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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 2, 2008

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

Delaware	**1-16417**	**74-2956831**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

2330 North Loop 1604 West **San Antonio, Texas**	**78248**
(Address of principal executive offices)	**(Zip Code)**

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

NOT APPLICABLE
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

NuStar Energy L.P. is filing this Current Report on Form 8-K to revise the historical segment financial information contained in the financial statements and elsewhere in its Annual Report on Form 10-K for the year ended December 31, 2007 (the “2007 Form 10-K”) to reflect our current operating segments. Updates to the 2007 Form 10-K relate solely to segment-specific information and have no effect on our previously reported financial condition, results of operations or cash flows. All other information in the 2007 Form 10-K remains unchanged and has not been otherwise updated for events or developments that occurred subsequent to the filing of the 2007 Form 10-K with the Securities and Exchange Commission.

As disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, our operating segments consist of the following three segments: storage, transportation and asphalt and fuels marketing. Prior to that, our operating segments consisted of refined product terminals, refined product pipelines, crude oil pipelines, crude oil storage tanks and marketing. Exhibits 99.1, 99.2 and 99.3 hereto and incorporated by reference herein contain Items from the 2007 Form 10-K updated to reflect the revised operating segment information.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of KPMG LLP
99.1	Updated Item 1. *Business*
99.2	Updated Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*
99.3	Updated Item 8. *Financial Statements and Supplementary Data*

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 hereunto duly authorized.

NuStar Energy L.P.

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

By: NuStar GP, LLC
its general partner

Date: October 2, 2008

By: /s/ Amy L. Perry
Amy L. Perry
Assistant Secretary

EXHIBIT INDEX

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99.2	Updated Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*
99.3	Updated Item 8. *Financial Statements and Supplementary Data*

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors of
NuStar GP, LLC:

We consent to the incorporation by reference in the registration statement on Form S-8 (Nos. 333-109541, 333-88264, 333-81806 and 333-138133), on Form S-4 (No. 333-120726) and on Form S-3 (No. 333-143095) of NuStar Energy L.P. and subsidiaries of our report dated February 28, 2008, except as to Note 20, which is as of October 2, 2008, with respect to the consolidated balance sheets of NuStar Energy L.P. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows and partners' equity for each of the years in the three year period ended December 31, 2007, which report appears in Exhibit 99.3 of NuStar Energy L.P.'s Current Report on Form 8-K filed on October 2, 2008.

/s/ KPMG LLP

San Antonio, Texas
October 2, 2008

Exhibit 99.1

Updated Item 1. Business

PART I

Unless otherwise indicated, the terms "NuStar Energy L.P.," "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. In the following Items, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources. The words "forecasts," "intends," "believes," "expects," "plans," "scheduled," "goal," "may," "anticipates," "estimates" and similar expressions identify forward-looking statements. We do not undertake to update, revise or correct any of the forward-looking information. You are cautioned that such forward-looking statements should be read in conjunction with our disclosures under the heading: "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION."

ITEM 1. BUSINESS

OVERVIEW

NuStar Energy L.P., a Delaware limited partnership, completed its initial public offering of common units on April 16, 2001 (NuStar Energy). Our common units are traded on the New York Stock Exchange (NYSE) under the symbol "NS." Our principal executive offices are located at 2330 North Loop 1604 West, San Antonio, Texas 78248 and our telephone number is (210) 918-2000.

We are engaged in the crude oil and refined product transportation, terminalling and storage business in the United States, the Netherland Antilles, Canada, Mexico, the Netherlands and the United Kingdom. Also, we purchase certain petroleum products for resale to third parties.

We manage our operations through the following three operating segments: storage, transportation and asphalt and fuels marketing. As of December 31, 2007, our assets included:

- 61 refined product terminal facilities providing approximately 58.5 million barrels of storage capacity and one crude oil terminal facility providing approximately 3.4 million barrels of storage capacity;
- 60 crude oil storage tanks providing storage capacity of 12.5 million barrels;
- 8,251 miles of refined product pipelines, including 2,000 miles of anhydrous ammonia pipelines, with 21 associated terminals providing storage capacity of 4.6 million barrels and two tank farms providing storage capacity of 1.2 million barrels; and
- 812 miles of crude oil pipelines with 11 associated storage tanks providing storage capacity of 1.7 million barrels.

We conduct our operations through our wholly owned subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and Kaneb Pipe Line Operating Partnership, L.P. (KPOP). Our revenues include:

- tariffs for transporting crude oil, refined products and anhydrous ammonia through our pipelines;
- fees for the use of our terminals and crude oil storage tanks and related ancillary services;
- sales of bunker fuel to marine vessels;
- sales of heavy fuels, asphalt and refined products to third parties; and
- the mark-to-market impact of our limited trading program.

Our business strategy is to increase per unit cash distributions to our partners through:

- continuous improvement of our operations by improving safety and environmental stewardship, cost controls and asset reliability and integrity;

- internal growth through enhancing the utilization of our existing assets by expanding our business with current and new customers as well as investments in strategic expansion projects;
- external growth from acquisitions that meet our financial and strategic criteria; and
- complementary operations such as our product marketing and trading organization, which we created to capitalize on opportunities to optimize the use and profitability of our assets.

Our internet website address is http://www.nustarenergy.com. Information contained on our website is not part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our internet website (in the "Investors" section), free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers and the charters of our board's committees in the same website location. Our governance documents are available in print to any unitholder that makes a written request to Corporate Secretary, NuStar Energy L.P., 2330 North Loop 1604 West, San Antonio, Texas 78248.

The term "throughput" as used in this document generally refers to the crude oil or refined product barrels or tons of ammonia, as applicable, that pass through each pipeline, terminal or storage tank.

RECENT DEVELOPMENTS

On December 10, 2007, NuStar Logistics replaced the existing $600 million revolving credit agreement with a $1.25 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement). NuStar Logistics borrowed $528.4 million under the 2007 Revolving Credit Agreement to repay in full the balance on its $600 million revolving credit agreement and $525 million term loan agreement.

On November 19, 2007, we issued 2,600,000 common units representing limited partner interests at a price of $57.20 per unit. We received proceeds of $146.1 million, including a contribution of $3.0 million from our general partner to maintain its 2% general partner interest, net of issuance costs. The proceeds were used to repay a portion of the outstanding principal balance under our then active $600 million revolving credit agreement.

On November 6, 2007, we entered into a definitive agreement to acquire CITGO Asphalt Refining Company's asphalt operations and assets (East Coast Asphalt Operations) for approximately $450.0 million, plus an inventory adjustment. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals on the East Coast with a combined storage capacity of 4.8 million barrels.

ACQUISITIONS AND DISPOSITIONS

On December 1, 2006, we acquired a crude oil storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for approximately $141.7 million. The acquisition includes 17 crude oil tanks with a total capacity of approximately 3.4 million barrels. Additionally, the facility has three docks with barge and ship access. The facility is located on the west bank of the Mississippi River approximately 60 miles west of New Orleans. We funded the acquisition with borrowings under our revolving credit agreement.

On March 30, 2006, we sold our subsidiaries located in Australia and New Zealand to ANZ Terminals Pty. Ltd., for total proceeds of $70.1 million. This transaction included the sale of eight terminals with an aggregate storage capacity of 1.1 million barrels.

On July 1, 2005, we completed our acquisition (the Kaneb Acquisition) of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb). We acquired all of KSL's outstanding equity securities for approximately $509 million in cash. Additionally, we issued approximately 23.8 million of our common units valued at approximately $1.45 billion in exchange for all of the outstanding common units of KPP.

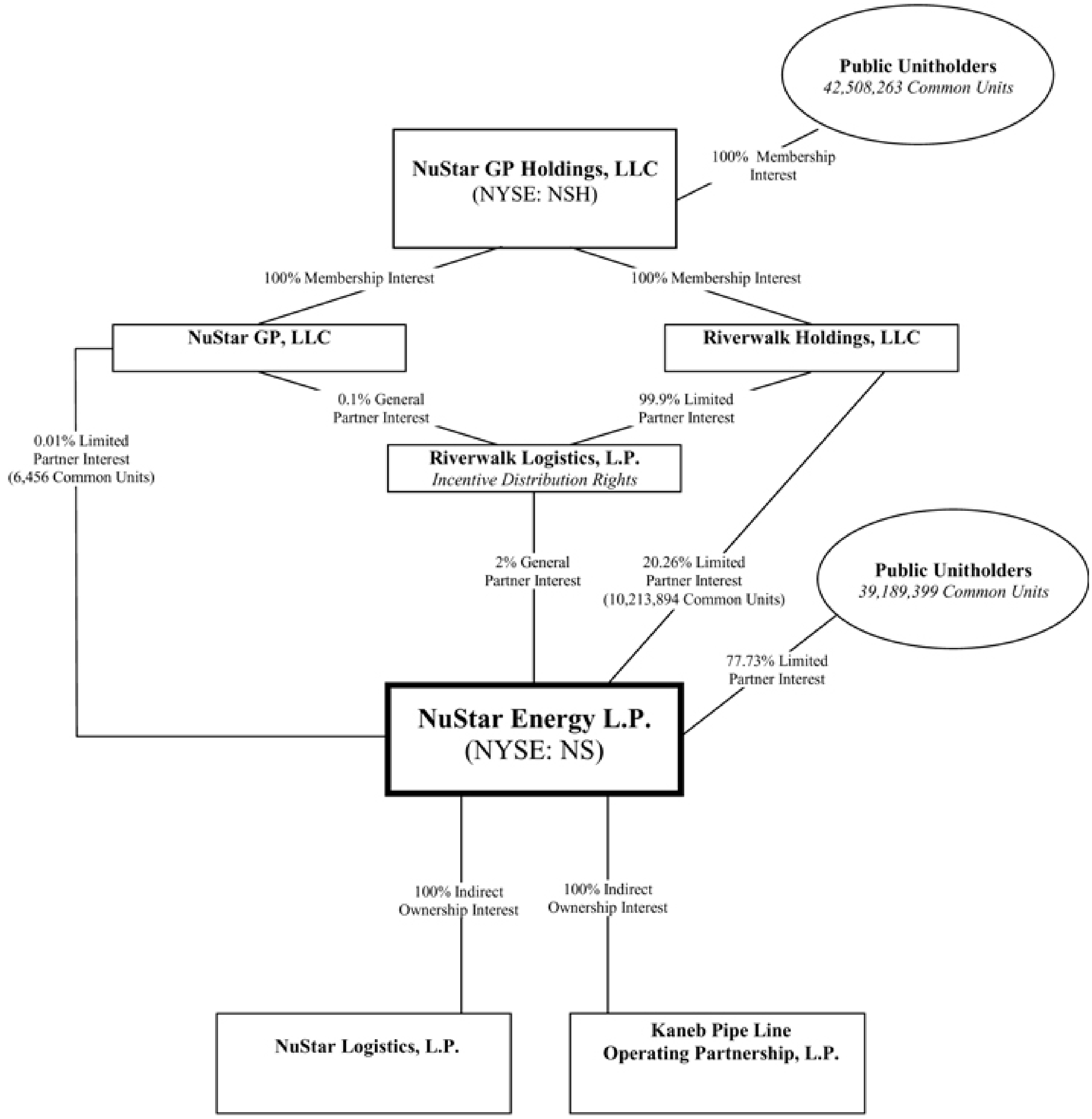
ORGANIZATIONAL STRUCTURE

Our operations are managed by NuStar GP, LLC, the general partner of Riverwalk Logistics, L.P., our general partner. NuStar GP, LLC is a wholly owned subsidiary of NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH). We use the term “general partner” in this report to refer to Riverwalk Logistics, L.P., NuStar GP, LLC, Riverwalk Holdings, LLC and/or NuStar GP Holdings.

In two separate public offerings in 2006, Valero Energy Corporation (Valero Energy) sold their ownership interest in NuStar GP Holdings. NuStar GP Holdings did not receive any proceeds from either public offering, and Valero Energy’s ownership interest in NuStar GP Holdings was reduced to zero.

On April 1, 2007, we changed our name to NuStar Energy L.P. (formerly Valero L.P.), and Valero GP Holdings, LLC changed its name to NuStar GP Holdings, LLC. Prior to April 1, 2007, our common units traded on the NYSE under the symbol “VLI” and the common units of NuStar GP Holdings traded under the symbol “VEH.”

The following chart depicts our organizational structure at December 31, 2007.



SEGMENTS

Our three reportable business segments are storage, transportation and asphalt and fuels marketing. Detailed financial information about our segments is included in Note 20 in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

The following map depicts our operations at December 31, 2007.

STORAGE

Our storage segment includes terminal facilities that provide storage and handling services on a fee basis for petroleum products, specialty chemicals, crude oil and other liquids and crude oil storage tanks used to store and deliver crude oil to Valero Energy's refineries in Benicia, Corpus Christi and Texas City. In addition, our terminals located on the island of St. Eustatius, Netherlands Antilles and in Point Tupper, Nova Scotia provide services such as pilotage, tug assistance, line handling, launch service, emergency response services and other ship services. As of December 31, 2007, we owned and operated:

- 52 terminals in the United States, with a total storage capacity of approximately 34.9 million barrels;
- A terminal on the island of St. Eustatius, Netherlands Antilles with a tank capacity of 13.0 million barrels and a transshipment facility;
- A terminal located in Point Tupper, Nova Scotia with a tank capacity of 7.4 million barrels and a transshipment facility;
- Six terminals located in the United Kingdom and one terminal located in Amsterdam, the Netherlands, having a total storage capacity of approximately 6.6 million barrels;
- A terminal located in Nuevo Laredo, Mexico; and
- 60 crude oil and intermediate feedstock storage tanks and related assets in Texas and California with aggregate storage capacity of approximately 12.5 million barrels.

Our five largest terminal facilities are located on the island of St. Eustatius, Netherlands Antilles; in Point Tupper, Nova Scotia; in Piney Point, Maryland; in Linden, New Jersey (50% owned joint venture); and in St. James, Louisiana.

Description of Largest Terminal Facilities

St. Eustatius, Netherlands Antilles. We own and operate a 13.0 million barrel petroleum storage and terminalling facility located on the Netherlands Antilles island of St. Eustatius, which is located at a point of minimal deviation from major shipping routes. This facility is capable of handling a wide range of petroleum products, including crude oil and refined products, and it can accommodate the world's largest tankers for loading and discharging crude oil and other petroleum products. A two-berth jetty, a two-berth monopile with platform and buoy systems, a floating hose station and an offshore single point mooring buoy with loading and unloading capabilities serve the terminal's customers' vessels. The St. Eustatius facility has a total of 58 tanks. The fuel oil and petroleum product facilities have in-tank and in-line blending capabilities, while the crude tanks have tank-to-tank blending capability as well as in-tank mixers. In addition to the storage and blending services at St. Eustatius, this facility has the flexibility to utilize certain storage capacity for both feedstock and refined products to support our atmospheric distillation unit. This unit is capable of processing up to 25,000 barrels per day of feedstock, ranging from condensates to heavy crude oil. We own and operate all of the berthing facilities at the St. Eustatius terminal. Separate fees apply for the use of the berthing facilities as well as associated services, including pilotage, tug assistance, line handling, launch service, spill response services and other ship services.

Point Tupper, Nova Scotia. We own and operate a 7.4 million barrel terminalling and storage facility located at Point Tupper on the Strait of Canso, near Port Hawkesbury, Nova Scotia, which is located approximately 700 miles from New York City and 850 miles from Philadelphia. This facility is the deepest independent, ice-free marine terminal on the North American Atlantic coast, with access to the East Coast and Canada as well as the Midwestern United States via the St. Lawrence Seaway and the Great Lakes system. With one of the premier jetty facilities in North America, the Point Tupper facility can accommodate substantially all of the world's largest, fully laden very large crude carriers and ultra large crude carriers for loading and discharging crude oil, petroleum products and petrochemicals. Crude oil and petroleum product movements at the terminal are fully automated. Separate fees apply for the use of the jetty facility as well as associated services, including pilotage, tug assistance, line handling, launch service, spill response services and other ship services. We also charter tugs, mooring launches and other vessels to assist with the movement of vessels through the Strait of Canso and the safe berthing of vessels at the terminal facility.

