051                | May 7, 2014       | May 12, 2014      |
| December 31, 2013      | \$ 1.095                    | \$ 98,051                | February 10, 2014 | February 14, 2014 |

(a) The distribution was announced on October 31, 2014.

**10. 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<br>September 30, |             | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|-------------|------------------------------------|--------------|
|   | 2014                                | 2013        | 2014                               | 2013         |
| (Thousands of Dollars, Except Unit and Per Unit Data)   |                                     |             |                                    |              |
| Net income attributable to NuStar Energy L.P.           | \$ 62,121                           | \$ 33,397   | \$ 157,379                         | \$ 91,048    |
| Less general partner distribution (including IDR)       | 12,766                              | 12,766      | 38,298                             | 38,298       |
| Less limited partner distribution                       | 85,285                              | 85,285      | 255,855                            | 255,855      |
| Distributions in excess of earnings                     | \$ (35,930)                         | \$ (64,654) | \$ (136,774)                       | \$ (203,105) |
| <b>General partner earnings:</b>                        |                                     |             |                                    |              |
| Distributions   | \$ 12,766                           | \$ 12,766   | \$ 38,298                          | \$ 38,298    |
| Allocation of distributions in excess of earnings (2%)  | (719)                               | (1,293)     | (2,736)                            | (4,061)      |
| Total   | \$ 12,047                           | \$ 11,473   | \$ 35,562                          | \$ 34,237    |
| <b>Limited partner earnings:</b>                        |                                     |             |                                    |              |
| Distributions   | \$ 85,285                           | \$ 85,285   | \$ 255,855                         | \$ 255,855   |
| Allocation of distributions in excess of earnings (98%) | (35,211)                            | (63,361)    | (134,038)                          | (199,044)    |
| Total   | \$ 50,074                           | \$ 21,924   | \$ 121,817                         | \$ 56,811    |
| Weighted-average limited partner units outstanding      | 77,886,078                          | 77,886,078  | 77,886,078                         | 77,886,078   |
| Net income per unit applicable to limited partners      | \$ 0.64                             | \$ 0.28     | \$ 1.56                            | \$ 0.73      |

**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<br>September 30, |                   |
|--|------------------------------------|-------------------|
|  | 2014                               | 2013              |
|  | (Thousands of Dollars)             |                   |
| <b>Decrease (increase) in current assets:</b>            |                                    |                   |
| Accounts receivable                                      | \$ 60,010                          | \$ 145,803        |
| Receivable from related parties                          | 51,037                             | 83,265            |
| Inventories  | 19,865                             | 47,145            |
| Income tax receivable                                    | (2,939)                            | 1,204             |
| Other current assets                                     | 1,637                              | 24,026            |
| <b>Increase (decrease) in current liabilities:</b>       |                                    |                   |
| Accounts payable   | (134,932)                          | (176,161)         |
| Payable to related party                                 | 5,841                              | 18,180            |
| Accrued interest payable                                 | (5,611)                            | 2,643             |
| Accrued liabilities                                      | 807                                | (33,618)          |
| Taxes other than income tax                              | 5,319                              | 3,144             |
| Income tax payable                                       | 46                                 | 1,207             |
| <b>Changes in current assets and current liabilities</b> | <b>\$ 1,080</b>                    | <b>\$ 116,838</b> |

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable consolidated balance sheets due to the change in the amount accrued for capital expenditures and the effect of foreign currency translation.

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2014                               | 2013      |
|   | (Thousands of Dollars)             |           |
| Cash paid for interest, net of amount capitalized       | \$ 103,832                         | \$ 88,529 |
| Cash paid for income taxes, net of tax refunds received | \$ 9,826                           | \$ 8,183  |

**12. SEGMENT INFORMATION**

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 transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. Intersegment revenues result from storage agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage. Related party revenues mainly result from storage agreements with our joint ventures.

**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<br>September 30, |                   | Nine Months Ended<br>September 30, |                     |
|---|-------------------------------------|-------------------|------------------------------------|---------------------|
|   | 2014                                | 2013              | 2014                               | 2013                |
| (Thousands of Dollars)                      |                                     |                   |                                    |                     |
| <b>Revenues:</b>                            |                                     |                   |                                    |                     |
| Pipeline                                    | \$ 125,461                          | \$ 111,508        | \$ 346,218                         | \$ 301,761          |
| Storage:                                    |                                     |                   |                                    |                     |
| Third parties                               | 137,771                             | 130,227           | 400,421                            | 393,390             |
| Intersegment                                | 6,174                               | 6,890             | 20,147                             | 24,911              |
| Related party                               | —                                   | 1,491             | 929                                | 4,663               |
| Total storage                               | 143,945                             | 138,608           | 421,497                            | 422,964             |
| Fuels marketing:                            |                                     |                   |                                    |                     |
| Third parties                               | 531,190                             | 534,919           | 1,645,812                          | 1,969,886           |
| Related party                               | —                                   | —                 | —                                  | 8,645               |
| Total fuels marketing                       | 531,190                             | 534,919           | 1,645,812                          | 1,978,531           |
| Consolidation and intersegment eliminations | (6,174)                             | (6,890)           | (20,147)                           | (24,911)            |
| Total revenues                              | <u>\$ 794,422</u>                   | <u>\$ 778,145</u> | <u>\$ 2,393,380</u>                | <u>\$ 2,678,345</u> |

|   |                  |                  |                   |                   |
|---|------------------|------------------|-------------------|-------------------|
| <b>Operating income:</b>                    |                  |                  |                   |                   |
| Pipeline                                    | \$ 65,652        | \$ 58,018        | \$ 178,878        | \$ 149,126        |
| Storage                                     | 49,401           | 41,051           | 141,415           | 139,419           |
| Fuels marketing                             | 7,518            | (9,079)          | 21,897            | (7,240)           |
| Consolidation and intersegment eliminations | (25)             | 123              | (35)              | 1,382             |
| Total segment operating income              | 122,546          | 90,113           | 342,155           | 282,687           |
| General and administrative expenses         | 24,967           | 18,831           | 68,986            | 65,978            |
| Other depreciation and amortization expense | 2,481            | 2,531            | 7,614             | 7,628             |
| Total operating income                      | <u>\$ 95,098</u> | <u>\$ 68,751</u> | <u>\$ 265,555</u> | <u>\$ 209,081</u> |

Total assets by reportable segment were as follows:

|                           | September 30,<br>2014 | December 31,<br>2013 |
|---------------------------|-----------------------|----------------------|
| (Thousands of Dollars)    |                       |                      |
| Pipeline                  | \$ 1,898,684          | \$ 1,797,698         |
| Storage                   | 2,237,537             | 2,275,183            |
| Fuels marketing           | 306,636               | 445,882              |
| Total segment assets      | 4,442,857             | 4,518,763            |
| Other partnership assets  | 434,510               | 513,423              |
| Total consolidated assets | <u>\$ 4,877,367</u>   | <u>\$ 5,032,186</u>  |