Piney Point, Maryland. Our terminal and storage facility in Piney Point, Maryland is located on approximately 400 acres on the Potomac River. The Piney Point terminal has approximately 5.4 million barrels of storage capacity in 28 tanks and is the closest deep-water facility to Washington, D.C. This terminal competes with other large petroleum terminals in the East Coast water-borne market extending from New York Harbor to Norfolk, Virginia. The terminal currently stores petroleum products consisting primarily of fuel oils and asphalt. The terminal has a dock with a 36-foot draft for tankers and four berths for barges. It also has truck-loading facilities, product-blending capabilities and is connected to a pipeline that supplies residual fuel oil to two power generating stations.

Linden, New Jersey. We own 50% of ST Linden Terminal LLC, which owns a terminal and storage facility in Linden, New Jersey. The terminal is located on a 44-acre facility that provides it with deep-water terminalling capabilities at New York Harbor. This terminal primarily stores petroleum products, including gasoline, jet fuel and fuel oils. The facility has a total capacity of approximately 4.1 million barrels in 24 tanks, can receive products via ship, barge and pipeline and delivers product by ship, barge, pipeline and truck. The terminal includes two docks and leases a third with draft limits of 36, 26 and 20 feet, respectively.

St. James, Louisiana. Our terminal has 17 crude oil storage tanks with a total capacity of approximately 3.4 million barrels. Additionally, the facility has a rail-loading facility and three docks with barge and ship access. The facility is located on approximately 220 acres of land on the west bank of the Mississippi River approximately 60 miles west of New Orleans and has an additional 675 acres of undeveloped land.

In 2007, we began construction of four crude oil storage tanks with capacity of approximately 1.5 million barrels at our St. James facility, with estimated completion in the fourth quarter of 2008.

In addition, we are constructing 18 tanks with storage capacity of approximately 2.7 million barrels at our Amsterdam terminal with estimated completion in phases throughout 2008.

Terminal Facilities and Crude Oil Storage Tanks

The following table sets forth information about our terminal facilities:

Facility	Tank Capacity	Number of Tanks	Primary Products Handled
Major U.S. Terminals:			
Piney Point, MD	5,404,000	28	Petroleum products, asphalt
Linden, NJ (a)	4,055,000	24	Petroleum products
St. James, LA	3,357,000	17	Crude oil and feedstocks
Selby, CA	2,829,000	22	Petroleum products, ethanol
Jacksonville, FL	2,057,000	30	Petroleum products, asphalt
Texas City, TX	2,131,000	103	Chemicals, petrochemicals, petroleum products
Other U.S. Terminals:			
Montgomery, AL	162,000	7	Petroleum products
Moundville, AL	310,000	6	Petroleum products
Tucson, AZ (b)	85,000	4	Petroleum products
Los Angeles, CA	606,000	19	Petroleum products
Pittsburg, CA	361,000	10	Asphalt
Stockton, CA	803,000	33	Petroleum products, ethanol, fertilizer
Colorado Springs, CO	320,000	7	Petroleum products, ethanol
Denver, CO	110,000	9	Petroleum products, ethanol
Bremen, GA	178,000	8	Petroleum products
Brunswick, GA	160,000	2	Fertilizer, pulp liquor
Macon, GA	307,000	10	Petroleum products
Savannah, GA	857,000	21	Petroleum products, caustic
Blue Island, IL	729,000	15	Petroleum products, ethanol
Indianapolis, IN	412,000	18	Petroleum products
Westwego, LA	852,000	53	Molasses, caustic, chemicals, lube oil, fertilizer
Andrews AFB, MD	72,000	3	Petroleum products
Baltimore, MD	837,000	49	Chemicals, asphalt
Salisbury, MD	177,000	14	Petroleum products
Reno, NV	98,000	7	Petroleum products
Linden, NJ	439,000	9	Petroleum products
Paulsboro, NJ	69,000	9	Petroleum products
Alamogordo, NM	120,000	5	Petroleum products
Albuquerque, NM	245,000	10	Petroleum products, ethanol
Rosario, NM	160,000	8	Asphalt

Facility	Tank Capacity	Number of Tanks	Primary Products Handled
Catoosa, OK	340,000	24	Asphalt
Portland, OR	1,197,000	31	Petroleum products, ethanol
Abernathy, TX	155,000	7	Petroleum products
Amarillo, TX	255,000	8	Petroleum products
Corpus Christi, TX	357,000	11	Petroleum products
Edinburg, TX	267,000	6	Petroleum products
El Paso, TX (b)	343,000	12	Petroleum products
Harlingen, TX	315,000	7	Petroleum products
Houston, TX (Hobby Airport)	106,000	4	Petroleum products
Houston, TX	90,000	6	Asphalt
Laredo, TX	320,000	7	Petroleum products
Placedo, TX	97,000	4	Petroleum products
San Antonio (east), TX	148,000	5	Petroleum products
San Antonio (south), TX	215,000	5	Petroleum products
Southlake, TX	285,000	5	Petroleum products, ethanol
Texas City, TX	146,000	12	Petroleum products
Dumfries, VA	548,000	14	Petroleum products, asphalt
Virginia Beach, VA	41,000	2	Petroleum products
Tacoma, WA	359,000	14	Petroleum products, ethanol
Vancouver, WA	301,000	14	Chemicals
Vancouver, WA	408,000	7	Petroleum products
Milwaukee, WI	308,000	7	Petroleum products, ethanol
Total U.S. Terminals	34,903,000	772	
Foreign Terminals:			
St. Eustatius, Netherlands Antilles	12,997,000	58	Petroleum products, crude oil
Point Tupper, Canada	7,376,000	37	Petroleum products, crude oil
Grays, England	1,945,000	53	Petroleum products
Eastham, England	2,185,000	162	Chemicals, petroleum products, animal fats
Runcorn, England	146,000	4	Molten sulfur
Grangemouth, Scotland	530,000	46	Petroleum products, chemicals and molasses
Glasgow, Scotland	344,000	16	Petroleum products
Belfast, Northern Ireland	407,000	41	Petroleum products
Amsterdam, the Netherlands	1,024,000	24	Petroleum products
Nuevo Laredo, Mexico	34,000	5	Petroleum products
Total Foreign Terminals	26,988,000	446	

(a) We own 50% of this terminal through a joint venture.

(b) We own a 66.67% undivided interest in the El Paso refined product terminal and a 50% undivided interest in the Tucson refined product terminal. The tankage capacity and number of tanks represent the proportionate share of capacity attributable to our ownership interest.

In 2007, we sold three refined product terminals with approximately 700,000 barrels of storage capacity for total proceeds of approximately $3.6 million.

The following table sets forth information about our crude oil storage tanks:

Location	Valero Energy Refinery	Capacity (Barrels)	Number of Tanks	Mode of Receipt	Mode of Delivery	Throughput Year Ended December 31, 2007 (Barrels/Day)
Benicia, CA	Benicia	3,815,000	16	marine/ pipeline	pipeline	136,729
Corpus Christi, TX	Corpus Christi	4,023,000	26	marine	pipeline	152,442
Texas City, TX	Texas City	3,087,000	14	marine	pipeline	187,605
Corpus Christi, TX (North Beach)	Three Rivers	1,600,000	4	marine	pipeline	72,247
Total		12,525,000	60			549,023

The land underlying these crude oil storage tanks is subject to long-term operating leases.

Storage Operations

Revenues for the storage segment include fees for tank storage agreements, whereby a customer agrees to pay for a certain amount of storage in a tank over a period of time (storage lease revenues), and throughput agreements, whereby a customer pays a fee per barrel for volumes moving through our terminals (throughput revenues). We charge a fee for each barrel of crude oil and certain other feedstocks that we deliver to Valero Energy's Benicia, Corpus Christi West and Texas City refineries from our crude oil storage tanks. Also, our terminals provide blending, additive injections, handling and filtering services. Our facilities at Point Tupper and St. Eustatius charge fees to provide services such as pilotage, tug assistance, line handling, launch service, emergency response services and other ship services.

Demand for Refined Petroleum Products

The operations of our refined product terminals depend in large part on the level of demand for products stored in our terminals in the markets served by those assets. The majority of products stored in our terminals are refined petroleum products. Demand for our terminalling services will generally increase or decrease with demand for refined petroleum products, and demand for refined petroleum products tends to increase or decrease with the relative strength of the economy.

Customers

We provide storage and terminalling services for crude oil and refined petroleum products to many of the world's largest producers of crude oil, integrated oil companies, chemical companies, oil traders and refiners. The largest customer of our storage segment is Valero Energy, which accounted for $115.4 million, or 28.1% of the total revenues of the segment, for the year ended December 31, 2007. No other customer accounted for more than 10% of the revenues of the segment for this period. Our crude oil transshipment customers include an oil producer that leases and utilizes 5.0 million barrels of storage at St. Eustatius and a major international oil company which leases and utilizes 3.6 million barrels of storage at Point Tupper, both of which have long-term contracts with us. In addition, two different international oil companies each lease and utilize more than 1.0 million barrels of clean products storage at St. Eustatius and Point Tupper. Also in Canada, a consortium consisting of major oil companies sends natural gas liquids via pipeline to certain processing facilities on land leased from us. After processing, certain products are stored at the Point Tupper facility under a long-term contract. In addition, our blending capabilities have attracted customers who have leased capacity primarily for blending purposes.

Competition and Business Considerations

Many major energy and chemical companies own extensive terminal storage facilities. Although such terminals often have the same capabilities as terminals owned by independent operators, they generally do not provide terminalling services to third parties. In many instances, major energy and chemical companies that own storage and terminalling facilities are also significant customers of independent terminal operators. Such companies typically have strong demand for terminals owned by independent operators when independent terminals have more cost-effective locations near key transportation links, such as deep-water ports. Major energy and chemical companies also need independent terminal storage when their owned storage facilities are inadequate, either because of size constraints, the nature of the stored material or specialized handling requirements.

Independent terminal owners generally compete on the basis of the location and versatility of terminals, service and price. A favorably located terminal will have access to various cost-effective transportation modes both to and from the terminal. Transportation modes typically include waterways, railroads, roadways and pipelines. Terminals located near deep-water port facilities are referred to as “deep-water terminals,” and terminals without such facilities are referred to as “inland terminals,” although some inland facilities located on or near navigable rivers are served by barges.

Terminal versatility is a function of the operator’s ability to offer complex handling requirements for diverse products. The services typically provided by the terminal include, among other things, the safe storage of the product at specified temperature, moisture and other conditions, as well as receipt at and delivery from the terminal, all of which must be in compliance with applicable environmental regulations. A terminal operator’s ability to obtain attractive pricing is often dependent on the quality, versatility and reputation of the facilities owned by the operator. Although many products require modest terminal modification, operators with versatile storage capabilities typically require less modification prior to usage, ultimately making the storage cost to the customer more attractive.

The main competition at our St. Eustatius and Point Tupper locations for crude oil handling and storage is from “lightering,” which is the process by which liquid cargo is transferred to smaller vessels, usually while at sea. The price differential between lightering and terminalling is primarily driven by the charter rates for vessels of various sizes. Lightering generally takes significantly longer than discharging at a terminal. Depending on charter rates, the longer charter period associated with lightering is generally offset by various costs associated with terminalling, including storage costs, dock charges and spill response fees. However, terminalling is generally safer and reduces the risk of environmental damage associated with lightering, provides more flexibility in the scheduling of deliveries and allows our customers to deliver their products to multiple locations. Lightering in U.S. territorial waters creates a risk of liability for owners and shippers of oil under the U.S. Oil Pollution Act of 1990 and other state and federal legislation. In Canada, similar liability exists under the Canadian Shipping Act. Terminalling also provides customers with the ability to access value-added terminal services.

Our crude oil storage tanks are physically integrated with and principally serve refineries owned by Valero Energy. Additionally, we have entered into various agreements with Valero Energy governing the usage of these tanks. As a result, we believe that we will not face significant competition for our services provided to those refineries owned by Valero Energy. Please read the disclosure contained in Note 14 of Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for additional information.

TRANSPORTATION

Our pipeline operations consist primarily of the transportation of refined petroleum products as a common carrier in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota and cover approximately 6,251 miles. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. As of December 31, 2007, we owned and operated:

- 26 refined product pipelines with an aggregate length of 3,911 miles that connect Valero Energy’s McKee, Three Rivers, Corpus Christi and Ardmore refineries to certain of NuStar Energy’s terminals, or to interconnections with third-party pipelines or terminals for further distribution, including a 25-mile crude hydrogen pipeline (collectively, the Central West System);
- a 1,900-mile refined product pipeline originating in southern Kansas and terminating at Jamestown, North Dakota, with a western extension to North Platte, Nebraska and an eastern extension into Iowa (the East Pipeline);
- a 440-mile refined product pipeline originating at Tesoro Corporation’s Mandan, North Dakota refinery (the Tesoro Mandan refinery) and terminating in Minneapolis, Minnesota (the North Pipeline); and
- a 2,000-mile anhydrous ammonia pipeline originating at the Louisiana delta area that travels north through the midwestern United States forking east and west to terminate in Nebraska and Indiana (the Ammonia Pipeline).

As of December 31, 2007, we also had an ownership interest in eleven crude oil pipelines in Texas, Oklahoma, Kansas Colorado and Illinois with an aggregate length of 812 miles and four crude oil storage facilities in Texas and Oklahoma that are located along the crude oil pipelines.

We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in our ammonia pipeline.

Description of Pipelines

Central West System. The pipelines included in the Central West System were constructed to support the refineries to which they are connected. These pipelines are physically integrated with and principally serve refineries owned by Valero Energy. We have entered into various agreements with Valero Energy governing the usage of these pipelines. Please read the disclosure contained in Note 14 of Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for additional information.

The refined products transported in these pipelines include gasoline, distillates (including diesel and jet fuel), natural gas liquids (such as propane and butane), blendstocks and other products produced primarily by Valero Energy’s refineries. These pipelines connect certain of Valero Energy’s refineries to key markets in Texas, New Mexico and Colorado.

The following table lists information about each of our refined product pipelines included in the Central West System:

					Year Ended December 31, 2007	
Origin and Destination	**Valero Energy Refinery**	**Length (Miles)**	**Ownership**	**Capacity (Barrels/Day)**	**Throughput (Barrels/Day)**	**Capacity Utilization**
McKee to El Paso, TX	McKee	408	67%	40,000	28,436	71%
McKee to Colorado Springs, CO (a)	McKee	256	100%	38,000	11,559	63%
Colorado Springs, CO to Airport	McKee	2	100%	14,000	1,018	7%
Colorado Springs to Denver, CO	McKee	101	100%	32,000	13,058	41%
McKee to Denver, CO	McKee	321	30%	9,870	7,760	79%
McKee to Amarillo, TX (6”) (a)(b)	McKee	49	100%	51,000	17,837	42%
McKee to Amarillo, TX (8”) (a)(b)	McKee	49	100%			
Amarillo to Abernathy, TX (a)	McKee	102	67%	11,733	4,633	46%
Amarillo, TX to Albuquerque, NM	McKee	293	50%	17,150	5,823	34%
Abernathy to Lubbock, TX (a)	McKee	19	46%	8,029	790	10%
McKee to Skellytown, TX	McKee	53	100%	52,000	5,053	10%
Skellytown to Mont Belvieu,TX	McKee	572	50%	26,000	11,750	45%
McKee to Southlake, TX	McKee	375	100%	27,300	9,956	36%
Three Rivers to San Antonio, TX	Three Rivers	81	100%	33,600	29,574	88%
Three Rivers to US/Mexico International Border near Laredo, TX	Three Rivers	108	100%	32,000	25,232	79%
Corpus Christi to Three Rivers, TX	Corpus Christi	68	100%	32,000	7,060	22%
Three Rivers to Corpus Christi, TX	Three Rivers	72	100%	15,000	10,886	73%
Three Rivers to Pettus to San Antonio, TX	Three Rivers	103	100%	30,000	24,272	81%
Three Rivers to Pettus to Corpus Christi, TX (c)	Three Rivers	87	100%	15,000	—	0%
Ardmore to Wynnewood, OK (d)	Ardmore	31	100%	84,000	59,692	66%
El Paso, TX to Kinder Morgan	McKee	12	67%	64,000	22,696	35%
Corpus Christi to Pasadena, TX	Corpus Christi	208	100%	105,000	87,344	83%
Corpus Christi to Brownsville, TX	Corpus Christi	194	100%	45,000	40,289	90%
US/Mexico International Border near Penitas, TX to Edinburg, TX	N/A	33	100%	24,000	6,157	26%
Clear Lake, TX to Texas City, TX	N/A	25	100%	N/A	N/A	N/A
Other refined product pipeline (e)	N/A	289	50%	N/A	N/A	N/A
Total		3,911		806,682	430,875	

(a) This pipeline transports barrels relating to two tariff routes. The first route begins at this pipeline’s origin and ends at this pipeline’s destination. The second route is a longer tariff route with an origin or destination on another pipeline of ours that connects to this pipeline. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline’s origin and ending at this pipeline’s destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipeline have been taken into account.