**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, 2014**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy    | NuStar<br>Logistics | NuPOP               | Non-Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|---|---------------------|---------------------|---------------------|-------------------------------|-----------------------|---------------------|
| <b>Assets</b>                           |                     |                     |                     |                               |                       |                     |
| Cash and cash equivalents               | \$ 913              | \$ 7                | \$ —                | \$ 24,766                     | \$ —                  | \$ 25,686           |
| Receivables, net                        | —                   | 44,063              | 14,384              | 162,439                       | —                     | 220,886             |
| Inventories                             | —                   | 2,187               | 8,765               | 107,029                       | (44)                  | 117,937             |
| Income tax receivable                   | —                   | —                   | —                   | 3,661                         | —                     | 3,661               |
| Other current assets                    | —                   | 13,537              | 3,349               | 20,637                        | —                     | 37,523              |
| Assets held for sale                    | —                   | —                   | —                   | 2,256                         | —                     | 2,256               |
| Intercompany receivable                 | —                   | 1,296,459           | —                   | —                             | (1,296,459)           | —                   |
| Total current assets                    | 913                 | 1,356,253           | 26,498              | 320,788                       | (1,296,503)           | 407,949             |
| Property, plant and equipment, net      | —                   | 1,743,433           | 558,646             | 1,089,351                     | —                     | 3,391,430           |
| Intangible assets, net                  | —                   | 57,511              | —                   | 4,304                         | —                     | 61,815              |
| Goodwill                                | —                   | 149,453             | 170,652             | 297,324                       | —                     | 617,429             |
| Investment in wholly owned subsidiaries | 2,333,931           | 175,150             | 907,661             | 925,563                       | (4,342,305)           | —                   |
| Investment in joint venture             | —                   | —                   | —                   | 72,872                        | —                     | 72,872              |
| Deferred income tax asset               | —                   | —                   | —                   | 4,902                         | —                     | 4,902               |
| Other long-term assets, net             | 673                 | 287,358             | 26,329              | 6,610                         | —                     | 320,970             |
| Total assets                            | <u>\$ 2,335,517</u> | <u>\$ 3,769,158</u> | <u>\$ 1,689,786</u> | <u>\$ 2,721,714</u>           | <u>\$ (5,638,808)</u> | <u>\$ 4,877,367</u> |
| <b>Liabilities and Partners' Equity</b> |                     |                     |                     |                               |                       |                     |
| Payables                                | \$ 39               | \$ 59,565           | \$ 8,032            | \$ 124,444                    | \$ —                  | \$ 192,080          |
| Short-term debt                         | —                   | 21,400              | —                   | —                             | —                     | 21,400              |
| Accrued interest payable                | —                   | 27,465              | —                   | 36                            | —                     | 27,501              |
| Accrued liabilities                     | 747                 | 17,352              | 7,514               | 13,440                        | —                     | 39,053              |
| Taxes other than income tax             | 63                  | 7,234               | 3,909               | 3,847                         | —                     | 15,053              |
| Income tax payable                      | —                   | 613                 | 5                   | 3,417                         | —                     | 4,035               |
| Intercompany payable                    | 505,889             | —                   | 742,623             | 47,947                        | (1,296,459)           | —                   |
| Total current liabilities               | 506,738             | 133,629             | 762,083             | 193,131                       | (1,296,459)           | 299,122             |
| Long-term debt                          | —                   | 2,731,551           | —                   | —                             | —                     | 2,731,551           |
| Long-term payable to related party      | —                   | 25,047              | —                   | 5,442                         | —                     | 30,489              |
| Deferred income tax liability           | —                   | —                   | —                   | 27,785                        | —                     | 27,785              |
| Other long-term liabilities             | —                   | 12,433              | 2,192               | 5,150                         | —                     | 19,775              |
| Total partners' equity                  | 1,828,779           | 866,498             | 925,511             | 2,490,206                     | (4,342,349)           | 1,768,645           |
| Total liabilities and partners' equity  | <u>\$ 2,335,517</u> | <u>\$ 3,769,158</u> | <u>\$ 1,689,786</u> | <u>\$ 2,721,714</u>           | <u>\$ (5,638,808)</u> | <u>\$ 4,877,367</u> |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Balance Sheets**  
**December 31, 2013**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP        | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|---|------------------|---------------------|--------------|-------------------------------|----------------|--------------|
| <b>Assets</b>                           |                  |                     |              |                               |                |              |
| Cash and cash equivalents               | \$ 904           | \$ 22,307           | \$ —         | \$ 77,532                     | \$ —           | \$ 100,743   |
| Receivables, net                        | —                | 87,899              | 13,281       | 231,220                       | (6)            | 332,394      |
| Inventories                             | —                | 2,083               | 2,879        | 133,195                       | (10)           | 138,147      |
| Income tax receivable                   | —                | —                   | —            | 826                           | —              | 826          |
| Other current assets                    | —                | 18,109              | 2,334        | 19,009                        | —              | 39,452       |
| Assets held for sale                    | —                | —                   | —            | 21,987                        | —              | 21,987       |
| Intercompany receivable                 | —                | 1,521,552           | —            | —                             | (1,521,552)    | —            |
| Total current assets                    | 904              | 1,651,950           | 18,494       | 483,769                       | (1,521,568)    | 633,549      |
| Property, plant and equipment, net      | —                | 1,556,893           | 573,694      | 1,180,066                     | —              | 3,310,653    |
| Intangible assets, net                  | —                | 16,993              | —            | 54,256                        | —              | 71,249       |
| Goodwill                                | —                | 149,453             | 170,652      | 297,324                       | —              | 617,429      |
| Investment in wholly owned subsidiaries | 2,469,331        | 177,961             | 860,787      | 918,339                       | (4,426,418)    | —            |
| Investment in joint ventures            | —                | —                   | —            | 68,735                        | —              | 68,735       |
| Deferred income tax asset               | —                | —                   | —            | 5,769                         | —              | 5,769        |
| Note receivable from related party      | —                | 165,440             | —            | —                             | —              | 165,440      |
| Other long-term assets, net             | 611              | 118,254             | 26,331       | 14,166                        | —              | 159,362      |
| Total assets                            | \$ 2,470,846     | \$ 3,836,944        | \$ 1,649,958 | \$ 3,022,424                  | \$ (5,947,986) | \$ 5,032,186 |
| <b>Liabilities and Partners' Equity</b> |                  |                     |              |                               |                |              |
| Payables                                | \$ 123           | \$ 84,533           | \$ 7,517     | \$ 214,909                    | \$ (6)         | \$ 307,076   |
| Accrued interest payable                | —                | 33,066              | —            | 47                            | —              | 33,113       |
| Accrued liabilities                     | 585              | 18,850              | 6,133        | 13,064                        | —              | 38,632       |
| Taxes other than income tax             | 125              | 6,272               | 2,873        | 475                           | —              | 9,745        |
| Income tax payable                      | —                | 618                 | 6            | 3,382                         | —              | 4,006        |
| Intercompany payable                    | 504,483          | —                   | 714,847      | 302,222                       | (1,521,552)    | —            |
| Total current liabilities               | 505,316          | 143,339             | 731,376      | 534,099                       | (1,521,558)    | 392,572      |
| Long-term debt                          | —                | 2,655,553           | —            | —                             | —              | 2,655,553    |
| Long-term payable to related party      | —                | 35,696              | —            | 5,443                         | —              | 41,139       |
| Deferred income tax liability           | —                | —                   | —            | 27,350                        | —              | 27,350       |
| Other long-term liabilities             | —                | 4,961               | 306          | 6,511                         | —              | 11,778       |
| Total partners' equity                  | 1,965,530        | 997,395             | 918,276      | 2,449,021                     | (4,426,428)    | 1,903,794    |
| Total liabilities and partners' equity  | \$ 2,470,846     | \$ 3,836,944        | \$ 1,649,958 | \$ 3,022,424                  | \$ (5,947,986) | \$ 5,032,186 |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Comprehensive Income**  
**For the Three Months Ended September 30, 2014**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP            | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated     |
|---|------------------|---------------------|------------------|-------------------------------|---------------------|------------------|
| Revenues  | \$ —             | \$ 134,345          | \$ 54,431        | \$ 606,307                    | \$ (661)            | \$ 794,422       |
| Costs and expenses  | 479              | 72,363              | 36,710           | 590,409                       | (637)               | 699,324          |
| Operating (loss) income   | (479)            | 61,982              | 17,721           | 15,898                        | (24)                | 95,098           |
| Equity in earnings (loss) of subsidiaries                       | 62,600           | (1,952)             | 18,402           | 36,119                        | (115,169)           | —                |
| Equity in earnings of joint venture                             | —                | —                   | —                | 2,749                         | —                   | 2,749            |
| Interest (expense) income, net                                  | —                | (33,306)            | 16               | 283                           | —                   | (33,007)         |
| Other loss, net   | —                | (18)                | (20)             | (1,350)                       | —                   | (1,388)          |
| Income from continuing operations before income tax expense     | 62,121           | 26,706              | 36,119           | 53,699                        | (115,193)           | 63,452           |
| Income tax expense  | —                | 220                 | 2                | 4,113                         | —                   | 4,335            |
| Income from continuing operations                               | 62,121           | 26,486              | 36,117           | 49,586                        | (115,193)           | 59,117           |
| (Loss) income from discontinued operations, net of tax          | —                | (13)                | —                | 2,844                         | —                   | 2,831            |
| Net income  | 62,121           | 26,473              | 36,117           | 52,430                        | (115,193)           | 61,948           |
| Less net loss attributable to noncontrolling interest           | —                | —                   | —                | (173)                         | —                   | (173)            |
| Net income attributable to NuStar Energy L.P.                   | <u>\$ 62,121</u> | <u>\$ 26,473</u>    | <u>\$ 36,117</u> | <u>\$ 52,603</u>              | <u>\$ (115,193)</u> | <u>\$ 62,121</u> |
| Comprehensive income  | \$ 62,121        | \$ 33,515           | \$ 36,117        | \$ 41,607                     | \$ (115,193)        | \$ 58,167        |
| Less comprehensive loss attributable to noncontrolling interest | —                | —                   | —                | (159)                         | —                   | (159)            |
| Comprehensive income attributable to NuStar Energy L.P.         | <u>\$ 62,121</u> | <u>\$ 33,515</u>    | <u>\$ 36,117</u> | <u>\$ 41,766</u>              | <u>\$ (115,193)</u> | <u>\$ 58,326</u> |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Comprehensive Income**  
**For the Three Months Ended September 30, 2013**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP            | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|---|------------------|---------------------|------------------|-------------------------------|--------------------|------------------|
| Revenues  | \$ —             | \$ 106,892          | \$ 50,669        | \$ 629,335                    | \$ (8,751)         | \$ 778,145       |
| Costs and expenses  | 507              | 66,288              | 32,274           | 619,156                       | (8,831)            | 709,394          |
| Operating (loss) income   | (507)            | 40,604              | 18,395           | 10,179                        | 80                 | 68,751           |
| Equity in earnings of subsidiaries                              | 33,904           | 8,136               | 4,992            | 23,449                        | (70,481)           | —                |
| Equity in (loss) earnings of joint ventures                     | —                | (8,202)             | —                | 2,844                         | —                  | (5,358)          |
| Interest (expense) income, net                                  | —                | (29,451)            | 76               | 380                           | —                  | (28,995)         |
| Other income, net   | —                | —                   | 8                | 1,381                         | —                  | 1,389            |
| Income from continuing operations before income tax expense     | 33,397           | 11,087              | 23,471           | 38,233                        | (70,401)           | 35,787           |
| Income tax expense (benefit)                                    | —                | 146                 | 1                | (42)                          | —                  | 105              |
| Income from continuing operations                               | 33,397           | 10,941              | 23,470           | 38,275                        | (70,401)           | 35,682           |
| Loss from discontinued operations, net of tax                   | —                | (543)               | —                | (1,903)                       | —                  | (2,446)          |
| Net income  | 33,397           | 10,398              | 23,470           | 36,372                        | (70,401)           | 33,236           |
| Less net loss attributable to noncontrolling interest           | —                | —                   | —                | (161)                         | —                  | (161)            |
| Net income attributable to NuStar Energy L.P.                   | <u>\$ 33,397</u> | <u>\$ 10,398</u>    | <u>\$ 23,470</u> | <u>\$ 36,533</u>              | <u>\$ (70,401)</u> | <u>\$ 33,397</u> |
| Comprehensive income  | \$ 33,397        | \$ 12,746           | \$ 23,470        | \$ 39,578                     | \$ (70,401)        | \$ 38,790        |
| Less comprehensive loss attributable to noncontrolling interest | —                | —                   | —                | (729)                         | —                  | (729)            |
| Comprehensive income attributable to NuStar Energy L.P.         | <u>\$ 33,397</u> | <u>\$ 12,746</u>    | <u>\$ 23,470</u> | <u>\$ 40,307</u>              | <u>\$ (70,401)</u> | <u>\$ 39,519</u> |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Comprehensive Income**  
**For the Nine Months Ended September 30, 2014**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy  | NuStar<br>Logistics | NuPOP             | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated      |
|---|-------------------|---------------------|-------------------|-------------------------------|---------------------|-------------------|
| Revenues  | \$ —              | \$ 369,308          | \$ 163,890        | \$ 1,869,240                  | \$ (9,058)          | \$ 2,393,380      |
| Costs and expenses  | 1,352             | 204,415             | 105,473           | 1,825,609                     | (9,024)             | 2,127,825         |
| Operating (loss) income   | (1,352)           | 164,893             | 58,417            | 43,631                        | (34)                | 265,555           |
| Equity in earnings (loss) of subsidiaries                       | 158,732           | (2,811)             | 46,874            | 105,293                       | (308,088)           | —                 |
| Equity in (loss) earnings of joint venture                      | —                 | (8,278)             | —                 | 10,015                        | —                   | 1,737             |
| Interest (expense) income, net                                  | —                 | (100,121)           | 38                | 592                           | —                   | (99,491)          |
| Other income (expense), net                                     | —                 | 524                 | (36)              | 1,328                         | —                   | 1,816             |
| Income from continuing operations before income tax expense     | 157,380           | 54,207              | 105,293           | 160,859                       | (308,122)           | 169,617           |
| Income tax expense  | 1                 | 628                 | 5                 | 9,683                         | —                   | 10,317            |
| Income from continuing operations                               | 157,379           | 53,579              | 105,288           | 151,176                       | (308,122)           | 159,300           |
| Loss from discontinued operations, net of tax                   | —                 | (181)               | —                 | (2,135)                       | —                   | (2,316)           |
| Net income  | 157,379           | 53,398              | 105,288           | 149,041                       | (308,122)           | 156,984           |
| Less net loss attributable to noncontrolling interest           | —                 | —                   | —                 | (395)                         | —                   | (395)             |
| Net income attributable to NuStar Energy L.P.                   | <u>\$ 157,379</u> | <u>\$ 53,398</u>    | <u>\$ 105,288</u> | <u>\$ 149,436</u>             | <u>\$ (308,122)</u> | <u>\$ 157,379</u> |
| Comprehensive income  | \$ 157,379        | \$ 65,183           | \$ 105,288        | \$ 140,083                    | \$ (308,122)        | \$ 159,811        |
| Less comprehensive loss attributable to noncontrolling interest | —                 | —                   | —                 | (828)                         | —                   | (828)             |
| Comprehensive income attributable to NuStar Energy L.P.         | <u>\$ 157,379</u> | <u>\$ 65,183</u>    | <u>\$ 105,288</u> | <u>\$ 140,911</u>             | <u>\$ (308,122)</u> | <u>\$ 160,639</u> |



**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Comprehensive Income**  
**For the Nine Months Ended September 30, 2013**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP            | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated     |
|---|------------------|---------------------|------------------|-------------------------------|---------------------|------------------|
| Revenues  | \$ —             | \$ 308,414          | \$ 151,189       | \$ 2,244,549                  | \$ (25,807)         | \$ 2,678,345     |
| Costs and expenses  | 1,438            | 179,298             | 104,311          | 2,209,992                     | (25,775)            | 2,469,264        |
| Operating (loss) income   | (1,438)          | 129,116             | 46,878           | 34,557                        | (32)                | 209,081          |
| Equity in earnings of subsidiaries                              | 92,486           | 15,779              | 20,750           | 62,614                        | (191,629)           | —                |
| Equity in (loss) earnings of joint ventures                     | —                | (31,713)            | —                | 5,084                         | —                   | (26,629)         |
| Interest (expense) income, net                                  | —                | (83,788)            | (4,941)          | 440                           | —                   | (88,289)         |
| Other income (loss), net  | —                | 2,466               | (65)             | 1,516                         | —                   | 3,917            |
| Income from continuing operations before income tax expense     | 91,048           | 31,860              | 62,622           | 104,211                       | (191,661)           | 98,080           |
| Income tax expense  | —                | 420                 | 4                | 7,663                         | —                   | 8,087            |
| Income from continuing operations                               | 91,048           | 31,440              | 62,618           | 96,548                        | (191,661)           | 89,993           |
| (Loss) income from discontinued operations, net of tax          | —                | (1,624)             | —                | 2,240                         | —                   | 616              |
| Net income  | 91,048           | 29,816              | 62,618           | 98,788                        | (191,661)           | 90,609           |
| Less net loss attributable to noncontrolling interest           | —                | —                   | —                | (439)                         | —                   | (439)            |
| Net income attributable to NuStar Energy L.P.                   | <u>\$ 91,048</u> | <u>\$ 29,816</u>    | <u>\$ 62,618</u> | <u>\$ 99,227</u>              | <u>\$ (191,661)</u> | <u>\$ 91,048</u> |
| Comprehensive income  | \$ 91,048        | \$ 43,306           | \$ 62,618        | \$ 84,731                     | \$ (191,661)        | \$ 90,042        |
| Less comprehensive loss attributable to noncontrolling interest | —                | —                   | —                | (2,206)                       | —                   | (2,206)          |
| Comprehensive income attributable to NuStar Energy L.P.         | <u>\$ 91,048</u> | <u>\$ 43,306</u>    | <u>\$ 62,618</u> | <u>\$ 86,937</u>              | <u>\$ (191,661)</u> | <u>\$ 92,248</u> |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2014**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP       | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated     |
|---|------------------|---------------------|-------------|-------------------------------|--------------|------------------|
| Net cash provided by operating activities                   | \$ 292,757       | \$ 133,967          | \$ 76,913   | \$ 203,783                    | \$ (392,225) | \$ 315,195       |
| Cash flows from investing activities:                       |                  |                     |             |                               |              |                  |
| Capital expenditures  | —                | (174,296)           | (6,308)     | (48,944)                      | —            | (229,548)        |
| Change in accounts payable related to capital expenditures  | —                | 18,470              | 81          | (7,641)                       | —            | 10,910           |
| Proceeds from sale or disposition of assets                 | —                | 651                 | 13          | 25,311                        | —            | 25,975           |
| Increase in note receivable from related party              | —                | (13,328)            | —           | —                             | —            | (13,328)         |
| Other, net  | —                | (46)                | —           | (830)                         | 23           | (853)            |
| Net cash used in investing activities                       | —                | (168,549)           | (6,214)     | (32,104)                      | 23           | (206,844)        |
| Cash flows from financing activities:                       |                  |                     |             |                               |              |                  |
| Debt borrowings   | —                | 742,636             | —           | —                             | —            | 742,636          |
| Debt repayments   | —                | (635,069)           | —           | —                             | —            | (635,069)        |
| Distributions to unitholders and general partner            | (294,153)        | (196,101)           | (98,052)    | (98,072)                      | 392,225      | (294,153)        |
| Net intercompany borrowings (repayments)                    | 1,405            | 100,930             | 27,353      | (129,688)                     | —            | —                |
| Other, net  | —                | (114)               | —           | 2,677                         | (23)         | 2,540            |
| Net cash (used in) provided by financing activities         | (292,748)        | 12,282              | (70,699)    | (225,083)                     | 392,202      | (184,046)        |
| Effect of foreign exchange rate changes on cash             | —                | —                   | —           | 638                           | —            | 638              |
| Net increase (decrease) in cash and cash equivalents        | 9                | (22,300)            | —           | (52,766)                      | —            | (75,057)         |
| Cash and cash equivalents as of the beginning of the period | 904              | 22,307              | —           | 77,532                        | —            | 100,743          |
| Cash and cash equivalents as of the end of the period       | <u>\$ 913</u>    | <u>\$ 7</u>         | <u>\$ —</u> | <u>\$ 24,766</u>              | <u>\$ —</u>  | <u>\$ 25,686</u> |

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Condensed Consolidating Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2013**  
**(Thousands of Dollars)**

|   | NuStar<br>Energy | NuStar<br>Logistics | NuPOP     | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------|-----------|-------------------------------|--------------|--------------|
| Net cash provided by operating activities                   | \$ 292,499       | \$ 159,157          | \$ 50,587 | \$ 170,479                    | \$ (294,182) | \$ 378,540   |
| Cash flows from investing activities:                       |                  |                     |           |                               |              |              |
| Capital expenditures  | —                | (181,580)           | (13,449)  | (65,672)                      | —            | (260,701)    |
| Change in accounts payable related to capital expenditures  | —                | (5,419)             | 1,534     | 1,006                         | —            | (2,879)      |
| Proceeds from sale or disposition of assets                 | —                | 116,348             | 28        | 91                            | —            | 116,467      |
| Increase in note receivable from related party              | —                | (50,761)            | —         | —                             | —            | (50,761)     |
| Other, net  | —                | 15                  | —         | —                             | 141          | 156          |
| Net cash used in investing activities                       | —                | (121,397)           | (11,887)  | (64,575)                      | 141          | (197,718)    |
| Cash flows from financing activities:                       |                  |                     |           |                               |              |              |
| Debt borrowings   | —                | 1,299,220           | —         | —                             | —            | 1,299,220    |
| Note offering, net  | —                | 687,151             | —         | —                             | —            | 687,151      |
| Debt repayments   | —                | (1,647,182)         | (250,000) | —                             | —            | (1,897,182)  |
| Distributions to unitholders and general partner            | (294,153)        | (294,153)           | —         | (29)                          | 294,182      | (294,153)    |
| Payments for termination of interest rate swaps             | —                | (33,697)            | —         | —                             | —            | (33,697)     |
| Net intercompany borrowings (repayments)                    | (5,047)          | (53,557)            | 211,300   | (152,696)                     | —            | —            |
| Other, net  | (46)             | 3,355               | —         | —                             | (141)        | 3,168        |
| Net cash used in financing activities                       | (299,246)        | (38,863)            | (38,700)  | (152,725)                     | 294,041      | (235,493)    |
| Effect of foreign exchange rate changes on cash             | —                | —                   | —         | (4,412)                       | —            | (4,412)      |
| Net decrease in cash and cash equivalents                   | (6,747)          | (1,103)             | —         | (51,233)                      | —            | (59,083)     |
| Cash and cash equivalents as of the beginning of the period | 7,033            | 1,112               | —         | 75,457                        | —            | 83,602       |
| Cash and cash equivalents as of the end of the period       | \$ 286           | \$ 9                | \$ —      | \$ 24,224                     | \$ —         | \$ 24,519    |

## 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," "will," "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, 2013, 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 we are 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) (NYSE: NS) is a publicly held Delaware limited partnership engaged in the transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. 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 15.1% total interest in us as of September 30, 2014. Our Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in seven sections:

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

### Dispositions

*Asphalt JV Sale.* On February 26, 2014, we sold our remaining 50% ownership interest in NuStar Asphalt LLC to Lindsay Goldberg LLC (Lindsay Goldberg), a private investment firm (the Asphalt JV Sale). Effective February 27, 2014, NuStar Asphalt LLC changed its name to Axeon Specialty Products LLC (Axeon). Lindsay Goldberg now owns 100% of Axeon. As a result of the Asphalt JV Sale, we ceased applying the equity method of accounting. Upon completion of the Asphalt JV Sale, the parties agreed to: (i) convert the \$250.0 million unsecured revolving credit facility provided by us to Axeon (the NuStar JV Facility) from a revolving credit agreement into a \$190.0 million term loan (the Axeon Term Loan); (ii) terminate the terminal services agreements with respect to our terminals in Rosario, NM, Catoosa, OK and Houston, TX; (iii) amend the terminal services agreements for our terminals in Baltimore, MD and Jacksonville, FL; and (iv) transfer ownership of both the Wilmington, NC and Dumfries, VA terminals to Axeon, which were categorized as assets held for sale at December 31, 2013.