(b) The throughput, capacity and capacity utilization information disclosed above for the McKee to Amarillo, Texas 6-inch pipeline reflects both McKee to Amarillo, Texas pipelines on a combined basis.

(c) The refined product pipeline from Three Rivers to Pettus to Corpus Christi, Texas is temporarily idled. In the fourth quarter of 2005, an eight-mile portion of this pipeline was permanently idled. As a result, we recorded an impairment charge of $2.1 million included in "Other income (expense), net" in the consolidated statements of income for the year ended December 31, 2005.

(d) Included in this segment are two refined product storage tanks with a total capacity of 180,000 barrels located at Wynnewood, Oklahoma. Refined products may be stored and batched prior to shipment into a third party pipeline.

(e) This category consists of the temporarily idled 6-inch Amarillo, Texas to Albuquerque, New Mexico refined product pipeline.

East Pipeline. The East Pipeline covers 1,900 miles and moves refined products north in pipelines ranging in size from 6 inches to 16 inches. The East Pipeline system also includes 22 product tanks with total storage capacity of approximately 1.2 million barrels at our two tanks farms at McPherson and El Dorado, Kansas. The East Pipeline transports refined petroleum products to our terminals along the system and to receiving pipeline connections in Kansas. Shippers on the East Pipeline obtain refined petroleum products from refineries in southeast Kansas connected to the East Pipeline or through other pipelines directly connected to the pipeline system. The East Pipeline transported approximately 56.5 million barrels for the year ended December 31, 2007.

North Pipeline. The North Pipeline runs from west to east approximately 440 miles from its origin at the Tesoro Mandan refinery to the Minneapolis, Minnesota area. The North Pipeline crosses our East Pipeline near Jamestown, North Dakota where the two pipelines are connected. While the North Pipeline is currently supplied primarily by the Tesoro Mandan refinery, it is capable of delivering or receiving products to or from the East Pipeline. The North Pipeline transported approximately 16.8 million barrels for the year ended December 31, 2007.

The East and North Pipelines also include 21 truck-loading terminals through which refined petroleum products are delivered to storage tanks and then loaded into petroleum transport trucks. Revenues earned at these terminals relate solely to the volumes transported on the pipeline. In the case of the North Pipeline, separate fees are not charged for the use of these terminals. Instead, the terminalling fees are a portion of the transportation rate included in the pipeline tariff. In the case of the East Pipeline, separate fees are charged for the use of the terminals, even though such fees are separately stated within the filed pipeline tariff. As a result, these terminals are included in this segment instead of the storage segment.

The following table lists information about the tanks we own as of December 31, 2007 at each of our refined petroleum product terminals connected to the East or North Pipelines:

Location of Terminals	Tank Capacity	Number of Tanks	Related Pipeline System
Iowa:			
LeMars	103,000	8	East
Milford	172,000	11	East
Rock Rapids	223,000	5	East
Kansas:			
Concordia	79,000	6	East
Hutchinson	115,000	5	East
Salina	86,000	8	East
Minnesota:			
Moorhead	518,000	10	North
Sauk Centre	116,000	7	North
Roseville	479,000	10	North
Nebraska:			
Columbus	171,000	8	East
Geneva	674,000	37	East
Norfolk	182,000	15	East
North Platte	247,000	23	East
Osceola	79,000	7	East
North Dakota:			
Jamestown (North)	139,000	6	North
Jamestown (East)	176,000	11	East
South Dakota:			
Aberdeen	181,000	12	East
Mitchell	63,000	6	East
Sioux Falls	381,000	12	East
Wolsey	148,000	20	East
Yankton	245,000	25	East
Total	4,577,000	252	

Ammonia Pipeline. The 2,000 mile pipeline originates in the Louisiana delta area, where it has access to three marine terminals and three anhydrous ammonia plants on the Mississippi River. It runs north through Louisiana and Arkansas into Missouri, where at Hermann, Missouri, one branch splits and goes east into Illinois and Indiana, while the other branch continues north into Iowa and then turns west into Nebraska. The Ammonia Pipeline is connected to multiple third-party-owned terminals, which include industrial facility delivery locations. Product is supplied to the pipeline from anhydrous ammonia plants in Louisiana and imported product delivered through the marine terminals. Anhydrous ammonia is primarily used as agricultural fertilizer. It is also used as a feedstock to produce other nitrogen derivative fertilizers and explosives. The Ammonia Pipeline transported approximately 13.8 million barrels (converted from tons) for the year ended December 31, 2007.

Crude Oil Pipelines. Our crude oil pipelines primarily transport crude oil and other feedstocks, such as gas oil, from various points in Texas, Oklahoma, Kansas and Colorado to Valero Energy's McKee, Three Rivers and Ardmore refineries. Also, we can use our four crude oil storage facilities in Texas and Oklahoma, located along the crude oil pipelines, to store and batch crude oil prior to shipment in the crude oil pipelines.

The following table sets forth information about each of our crude oil pipelines:

Origin and Destination	Valero Energy Refinery	Length (Miles)	Ownership	Capacity (Barrels/Day)	Year Ended December 31, 2007 Throughput (Barrels/Day)	Capacity Utilization
Cheyenne Wells, CO to McKee	McKee	210	100%	17,500	7,041	40%
Dixon, TX to McKee	McKee	44	100%	45,000	35,661	79%
Hooker, OK to Clawson, TX (a)	McKee	41	50%	22,000	13,038	59%
Clawson, TX to McKee (b)	McKee	31	100%	36,000	17,502	85%
Wichita Falls, TX to McKee	McKee	272	100%	110,000	48,454	44%
Corpus Christi, TX to Three Rivers	Three Rivers	70	100%	120,000	81,466	68%
Ringgold, TX to Wasson, OK (b)	Ardmore	44	100%	90,000	58,894	65%
Healdton to Ringling, OK	Ardmore	4	100%	52,000	2,521	5%
Wasson, OK to Ardmore (8”-10”) (c)	Ardmore	24	100%	90,000	48,975	54%
Wasson, OK to Ardmore (8”)	Ardmore	15	100%	40,000	32,624	82%
Patoka, IL to Wood River, IL	N/A	57	23.8%	60,600	31,464	52%
Total		812		683,100	377,640	

(a) We receive 50% of the tariff with respect to 100% of the barrels transported in the Hooker, Oklahoma to Clawson, Texas pipeline. Accordingly, the capacity, throughput and capacity utilization are given with respect to 100% of the pipeline.

(b) This pipeline transports barrels relating to two tariff routes. The first route begins at the pipeline’s origin and ends at its destination. The second route begins with an origin or destination on another of our connecting pipelines. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline’s origin and ending at this pipeline’s destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipeline have been taken into account.

(c) The Wasson, Oklahoma to Ardmore (8”- 10”) pipelines referred to above originate at Wasson as two pipelines but merge into one pipeline prior to reaching Ardmore.

The following table sets forth information about the crude oil storage facilities located along our crude oil pipelines:

Location	Valero Energy Refinery	Capacity (Barrels)	Number of Tanks	Mode of Receipt	Mode of Delivery	Throughput Year Ended December 31, 2007 (Barrels/Day)
Dixon, TX	McKee	240,000	3	pipeline	pipeline	35,661
Ringgold, TX	Ardmore	600,000	2	pipeline	pipeline	58,894
Wichita Falls, TX	McKee	660,000	4	pipeline	pipeline	48,454
Wasson, OK	Ardmore	225,000	2	pipeline	pipeline	81,599
Total		1,725,000	11			244,608

Other Pipelines. We also own three single-use pipelines, located near Umatilla, Oregon, Rawlings, Wyoming and Pasco, Washington, each of which supplies diesel fuel to a railroad fueling facility.

Pipeline Operations

Revenues for the refined product pipelines in the Central West System and the crude oil pipelines are based upon throughput volumes traveling through our pipelines and the related tariffs. Revenues for the East Pipeline, North Pipeline and Ammonia Pipeline are based upon volumes and the distance the product is shipped and the related tariffs.

In general, a shipper on one of our refined petroleum product pipelines delivers products to the pipeline from refineries or third-party pipelines that connect to the pipelines. Each shipper transporting product on a pipeline is required to supply us with a notice of shipment indicating sources of products and destinations. All shipments are tested or receive refinery certifications to ensure compliance with our specifications. Refined product shippers are generally invoiced by us upon delivery for the Central West, North and Ammonia pipelines and upon the product entering our East pipeline. Tariffs for transportation are charged to shippers based upon transportation from the origination point on the pipeline to the point of delivery.

Shippers on our crude oil pipelines deliver crude oil to the pipelines for transport to refineries that connect to the pipelines. The costs associated with the crude oil storage facilities located along the crude oil pipelines are considered in establishing the tariffs charged for transporting crude oil from the crude oil storage facilities to the refineries.

The refined product pipelines in the Central West System, the East Pipeline, the North Pipeline, the Ammonia Pipeline and the crude oil pipelines are subject to federal regulation by one or more of the following governmental agencies or laws: the Federal Energy Regulatory Commission (the FERC), the Surface Transportation Board (the STB), the Department of Transportation (DOT), the Environmental Protection Agency (EPA) and the Homeland Security Act. Additionally, the operations and integrity of the pipelines are subject to the respective state jurisdictions along the route of the systems.

The majority of our pipelines are common carrier and are subject to federal tariff regulation. In general, we are authorized by the FERC to adopt market-based rates. Common carrier activities are those for which transportation through our pipelines is available at published tariffs filed, in the case of interstate petroleum product shipments, with the FERC or, in the case of intrastate petroleum product shipments in Colorado, Kansas, North Dakota, Oklahoma and Texas, with the relevant state authority, to any shipper of refined petroleum products who requests such services and satisfies the conditions and specifications for transportation. The Ammonia Pipeline is subject to federal regulation by the STB and state regulation by Louisiana.

We use Supervisory Control and Data Acquisition remote supervisory control software programs to continuously monitor and control the pipelines. The system monitors quantities of products injected in and delivered through the pipelines and automatically signals the appropriate personnel upon deviations from normal operations that require attention.

Demand for and Sources of Refined Products

The operations of our Central West, East and North Pipelines depend in large part on the level of demand for refined products in the markets served by the pipelines and the ability and willingness of refiners and marketers having access to the pipelines to supply such demand by deliveries through the pipelines.

Virtually all of the refined products delivered through the pipelines in the Central West System are gasoline and diesel fuel that originate at refineries owned by Valero Energy. Demand for these products fluctuates as prices for these products fluctuate. Prices fluctuate for a variety of reasons including the overall balance in supply and demand, which is affected by refinery utilization rates, among other factors. Prices for gasoline and diesel fuel tend to increase in the warm weather months as more people drive automobiles.

The majority of the refined products delivered through the North Pipeline are delivered to the Minneapolis, Minnesota metropolitan area and consist primarily of gasoline and diesel fuel. Demand for those products fluctuates based on general economic conditions and with changes in the weather as more people drive during the warmer months.

Much of the refined products delivered through the East Pipeline and volumes on the North Pipeline that are not delivered to Minneapolis are ultimately used as fuel for railroads or in agricultural operations, including fuel for farm equipment, irrigation systems, trucks used for transporting crops and crop drying facilities. Demand for refined products for agricultural use, and the relative mix of products required, is affected by weather conditions in the markets served by the East and North Pipelines. The agricultural sector is also affected by government agricultural policies and crop prices. Although periods of drought suppress agricultural demand for some refined products, particularly those used for fueling farm equipment, the demand for fuel for irrigation systems often increases during such times. The mix of refined products delivered for agricultural use varies seasonally, with gasoline demand peaking in early summer, diesel fuel demand peaking in late summer and propane demand higher in the fall. In addition, weather conditions in the areas served by the East Pipeline affect the mix of the refined products delivered through the East Pipeline, although historically any overall impact on the total volumes shipped has not been significant.

Our refined product pipelines are also dependent upon adequate levels of production of refined products by refineries connected to the pipelines, directly or through connecting pipelines. The refineries are, in turn, dependent upon adequate supplies of suitable grades of crude oil. The pipelines in the Central West System and our crude oil pipelines are connected to refineries owned by Valero Energy and generally are subject to long-term throughput agreements with Valero Energy. Valero Energy's refineries connected directly to our pipelines obtain crude oil from a variety of foreign and domestic sources. The refineries connected directly to the East Pipeline obtain crude oil from producing fields located primarily in Kansas, Oklahoma and Texas, and, to a much lesser extent, from other domestic or foreign sources. In addition, refineries in Kansas, Oklahoma and Texas are also connected to the East Pipeline through other pipelines. These refineries obtain their supplies of crude oil from a variety of sources. The pipelines in our Central West System and our crude oil pipelines are dependent upon the refineries owned by Valero Energy to which they connect. If operations at one of these refineries were discontinued or reduced, it could have a material adverse effect on our operations, although we would endeavor to minimize the impact by seeking alternative customers for those pipelines. The North Pipeline is heavily dependent on the Tesoro Mandan refinery, which primarily runs North Dakota crude oil (although it has the ability to run other crude oils). If operations at the Tesoro Mandan refinery were interrupted, it could have a material effect on our operations. Other than the Valero Energy refineries described above and the Tesoro Mandan refinery, if operations at any one refinery were discontinued, we believe (assuming unchanged demand for refined products in markets served by the refined product pipelines) that the effects thereof would be short-term in nature and our business would not be materially adversely affected over the long term because such discontinued production could be replaced by other refineries or other sources.

Virtually all of the refined products transported through the pipelines in the Central West System are produced by refineries owned by Valero Energy. The majority of the refined products transported through the East Pipeline are produced at three refineries located at McPherson and El Dorado, Kansas and Ponca City, Oklahoma, which are operated by the National Cooperative Refining Association (NCRA), Frontier Oil Corporation and ConocoPhillips Company, respectively. The NCRA and Frontier Refining refineries are connected directly to the East Pipeline. The East Pipeline also has direct access by third party pipelines to four other refineries in Kansas, Oklahoma and Texas and to Gulf Coast supplies of products through connecting pipelines that receive products from pipelines originating on the Gulf Coast.

Demand for and Sources of Anhydrous Ammonia

The Ammonia Pipeline is one of two major anhydrous ammonia pipelines in the United States and the only one capable of receiving foreign production directly into the system and transporting anhydrous ammonia into the nation's corn belt.

Our Ammonia Pipeline operations depend on overall nitrogen fertilizer use, management practice, the level of demand for direct application of anhydrous ammonia as a fertilizer for crop production (Direct Application), the weather, as Direct Application is not effective if the ground is too wet or too dry, and the price of natural gas, the primary component of anhydrous ammonia.

Corn producers have fertilizer alternatives such as liquid or dry nitrogen fertilizers. Liquid and dry nitrogen fertilizers are both upgrades of anhydrous ammonia and therefore are generally more costly but are less sensitive to weather conditions during application. However, anhydrous ammonia has the highest nitrogen content of any nitrogen derivative fertilizer.

Customers

The largest customer of our transportation segment was Valero Energy, which accounted for $147.6 million, or 49.7% of the total segment revenues, for the year ended December 31, 2007. In addition to Valero Energy, we had a total of approximately 54 shippers for the year ended December 31, 2007, including integrated oil companies, refining companies, farm cooperatives and a railroad. No other customer accounted for greater than 10% of the total revenues of transportation segment for the year ended December 31, 2007.