*Terminal Facilities Held for Sale.* In addition to the terminals located in Wilmington, NC and Dumfries, VA, we have identified and plan to divest several non-strategic, underperforming terminal facilities. As a result, we have classified the property, plant and equipment associated with these assets as "Assets held for sale" on the consolidated balance sheets. We presented the results of operations for these assets, which were previously reported in the storage segment, as discontinued operations for all periods presented. In September 2014, we sold our 75% interest in our facility in Mersin, Turkey for total proceeds of \$13.4 million (the Turkey Sale). We recognized a gain of \$3.7 million, which is included in discontinued operations for the three and nine months ended September 30, 2014. In June 2014, we sold three terminals located in Mobile, AL with an aggregate storage capacity of 1.8 million barrels for total proceeds of \$13.7 million.

[Table of Contents](#)

*San Antonio Refinery Sale.* On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets for approximately \$117.0 million (the San Antonio Refinery Sale). We have presented the results of operations for the San Antonio Refinery and related assets as discontinued operations for all periods presented. 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.

**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: pipeline, storage and fuels marketing.

*Pipeline.* We own common carrier refined product pipelines covering approximately 5,463 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. In addition, we own a 2,000 mile anhydrous ammonia pipeline (the Ammonia Pipeline), 1,180 miles of crude oil pipelines and approximately 10.0 million barrels of storage capacity located along our 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 the Ammonia Pipeline.

*Storage.* We own terminals and storage facilities in the United States, Canada, Mexico, the Netherlands, including St. Eustatius in the Caribbean, and the United Kingdom providing approximately 81.0 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.

*Fuels Marketing.* Within our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. The results of operations for the 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 results of operations of the pipeline and storage 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;
- 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 fuels marketing segment; and
- other factors, such as refinery utilization rates and maintenance turnaround schedules, that impact the operations of refineries served by our pipeline and storage assets.

**RESULTS OF OPERATIONS***Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013***Financial Highlights**

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

|   | Three Months Ended<br>September 30, |                  | Change           |
|---|-------------------------------------|------------------|------------------|
|   | 2014                                | 2013             |                  |
| <b>Statement of Income Data:</b>                                  |                                     |                  |                  |
| <b>Revenues:</b>  |                                     |                  |                  |
| Service revenues  | \$ 266,651                          | \$ 243,712       | \$ 22,939        |
| Product sales   | 527,771                             | 534,433          | (6,662)          |
| <b>Total revenues</b>   | <b>794,422</b>                      | <b>778,145</b>   | <b>16,277</b>    |
| <b>Costs and expenses:</b>  |                                     |                  |                  |
| Cost of product sales   | 509,794                             | 527,217          | (17,423)         |
| Operating expenses  | 115,964                             | 117,101          | (1,137)          |
| General and administrative expenses                               | 24,967                              | 18,831           | 6,136            |
| Depreciation and amortization expense                             | 48,599                              | 46,245           | 2,354            |
| <b>Total costs and expenses</b>                                   | <b>699,324</b>                      | <b>709,394</b>   | <b>(10,070)</b>  |
| <b>Operating income</b>   | <b>95,098</b>                       | <b>68,751</b>    | <b>26,347</b>    |
| Equity in earnings (loss) of joint ventures                       | 2,749                               | (5,358)          | 8,107            |
| Interest expense, net   | (33,007)                            | (30,823)         | (2,184)          |
| Interest income from related party                                | —                                   | 1,828            | (1,828)          |
| Other (expense) income, net                                       | (1,388)                             | 1,389            | (2,777)          |
| Income from continuing operations before income tax expense       | 63,452                              | 35,787           | 27,665           |
| Income tax expense  | 4,335                               | 105              | 4,230            |
| <b>Income from continuing operations</b>                          | <b>59,117</b>                       | <b>35,682</b>    | <b>23,435</b>    |
| Income (loss) from discontinued operations, net of tax            | 2,831                               | (2,446)          | 5,277            |
| <b>Net income</b>   | <b>\$ 61,948</b>                    | <b>\$ 33,236</b> | <b>\$ 28,712</b> |
| <b>Net income (loss) per unit applicable to limited partners:</b> |                                     |                  |                  |
| Continuing operations   | \$ 0.61                             | \$ 0.31          | \$ 0.30          |
| Discontinued operations   | 0.03                                | (0.03)           | 0.06             |
| <b>Total</b>  | <b>\$ 0.64</b>                      | <b>\$ 0.28</b>   | <b>\$ 0.36</b>   |
| Weighted-average limited partner units outstanding                | 77,886,078                          | 77,886,078       | —                |

**Highlights**

Net income increased \$28.7 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, mainly due to an increase of \$32.4 million in segment operating income, resulting from improvements in all three reportable segments.

**Segment Operating Highlights**  
(Thousands of Dollars, Except Barrels/Day Information)

|   | Three Months Ended<br>September 30, |            | Change     |
|---|-------------------------------------|------------|------------|
|   | 2014                                | 2013       |            |
| <b>Pipeline:</b>                                    |                                     |            |            |
| Refined products pipelines throughput (barrels/day) | 514,361                             | 501,511    | 12,850     |
| Crude oil pipelines throughput (barrels/day)        | 471,698                             | 382,539    | 89,159     |
| Total throughput (barrels/day)                      | 986,059                             | 884,050    | 102,009    |
| Throughput revenues                                 | \$ 125,461                          | \$ 111,508 | \$ 13,953  |
| Operating expenses                                  | 39,996                              | 36,089     | 3,907      |
| Depreciation and amortization expense               | 19,813                              | 17,401     | 2,412      |
| Segment operating income                            | \$ 65,652                           | \$ 58,018  | \$ 7,634   |
| <b>Storage:</b>                                     |                                     |            |            |
| Throughput (barrels/day)                            | 914,599                             | 832,412    | 82,187     |
| Throughput revenues                                 | \$ 32,498                           | \$ 27,937  | \$ 4,561   |
| Storage lease revenues                              | 111,447                             | 110,671    | 776        |
| Total revenues                                      | 143,945                             | 138,608    | 5,337      |
| Operating expenses                                  | 68,244                              | 71,251     | (3,007)    |
| Depreciation and amortization expense               | 26,300                              | 26,306     | (6)        |
| Segment operating income                            | \$ 49,401                           | \$ 41,051  | \$ 8,350   |
| <b>Fuels Marketing:</b>                             |                                     |            |            |
| Product sales and other revenue                     | \$ 531,190                          | \$ 534,919 | \$ (3,729) |
| Cost of product sales                               | 513,300                             | 531,481    | (18,181)   |
| Gross margin  | 17,890                              | 3,438      | 14,452     |
| Operating expenses                                  | 10,367                              | 12,510     | (2,143)    |
| Depreciation and amortization expense               | 5                                   | 7          | (2)        |
| Segment operating income (loss)                     | \$ 7,518                            | \$ (9,079) | \$ 16,597  |
| <b>Consolidation and Intersegment Eliminations:</b> |                                     |            |            |
| Revenues  | \$ (6,174)                          | \$ (6,890) | \$ 716     |
| Cost of product sales                               | (3,506)                             | (4,264)    | 758        |
| Operating expenses                                  | (2,643)                             | (2,749)    | 106        |
| Total   | \$ (25)                             | \$ 123     | \$ (148)   |
| <b>Consolidated Information:</b>                    |                                     |            |            |
| Revenues  | \$ 794,422                          | \$ 778,145 | \$ 16,277  |
| Cost of product sales                               | 509,794                             | 527,217    | (17,423)   |
| Operating expenses                                  | 115,964                             | 117,101    | (1,137)    |
| Depreciation and amortization expense               | 46,118                              | 43,714     | 2,404      |
| Segment operating income                            | 122,546                             | 90,113     | 32,433     |
| General and administrative expenses                 | 24,967                              | 18,831     | 6,136      |
| Other depreciation and amortization expense         | 2,481                               | 2,531      | (50)       |
| Consolidated operating income                       | \$ 95,098                           | \$ 68,751  | \$ 26,347  |

**Pipeline**

Revenues increased \$14.0 million and throughputs increased 102,009 barrels per day for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to:

- an increase in revenues of \$10.2 million and an increase in throughputs of 79,880 barrels per day on crude oil pipelines that serve Eagle Ford Shale production in South Texas, primarily resulting from continued growth in the region and the completion of expansion projects in 2014 and mid-third quarter of 2013 that have increased our South Texas crude oil pipeline system's overall capacity; and
- an increase in revenues of \$2.0 million and an increase in throughputs of 20,356 barrels per day on pipelines serving the McKee refinery due to higher overall production by the McKee refinery this period compared to the third quarter of 2013.

Operating expenses increased \$3.9 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to increased regulatory and maintenance expenses of \$1.6 million associated with our Ammonia Pipeline and East Pipeline and an increase in power costs of \$1.2 million mainly due to the increase in throughputs on pipelines that serve Eagle Ford Shale production in South Texas.

Depreciation and amortization expense increased \$2.4 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, mainly due to the completion of various projects that serve Eagle Ford Shale production.

**Storage**

Throughput revenues increased \$4.6 million and throughputs increased 82,187 barrels per day for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to

- an increase in revenues of \$3.2 million and an increase in throughputs of 52,112 barrels per day at our Corpus Christi North Beach terminal due to an increase in Eagle Ford Shale crude oil being shipped to Corpus Christi and the completion of a new dock in the first quarter of 2014;
- an increase in revenues of \$0.7 million and an increase in throughputs of 13,679 barrels per day at terminals serving the McKee refinery and the Paulsboro terminal due to higher demand in those markets; and
- an increase in revenues of \$0.3 million and an increase in throughputs of 15,513 barrels per day at our Texas City crude oil storage tank facility due to the timing of shipments.