Competition and Business Considerations

Because pipelines are generally the lowest cost method for intermediate and long-haul movement of refined petroleum products, our more significant competitors are common carrier and proprietary pipelines owned and operated by major integrated and large independent oil companies and other companies in the areas where we deliver products. Competition between common carrier pipelines is based primarily on transportation charges, quality of customer service and proximity to end users. We believe high capital costs, tariff regulation, environmental considerations and problems in acquiring rights-of-way make it unlikely that other competing pipeline systems comparable in size and scope to our pipelines will be built in the near future, as long as our pipelines have available capacity to satisfy demand and our tariffs remain at economically reasonable levels.

The costs associated with transporting products from a loading terminal to end users limit the geographic size of the market that can be served economically by any terminal. Transportation to end users from our loading terminals is conducted primarily by trucking operations of unrelated third parties. Trucks may competitively deliver products in some of the areas served by our pipelines. However, trucking costs render that mode of transportation uncompetitive for longer hauls or larger volumes. We do not believe that trucks are, or will be, effective competition to our long-haul volumes over the long-term.

Our refined product pipelines within the Central West System and our crude oil pipelines are physically integrated with and principally serve refineries owned by Valero Energy. Additionally, we have entered into various agreements with Valero Energy governing the usage of these pipelines. As a result, we believe that we will not face significant competition for transportation services provided to the Valero Energy refineries we serve. Please read the disclosure contained in Note 14 of Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for additional information on our agreements with Valero Energy.

The East and North Pipelines compete with an independent, regulated common carrier pipeline system owned by Magellan Midstream Partners, L.P. (Magellan), formerly the Williams Companies, Inc., that operates approximately 100 miles east of and parallel to the East Pipeline and in close proximity to the North Pipeline. The Magellan system is a substantially more extensive system than the East and North Pipelines. Competition with Magellan is based primarily on transportation charges, quality of customer service and proximity to end users. In addition, refined product pricing at either the origin or terminal point on a pipeline may outweigh transportation costs. Certain of the East Pipeline’s and the North Pipeline’s delivery terminals are in direct competition with Magellan’s terminals.

Competitors of the Ammonia Pipeline include another anhydrous ammonia pipeline that originates in Oklahoma and Texas and terminates in Iowa. The competing pipeline has the same Direct Application demand and weather issues as the Ammonia Pipeline but is restricted to domestically produced anhydrous ammonia. Midwest production barges, nitrogen fertilizer substitutes and railroads represent other forms of direct competition to the pipeline under certain market conditions.

ASPHALT AND FUELS MARKETING

Our asphalt and fuels marketing segment operations consist primarily of purchasing petroleum products for resale to third parties. As part of its operations, our asphalt and fuels marketing segment may utilize storage space in certain of our refined products terminals and terminals operated by third parties. The asphalt and fuels marketing segment may also obtain transportation services from our refined products pipelines and other third party providers. Generally, the storage and throughput rates charged by our storage segment to the asphalt and fuels marketing segment are consistent with rates charged to third parties. Because the majority of our pipelines are common carrier pipelines, the tariffs charged to the asphalt and fuels marketing segment from the transportation segment are based upon the published tariff applicable to all shippers.

We primarily market the following products:

- Heavy fuels, including bunker fuel used to supply marine vessels and refinery feedstocks;
- Refined products consisting primarily of gasoline and distillates; and
- Asphalt.

The operations of the asphalt and fuels marketing segment are meant to provide us the opportunity to generate additional margin while complementing the activities of our storage and transportation segments. Specifically, sales of bunker fuel occur from our terminal locations at St. Eustatius and Point Tupper where we also store bunker fuel for third parties. The strategic location of these two facilities and their storage capabilities provide us with a reliable supply of product and the ability to capture incremental sales margin. Additionally, we purchase gasoline, distillates, refinery feedstocks and asphalt to take advantage of arbitrage opportunities. Such opportunities can arise during contango markets (when the price for future deliveries exceeds current prices) or from geographic differences. During a contango market, we can utilize storage at strategically located terminals, including our own terminals, to deliver products at favorable prices. Additionally, we may take advantage of geographic arbitrage opportunities by utilizing transportation and storage assets, including our own terminals and pipelines, to deliver products from one geographic region to another with more favorable pricing.

Since the operations of our asphalt and fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to mitigate the effect of commodity price fluctuations. We record the fair value of our derivative instruments in our consolidated balance sheet, with the change in fair value recorded in earnings. The derivative instruments we use consist primarily of futures contracts and swaps traded on the NYMEX for the purposes of hedging the outright price risk of our physical inventory. However, not all of our derivative instruments qualify for hedge accounting treatment under United States generally accepted accounting principles. In such cases, changes in the fair values of the derivative instrument, which are included in cost of product sales, generally are offset, at least partially, by changes in the values of the hedged physical inventory. However, the market fluctuations in inventory are not recognized until the physical sale takes place, unless the market price of inventory falls below our cost. In such as circumstance, we reduce the value of our inventory to market immediately. Therefore, our results for a period may include the gain or loss related to the derivative instrument without including the offsetting effect of the hedged physical inventory, which could result in greater earnings volatility.

On a limited basis, we also enter into derivative commodity instruments based on our analysis of market conditions in order to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges. We record the mark-to-market adjustments resulting from these derivatives in revenues.

Competition and Business Considerations

In the sale of bunker fuel, we compete with ports offering bunker fuels to which, or from which, each vessel travels or are along the route of travel of the vessel. We also compete with bunker fuel delivery locations around the world. In the Western Hemisphere, alternative bunker fuel locations include ports on the U.S. East Coast and Gulf Coast and in Panama, Puerto Rico, the Bahamas, Aruba, Curacao and Halifax, Nova Scotia.

EMPLOYEES

Our operations are managed by the general partner of our general partner, NuStar GP, LLC. As of December 31, 2007, NuStar GP, LLC had 1,104 employees performing services for our U.S. operations. Certain of our wholly owned subsidiaries had 332 employees performing services for our international operations. We believe that NuStar GP, LLC and our subsidiaries each have satisfactory relationships with their employees.

RATE REGULATION

Several of our petroleum pipelines are interstate common carrier pipelines, which are subject to regulation by the FERC under the ICA and the Energy Policy Act of 1992 (the EP Act). The ICA and its implementing regulations give the FERC authority to regulate the rates charged for service on interstate common carrier pipelines and generally require the rates and practices of interstate oil pipelines to be just, reasonable and nondiscriminatory. The ICA also requires tariffs to be maintained on file with the FERC that set forth the rates it charges for providing transportation services on its interstate common carrier liquids pipelines as well as the rules and regulations governing these services. The EP Act deemed certain rates in effect prior to its passage to be just, reasonable and limited the circumstances under which a complaint can be made against such “grandfathered” rates. The EP Act and its implementing regulations also allow interstate common carrier oil pipelines to annually index their rates up to a prescribed ceiling level. In addition, the FERC retains cost-of-service ratemaking, market-based rates and settlement rates as alternatives to the indexing approach.

Our interstate anhydrous ammonia pipeline is subject to regulation by the STB under the current version of the ICA. The ICA and its implementing regulations give the STB authority to regulate the rates we charge for service on our ammonia pipeline and generally require that our rates and practices be just, reasonable and nondiscriminatory.

Additionally, the rates and practices for our intrastate common carrier pipelines are subject to regulation by state commissions in Colorado, Kansas, Louisiana, North Dakota and Texas. Although the applicable state statutes and regulations vary, they generally require that intrastate pipelines publish tariffs setting forth all rates, rules and regulations applying to intrastate service, and generally require that pipeline rates and practices be just, reasonable and nondiscriminatory. Shippers may also challenge our intrastate tariff rates and practices on our pipelines.

Neither the FERC nor the state commissions have investigated our rates or practices, and none of those rates are currently subject to challenge or complaint. We do not currently believe that it is likely that there will be a challenge to the tariffs on our petroleum products or crude oil pipelines by a current shipper that would materially affect our revenues or cash flows. In addition, Valero Energy is a significant shipper on many of our pipelines. Valero Energy has committed to refrain from challenging several of our petroleum products and crude oil tariffs until at least April 2008. Valero Energy has also agreed to be responsible for certain ICA liabilities with respect to activities or conduct occurring during periods prior to April 16, 2001. However, the FERC, the STB or a state regulatory commission could investigate our tariffs on their own motion or at the urging of a third party. Also, since our pipelines are common carrier pipelines, we may be required to accept new shippers who wish to transport in our pipelines and who could potentially decide to challenge our tariffs.

ENVIRONMENTAL AND SAFETY REGULATION

Our operations are subject to extensive federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management and pollution prevention measures. Our operations are also subject to extensive federal and state health and safety laws and regulations, including those relating to pipeline safety. The principal environmental and safety risks associated with our operations relate to unauthorized emissions into the air, unauthorized releases into soil, surface water or groundwater and personal injury and property damage. Compliance with these environmental and safety laws, regulations and permits increases our capital expenditures and our overall cost of business, and violations of these laws, regulations and/or permits can result in significant civil and criminal liabilities, injunctions or other penalties.

We have adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations and education, product safety, occupational health and the handling, storage, use and disposal of hazardous materials that are designed to prevent material environmental or other damage, to ensure the safety of our pipelines, our employees, the public and the environment and to limit the financial liability that could result from such events. Future governmental action and regulatory initiatives could result in changes to expected operating permits and procedures, additional remedial actions or increased capital expenditures and operating costs that cannot be assessed with certainty at this time. In addition, contamination resulting from spills of crude oil and refined products occurs within the industry. Risks of additional costs and liabilities are inherent within the industry, and there can be no assurances that significant costs and liabilities will not be incurred in the future.

WATER

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous or more stringent state statutes impose restrictions and strict controls regarding the discharge of pollutants into state waters or waters of the United States. The discharge of pollutants into state waters or waters of the United States is prohibited, except in accordance with the terms of a permit issued by applicable federal or state authorities. The Oil Pollution Act, enacted in 1990, amends provisions of the Clean Water Act as they pertain to prevention and response to oil spills. Spill prevention control and countermeasure requirements of the Clean Water Act and some state laws require the use of dikes and similar structures to help prevent contamination of state waters or waters of the United States in the event of an overflow or release.

AIR EMISSIONS

Our operations are subject to the Federal Clean Air Act, as amended, and analogous or more stringent state and local statutes. The Clean Air Act Amendments of 1990, along with more restrictive interpretations of the Clean Air Act, may result in the imposition over the next several years of certain pollution control requirements with respect to air emissions from the operations of our pipelines, storage tanks and terminals. The Environmental Protection Agency (EPA) has been developing, over a period of many years, regulations to implement these requirements, including the revisions to the fuel content requirement under Section 211 of the Clean Air Act tightening diesel fuel specifications and effectively eliminating the use of MTBE in gasoline. These revisions, as well as any new EPA regulations or requirements that may be imposed by state and local regulatory authorities, may require us or our customers to incur further capital expenditures over the next several years for air pollution control equipment in connection with maintaining or obtaining operating permits and approvals and addressing other air emission-related issues. Until such time as the new Clean Air Act requirements are completely implemented, we are unable to estimate the effect on our financial condition or results of operations or the amount and timing of such required expenditures. At this time, however, we do not believe that we will be materially affected by any such requirements.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change became effective February 2005. Under the Protocol, participating nations are required to implement programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. The United States is not currently a participant in the Protocol. In November 2007, the Senate Subcommittee on Private Sector and Consumer Solutions to Global Warming and Wildlife Protection approved SB 2191, America’s Climate and Security Act of 2007, which would requirwe companies to scale back certain emissions to 2005 levels by 2012 and to 1990 levels by 2020. SB 2191 is currently before the Senate Environment and Public Works Committee. The state of California adopted the California Global Warming Solutions Act of 2006, which requires a 25% reduction in greenhouse gas emissions by 2020. This legislation requires the California Air Resources Board to adopt regulations by 2012 that limit emissions until an overall reduction of 25% from all omission sources in California is achieved by 2020. Recently, the California Air Resources Board announced its intention to have a proposed draft of its 1990 baseline and mandatory reporting regulation by mid 2008 and commence mandatory reporting of Green House Gas emissions by mid-2009. The state of New Mexico and states that are a part of the Western Climate Initiative are proposing similar regulations. New Jersey, has adopted legislation addressing greenhouse gas emissions from various sources, primarily power plants. The oil and natural gas industry is a direct source of greenhouse gas emissions, namely carbon dioxide and methane, and future restrictions on such emissions could have an impact on our future operations. It is not possible, at this time to estimate accurately how regulations to be adopted by the California Air Resources Board in 2012 or that may be adopted by other states to address greenhouse gas emissions would affect our business.

SOLID WASTE

We generate non-hazardous and minimal quantities of hazardous solid wastes that are subject to the requirements of the federal Resource Conservation and Recovery Act (RCRA) and analogous or more stringent state statutes. We are not currently required to comply with a substantial portion of RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during operations, will also be designated as "hazardous wastes." Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes.

HAZARDOUS SUBSTANCES

The Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA and also known as Superfund, and analogous or more stringent state laws, imposes liability, without regard to fault or the legality of the original act, on some classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site and entities that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek recovery from the responsible classes of persons for the costs that they incur. In the course of our ordinary operations, we may generate waste that falls within CERCLA's definition of a "hazardous substance."

We currently own or lease, and have in the past owned or leased, properties where hydrocarbons are being or have been handled. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial operations to prevent future contamination. In addition, we may be exposed to joint and several liability under CERCLA for all or part of the costs required to clean up sites at which hazardous substances may have been disposed of or released into the environment.

Remediation of subsurface contamination is in process at many of our pipeline and terminal sites. Based on current investigative and remedial activities, we believe that the cost of these activities will not materially affect our financial condition or results of operations. Such costs, however, are often unpredictable and, therefore, there can be no assurances that the future costs will not become material.

PIPELINE INTEGRITY AND SAFETY

Our pipelines are subject to extensive federal and state laws and regulations governing pipeline integrity and safety. The federal Pipeline Safety Improvement Act of 2002 and its implementing regulations (collectively, PSIA) generally require pipeline operators to maintain qualification programs for key pipeline operating personnel, to review and update their existing pipeline safety public education programs, to provide information for the National Pipeline Mapping System, to maintain spill response plans, to conduct spill response training and to implement integrity management programs for pipelines that could affect high consequence areas (i.e., areas with concentrated populations, navigable waterways and other unusually sensitive areas). While compliance with PSIA and analogous or more stringent state laws may affect our capital expenditures and operating expenses, we believe that the cost of such compliance will not materially affect our competitive position and will not have a material effect on our financial condition or results of operations.

Updated Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report 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.

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 the Form 10-K. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Overview

Our operations are managed by NuStar GP, LLC, the general partner of Riverwalk Logistics, L.P., our general partner. NuStar GP, LLC is a wholly owned subsidiary of NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH). We use the term "general partner" in this report to refer to Riverwalk Logistics, L.P., NuStar GP, LLC, Riverwalk Holdings, LLC and/or NuStar GP Holdings. On April 1, 2007, we changed our name to NuStar Energy L.P. (NuStar Energy) (NYSE: NS), and Valero GP Holdings, LLC, our general partner, changed its name to NuStar GP Holdings, LLC (NYSE: NSH).

In two separate public offerings in 2006, Valero Energy Corporation (Valero Energy) sold their ownership interest in NuStar GP Holdings. NuStar GP Holdings did not receive any proceeds from either public offering, and Valero Energy's ownership interest in NuStar GP Holdings was reduced to zero.

As used in this report, references to "we," "us," "our" or the "Partnership" collectively refer, depending on the context, to NuStar Energy or a wholly owned subsidiary of NuStar Energy.

Recent Developments

On December 10, 2007, NuStar Logistics replaced the existing $600 million revolving credit agreement with a $1.25 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement). NuStar Logistics borrowed $528.4 million under the 2007 Revolving Credit Agreement to repay in full the balance on its $600 million revolving credit agreement and $525 million term loan agreement.

On November 19, 2007, we issued 2,600,000 common units representing limited partner interests at a price of $57.20 per unit. We received proceeds of $146.1 million, including a contribution of $3.0 million from our general partner to maintain its 2% general partner interest, net of issuance costs. The proceeds were used to repay a portion of the outstanding principal balance under our then active $600 million revolving credit agreement.