Storage lease revenues increased \$0.8 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to:

- an increase of \$2.1 million at our St. James terminal, mainly due to higher revenues resulting from the completion of another unit train offloading facility in the fourth quarter of 2013 and storage rate increases; and
- an increase of \$1.6 million at our UK terminal due to the effect of foreign exchange rates, increased storage rates and increased throughput and related handling fees.

The increases in storage lease revenues were partially offset by a decrease of \$3.3 million, mostly at our West Coast terminals, as a result of reduced demand.

Operating expenses decreased \$3.0 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to reduced maintenance and regulatory expenses, mainly in our St. Eustatius terminal and West Coast terminals.

**Fuels Marketing**

Segment operating income increased \$16.6 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to increased segment operating income of \$15.5 million from our bunker fuel operations, mainly resulting from improved product margins and decreased vessel lease and fuel costs.

**Consolidation and Intersegment Eliminations**

Revenue and operating expense eliminations primarily relate to storage fees charged to the fuels marketing segment by the storage segment. Cost of product sales eliminations represent expenses charged to the fuels marketing segment for costs associated with inventory that are expensed once the inventory is sold.

**General**

General and administrative expenses increased \$6.1 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily as a result of higher compensation expense associated with our long-term incentive plans, which fluctuates with our unit price, and the termination of a services agreement between Axon and NuStar



[Table of Contents](#)

GP, LLC in June 2014, under which Axeon reimbursed us for certain corporate support services. These increases were partially offset by decreased employee benefit costs.

We recorded equity in earnings of joint ventures of \$2.7 million for the three months ended September 30, 2014, compared to a loss in equity of joint ventures of \$5.4 million for the three months ended September 30, 2013, primarily due to losses of \$8.2 million from our investment in Axeon for the three months ended September 30, 2013.

Interest expense, net increased \$2.2 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, mainly due to the issuance of \$300.0 million of 6.75% senior notes in August 2013.

Interest income from related party represents the interest earned on the NuStar JV Facility prior to the Asphalt JV Sale.

Other (expense) income, net changed by \$2.8 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, mainly due to changes in foreign exchange rates related to our foreign subsidiaries.

Income tax expense increased \$4.2 million for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, mainly due to increased taxable income in our corporate subsidiaries.

For the three months ended September 30, 2014, we recorded income from discontinued operations of \$2.8 million, compared to a loss from discontinued operations of \$2.4 million for the three months ended September 30, 2013. Discontinued operations include the results of operations of certain storage assets that were classified as "Assets held for sale" on the consolidated balance sheet beginning December 31, 2013, as well as the results of operations of the San Antonio Refinery and related assets, which we sold on January 1, 2013. Income from discontinued operations for the three months ended September 30, 2014 includes a gain of \$3.7 million related to the Turkey Sale.

*Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013*

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

|   | Nine Months Ended<br>September 30, |                  | Change           |
|---|------------------------------------|------------------|------------------|
|   | 2014                               | 2013             |                  |
| <b>Statement of Income Data:</b>                                  |                                    |                  |                  |
| <b>Revenues:</b>  |                                    |                  |                  |
| Service revenues  | \$ 755,551                         | \$ 700,922       | \$ 54,629        |
| Product sales   | 1,637,829                          | 1,977,423        | (339,594)        |
| <b>Total revenues</b>   | <b>2,393,380</b>                   | <b>2,678,345</b> | <b>(284,965)</b> |
| <b>Costs and expenses:</b>  |                                    |                  |                  |
| Cost of product sales   | 1,578,508                          | 1,928,237        | (349,729)        |
| Operating expenses  | 337,566                            | 341,933          | (4,367)          |
| General and administrative expenses                               | 68,986                             | 65,978           | 3,008            |
| Depreciation and amortization expense                             | 142,765                            | 133,116          | 9,649            |
| <b>Total costs and expenses</b>                                   | <b>2,127,825</b>                   | <b>2,469,264</b> | <b>(341,439)</b> |
| <b>Operating income</b>   | <b>265,555</b>                     | <b>209,081</b>   | <b>56,474</b>    |
| Equity in earnings (loss) of joint ventures                       | 1,737                              | (26,629)         | 28,366           |
| Interest expense, net   | (100,546)                          | (92,849)         | (7,697)          |
| Interest income from related party                                | 1,055                              | 4,560            | (3,505)          |
| Other income, net   | 1,816                              | 3,917            | (2,101)          |
| Income from continuing operations before income tax expense       | 169,617                            | 98,080           | 71,537           |
| Income tax expense  | 10,317                             | 8,087            | 2,230            |
| <b>Income from continuing operations</b>                          | <b>159,300</b>                     | <b>89,993</b>    | <b>69,307</b>    |
| (Loss) income from discontinued operations, net of tax            | (2,316)                            | 616              | (2,932)          |
| <b>Net income</b>   | <b>\$ 156,984</b>                  | <b>\$ 90,609</b> | <b>\$ 66,375</b> |
| <b>Net income (loss) per unit applicable to limited partners:</b> |                                    |                  |                  |
| Continuing operations   | \$ 1.59                            | \$ 0.71          | \$ 0.88          |
| Discontinued operations   | (0.03)                             | 0.02             | (0.05)           |
| <b>Total</b>  | <b>\$ 1.56</b>                     | <b>\$ 0.73</b>   | <b>\$ 0.83</b>   |
| Weighted-average limited partner units outstanding                | 77,886,078                         | 77,886,078       | —                |

**Highlights**

Net income increased \$66.4 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, mainly due to an increase in segment operating income of \$59.5 million, primarily resulting from improvements in our pipeline and fuels marketing segments. Additionally, we recorded equity in earnings of joint ventures of \$1.7 million for the nine months ended September 30, 2014, compared to a loss in equity of joint ventures of \$26.6 million for the nine months ended September 30, 2013, primarily due to losses from our investment in Axeon in 2013.

**Segment Operating Highlights**  
(Thousands of Dollars, Except Barrels/Day Information)

|   | Nine Months Ended<br>September 30, |              | Change       |
|---|------------------------------------|--------------|--------------|
|   | 2014                               | 2013         |              |
| <b>Pipeline:</b>                                    |                                    |              |              |
| Refined products pipelines throughput (barrels/day) | 503,059                            | 477,601      | 25,458       |
| Crude oil pipelines throughput (barrels/day)        | 419,824                            | 361,642      | 58,182       |
| Total throughput (barrels/day)                      | 922,883                            | 839,243      | 83,640       |
| Throughput revenues                                 | \$ 346,218                         | \$ 301,761   | \$ 44,457    |
| Operating expenses                                  | 109,685                            | 102,596      | 7,089        |
| Depreciation and amortization expense               | 57,655                             | 50,039       | 7,616        |
| Segment operating income                            | \$ 178,878                         | \$ 149,126   | \$ 29,752    |
| <b>Storage:</b>                                     |                                    |              |              |
| Throughput (barrels/day)                            | 877,052                            | 772,383      | 104,669      |
| Throughput revenues                                 | \$ 91,184                          | \$ 76,924    | \$ 14,260    |
| Storage lease revenues                              | 330,313                            | 346,040      | (15,727)     |
| Total revenues                                      | 421,497                            | 422,964      | (1,467)      |
| Operating expenses                                  | 202,602                            | 208,116      | (5,514)      |
| Depreciation and amortization expense               | 77,480                             | 75,429       | 2,051        |
| Segment operating income                            | \$ 141,415                         | \$ 139,419   | \$ 1,996     |
| <b>Fuels Marketing:</b>                             |                                    |              |              |
| Product sales and other revenue                     | \$ 1,645,812                       | \$ 1,978,531 | \$ (332,719) |
| Cost of product sales                               | 1,590,605                          | 1,944,415    | (353,810)    |
| Gross margin  | 55,207                             | 34,116       | 21,091       |
| Operating expenses                                  | 33,294                             | 41,336       | (8,042)      |
| Depreciation and amortization expense               | 16                                 | 20           | (4)          |
| Segment operating income (loss)                     | \$ 21,897                          | \$ (7,240)   | \$ 29,137    |
| <b>Consolidation and Intersegment Eliminations:</b> |                                    |              |              |
| Revenues  | \$ (20,147)                        | \$ (24,911)  | \$ 4,764     |
| Cost of product sales                               | (12,097)                           | (16,178)     | 4,081        |
| Operating expenses                                  | (8,015)                            | (10,115)     | 2,100        |
| Total   | \$ (35)                            | \$ 1,382     | \$ (1,417)   |
| <b>Consolidated Information:</b>                    |                                    |              |              |
| Revenues  | \$ 2,393,380                       | \$ 2,678,345 | \$ (284,965) |
| Cost of product sales                               | 1,578,508                          | 1,928,237    | (349,729)    |
| Operating expenses                                  | 337,566                            | 341,933      | (4,367)      |
| Depreciation and amortization expense               | 135,151                            | 125,488      | 9,663        |
| Segment operating income                            | 342,155                            | 282,687      | 59,468       |
| General and administrative expenses                 | 68,986                             | 65,978       | 3,008        |
| Other depreciation and amortization expense         | 7,614                              | 7,628        | (14)         |
| Consolidated operating income                       | \$ 265,555                         | \$ 209,081   | \$ 56,474    |

### ***Pipeline***

Revenues increased \$44.5 million and throughputs increased 83,640 barrels per day for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to:

- an increase in revenues of \$25.8 million and an increase in throughputs of 48,559 barrels per day on crude oil pipelines that serve Eagle Ford Shale production in South Texas, primarily resulting from continued growth in the region and the completion of expansion projects in 2014 and the third quarter of 2013 that have increased our South Texas crude oil pipeline system's overall capacity;
- an increase in revenues of \$5.5 million and an increase in throughputs of 5,982 barrels per day on the East Pipeline due to higher demand;
- an increase in revenues of \$5.1 million and an increase in throughputs of 24,310 barrels per day on pipelines serving the McKee refinery mainly due to increased production by the McKee refinery in 2014; and
- an increase in revenues of \$4.8 million and an increase in throughputs of 4,850 barrels per day on the Ammonia Pipeline mainly due to favorable weather conditions during this period compared to the same period last year.