On November 6, 2007, we entered into a definitive agreement to acquire CITGO Asphalt Refining Company's asphalt operations and assets (East Coast Asphalt Operations) for approximately $450.0 million, plus an inventory adjustment.

The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals on the East Coast with a combined storage capacity of 4.8 million barrels.

Acquisitions and Dispositions

On December 1, 2006, we acquired a crude oil storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for approximately $141.7 million. The acquisition included 17 crude oil tanks with a total capacity of approximately 3.4 million barrels. Additionally, the facility has three docks with barge and ship access. The facility is located on the west bank of the Mississippi River approximately 60 miles west of New Orleans. We funded the acquisition with borrowings under our $600 million revolving credit agreement.

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for total proceeds of $70.1 million. This transaction included the sale of eight terminals with an aggregate storage capacity of 1.1 million barrels.

On July 1, 2005, we completed our acquisition (the Kaneb Acquisition) of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb). We acquired all of KSL's outstanding equity securities for approximately $509 million in cash. Additionally, we issued approximately 23.8 million of our common units valued at approximately $1.45 billion in exchange for all of the outstanding common units of KPP.

Operations

We provide transportation, storage services and related services to our customers. Also, we purchase certain petroleum products for resale to third parties. The following factors affect the results of our operations:

- company-specific factors, such as integrity issues and maintenance requirements that impact the throughput rates of our assets;
- seasonal factors that affect the demand for refined products and fertilizers transported by and/or stored in our assets;
- industry factors, such as changes in the prices of petroleum products that affect demand and operations of our competitors;
- factors such as seasonal inventory levels, commodity price volatility and market structure that impact our asphalt and fuels marketing segment; and
- other factors such as refinery utilization rates and maintenance turnaround schedules that impact the operations of refineries served by our assets.

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

Storage. We own 52 terminals in the United States that provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including one that provides storage services for crude oil and other feedstocks, and we own international terminal operations on the island of St. Eustatius in the Caribbean, Point Tupper in Nova Scotia, Canada, the United Kingdom, the Netherlands and Nuevo Laredo in Mexico. We also own 60 crude oil and intermediate feedstock storage tanks and related assets that store and deliver crude oil and intermediate feedstock to Valero Energy's refineries in Benicia, California and Corpus Christi and Texas City in Texas.

Transportation. We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 6,251 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 located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 755 miles of crude oil pipelines which transport crude oil and other feedstocks, such as gas oil, from various points in Texas, Oklahoma, Kansas and Colorado to Valero Energy's McKee, Three Rivers and Ardmore refineries as well as associated crude oil storage facilities in Texas and Oklahoma that are located along the crude oil pipelines. We also own an interest in 57 miles of crude oil pipeline in Illinois, which serves ConocoPhillips' Wood River refinery.

Asphalt and Fuels Marketing. During 2007 we expanded our product sales activities beyond the sale of bunker fuel to include the sale of other petroleum products such as asphalt, gasoline and distillates. The results of all of our product sales activities are included in our asphalt and fuels marketing segment. Our asphalt and fuels marketing segment is meant to provide us the opportunity to generate additional margin while complementing the activities of our storage and transportation segments. However, these activities expose us to the risk of fluctuations in commodity prices, which directly impact the results of operations for the asphalt and fuels marketing segment. Since there are many factors that influence commodity prices, the results of our asphalt and fuels marketing segment may be more volatile than our other segments.

We enter into derivative contracts to mitigate the effect of commodity price fluctuations. We record the fair value of our derivative instruments in our consolidated balance sheet, with the change in fair value recorded in earnings. The derivative instruments we use consist primarily of futures contracts and swaps traded on the NYMEX for the purposes of hedging the outright price risk of our physical inventory. However, not all of our derivative instruments qualify for hedge accounting treatment under United States generally accepted accounting principles. In such cases, changes in the fair values of the derivative instrument, which are included in cost of product sales, generally are offset, at least partially, by changes in the values of the hedged physical inventory. However, the market fluctuations in inventory are not recognized until the physical sale takes place, unless the market price of inventory falls below our cost. In such as circumstance, we reduce the value of our inventory to market immediately. Therefore, our results for a period may include the gain or loss related to the derivative instrument without including the offsetting effect of the hedged physical inventory, which could result in greater earnings volatility.

On a limited basis, we also enter into derivative commodity instruments based on our analysis of market conditions in order to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges. Mark-to-market adjustments resulting from these derivative instruments are recorded in revenues.

Demand for certain of the products we market fluctuates seasonally. For example, demand for gasoline and asphalt is typically higher in the summer months than the winter months, whereas demand for heating oil is higher in the winter months than the summer months. Prices for these commodities generally are highest during those times of higher demand. In addition to purchasing inventory for immediate resale, we have and expect to continue to employ a strategy of purchasing inventory during times of lower demand and lower prices and storing that inventory until it can be sold at higher prices. We expect that our overall level of working capital will increase to support the operations of the asphalt and fuels marketing segment. Additionally, the level of working capital employed by the asphalt and fuels marketing segment will likely fluctuate seasonally. The absolute increase in the level of working capital as well as the seasonal fluctuations may require us to borrow additional amounts or utilize other sources of liquidity.

Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

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

	Year Ended December 31, 2007	Year Ended December 31, 2006	Change
Statement of Income Data:			
Revenues:			
Service revenues	$ 696,623	$ 636,154	$ 60,469
Product sales	778,391	501,107	277,284
Total revenues	1,475,014	1,137,261	337,753
Costs and expenses:			
Cost of product sales	742,972	466,276	276,696
Operating expenses	357,235	312,604	44,631
General and administrative expenses	67,915	45,216	22,699
Depreciation and amortization expense	114,293	100,266	14,027
Total costs and expenses	1,282,415	924,362	358,053
Operating income	192,599	212,899	(20,300)
Equity earnings from joint ventures	6,833	5,882	951
Interest expense, net	(76,516)	(66,266)	(10,250)
Other income, net	38,830	3,252	35,578
Income from continuing operations before income tax expense	161,746	155,767	5,979
Income tax expense	11,448	5,861	5,587
Income from continuing operations	150,298	149,906	392
Loss from discontinued operations, net of income tax	—	(376)	376
Net income	150,298	149,530	768
Less net income applicable to general partner	(21,063)	(16,910)	(4,153)
Net income applicable to limited partners	$ 129,235	$ 132,620	$ (3,385)
Weighted average number of basic units outstanding	47,158,790	46,809,749	349,041
Net income (loss) per unit applicable to limited partners:			
Continuing operations	$ 2.74	$ 2.84	$ (0.10)
Discontinued operations	—	(0.01)	0.01
Net income	$ 2.74	$ 2.83	$ (0.09)

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

	Year Ended December 31, 2007	2006	Change
Storage:			
Throughput (barrels/day)(a)(b)	800,332	774,743	25,589
Throughput revenues	$ 96,372	$ 97,179	$ (807)
Storage lease revenues	314,255	266,234	48,021
Total revenues	410,627	363,413	47,214
Operating expenses	233,675	201,806	31,869
Depreciation and amortization expense	62,317	53,121	9,196
Segment operating income	$ 114,635	$ 108,486	$ 6,149
Transportation:			
Refined products pipelines throughput (barrels/day)(a)	678,573	711,476	(32,903)
Crude oil pipelines throughput (barrels/day)	377,640	421,666	(44,026)
Total throughput (barrels/day)	1,056,213	1,133,142	(76,929)
Throughput revenues	$ 296,796	$ 281,010	$ 15,786
Operating expenses	120,342	111,151	9,191
Depreciation and amortization expense	49,946	47,145	2,801
Segment operating income	$ 126,508	$ 122,714	$ 3,794
Asphalt and Fuels Marketing:			
Product sales	$ 778,391	$ 501,107	$277,284
Cost of product sales	750,120	471,576	278,544
Operating expenses	6,737	2,616	4,121
Depreciation and amortization expense	423	—	423
Segment operating income	$ 21,111	$ 26,915	$ (5,804)
Consolidation and Intersegment Eliminations:			
Revenues	$ (10,800)	$ (8,269)	$ (2,531)
Cost of product sales	(7,148)	(5,300)	(1,848)
Operating expenses	(3,519)	(2,969)	(550)
Depreciation and amortization expense	1,607	—	1,607
Total	$ (1,740)	$ —	$ (1,740)
Consolidated Information:			
Revenues	$1,475,014	$1,137,261	$337,753
Cost of product sales	742,972	466,276	276,696
Operating expenses	357,235	312,604	44,631
Depreciation and amortization expense	114,293	100,266	14,027
Segment operating income	260,514	258,115	2,399
General and administrative expenses	67,915	45,216	22,699
Consolidated operating income	$ 192,599	$ 212,899	$ (20,300)

(a) Throughput related to newly acquired assets included in the table above is calculated based on throughput for the period from the date of acquisition through December 31 of the year of acquisition divided by the number of days in the applicable year.
(b) Excludes throughputs related to storage lease revenues.

Annual Highlights

Net income increased $0.8 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to a significant increase in other income and slightly higher segment operating income, partially offset by increased general and administrative expense, interest expense and income tax expense.

Total segment operating income increased $2.4 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to a $6.1 million increase in operating income for the storage segment and a $3.8 million increase in operating income for the transportation segment, partially offset by a $5.8 million decrease in operating income for the asphalt and fuels marketing segment.

The throughputs on the storage and transportation segments were affected by a fire at the McKee refinery in February 2007, which shut down the refinery through mid-April 2007. After the refinery restarted in mid-April 2007, its throughputs increased throughout the second quarter, and it was near capacity by July 2007.

Storage

Throughputs increased 25,589 barrels per day for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to a change in the Corpus Christi (North Beach) crude oil storage tank agreement from a storage lease to a throughput fee agreement effective January 1, 2007. Throughputs for the Corpus Christi (North Beach) crude oil storage tanks were not reported prior to January 1, 2007. This increase was partially offset by decreased throughputs related to terminals serving the McKee refinery. In spite of the increased throughputs, throughput revenues decreased by $0.8 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to lower revenues at our terminals serving the McKee refinery and turnarounds and operating issues at the refineries served by our crude oil storage tanks.

Storage lease revenues increased by $48.0 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to:

- an increase of $19.2 million resulting from the St. James terminal acquisition in December 2006;
- an increase in storage lease terminal revenues of $24.7 million mainly due to additional customers, increased storage utilization and contract extensions by current customers, higher reimbursable project revenue and the effect of foreign exchange rates; and
- an increase in revenues of $4.1 million at our St. Eustatius facility due to leasing additional storage capacity that resulted from completed tank expansion projects.

Operating expenses increased $31.9 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to higher reimbursable project expenses. Reimbursable project expenses are charged back to our customers, and its increase is consistent with the increase in reimbursable project revenues. Operating expenses also increased due to higher maintenance and regulatory expenses, higher salaries and wages, the acquisition of the St. James terminal in December 2006, and higher marine expenses due to increased vessel calls at St. Eustatius and Point Tupper.

Depreciation and amortization expense increased $9.2 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, due to the acquisition of the St. James terminal in December 2006 and the completion of various capital projects, including two phases of the St. Eustatius tank expansion.

Transportation

Throughputs decreased 76,929 barrels per day for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to the impact of the McKee refinery fire, offset by increased throughputs on the East Pipeline, Ammonia Pipeline and Burgos Pipeline. Despite lower overall throughputs, revenues increased by $15.8 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to:

- higher tariff rates on virtually all of the refined product pipelines as the annual index adjustment was effective July 1, 2007;
- increased revenues and throughputs on the East Pipeline due to the closing of one of our competitor’s terminals in the second quarter of 2007 and increased throughputs to supply the Colorado market. The East Pipeline also experienced increased revenues due to a turnaround at the Ponca City refinery in prior year and increased long haul deliveries in 2007;

- increased revenues on the Ammonia Pipeline due to a record corn crop; and
- increased revenues on the Burgos pipeline due to our receipt of throughput deficiency payments in 2007. In addition, revenues increased due to a full year of operations of the Burgos pipeline, which commenced operations in the middle of the third quarter of 2006.

Operating expenses increased $9.2 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to higher maintenance and environmental costs and higher internal overhead costs mainly due to increased headcount. These increases were partially offset by decreased power costs due to downtime from the McKee refinery fire.

Depreciation and amortization expense increased $2.8 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, mainly due to increased amortization of deferred costs in connection with the throughput deficiency payments discussed above. In addition, depreciation and amortization expense increased due to the completion of various capital projects.

Asphalt and Fuels Marketing

Bunker fuel sales increased $171.5 million for the year ended December 31, 2007 compared to the year ended December 31, 2006 due to increased vessel calls at our St. Eustatius facility, partially offset by a decrease in bunker fuel sales of $10.9 million at our Point Tupper facility due to decreased vessel calls. Cost of product sales associated with bunker fuel sales also increased $159.8 million due to the increase in vessel calls.

Sales of refined products, heavy fuels and asphalt increased $115.4 million for the year ended December 31, 2007 compared to December 31, 2006 because those operations began in 2007. Cost of product sales related to the sales of refined products, heavy fuels and asphalt increased $121.3 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. For the year ended December 31, 2007 cost of product sales related to the sale of refined products, heavy fuels and asphalt includes $7.5 million related to the change in fair value of certain derivative instruments. Operating expenses increased by $4.1 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to salaries and wages and terminal storage fees relating to our sales of refined products, heavy fuels and asphalt, which began in 2007.

General

General and administrative expenses increased by $22.7 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to the following:

- increased expenses associated with unit option and restricted unit compensation expense as a result of the increase in the number of awards outstanding, partially offset by a decrease in the NuStar Energy unit price;
- increased headcount primarily resulting from a reduction in administrative services received from Valero Energy and increased information systems costs as a result of the separation from Valero Energy;
- increased professional fees primarily related to external legal costs; and
- increased rent expense related to our new headquarters.

Interest expense increased by $10.3 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to higher average debt balances arising from borrowings used to fund the acquisition of the St. James crude oil storage facility in December 2006 and various terminal expansion projects combined with higher interest rates, partially offset by capitalized interest.

Other income increased by $35.6 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily due to a $13.0 million payment from Valero Energy for exercising its option to terminate the 2007 Services Agreement, business interruption insurance income of $12.5 million associated with the McKee refinery fire, the sale of a net profit interest in Wyoming coal properties for $7.3 million and a gain of $5.2 million related to a settlement for damages at our Westwego terminal. Partially offsetting these increases are foreign exchange losses totaling approximately $6.3 million primarily relating to our Canadian subsidiary.