Operating expenses increased \$7.1 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to:

- a \$6.5 million gain in 2013 for the reduction of the contingent consideration liability recorded in association with the TexStar Asset Acquisition;
- an increase of \$3.2 million in power costs, mainly due to the increase in throughputs on pipelines that serve Eagle Ford Shale production in South Texas, the East Pipeline and the Ammonia Pipeline; and
- an increase of \$2.7 million in maintenance and regulatory expenses, mainly associated with our East Pipeline and Ammonia Pipeline.

These increases were partially offset by decreased rental costs of \$1.5 million, mainly associated with our South Texas crude oil pipelines acquired in late 2012, and decreased employee-related costs of \$3.1 million.

Depreciation and amortization expense increased \$7.6 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, mainly due to the completion of various projects that serve Eagle Ford Shale production.

### ***Storage***

Throughput revenues increased \$14.3 million and throughputs increased 104,669 barrels per day for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013 primarily due to:

- an increase in revenues of \$10.0 million and an increase in throughputs of 52,261 barrels per day at our Corpus Christi North Beach terminal due to an increase in Eagle Ford Shale crude oil being shipped to Corpus Christi and the completion of a new dock in the first quarter of 2014;
- an increase in revenues of \$2.4 million and an increase in throughputs of 43,227 barrels per day as a result of turnarounds and operational issues during the first quarter of 2013 at the refineries served by our Corpus Christi and Texas City crude oil storage tank facilities; and
- an increase in revenues of \$1.3 million and an increase in throughputs of 8,146 barrels per day at terminals serving the McKee refinery due to higher demand in those markets.

Storage lease revenues decreased \$15.7 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to:

- a decrease of \$14.5 million, mostly at our West Coast terminals, as a result of reduced demand;
- a decrease of \$3.5 million at our St. James terminal, mainly due to the narrowing price differential on two traded crude oil grades (WTI and LLS) that reduced our profit sharing and volumes delivered to one of our unit train offloading facilities. This decrease was partially offset by increased revenues resulting from the completion of another unit train offloading facility in the fourth quarter of 2013, new revenue contracts and rate increases; and
- a decrease of \$2.5 million at our St. Eustatius terminal facility, mainly due to reduced demand.

The declines in storage lease revenues were partially offset by an increase of \$5.6 million at our UK terminal, mainly due to the effect of foreign exchange rates and increased throughput and related handling fees.

Operating expenses decreased \$5.5 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to reduced maintenance and regulatory expenses of \$2.8 million, mainly at in our West Coast and Gulf Coast terminals, and a decrease of \$2.3 million in internal overhead, mainly due to lower employee-related costs.

[Table of Contents](#)

Depreciation and amortization expense increased \$2.1 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to the completion of a unit train offloading facility in the fourth quarter of 2013 at our St. James terminal.

***Fuels Marketing***

Segment operating income increased \$29.1 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily due to increased segment operating income of \$31.0 million from our bunker fuel operations. The increase in segment operating income from our bunker fuel operations was mainly due to improved product margins and decreased vessel lease and fuel costs. The increase in segment operating income from our bunker fuel operations was partially offset by decreased segment operating income of \$3.1 million in fuel oil trading, mainly resulting from lower product margins due to a lack of supply for blend components.

***Consolidation and Intersegment Eliminations***

Revenue and operating expense eliminations primarily relate to storage fees charged to the fuels marketing segment by the storage segment. Cost of product sales eliminations represent expenses charged to the fuels marketing segment for costs associated with inventory that are expensed once the inventory is sold.

***General***

General and administrative expenses increased \$3.0 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, primarily as a result of higher compensation expense associated with our long-term incentive plans, which fluctuates with our unit price, and the termination of a services agreement between Axeon and NuStar GP, LLC in June 2014, under which Axeon reimbursed us for certain corporate support services. These increases were partially offset by decreased employee benefit costs.

We recorded equity in earnings of joint ventures of \$1.7 million for the nine months ended September 30, 2014, compared to a loss in equity of joint ventures of \$26.6 million for the nine months ended September 30, 2013, primarily due to losses of \$31.7 million from our investment in Axeon for the nine months ended September 30, 2013.

Interest expense, net increased \$7.7 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, mainly due to the issuance of \$300.0 million of 6.75% senior notes in August 2013.

Interest income from related party represents the interest earned on the NuStar JV Facility prior to the Asphalt JV Sale.

Other income, net decreased \$2.1 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, mainly due to changes in foreign exchange rates related to our foreign subsidiaries.

Income tax expense increased \$2.2 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, mainly due to increased taxable income in our corporate subsidiaries.

For the nine months ended September 30, 2014, we recorded a loss from discontinued operations of \$2.3 million, compared to income from discontinued operations of \$0.6 million for the nine months ended September 30, 2013. The loss from discontinued operations for the nine months ended September 30, 2014 includes a gain of \$3.7 million related to the Turkey Sale, while income from discontinued operations for the nine months ended September 30, 2013 includes a gain of \$9.3 million related to the San Antonio Refinery Sale.

## TRENDS AND OUTLOOK

### *Pipeline Segment*

We expect our pipeline segment earnings for the fourth quarter of 2014 to exceed the comparable period in 2013, mainly due to higher throughputs on our pipelines serving the Eagle Ford Shale region. These increased throughputs are being driven by continued growth in the region, as well as by several expansion projects we completed in the first half of 2014, which increased our system's overall capacity. Due to higher maintenance expense in the fourth quarter as a result of project delays from earlier in the year, we expect our fourth quarter of 2014 earnings to be comparable to the third quarter of 2014.

We expect our full-year earnings for 2014 to exceed 2013 mainly due to the benefit of the increased throughputs described above, reduced turnaround activity at our customers' refineries and the July 1, 2014 tariff increase on pipelines regulated by the Federal Energy Regulatory Commission.

### *Storage Segment*

We expect storage segment earnings for the fourth quarter of 2014 to be comparable to the fourth quarter of 2013, but lower than the third quarter of 2014, due to higher maintenance expense in the fourth quarter as a result of project delays from earlier in the year at certain terminals.

Full-year earnings for 2014 are expected to be comparable to 2013, excluding the impairment charges in 2013. Higher earnings in 2014 at our North Beach terminal and from the second rail-car unloading facility at our St. James terminal are expected to be offset by weak West Coast storage demand and the narrowing price differential of two widely traded crude oil grades (LLS and WTI). This narrowing LLS/WTI differential reduces demand for the unit train services we provide at our St. James terminal, which has a negative impact on our profit sharing results and terminal service revenues.

### *Fuels Marketing Segment*

We expect fourth quarter of 2014 results for our fuels marketing segment to be comparable to the third quarter of 2014 and the fourth quarter of 2013. We expect the full-year 2014 results in this segment to exceed 2013 results mainly due to the benefit from improvements in the bunker fuel operations. However, earnings in this segment, as in any margin-based business, are subject to many factors that can raise or lower margins, which may cause the segment's actual results to vary significantly from our forecast.

Our outlook for the partnership, and for any of our segments, may change as it is based on our continuing evaluation of a number of factors, including factors outside our control, such as the price of crude oil, the state of the economy, changes to refinery maintenance schedules, demand for crude oil, refined products and ammonia, demand for our transportation and storage services, and changes in laws or regulations affecting our assets.

**LIQUIDITY AND CAPITAL RESOURCES****Overview**

*Primary Cash Requirements.* Our primary cash requirements are for distributions to our partners, working capital (including inventory purchases), debt service, capital expenditures, including reliability capital, a financing agreement with Axeon, acquisitions and operating expenses.

Our partnership agreement requires that we distribute all “Available Cash” to our partners each quarter, and this term is defined in the partnership agreement as cash on hand at the end of the quarter, plus certain permitted borrowings made subsequent to the end of the quarter, less cash reserves determined by our board of directors.

*Sources of Funds.* Each year, we work to fund our annual total operating expenses, interest expense, reliability capital expenditures and distribution requirements with our net cash provided by operating activities during that year. If we do not generate sufficient cash from operations to meet those requirements, we utilize other sources of cash flow, which in the past have included borrowings under our \$1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement), sales of non-strategic assets 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 the 2012 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. Our risk factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 describe the risks inherent to these sources of funding and the availability thereof.

During periods that our cash flow from operations is less than our distribution and reliability capital requirements, we may maintain our distribution level because we can utilize other sources of Available Cash, as provided in our partnership agreement, including borrowing under the 2012 Revolving Credit Agreement and the proceeds from the sales of assets. Our risk factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 describe the risks inherent in our ability to maintain or grow the distribution.

*Cash Requirements and Sources in 2014 and 2013.* For the year ended December 31, 2013, our cash flow from operations was sufficient to cover our distributions to our partners and our reliability capital expenditures, mainly due to our strategic redirection discussed previously in the Trends and Outlook section in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013. For 2014, we currently expect to produce cash from operations in excess of our distribution. We also expect to fund our reliability capital expenditures with cash from operations as well as from other sources of liquidity as described below.

**Cash Flows for the Nine Months Ended September 30, 2014 and 2013**

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

|   | Nine Months Ended<br>September 30, |                    |
|---|------------------------------------|--------------------|
|   | 2014                               | 2013               |
| (Thousands of Dollars)                          |                                    |                    |
| Net cash provided by (used in):                 |                                    |                    |
| Operating activities                            | \$ 315,195                         | \$ 378,540         |
| Investing activities                            | (206,844)                          | (197,718)          |
| Financing activities                            | (184,046)                          | (235,493)          |
| Effect of foreign exchange rate changes on cash | 638                                | (4,412)            |
| Net decrease in cash and cash equivalents       | <u>\$ (75,057)</u>                 | <u>\$ (59,083)</u> |

Net cash provided by operating activities for the nine months ended September 30, 2014 was \$315.2 million, compared to \$378.5 million for the nine months ended September 30, 2013. Changes in current assets and current liabilities generated \$1.1 million for the nine months ended September 30, 2014, compared to \$116.8 million for the nine months ended September 30, 2013. Please refer to the Working Capital Requirements section below for a discussion of the changes in working capital.

For the nine months ended September 30, 2014, net cash provided by operating activities was used to fund our distributions to unitholders and our general partner and reliability capital expenditures. Proceeds from debt borrowings, net of repayments, combined with cash on hand and proceeds from the sales of assets, were used to fund strategic capital expenditures and advances to Axeon under the Axeon Term Loan.