Income tax expense increased $5.6 million for the year ended December 31, 2007, compared to the year ended December 31, 2006. Income tax expense was higher in 2007 primarily due to the impact of the Texas margin tax effective January 1, 2007, recording a valuation allowance related to a capital loss carryforward in Canada and other adjustments. These increases were partially offset by reductions in the United Kingdom and Canadian income tax rates in 2007.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

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

	Year Ended December 31, 2006	Year Ended December 31, 2005	Change
Statement of Income Data:			
Revenues:			
Service revenue	$ 636,154	$ 423,057	$ 213,097
Product sales	501,107	236,500	264,607
Total revenues	1,137,261	659,557	477,704
Costs and expenses:			
Cost of product sales	466,276	229,806	236,470
Operating expenses	312,604	185,351	127,253
General and administrative expenses	45,216	26,553	18,663
Depreciation and amortization expense	100,266	64,895	35,371
Total costs and expenses	924,362	506,605	417,757
Operating income	212,899	152,952	59,947
Equity earnings from joint ventures	5,882	2,319	3,563
Interest expense, net	(66,266)	(41,388)	(24,878)
Other income (expense), net	3,252	(1,495)	4,747
Income from continuing operations before income tax expense	155,767	112,388	43,379
Income tax expense	5,861	4,713	1,148
Income from continuing operations	149,906	107,675	42,231
Income (loss) from discontinued operations, net of income tax	(376)	3,398	(3,774)
Net income	149,530	111,073	38,457
Less net income applicable to the general partner	(16,910)	(10,758)	(6,152)
Net income applicable to limited partners	$ 132,620	$ 100,315	$ 32,305
Weighted average number of basic and diluted units outstanding	46,809,749	35,023,250	11,786,499
Net income (loss) per unit applicable to limited partners:			
Continuing operations	$ 2.84	$ 2.76	$ 0.08
Discontinued operations	(0.01)	0.10	(0.11)
Net income	$ 2.83	$ 2.86	$ (0.03)

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

	Year Ended December 31, 2006	2005	Change
Storage:			
Throughput (barrels/day)(a)(b)	774,743	770,994	3,749
Throughput revenues	$ 97,179	$ 91,343	$ 5,836
Storage lease revenues	266,234	126,292	139,942
Total revenues	363,413	217,635	145,778
Operating expenses	201,806	104,002	97,804
Depreciation and amortization expense	53,121	32,505	20,616
Segment operating income	$ 108,486	$ 81,128	$ 27,358
Transportation:			
Refined products pipelines throughput (barrels/day)(a)	711,476	556,654	154,822
Crude oil pipelines throughput (barrels/day)	421,666	358,965	62,701
Total throughput (barrels/day)	1,133,142	915,619	217,523
Throughput revenues	$ 281,010	$201,282	$ 79,728
Operating expenses	111,151	81,832	29,319
Depreciation and amortization expense	47,145	32,390	14,755
Segment operating income	$ 122,714	$ 87,060	$ 35,654
Asphalt and Fuels Marketing:			
Product sales	$ 501,107	$246,603	$254,504
Cost of product sales	471,576	233,102	238,474
Operating expenses	2,616	2,184	432
Depreciation and amortization expense	—	—	—
Segment operating income	$ 26,915	$ 11,317	$ 15,598
Consolidation and Intersegment Eliminations:			
Revenues	$ (8,269)	$ (5,963)	$ (2,306)
Cost of product sales	(5,300)	(3,296)	(2,004)
Operating expenses	(2,969)	(2,667)	(302)
Depreciation and amortization expense	—	—	—
Total	$ —	$ —	$ —
Consolidated Information:			
Revenues	$1,137,261	$659,557	$477,704
Cost of product sales	466,276	229,806	236,470
Operating expenses	312,604	185,351	127,253
Depreciation and amortization expense	100,266	64,895	35,371
Segment operating income	258,115	179,505	78,610
General and administrative expenses	45,216	26,553	18,663
Consolidated operating income	$ 212,899	$152,952	$ 59,947

(a) Throughput related to newly acquired assets included in the table above is calculated based on throughput for the period from the date of acquisition through December 31 of the year of acquisition divided by the number of days in the applicable year.

(b) Excludes throughputs related to storage lease revenues.

Annual Highlights

Net income increased $38.5 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, due to higher segment operating income, partially offset by increased general and administrative expense, increased interest expense and increased income tax expense. All of these increases predominantly resulted from including the results of the Kaneb Acquisition for a full year in 2006 compared to six months in 2005.

Segment operating income increased $78.6 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to a $35.7 million increase in the transportation segment, a $27.4 million increase in the storage segment and a $15.6 million increase in the asphalt and fuels marketing segment. Increases are primarily due to the effect of the Kaneb Acquisition. Except for storage lease revenues and product sales, operating income for our segments depends upon the level of throughputs moving through our assets. In addition to the Kaneb Acquisition, all of our segments, except the asphalt and fuels marketing segment, were affected by lower throughputs in 2005 resulting from scheduled maintenance turnarounds or other operational issues at the McKee, Three Rivers and Ardmore refineries.

Storage

Throughputs increased slightly for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to higher throughputs at terminals that serve the McKee and Three Rivers refineries as these refineries experienced scheduled turnarounds and unit downtime in 2005. This increase was partially offset by decreased throughputs at the Benicia and Texas City crude oil storage tank facilities due to scheduled turnarounds at Valero Energy’s Benicia and Texas City refineries in 2006.

Revenues increased $145.8 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the following:

- the Kaneb Acquisition contributed $264.5 million of storage lease revenues for the year ended December 31, 2006 compared to $126.3 million of storage lease revenues for the period from July 1, 2005 to December 31, 2005;
- the acquisition of the St. James terminal in December of 2006 contributed $1.7 million to revenue;
- higher revenues in 2006 as the McKee and Three Rivers refineries experienced scheduled turnarounds and unit downtime in 2005; and
- an increase in the fees charged at our terminals.

Operating expenses increased $97.8 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the inclusion of a full year in 2006 of operating expenses related to the assets acquired in the Kaneb Acquisition.

Depreciation and amortization expense increased $20.6 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the inclusion of a full year in 2006 of depreciation and amortization expense related to our property and equipment acquired in the Kaneb Acquisition.

Transportation

Revenues increased $79.7 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the following:

- the Kaneb Acquisition contributed $116.4 million of revenues for the year ended December 31, 2006 compared to $57.4 million of revenue for the period from July 1, 2005 to December 31, 2005;
- higher throughputs and revenues in 2006 on our pipelines serving the McKee, Three Rivers and Ardmore refineries as they experienced turnarounds and unit downtime in 2005;
- the completion of the Burgos project, which commenced operations on the Edinburg to Harlingen segment in October 2005, the Harlingen to Brownsville segment in March 2006 and made its first delivery of naphtha from Penitas, TX, near the Mexico border, to Brownsville in the third quarter of 2006; and
- our acquisition of the Capwood crude oil pipeline on January 1, 2006, which increased throughputs by approximately 41,000 barrels per day and resulted in additional revenues of $2.3 million.

Operating expenses increased $29.3 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the inclusion of a full year in 2006 of operating expenses related to the assets acquired in the Kaneb Acquisition.

Depreciation and amortization expense increased $14.8 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the inclusion of a full year in 2006 of depreciation and amortization expense related to our property and equipment acquired in the Kaneb Acquisition and the completion of the Burgos project in 2006.

Asphalt and Fuels Marketing

Revenues increased $254.5 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the Kaneb Acquisition. The Kaneb Acquisition contributed $494.1 million of bunkering revenues for the year ended December 31, 2006 compared to $246.6 million for the period from July 1, 2005 to December 31, 2005.

Cost of product sales totaled $471.6 million for the year ended December 31, 2006 and $233.1 million for the period from July 1, 2005 to December 31, 2005. Cost of product sales reflects the cost of bunker fuel sold to marine vessels at the St. Eustatius and Point Tupper, which we acquired as part of the Kaneb Acquisition.

General

General and administrative expenses increased $18.7 million for the year ended December 31, 2006 compared to the year ended December 31, 2005, due to increased headcount as a result of the Kaneb Acquisition and reduced services received from Valero Energy under the services agreement. This increase in general and administrative expenses was partially offset by a decrease of $5.0 million in the service fee charged to us under a services agreement with Valero Energy.

Equity earnings from joint ventures increased $3.6 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily related to our 50% ownership in a terminal and storage facility in Linden, New Jersey, which was acquired in the Kaneb Acquisition.

Interest expense increased $24.9 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, due to higher average debt balances resulting from debt assumed as part of the Kaneb Acquisition and debt incurred to fund the Kaneb Acquisition combined with higher interest rates in 2006.

Other income increased $4.7 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to an impairment charge of $2.1 million in 2005 as a portion of the Three Rivers to Pettus to Corpus Christi, Texas refined product pipeline was permanently idled.

Income tax expense increased $1.1 million for the year ended December 31, 2006, compared to the year ended December 31, 2005, primarily due to the inclusion of a full year in 2006 of income tax expense related to certain operations acquired in the Kaneb Acquisition.

Outlook

Our business primarily consists of transportation, storage, terminalling and marketing of crude oil and refined products and is subject to the demand for those commodities in the regions in which we operate. Our business is generally more defensive in nature than other companies during times of economic slowdowns since we largely operate a stable, cash-flowing business; however, a recession, widely predicted to occur in 2008 according to several economists and regulators, or other adverse economic conditions, could negatively impact our operations.

We expect to see relatively few maintenance turnarounds in 2008, particularly at the Valero Energy refineries we serve. Therefore, we expect throughputs and revenues on our storage and transportation business segments to improve in 2008 versus 2007, especially since our throughputs were impacted by Valero Energy's McKee refinery fire for part of 2007.

Longer term, we believe strong demand for more energy infrastructure in the U.S. and internationally, continued growth in product demand, a tight supply and demand balance and an expanding array of specialty products including renewable fuels will continue to drive the demand for our assets. High refinery utilization rates tend to be supportive of throughputs through our pipelines and terminals.

Storage Segment Outlook

We believe certain trends we see in the market are providing further terminalling opportunities for us for a number of reasons, including:

- high commodity prices, which in relative terms make logistics cheap compared to the value they deliver;
- volatility in the energy markets and the willingness of energy traders to take physical positions at storage facilities in order to enhance profits;
- growing governmental regulation mandating cleaner fuels, such as ethanol and biofuels, which provide logistical opportunities;
- strong refining fundamentals that are expected to remain good for some time;
- geopolitical factors, which cause concern over the security of supply; and
- arbitrage opportunities such as those between the gasoline short U.S. and diesel short Europe, which continue to enhance storage opportunities.

The markets where we are investing to increase storage are strategically located marine terminal facilities on the East, West and Gulf Coasts of the U.S. as well as internationally at our facilities in St. Eustatius in the Netherlands Antilles, Amsterdam and the United Kingdom.

During 2007, we completed key terminal expansion projects and we commenced construction on other significant terminal expansion projects, which we expect to positively impact our operations in 2008.

Transportation Segment Outlook

Overall demand for our pipeline services in 2008 should remain high, despite some indications of an economic slowdown. Turnarounds or outages at our customers' refineries have a significant effect on our pipeline results, as do maintenance expenses and market conditions. Barring any major unplanned turnaround activity or significant adverse economic condition, we expect our refined product and crude oil pipeline throughputs will generally grow at a rate typical for the demand of refined products. Additionally, effective July 1st, we expect the tariffs on our pipelines to increase, which will also positively impact our results.

Asphalt and Fuels Marketing Segment Outlook

In 2008, we plan to continue to increase our asphalt and fuels marketing segment activity, which we expect to positively affect our earnings. However, the operations of the asphalt and fuels marketing segment expose us to commodity price risk, which could increase the volatility of our earnings. In addition, we may experience additional volatility in our earnings and cash flows, as changes in the values of our derivative instruments may not completely offset changes in the values of our physical inventory.

LIQUIDITY AND CAPITAL RESOURCES

General

Our primary cash requirements are for distributions to partners, working capital requirements, debt service, reliability and strategic and other capital expenditures, acquisitions and normal operating expenses. We typically generate sufficient cash from our current operations to fund day-to-day operating and general and administrative expenses, reliability capital expenditures and distribution requirements. We also have available borrowing capacity under our existing revolving credit facility and, to the extent necessary, we may raise additional funds through equity or debt offerings under our $3.0 billion shelf registration statement to fund strategic capital expenditures or other cash requirements not funded from operations. However, there can be no assurance regarding the availability of any additional funds or whether such additional funds can be provided on terms acceptable to us.

Cash Flows for the Year Ended December 31, 2007 and 2006

Net cash provided by operating activities for the year ended December 31, 2007 was $222.7 million compared to $250.8 million for the year ended December 31, 2006. The decrease in cash generated from operating activities is primarily due to a $21.3 million use of cash in 2007 from changes in working capital accounts compared to a $10.7 million source of cash in 2006 from changes in working capital accounts. Accounts receivable and inventory increased by $22.1 million and $71.5 million, respectively, compared to 2006 primarily due to the operations of the asphalt and fuels marketing segment, particularly an increase in inventory associated with marketing of asphalt, gasoline and distillates which began in 2007. Offsetting the increases in inventory and accounts receivable was an increase in accounts payable of $72.9 million, also primarily related to the marketing of asphalt, gasoline and distillates. Cash flows from operations for the year ended December 31, 2007 also includes proceeds from business interruption insurance of $12.5 million.

Net cash provided by operating activities for the year ended December 31, 2007 was used to fund distributions to unitholders and the general partner in the aggregate amount of $197.3 million. The proceeds from long-term debt borrowings, net of repayments, were used to fund a portion of our capital expenditures, primarily related to various terminal expansion projects. Additionally, we issued 2,600,000 common units for proceeds of $146.1 million, including a contribution from our general partner, which were used to repay borrowing on our long-term debt.

Net cash provided by operating activities for the year ended December 31, 2006, combined with available cash on hand, was used primarily to fund distributions to unitholders and the general partner in the aggregate amount of $183.3 million. Proceeds from long-term debt borrowings totaling $269.0 million, combined with the proceeds totaling $70.1 million from the sale of the Australia and New Zealand subsidiaries on March 30, 2006, were used to fund asset acquisitions of $154.5 million, repay long-term debt of $83.5 million and to fund capital expenditures and investment of other noncurrent assets of $124.0 million and $10.8 million, respectively.

Equity

Equity Offering. On November 19, 2007, we issued 2,600,000 common units representing limited partner interests at a price of $57.20 per unit. We received total proceeds of $146.1 million, including a contribution of $3.0 million from our general partner, net of issuance costs. The proceeds were used to repay a portion of the outstanding principal balance under our $600 million revolving credit agreement.

Shelf Registration Statement. On May 18, 2007, the SEC declared effective our shelf registration statement on Form S-3, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of each NuStar Logistics and KPOP, having an aggregate value of up to $3.0 billion (the 2007 Shelf Registration Statement). We filed the 2007 Shelf Registration Statement to gain additional flexibility in accessing capital markets for, among other things, the repayment of outstanding indebtedness, working capital, capital expenditures and acquisitions. As of December 31, 2007, we had $2.85 billion remaining under the 2007 Shelf Registration Statement. The 2007 Shelf Registration Statement replaces our 2003 Shelf Registration Statement, which was effective October 2, 2003 and filed by us and NuStar Logistics to register $750.0 million of securities for potential future use.

Distributions. NuStar Energy's partnership agreement, as amended, determines the amount and priority of cash distributions that our common unitholders and general partner may receive. The general partner receives a 2% distribution with respect to its general partner interest. The general partner is also entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds $0.60 per unit. For a detailed discussion of the incentive distribution targets, please read Item 5. "Market for Registrant's Common Units, Related Unitholder Matters and Issuer Purchases of Common Units."

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

	Year Ended December 31,		
	2007	2006	2005
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	$ 4,092	$ 3,742	$ 3,036
General partner incentive distribution	18,426	14,778	10,259
Total general partner distribution	22,518	18,520	13,295
Limited partners' distribution	182,076	168,515	138,500
Total cash distributions	$ 204,594	$ 187,035	$ 151,795
Cash distributions per unit applicable to limited partners	$ 3.835	$ 3.600	$ 3.365

Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter.

On January 24, 2008, we declared a quarterly cash distribution of $0.985, which was paid on February 14, 2008 to unitholders of record on February 7, 2008. This distribution related to the fourth quarter of 2007 and totaled $55.0 million, of which $6.3 million represented the general partner's share of such distribution. The general partner's distribution included a $5.2 million incentive distribution.

Capital Requirements

The petroleum pipeline and terminalling industry is capital intensive, requiring significant investments to maintain, upgrade or enhance existing operations and to comply with environmental and safety laws and regulations. Our capital expenditures consist of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental and safety regulations; and
- strategic and other capital expenditures, such as those to expand and upgrade pipeline capacity and to construct new pipelines, terminals and storage tanks. In addition, expansion capital expenditures may include acquisitions of pipelines, terminals or storage tank assets.

During the year ended December 31, 2007, we incurred reliability capital expenditures of $40.3 million primarily related to system automation and maintenance upgrade projects at our terminals and pipelines, and strategic capital expenditures of $211.0 million primarily related to the Amsterdam, St. Eustatius and St. James tank expansions and other terminal expansion projects. Also, we incurred expenditures required as a result of our separation from Valero Energy, such as separating our information systems and improvements made to our new headquarters.

For 2008, we budgeted for $182.0 million of capital expenditures, including $53.0 million for reliability capital projects and $129.0 million for strategic and other capital projects. We continuously evaluate our capital budget and make changes as economic conditions warrant. If conditions warrant, our actual capital expenditures for 2008 may exceed 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 2008.

Long-Term Contractual Obligations

6.875% and 6.05% Senior Notes

On March 18, 2003, NuStar Logistics issued $250 million of 6.05% senior notes, maturing in 2013, with interest payable semi-annually in arrears on March 15 and September 15 of each year.

On July 15, 2002, NuStar Logistics issued $100.0 million of 6.875% senior notes, maturing in 2012, with interest payable semi-annually in arrears on January 15 and July 15 of each year.

The 6.05% and the 6.875% senior notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness of NuStar Logistics. Both series of senior notes contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions.

At the option of NuStar Logistics, the 6.05% and the 6.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The NuStar Logistics senior notes also include a change-in-control provision, which requires (1) that Valero Energy or an investment grade entity own, directly or indirectly, 51% of our general partner interests and (2) that we (or an investment grade entity) own, directly or indirectly, all of the general partner and limited partner interests in NuStar Logistics.

Due to the completed sale of Valero Energy's remaining interests in NuStar GP Holdings on December 22, 2006, the change-in-control provision was triggered, and NuStar Logistics offered to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase. This offer expired on January 23, 2007, with approximately $20.1 million of the 6.05% senior notes tendered to us for repurchase. We retired the senior notes that were tendered with borrowings under our $600 million revolving credit agreement on February 1, 2007. The retirement of those senior notes did not significantly affect either our financial position or results of operations.

7.75% and 5.875% Senior Notes

As a result of the Kaneb Acquisition, we assumed the outstanding senior notes issued by KPOP, having an aggregate face value of $500.0 million, and an aggregate fair value of $555.0 million. We use the effective interest method to amortize the difference between the fair value and the face value of the senior notes as a reduction of interest expense over the remaining lives of the senior notes.

The senior notes were issued in two series, the first of which bears interest at 7.75% annually (due semi-annually on February 15 and August 15) and matures February 15, 2012. The second series bears interest at 5.875% annually (due on June 1 and December 1) and matures June 1, 2013.

The 7.75% and 5.875% senior notes do not contain sinking fund requirements. These notes contain restrictions on our ability to incur indebtedness secured by liens, to engage in certain sale-leaseback transactions, to engage in certain transactions with affiliates, as defined, and to utilize proceeds from the disposition of certain assets. At the option of KPOP, the 7.75% and 5.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date.

The senior notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy. In connection with the Kaneb Acquisition, NuStar Energy fully and unconditionally guaranteed the outstanding senior notes issued by KPOP. Additionally, effective July 1, 2005, both NuStar Logistics and KPOP fully and unconditionally guaranteed the outstanding senior notes of the other.

2007 Revolving Credit Agreement

On December 10, 2007, NuStar Logistics replaced the existing $600 million revolving credit agreement with the $1.25 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement), which includes a Euro sub-limit of $250 million. NuStar Logistics borrowed $528.4 million under the 2007 Revolving Credit Agreement to repay in full the balance on its $600 million revolving credit agreement (Revolving Credit Agreement) and $525 million term loan agreement (Term Loan Agreement). Obligations under the 2007 Revolving Credit Agreement are guaranteed by NuStar Energy and KPOP. KPOP will be released from its guarantee of the 2007 Revolving Credit Agreement when it no longer guarantees NuStar Logistics public debt instruments.

As of December 31, 2007, we had $720.8 million available for borrowing under the 2007 Revolving Credit Agreement. The 2007 Revolving Credit Agreement bears interest based on either an alternative base rate or a LIBOR based rate, which was 5.7% as of December 31, 2007. The weighted-average interest rate related to outstanding borrowings under the 2007 Revolving Credit Agreement for the year ended December 31, 2007 was 5.7%.

The 2007 Revolving Credit Agreement requires that we maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions if any defaults, as defined in the agreements, exist or would result from the distribution. The 2007 Revolving Credit Agreement also requires us to maintain, as of the end of each rolling period, consisting of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2007 Revolving Credit Agreement) not to exceed 5.00-to-1.00; provided, that if at any time NuStar Energy or any of its restricted subsidiaries consummates an acquisition for an aggregate net consideration of at least $100 million, then for two rolling periods, the last day of which immediately follows the day on which such acquisition is consummated, the consolidated debt coverage ratio must not exceed 5.50-to-1.00. Management believes that we are in compliance with all ratios and covenants of the 2007 Revolving Credit Agreement as of December 31, 2007.

Term Loan Agreement

On July 1, 2005, we entered into the Term Loan Agreement, the majority of which was used to fund the Kaneb Acquisition. The weighted-average interest rate related to outstanding borrowings under the Term Loan Agreement for the year ended December 31, 2007 was 6.0%. The $225.0 million balance on the Term Loan Agreement was paid in full on December 10, 2007 with the proceeds from the 2007 Revolving Credit Agreement.

Revolving Credit Agreement

On July 1, 2005, we entered into the Revolving Credit Agreement. The weighted-average interest rate related to outstanding borrowings under the Revolving Credit Agreement for the year ended December 31, 2007 was 5.7%. The $303.4 million balance on the Revolving Credit Agreement was paid in full on December 10, 2007 with the proceeds from the 2007 Revolving Credit Agreement.

UK Term Loan

KPOP’s UK subsidiary, Kaneb Terminals Limited, is the borrower of £21 million ($41.6 million and $41.1 million as of December 31, 2007 and 2006, respectively). This amended and restated term loan agreement (the UK Term Loan) bears interest at 6.65% annually and matures on December 11, 2012.

In December 2007, the UK Term Loan was amended to be consistent with the covenants and provisions of the 2007 Revolving Credit Agreement. Management believes that we are in compliance with all ratios and covenants of the UK Term Loan as of December 31, 2007.

Port Authority of Corpus Christi Note Payable

The proceeds from the original $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) were used for the construction of a crude oil storage facility in Corpus Christi, Texas. The note payable is due in annual installments of $1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility. Interest on the unpaid principal balance accrues at a rate of 8.0% per annum. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi.

Interest Rate Swaps

We are party to certain interest rate swap agreements to manage our exposure to changes in interest rates. The interest rate swap agreements have an aggregate notional amount of $167.5 million, of which $60.0 million is tied to the maturity of the 6.875% senior notes and $107.5 million is tied to the maturity of the 6.05% senior notes. Under the terms of the interest rate swap agreements, we will receive a fixed rate (6.875% and 6.05% for the $60.0 million and $107.5 million of interest rate swap agreements, respectively) and will pay a variable rate based on LIBOR plus a percentage that varies with each agreement. The aggregate estimated fair value of the interest rate swaps included in the consolidated balance sheet was $2.2 million included in deferred charges and other assets, net as of December 31, 2007 and $4.9 million included in other long-term liabilities as of December 31, 2006.

The interest rate swap contracts qualify for the shortcut method of accounting prescribed by SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended (SFAS 133). As a result, changes in the fair value of the swaps will completely offset the changes in the fair value of the underlying hedged debt. As of December 31, 2007 and 2006, the weighted average effective interest rate for the interest rate swaps was 6.1% and 7.1%, respectively.

The following table presents our long-term contractual obligations and commitments and the related payments due, in total and by period, as of December 31, 2007:

	Payments Due by Period						
	2008	2009	2010	2011	2012	Thereafter	Total
	(Thousands of Dollars)						
Long-term debt (stated maturities)	$ 663	$ 713	$ 770	$ 832	$920,503	$482,163	$1,405,644
Operating leases	11,034	7,650	7,099	6,557	6,394	102,368	141,102
Purchase obligations	544,294	110,953	7,069	968	962	1,523	665,769

A purchase obligation is an enforceable and legally binding agreement to purchase goods or services that specifies significant terms, including (i) fixed or minimum quantities to be purchased, (ii) fixed, minimum or variable price provisions, and (iii) the approximate timing of the transaction. Our purchase obligations primarily relate to purchases of inventory for resale to our customers.

We do not have any long-term contractual obligations related to our investment in joint ventures, other than the requirement to operate the joint ventures on behalf of the members and to fund our 50% share of capital expenditures as they arise.

Related Party Transactions

Our operations are managed by the general partner of our general partner, NuStar GP, LLC. The 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. We reimburse NuStar GP, LLC for all costs related to its employees. We had a receivable of $0.8 million and a payable of $2.3 million, as of December 31, 2007 and December 31, 2006, respectively, to our general partner, with both amounts representing payroll and plan benefits, net of payments made by us. We also had a long-term payable as of December 31, 2007 and 2006 of $5.7 million to our general partner related to amounts payable for retiree medical benefits and other post-employment benefits.

Prior to December 22, 2006, Valero Energy controlled our general partner. We have transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs and lease expense, which were reported as related party transactions in the consolidated statement of income. Due to Valero Energy’s sale of its interest in NuStar GP Holdings on December 22, 2006, we ceased reporting transactions with Valero Energy as related party transactions subsequent to that date.

The following table summarizes information pertaining to related party transactions with NuStar GP, LLC for the year ended December 31, 2007 and with Valero Energy for the years ended December 31, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005 (a)
	(Thousands of Dollars)		
Revenues	$ —	$260,980	$234,485
Operating expenses	93,211	94,587	60,921
General and administrative expenses	37,702	32,183	19,356

(a) The amounts reflected in the table include revenues and operating expenses of $1,867 and $1,850, respectively, which are included in income from discontinued operations in the consolidated statement of income.

Agreements with NuStar GP Holdings

Non-Compete Agreement

On July 19, 2006, we entered into a non-compete agreement with NuStar GP Holdings, Riverwalk Logistics, L.P., and NuStar GP, LLC (the Non-Compete Agreement). The Non-Compete Agreement became effective on December 22, 2006 when NuStar GP Holdings ceased being subject to the Amended and Restated Omnibus Agreement, dated March 31,

2006. Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. NuStar GP Holdings will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. With respect to any other business opportunities, neither the Partnership nor NuStar GP Holdings are prohibited from engaging in any business, even if the Partnership and NuStar GP Holdings would have a conflict of interest with respect to such other business opportunity.

Agreements with Valero Energy

We have entered into a number of operating agreements with Valero Energy, which govern the required services provided to and received from Valero Energy. Most of the operating agreements include adjustment provisions, which allow us to increase the handling, storage and throughput fees we charge to Valero Energy based on a consumer price index. In addition, the pipeline tariffs charged by us are reviewed annually and adjusted based on an inflation index and may also be adjusted to take into consideration additional costs incurred to provide the transportation services. The following is a summary of the significant terms of the individual agreements.

Services Agreement

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to us under the terms of various services agreements between us and Valero Energy. The terms of these services agreements generally provided that the costs of employees who performed services directly on our behalf, including salaries, wages and employee benefits, were charged directly to us. In addition, Valero Energy charged us a net administrative services fee, which was $1.8 million and $6.6 million for the years ended December 31, 2006 and 2005, respectively.

Although Valero Energy no longer provided employees to work directly on our behalf, Valero Energy continued to provide certain services to us under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). Under the 2007 Services Agreement, we paid Valero Energy approximately $1.1 million for the year ended December 31, 2007 for administrative services (primarily information system services and human resource services) and telecommunication services.

On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. As a result, Valero Energy paid us a termination fee of $13.0 million in May 2007 in accordance with the terms of the 2007 Services Agreement. However, Valero Energy continued providing certain services over a period of time sufficient to allow us to assume those functions by the end of 2007.

Omnibus Agreement

On March 31, 2006, we entered into an amended and restated omnibus agreement (the 2006 Omnibus Agreement) with Valero Energy, NuStar GP, LLC, Riverwalk Logistics, L.P., and NuStar Logistics. The 2006 Omnibus Agreement superseded the Omnibus Agreement among the parties dated effective April 16, 2001. The 2006 Omnibus Agreement governed potential competition between Valero Energy and us.

With the closing of Valero GP Holding’s secondary public offering on December 22, 2006, Valero Energy ceased to own 20% or more of us, which allows Valero Energy to compete with us.

Also under the 2006 Omnibus Agreement, Valero Energy agreed to indemnify us for environmental liabilities related to the assets transferred to us in connection with our initial public offering, provided that such liabilities arose prior to and are discovered within ten years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

Pipelines and Terminals Usage Agreement—McKee, Three Rivers and Ardmore

Under the terms of the Pipelines and Terminals Usage Agreement dated April 16, 2001, we provide transportation services that support Valero Energy’s refining and marketing operations relating to the McKee, Three Rivers and Ardmore refineries. Pursuant to the agreement, Valero Energy has agreed through April 2008:

- to transport in our crude oil pipelines at least 75% of the aggregate volumes of crude oil shipped to the McKee, Three Rivers and Ardmore refineries;

- to transport in our refined product pipelines at least 75% of the aggregate volumes of refined products shipped from the McKee, Three Rivers and Ardmore refineries; and
- to use our refined product terminals for terminalling services for at least 50% of all refined products shipped from the McKee, Three Rivers and Ardmore refineries.

If market conditions change with respect to the transportation of crude oil or refined products, or to the end markets in which Valero Energy sells refined products, in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use our pipelines and terminals that serve the McKee, Three Rivers and Ardmore refineries at the required levels, Valero Energy's obligation to us will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect.

In the event Valero Energy does not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. For the years ended December 31, 2007, 2005 and 2004, Valero Energy exceeded its obligations under the Pipelines and Terminals Usage Agreement. Additionally, Valero Energy has agreed not to challenge, or cause others to challenge, our interstate or intrastate tariffs for the transportation of crude oil and refined products until at least April 2008.

Crude Oil Storage Tank Agreements

In conjunction with the acquisition of the Crude Oil Storage Tanks in March 2003, we entered into the following agreements with Valero Energy:

- *Handling and Throughput Agreement*, dated March 2003, pursuant to which Valero Energy agreed to pay us a fee for 100% of crude oil and certain other feedstocks delivered to each of the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery and to use our logistic assets for handling all deliveries to these refineries. The throughput fees are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The initial term of the handling and throughput agreement is ten years, which may be extended by Valero Energy for up to an additional five years.
- *Services and Secondment Agreements*, dated March 2003, pursuant to which Valero Energy agreed to provide personnel to us who perform operating and routine maintenance services related to the crude oil storage tank operations. The annual reimbursement for those services is an aggregate $3.5 million. The initial term of the services and secondment agreements is ten years, which we may extend for an additional five years. In addition to the fees we have agreed to pay Valero Energy under the services and secondment agreements, we are responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the services and secondment agreements. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes.
- *Lease and Access Agreements*, dated March 2003, pursuant to which Valero Energy leases to us the land on which the crude oil storage tanks are located for an aggregate amount of $0.7 million per year. The initial term of each lease is 25 years, subject to automatic renewal for successive one-year periods thereafter. We may terminate any of these leases upon 30 days notice after the initial term or at the end of a renewal period. In addition, we may terminate any of these leases upon 180 days notice prior to the expiration of the current term if we cease to operate the crude oil storage tanks or cease business operations.

South Texas Pipelines and Terminals Agreements

In conjunction with the acquisition of the South Texas Pipelines and Terminals in March 2003, we entered into the following agreements with Valero Energy:

- *Terminalling Agreement,* dated March 2003, pursuant to which Valero Energy agreed, during the initial period of five years, to pay a terminalling fee for each barrel of refined product stored or handled by or on behalf of Valero Energy at the terminals, including an additive fee for gasoline additive blended at the terminals. At the Houston Hobby Airport terminal, Valero Energy agreed to pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.
- *Throughput Commitment Agreement,* dated March 2003, pursuant to which Valero Energy agreed, for an initial period of seven years:
  - to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi refineries' gasoline and distillate production but only if the combined throughput in these pipelines is less than 110,000 barrels per day;

- to transport in the Pettus to San Antonio refined product pipeline 25% of the Three Rivers refinery gasoline and distillate production and in the Pettus to Corpus Christi refined product pipeline 90% of the Three Rivers refinery raffinate production;
- to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refineries;
- to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and
- to use the San Antonio East terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

In the event Valero Energy does not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. Valero Energy's obligation to transport 90% of the Three Rivers refinery raffinate production in the Pettus to Corpus Christi refined product pipeline was suspended in the fourth quarter of 2005 due to the temporary idling of the pipeline in the fourth quarter of 2005.