For the nine months ended September 30, 2013, net cash provided by operating activities exceeded our distribution requirements and reliability capital expenditures. Proceeds from the San Antonio Refinery Sale and proceeds from long-term debt borrowings, net of repayments, combined with net cash provided by operating activities and cash on hand, were used to fund strategic capital expenditures and advances to Axeon under the NuStar JV Facility.

#### ***Revolving Credit Agreement***

As of September 30, 2014, our consolidated debt coverage ratio was 4.0x, and we had \$839.1 million available for borrowing. Due to a covenant in the 2012 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. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on the 2012 Revolving Credit Agreement.

On October 29, 2014, we amended and restated the 2012 Revolving Credit Agreement primarily to reduce the interest rate, to extend the maturity to October 29, 2019 and to amend certain of the restrictive covenants.

#### ***Short-term Lines of Credit***

In 2014, we entered into two short-term line of credit agreements with an aggregate uncommitted borrowing capacity of up to \$80.0 million. These agreements allow us to better manage the fluctuations in our daily cash requirements and minimize our excess cash balances. The interest rate and maturity vary and are determined at the time of the borrowing. We had \$21.4 million outstanding under these short-term lines of credit as of September 30, 2014.

#### ***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 or terminal facilities and to construct new pipelines, terminals and storage tanks. In addition, strategic capital expenditures may include acquisitions of pipelines, terminals or storage tank assets, as well as certain capital expenditures related to support functions.

During the nine months ended September 30, 2014, our reliability capital expenditures totaled \$18.2 million and were primarily related to maintenance upgrade projects at our terminals. Strategic capital expenditures for the nine months ended September 30, 2014 totaled \$211.3 million and were primarily related to projects associated with Eagle Ford Shale production in South Texas and the reactivation and conversion of our 200-mile pipeline between Mont Belvieu and Corpus Christi, TX.

During the nine months ended September 30, 2013, our reliability capital expenditures totaled \$29.7 million and were primarily related to maintenance upgrade projects at our terminals. Strategic capital expenditures for the nine months ended September 30, 2013 totaled \$231.0 million and were primarily related to projects associated with Eagle Ford Shale production in South Texas and projects at our St. James, Louisiana terminal.

For the full year 2014, we expect our capital expenditures to total approximately \$360.0 million to \$380.0 million, including \$30.0 million for reliability capital projects and \$330.0 million to \$350.0 million for strategic capital projects, not including acquisitions. We continue to evaluate our capital budget and make changes as economic conditions warrant, and our actual capital expenditures for 2014 may increase or decrease from 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 2014, and our internal growth projects can be accelerated or scaled back depending on the condition of the capital markets.

#### ***Working Capital Requirements***

Our fuels marketing operations require us to make investments in working capital. Those working capital requirements may vary with fluctuations in commodity prices and with the seasonality of demand for the products we market. This seasonality in demand affects our accounts receivable and accounts payable balances, which vary depending on the timing of payments.

Accounts receivable decreased \$60.0 million during the nine months ended September 30, 2014, primarily due to decreased crude oil trading and bunker fuel sales. The termination of the crude oil supply agreement with Axeon on January 1, 2014 caused the receivable from related parties to decrease \$51.0 million and accounts payable to decrease \$134.9 million during the nine months ended September 30, 2014. Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion of our agreements with Axeon. Inventories decreased \$19.9 million for the nine months ended September 30, 2014, primarily as a result of a bunker fuel supply strategy that reduced the



inventory carried in our bunker fuel operations. We also reduced inventories associated with our heavy fuel oil trading operations.

**Axeon Term Loan**

Effective upon the Asphalt JV Sale, the NuStar JV Facility was converted into the Axeon Term Loan. The Axeon Term Loan will step down from \$190.0 million over time: first, to \$175.0 million on December 31, 2014 and then to \$150.0 million on September 30, 2015. While the Axeon Term Loan does not provide for any other scheduled payments, Axeon is required to use all of its excess cash, as defined in the Axeon Term Loan, to repay the Axeon Term Loan. The Axeon Term Loan must be repaid in full on September 28, 2019. All repayments of the Axeon Term Loan, including those scheduled in 2014 and 2015, are subject to Axeon meeting certain restrictive requirements contained in its third-party credit facility. Our obligation to provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to \$150.0 million, will be reduced by a minimum of \$25.0 million beginning February 2016 and will terminate in full no later than September 28, 2019.

As of September 30, 2014, we provided guarantees for Axeon with an aggregate maximum potential exposure of \$73.3 million, plus two guarantees to suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. As of September 30, 2014, we have also provided \$61.9 million in letters of credit on behalf of Axeon. In the event we are obligated to perform under any of these guarantees or letters of credit, the amount paid by us will be treated as additional borrowings under the Axeon Term Loan.

**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<br>September 30,          |           | Nine Months Ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2014   | 2013      | 2014                               | 2013       |
|  | (Thousands of Dollars, Except Per Unit Data) |           |                                    |            |
| General partner interest                                   | \$ 1,961                                     | \$ 1,961  | \$ 5,883                           | \$ 5,883   |
| General partner incentive distribution                     | 10,805                                       | 10,805    | 32,415                             | 32,415     |
| Total general partner distribution                         | 12,766                                       | 12,766    | 38,298                             | 38,298     |
| Limited partners' distribution                             | 85,285                                       | 85,285    | 255,855                            | 255,855    |
| Total cash distributions                                   | \$ 98,051                                    | \$ 98,051 | \$ 294,153                         | \$ 294,153 |
| Cash distributions per unit applicable to limited partners | \$ 1.095                                     | \$ 1.095  | \$ 3.285                           | \$ 3.285   |

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

| Quarter Ended          | Cash Distributions<br>Per Unit | Total Cash Distributions | Record Date       | Payment Date      |
|------------------------|--------------------------------|--------------------------|-------------------|-------------------|
| (Thousands of Dollars) |                                |                          |                   |                   |
| September 30, 2014 (a) | \$ 1.095                       | \$ 98,051                | November 10, 2014 | November 14, 2014 |
| June 30, 2014          | \$ 1.095                       | \$ 98,051                | August 6, 2014    | August 11, 2014   |
| March 31, 2014         | \$ 1.095                       | \$ 98,051                | May 7, 2014       | May 12, 2014      |
| December 31, 2013      | \$ 1.095                       | \$ 98,051                | February 10, 2014 | February 14, 2014 |

(a) The distribution was announced on October 31, 2014.

**Debt Obligations**

We are a party to the following debt agreements as of September 30, 2014:

- the 2012 Revolving Credit Agreement due May 2, 2017, with a balance of \$582.4 million as of September 30, 2014;
- NuStar Logistics': 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; 6.75% senior notes due February 1, 2021 with a face

[Table of Contents](#)

value of \$300.0 million; 4.75% senior notes due February 1, 2022 with a face value of \$250.0 million; and 7.625% subordinated notes due January 15, 2043 with a face value of \$402.5 million;

- NuStar Logistics' \$365.4 million Gulf Opportunity Zone Revenue Bonds due from 2038 to 2041; and
- NuStar Logistics' \$80.0 million line of credit agreements with \$21.4 million outstanding as of September 30, 2014.

Management believes that, as of September 30, 2014, we are in compliance with all ratios and covenants of the 2012 Revolving Credit Agreement. Our other long-term debt obligations do not contain any financial covenants that are different than those contained in the 2012 Revolving Credit Agreement. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on certain of our long-term debt agreements.

***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."

**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 U.S. 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, 2013.

**NEW ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 1 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a detailed discussion of new accounting pronouncements.

**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 the past, we have also utilized forward-starting interest rate swap agreements to lock in the rate on the interest payments related to forecasted debt issuances and 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. Borrowings under the 2012 Revolving Credit Agreement and Gulf Opportunity Zone Revenue Bonds expose us to increases in applicable interest rates.

We had no forward-starting or fixed-to-floating interest rate swap agreements outstanding as of September 30, 2014. 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.

The following tables present principal cash flows and related weighted-average interest rates by expected maturity dates for our long-term debt.

| <b>September 30, 2014</b>                     |             |             |             |             |             |                         |              |                       |  |
|---|-------------|-------------|-------------|-------------|-------------|-------------------------|--------------|-----------------------|--|
| <b>Expected Maturity Dates</b>                |             |             |             |             |             |                         |              |                       |  |
|   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>There-<br/>after</b> | <b>Total</b> | <b>Fair<br/>Value</b> |  |
| (Thousands of Dollars, Except Interest Rates) |             |             |             |             |             |                         |              |                       |  |
| <b>Long-term Debt:</b>                        |             |             |             |             |             |                         |              |                       |  |
| Fixed rate                                    | \$ —        | \$ —        | \$ —        | \$ —        | \$ 350,000  | \$ 1,402,500            | \$ 1,752,500 | \$ 1,831,529          |  |
| Weighted-average interest rate                | —           | —           | —           | —           | 8.2%        | 6.0%                    | 6.4%         |                       |  |
| Variable rate                                 | \$ —        | \$ —        | \$ —        | \$ 582,433  | \$ —        | \$ 365,440              | \$ 947,873   | \$ 952,137            |  |
| Weighted-average interest rate                | —           | —           | —           | 2.2%        | —           | 0.1%                    | 1.4%         |                       |  |

| <b>December 31, 2013</b>                      |             |             |             |             |             |                         |              |                       |  |
|---|-------------|-------------|-------------|-------------|-------------|-------------------------|--------------|-----------------------|--|
| <b>Expected Maturity Dates</b>                |             |             |             |             |             |                         |              |                       |  |
|   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>There-<br/>after</b> | <b>Total</b> | <b>Fair<br/>Value</b> |  |
| (Thousands of Dollars, Except Interest Rates) |             |             |             |             |             |                         |              |                       |  |
| <b>Long-term Debt:</b>                        |             |             |             |             |             |                         |              |                       |  |
| Fixed rate                                    | \$ —        | \$ —        | \$ —        | \$ —        | \$ 350,000  | \$ 1,402,500            | \$ 1,752,500 | \$ 1,767,759          |  |
| Weighted-average interest rate                | —           | —           | —           | —           | 8.2%        | 6.0%                    | 6.4%         |                       |  |
| Variable rate                                 | \$ —        | \$ —        | \$ —        | \$ 503,036  | \$ —        | \$ 365,440              | \$ 868,476   | \$ 868,975            |  |
| Weighted-average interest rate                | —           | —           | —           | 2.2%        | —           | 0.1%                    | 1.3%         |                       |  |

**Commodity Price Risk**

Since the operations of our fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to attempt 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 policies 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, as 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 that have associated underlying physical inventory but 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."

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

|   | September 30, 2014                         |                  |               |   |
|---|--|------------------|---------------|---|
|   | Contract Volumes<br>(Thousands of Barrels) | Weighted Average |               | Fair Value of Current Asset (Liability)<br>(Thousands of Dollars) |
|   |  | Pay Price        | Receive Price |   |
| <b>Fair Value Hedges:</b>   |  |                  |               |   |
| Futures – long:   |  |                  |               |   |
| (refined products)  | 4  | \$ 112.86        | N/A           | \$ (5)  |
| Futures – short:  |  |                  |               |   |
| (refined products)  | 41   | N/A              | \$ 113.71     | \$ 80   |
| <b>Economic Hedges and Other Derivatives:</b>                             |  |                  |               |   |
| Futures – long:   |  |                  |               |   |
| (crude oil and refined products)  | 196  | \$ 92.46         | N/A           | \$ (257)  |
| Futures – short:  |  |                  |               |   |
| (crude oil and refined products)  | 186  | N/A              | \$ 92.52      | \$ 252  |
| Swaps – long:   |  |                  |               |   |
| (refined products)  | 412  | \$ 83.86         | N/A           | \$ (884)  |
| Swaps – short:  |  |                  |               |   |
| (refined products)  | 1,355                                      | N/A              | \$ 84.66      | \$ 4,076  |
| Forward purchase contracts:   |  |                  |               |   |
| (crude oil)   | 1,596                                      | \$ 95.06         | N/A           | \$ (3,823)  |
| Forward sales contracts:  |  |                  |               |   |
| (crude oil)   | 1,596                                      | N/A              | \$ 95.48      | \$ 4,499  |
| <b>Total fair value of open positions exposed to commodity price risk</b> |  |                  |               | <b>\$ 3,938</b>   |

| December 31, 2013   |  |                  |               |    |  |
|---|--|------------------|---------------|----|--|
|   | Contract<br>Volumes<br><small>(Thousands<br/>of Barrels)</small> | Weighted Average |               |    | Fair Value of<br>Current<br>Asset (Liability)<br><small>(Thousands of<br/>Dollars)</small> |
|   |  | Pay Price        | Receive Price |    |  |
| <b>Fair Value Hedges:</b>   |  |                  |               |    |  |
| Futures – long:   |  |                  |               |    |  |
| (refined products)  | 7  | \$ 128.38        | N/A           | \$ | 3  |
| Futures – short:  |  |                  |               |    |  |
| (refined products)  | 40   | N/A              | \$ 124.50     | \$ | (170)  |
| <b>Economic Hedges and Other Derivatives:</b>                             |  |                  |               |    |  |
| Futures – long:   |  |                  |               |    |  |
| (crude oil and refined products)  | 245  | \$ 95.67         | N/A           | \$ | 682  |
| Futures – short:  |  |                  |               |    |  |
| (crude oil and refined products)  | 179  | N/A              | \$ 115.09     | \$ | (200)  |
| Swaps – long:   |  |                  |               |    |  |
| (refined products)  | 95   | \$ 92.39         | N/A           | \$ | (76)   |
| Swaps – short:  |  |                  |               |    |  |
| (refined products)  | 1,377  | N/A              | \$ 91.18      | \$ | (522)  |
| Forward purchase contracts:   |  |                  |               |    |  |
| (crude oil)   | 1,015  | \$ 97.79         | N/A           | \$ | 3,171  |
| Forward sales contracts:  |  |                  |               |    |  |
| (crude oil)   | 1,015  | N/A              | \$ 98.39      | \$ | (2,561)  |
| <b>Total fair value of open positions exposed to commodity price risk</b> |  |                  |               |    | <b>\$ 327</b>  |

**Item 4. Controls and Procedures**

*(a) Evaluation of disclosure controls and procedures.*

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of September 30, 2014.

*(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.

**PART II - OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth the purchases of our common units made during the quarter ended September 30, 2014 by or on behalf of us or an affiliated purchaser:

| Period                           | Total Number of Units Purchased <sup>(1)</sup> | Average Price Paid per Unit <sup>(1)</sup> | Total Number of Units Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Units that May Yet Be Purchased Under the Plans or Programs |
|----------------------------------|--|--|---|---|
| July 1 through July 31           | —  | \$ —                                       | —   | \$ —  |
| August 1 through August 31       | —  | —  | —   | —   |
| September 1 through September 30 | 220,000  | 66.03                                      | —   | —   |
| Total                            | 220,000  | \$ 66.03                                   | —   | \$ —  |

(1) During the quarter ended September 30, 2014, NuStar GP, LLC, the general partner of our general partner, purchased 220,000 of our common units in the open market to satisfy NuStar GP, LLC's obligations under its long-term incentive plans.

**Item 6. Exhibits**

| Exhibit Number | Description  |
|----------------|--|
| 10.01          | Letter of Credit Agreement dated as of September 3, 2014 among NuStar Logistics, L.P., NuStar Energy L.P., the Lenders party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Issuing Bank and Administrative Agent (incorporated by reference to Exhibit 10.01 of NuStar Energy L.P.'s Current Report on Form 8-K filed on September 9, 2014) |
| *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.INS       | XBRL Instance Document   |
| *101.SCH       | XBRL Taxonomy Extension Schema Document  |
| *101.CAL       | XBRL Taxonomy Extension Calculation Linkbase Document  |
| *101.DEF       | XBRL Taxonomy Extension Definition Linkbase Document   |
| *101.LAB       | XBRL Taxonomy Extension Label Linkbase Document  |
| *101.PRE       | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith.

\*\* Furnished herewith.

**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/ Bradley C. Barron**

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**Bradley C. Barron**  
**President and Chief Executive Officer**  
**November 6, 2014**

**By: /s/ Thomas R. Shoaf**

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**Thomas R. Shoaf**  
**Executive Vice President and Chief Financial Officer**  
**November 6, 2014**

**By: /s/ Jorge A. del Alamo**

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**Jorge A. del Alamo**  
**Senior Vice President and Controller**  
**November 6, 2014**



**NUSTAR ENERGY L.P.**  
**STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**(Thousands of Dollars, Except Ratio)**

|   | Nine Months<br>Ended<br>September 30, | Years Ended December 31, |                    |                   |                   |                   |
|---|---------------------------------------|--------------------------|--------------------|-------------------|-------------------|-------------------|
|   | 2014                                  | 2013                     | 2012 (a)           | 2011 (a)          | 2010 (a)          | 2009 (a)          |
| <b>Earnings:</b>  |                                       |                          |                    |                   |                   |                   |
| Income (loss) from continuing operations before provision for income taxes and income from equity investees | \$ 167,880                            | \$ (132,786)             | \$ (132,173)       | \$ 225,771        | \$ 244,917        | \$ 230,276        |
| <b>Add:</b>   |                                       |                          |                    |                   |                   |                   |
| Fixed charges   | 115,203                               | 149,090                  | 122,286            | 109,825           | 102,642           | 102,557           |
| Amortization of capitalized interest  | 1,011                                 | 1,216                    | 1,012              | 793               | 642               | 553               |
| Distributions from joint ventures   | 5,879                                 | 7,956                    | 6,364              | 14,374            | 9,625             | 9,700             |
| Less: Interest capitalized  | (3,345)                               | (4,501)                  | (7,737)            | (5,388)           | (3,701)           | (1,650)           |
| Total earnings  | <u>\$ 286,628</u>                     | <u>\$ 20,975</u>         | <u>\$ (10,248)</u> | <u>\$ 345,375</u> | <u>\$ 354,125</u> | <u>\$ 341,436</u> |
| <b>Fixed charges:</b>   |                                       |                          |                    |                   |                   |                   |
| Interest expense, net   | \$ 100,546                            | \$ 127,119               | \$ 90,535          | \$ 81,539         | \$ 77,764         | \$ 79,312         |
| Interest capitalized  | 3,345                                 | 4,501                    | 7,737              | 5,388             | 3,701             | 1,650             |
| Rental expense interest factor (b)  | 11,312                                | 17,470                   | 24,014             | 22,898            | 21,177            | 21,595            |
| Total fixed charges   | <u>\$ 115,203</u>                     | <u>\$ 149,090</u>        | <u>\$ 122,286</u>  | <u>\$ 109,825</u> | <u>\$ 102,642</u> | <u>\$ 102,557</u> |
| Ratio of earnings to fixed charges  | <u>2.5x</u>                           | <u>(c)</u>               | <u>(d)</u>         | <u>3.1x</u>       | <u>3.5x</u>       | <u>3.3x</u>       |

(a) Prior year amounts have been adjusted for discontinued operations.

(b) The interest portion of rental expense represents one-third of rents, which is deemed representative of the interest portion of rental expense.

(c) For the year ended December 31, 2013, earnings were insufficient to cover fixed charges by \$128.1 million. The deficiency included a goodwill impairment loss of \$304.5 million related to the Statia terminals reporting unit.

(d) For the year ended December 31, 2012, earnings were insufficient to cover fixed charges by \$132.5 million. The deficiency included the effect of \$271.8 million of impairment losses mainly resulting from the write-down of the carrying value of our long-lived assets related to our asphalt operations, including fixed assets, goodwill, intangible assets and other long-term assets.

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Bradley C. Barron, certify that:

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

Date: November 6, 2014

/s/ Bradley C. Barron

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Bradley C. Barron

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas R. Shoaf, certify that:

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

Date: November 6, 2014

/s/ Thomas R. Shoaf

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Thomas R. Shoaf

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of NuStar Energy L.P. (the Partnership) on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Bradley C. Barron, President and Chief Executive Officer of NuStar GP, LLC, the general partner of the general partner of the Partnership, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Bradley C. Barron

Bradley C. Barron

President and Chief Executive Officer

November 6, 2014

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

In connection with the Quarterly Report of NuStar Energy L.P. (the Partnership) on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Thomas R. Shoaf, Executive Vice President and Chief Financial Officer of NuStar GP, LLC, the general partner of the general partner of the Partnership, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Thomas R. Shoaf

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Thomas R. Shoaf

Executive Vice President and Chief Financial Officer

November 6, 2014