St. James Terminalling Agreement

On December 1, 2006, we executed a terminal services agreement with Valero Energy for the St. James, Louisiana crude oil facility (the St. James Terminal Agreement). Pursuant to the St. James Terminal Agreement, we will provide crude oil storage and blending services to Valero Energy for a minimum throughput fee of $1.175 million per month, plus $0.08 per barrel throughput in excess of 4 million barrels per month and $0.03 per barrel blended. The St. James Terminal Agreement has an initial term of five years, with an option to extend for an additional five years, provided that Valero Energy provides notice of its intent to extend the term at least one year prior to the expiration of the initial term.

Corpus Christi North Beach Storage Facility

Effective January 1, 2007, we entered into a one-year terminal service agreement with Valero Energy for the 1.6 million barrels of capacity at our Corpus Christi North Beach storage facility. This agreement automatically renewed from year-to-year until either party elected to terminate upon 90-days written notice. This agreement was terminated on December 31, 2007.

We entered into a five-year shell barrel capacity lease agreement with Valero Energy on January 1, 2008 for the 1.6 million barrels of capacity at our Corpus Christi North Beach storage facility for $0.56 million per month. This lease automatically renews for additional one-year terms after the initial term unless either party terminates it with a 90-day written notice. Pursuant to this agreement, Valero Energy has agreed to maintain an annual average throughput of at least 70,000 barrels per day. In the event Valero Energy does not maintain the minimum guaranteed annual volume, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by a per barrel rate.

Other Agreements

We have other minor storage and throughput contracts with Valero Energy.

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 environmental and safety laws and regulations are becoming more complex and stringent and new 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.

The balance of and changes in our accruals for environmental matters as of and for the years ended December 31, 2007, 2006 and 2005 are included in Note 11 of Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplemental Data." We believe that we have adequately accrued for our environmental exposures.

Other Contingencies

We are subject to certain loss contingencies, the outcome of which could have an effect on our cash flows and results of operations. Specifically, we may be required to make substantial payments to the U.S. Department of Justice for certain remediation costs as further disclosed in Note 12 of the Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to select accounting policies and to make estimates and assumptions related thereto that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The accounting policies below are considered critical due to judgments made by management and the sensitivity of these estimates to deviations of actual results from management's assumptions. The critical accounting policies should be read in conjunction with Note 2 of Notes to the Consolidated Financial Statements in Item 8. "Financial Statements and Supplemental Data," which summarizes our significant accounting policies.

Depreciation

We calculate depreciation expense using the straight-line method over the estimated useful lives of our property and equipment. Because of the expected long useful lives of the property and equipment, we depreciate our property and equipment over periods ranging from 10 years to 40 years. Changes in the estimated useful lives of the property and equipment could have a material adverse effect on our results of operations.

Impairment of Long-Lived Assets and Goodwill

We test long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the related asset might be impaired. An impairment loss should be recognized only if the carrying amount of the asset/goodwill is not recoverable and exceeds its fair value.

In order to test for recoverability, management must make estimates of projected cash flows related to the asset which include, but are not limited to, assumptions about the use or disposition of the asset, estimated remaining life of the asset, and future expenditures necessary to maintain the asset's existing service potential. In order to determine fair value, management must make certain estimates and assumptions including, among other things, an assessment of market conditions, projected cash flows, investment rates, interest/equity rates and growth rates, that could significantly impact the fair value of the long-lived asset or goodwill. Due to the subjectivity of the assumptions used to test for recoverability and to determine fair value, significant impairment charges could result in the future, thus affecting our future reported net income.

Asset Retirement Obligations

We record a liability, which is referred to as an asset retirement obligation, at fair value for the estimated cost to retire a tangible long-lived asset at the time we incur that liability, which is generally when the asset is purchased, constructed or leased. We record a liability for asset retirement obligations when we have a legal obligation to incur costs to retire the asset and when a reasonable estimate of the fair value of the obligation can be made. If a reasonable estimate cannot be made at the time the liability is incurred, we record the liability when sufficient information is available to estimate the fair value.

We have asset retirement obligations with respect to certain of our assets due to various legal obligations to clean and/or dispose of those assets at the time they are retired. However, these assets can be used for extended and indeterminate period of time as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain our assets and continue making improvements to those assets based on technological advances. As a result, we believe that our assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any asset, we estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

We also have legal obligations in the form of leases and right of way agreements, which require us to remove certain of our assets upon termination of the agreement. However, these lease or right of way agreements generally contain automatic renewal provisions that extend our rights indefinitely or we have other legal means available to extend our rights. We have recorded a liability of approximately $0.8 million and $2.0 million as of December 31, 2007 and 2006, respectively, which is included in other long-term liabilities on the consolidated balance sheet, for conditional asset retirement obligations related to the retirement of terminal assets with lease and right of way agreements. Prior to 2006, we had not recorded a liability for asset retirement obligations.

Environmental Reserve

Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Accrued liabilities are based on estimates of probable undiscounted future costs over a 20-year time period using currently available technology and applying current regulations, as well as our own internal environmental policies. The environmental liabilities have not been reduced by possible recoveries from third parties. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods. We believe that we have adequately accrued for our environmental exposures.

Contingencies

We accrue for costs relating to litigation, claims and other contingent matters, including tax contingencies, when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management’s judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to income in the period when final determination is made.

Derivative Financial Instruments

We are party to certain interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of our fixed-rate senior notes. We account for the interest rate swaps as fair value hedges and recognize the fair value of each interest rate swap in the consolidated balance sheet as either an asset or liability. The interest rate swap contracts qualify for the shortcut method of accounting prescribed by SFAS 133. As a result, changes in the fair value of the derivatives will completely offset the changes in the fair value of the underlying hedged debt.

Since the operations of our asphalt and fuels marketing segment expose us to commodity price risk, we enter into derivatives instruments to mitigate the effect of commodity price fluctuations. The derivative instruments we use consist primarily of futures contracts and swaps traded on the NYMEX.

Derivative instruments designated and qualifying as fair value hedges under Statement of Financial Accounting Standards No. 133 (SFAS 133) (Fair Value Hedges) are recorded in the consolidated balance sheet at fair value with mark-to-market adjustments recorded in cost of sales. The offsetting gain or loss on the associated hedged physical inventory is recognized concurrently in cost of sales. We record derivative instruments that do not qualify for hedge accounting under SFAS 133 (Economic Hedges) in the consolidated balance sheet at fair value with mark-to-market adjustments recorded in cost of sales. The market fluctuations in inventory are not recognized until the physical sale takes place. Fair value is based on quoted market prices.

On a limited basis, we also enter into derivative commodity instruments based on our analysis of market conditions in order to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges. We record these derivatives in the consolidated balance sheet at fair value with mark-to-market adjustments recorded in revenues.

Updated Item 8. Financial Statements and Supplementary Data

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors of NuStar GP, LLC
and Unitholders of NuStar Energy L.P.:

We have audited the accompanying consolidated balance sheets of NuStar Energy L.P. and subsidiaries (a Delaware limited partnership) (the Partnership) as of December 31, 2007 and 2006, and the related consolidated statements of income, partners' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NuStar Energy L.P. and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NuStar Energy L.P.'s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas
February 28, 2008, except for Note 20,
as to which the date is October 2, 2008

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

	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 89,838	$ 68,838
Accounts receivable, net of allowance for doubtful accounts of $365 and $1,220 as of December 31, 2007 and 2006, respectively	130,354	105,976
Receivable from related party	786	—
Inventories	88,532	16,979
Other current assets	37,624	21,205
Total current assets	347,134	212,998
Property and equipment, at cost	2,944,116	2,694,358
Accumulated depreciation and amortization	(452,030)	(349,223)
Property and equipment, net	2,492,086	2,345,135
Intangible assets, net	47,762	53,532
Goodwill	785,019	774,441
Investment in joint ventures	80,366	74,077
Deferred income tax asset	10,622	11,342
Deferred charges and other assets, net	20,098	22,683
Total assets	$3,783,087	$3,494,208
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 663	$ 647
Payable to related party	—	2,315
Accounts payable	163,309	86,307
Accrued interest payable	17,725	17,528
Accrued liabilities	47,189	37,651
Taxes other than income taxes	10,157	10,219
Income taxes payable	3,442	2,068
Total current liabilities	242,485	156,735
Long-term debt, less current portion	1,445,626	1,353,720
Long-term payable to related party	5,684	5,749
Deferred income tax liability	34,196	32,926
Other long-term liabilities	60,264	69,397
Commitments and contingencies (Note 12)		
Partners' equity:		
Limited partners (49,409,749 and 46,809,749 common units outstanding as of December 31, 2007 and 2006, respectively)	1,926,126	1,830,047
General partner	41,819	38,815
Accumulated other comprehensive income	26,887	6,819
Total partners' equity	1,994,832	1,875,681
Total liabilities and partners' equity	$3,783,087	$3,494,208

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Services revenues:			
Third parties	$ 696,623	$ 375,174	$ 190,439
Related party	—	260,980	232,618
Total services revenues	696,623	636,154	423,057
Product sales	778,391	501,107	236,500
Total revenues	1,475,014	1,137,261	659,557
Costs and expenses:			
Cost of product sales	742,972	466,276	229,806
Operating expenses:			
Third parties	264,024	218,017	126,280
Related party	93,211	94,587	59,071
Total operating expenses	357,235	312,604	185,351
General and administrative expenses:			
Third parties	30,213	13,033	7,197
Related party	37,702	32,183	19,356
Total general and administrative expenses	67,915	45,216	26,553
Depreciation and amortization expense	114,293	100,266	64,895
Total costs and expenses	1,282,415	924,362	506,605
Operating income	192,599	212,899	152,952
Equity earnings from joint ventures	6,833	5,882	2,319
Interest expense, net	(76,516)	(66,266)	(41,388)
Other income (expense), net	38,830	3,252	(1,495)
Income from continuing operations before income tax expense	161,746	155,767	112,388
Income tax expense	11,448	5,861	4,713
Income from continuing operations	150,298	149,906	107,675
Income (loss) from discontinued operations, net of income tax	—	(376)	3,398
Net income	150,298	149,530	111,073
Less net income applicable to general partner	(21,063)	(16,910)	(10,758)
Net income applicable to limited partners	$ 129,235	$ 132,620	$ 100,315
Income (loss) per unit applicable to limited partners:			
Continuing operations	$ 2.74	$ 2.84	$ 2.76
Discontinued operations	—	(0.01)	0.10
Net income	$ 2.74	$ 2.83	$ 2.86
Weighted average number of basic units outstanding	47,158,790	46,809,749	35,023,250

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2007	2006	2005
Cash Flows from Operating Activities:			
Net income	$ 150,298	$ 149,530	$ 111,073
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	114,293	100,266	66,667
Amortization of debt related items	(5,516)	(5,210)	(2,669)
Other non-cash gains	(8,356)	(388)	2,161
Provision (benefit) for deferred income taxes	276	(74)	4,283
Equity earnings from joint ventures	(6,833)	(5,969)	(2,499)
Distributions of equity earnings from joint ventures	544	5,155	2,499
Changes in current assets and liabilities (Note 17)	(21,326)	10,695	64
Other, net	(708)	(3,194)	4,851
Net cash provided by operating activities	222,672	250,811	186,430
Cash Flows from Investing Activities:			
Reliability capital expenditures	(40,333)	(33,952)	(23,707)
Strategic and other capital expenditures	(210,918)	(90,070)	(44,379)
Kaneb acquisition, net of cash acquired	—	—	(500,973)
Other acquisitions	—	(154,474)	—
Investment in other noncurrent assets	(62)	(10,820)	(3,319)
Proceeds from sale of Held Separate Businesses, net	—	—	454,109
Proceeds from dispositions of other assets	12,667	71,396	26,836
Proceeds from insurance settlement	250	3,661	—
Distributions in excess of equity earnings from joint ventures	—	113	2,433
Other, net	—	912	—
Net cash used in investing activities	(238,396)	(213,234)	(89,000)
Cash Flows from Financing Activities:			
Proceeds from issuance of common units, net of issuance costs	143,083	—	—
Proceeds from long-term debt borrowings, net of issuance costs	1,170,302	269,026	746,472
Long-term debt repayments	(1,077,975)	(83,510)	(735,064)
Proceeds from notes payable	75,000	—	—
Repayments of notes payable	(82,353)	—	—
Distributions to unitholders and general partner	(197,333)	(183,290)	(127,789)
Contributions from general partner	3,035	575	29,197
Increase (decrease) in cash book overdrafts	3,676	(6,305)	10,006
Other, net	(375)	(395)	—
Net cash provided by (used in) financing activities	37,060	(3,899)	(77,178)
Effect of foreign exchange rate changes on cash	(336)	(894)	(345)
Net increase in cash and cash equivalents	21,000	32,784	19,907
Cash and cash equivalents as of the beginning of year	68,838	36,054	16,147
Cash and cash equivalents as of the end of year	$ 89,838	$ 68,838	$ 36,054

See Notes to Consolidated Financial Statements.

NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
Years Ended December 31, 2007, 2006 and 2005
(Thousands of Dollars, Except Unit Data)

	Limited Partners					Accumulated Other	Total
	Common		Subordinated		General	Comprehensive	Partners'
	Units	Amount	Units	Amount	Partner	Income (Loss)	Equity
Balance as of January 1, 2005	13,442,072	$ 310,537	9,599,322	$ 117,968	$ 9,836	$ (30)	$ 438,311
Net income	—	72,383	—	27,932	10,758	—	111,073
Other comprehensive loss – foreign currency translation	—	—	—	—	—	(1,238)	(1,238)
Total comprehensive income	—	72,383	—	27,932	10,758	(1,238)	109,835
Cash distributions to partners	—	(85,138)	—	(31,773)	(10,878)	—	(127,789)
Exchange of common units for all common units of KPP and related general partner interest contributions	23,768,355	1,451,225	—	—	29,197	—	1,480,422
Balance as of December 31, 2005	37,210,427	1,749,007	9,599,322	114,127	38,913	(1,268)	1,900,779
Net income	—	123,180	—	9,440	16,910	—	149,530
Other comprehensive income – foreign currency translation	—	—	—	—	—	8,087	8,087
Total comprehensive income	—	123,180	—	9,440	16,910	8,087	157,617
Cash distributions to partners	—	(149,004)	—	(16,703)	(17,583)	—	(183,290)
General partner contribution	—	—	—	—	575	—	575
Conversion of subordinated units to common units on May 8, 2006	9,599,322	106,864	(9,599,322)	(106,864)	—	—	-
Balance as of December 31, 2006	46,809,749	1,830,047	—	—	38,815	6,819	1,875,681
Net income	—	129,235	—	—	21,063	—	150,298
Other comprehensive income – foreign currency translation	—	—	—	—	—	20,068	20,068
Total comprehensive income	—	129,235	—	—	21,063	20,068	170,366
Cash distributions to partners	—	(176,239)	—	—	(21,094)	—	(197,333)
Issuance of 2,600,000 common units in November 2007 and related general partner interest contribution	2,600,000	143,083	—	—	3,035	—	146,118
Balance as of December 31, 2007	49,409,749	$1,926,126	—	$ —	$ 41,819	$ 26,887	$1,994,832

See Notes to Consolidated Financial Statements.

1. ORGANIZATION AND OPERATIONS

Organization

NuStar Energy L.P. (NYSE: NS), formerly Valero L.P., is engaged in the crude oil and refined product transportation, terminalling and storage business in the United States, the Netherland Antilles, Canada, Mexico, the Netherlands and the United Kingdom. NuStar Energy L.P. also purchases certain petroleum products for resale to third parties. As used in this report, references to “we,” “us,” “our” or “the Partnership” collectively refer, depending on the context, to NuStar Energy L.P. or a wholly owned subsidiary of NuStar Energy L.P.

NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) is our general partner, which is represented by a 2% general partner interest. NuStar GP Holdings, through various wholly owned subsidiaries, also owns limited partner units, resulting in a combined ownership of 22.3% of our partnership interests. The remaining 77.7% limited partnership interests are held by public unitholders.

NuStar GP Holdings, a publicly held Delaware limited liability company, was formed in June 2000 as UDS Logistics. Valero Energy Corporation (Valero Energy) (NYSE: VLO), a publicly held independent refining and marketing company, acquired UDS Logistics in connection with its December 31, 2001 acquisition (UDS Acquisition) of Ultramar Diamond Shamrock Corporation (UDS). UDS Logistics changed its name to Valero GP Holdings in January 2006. In two separate public offerings in 2006, Valero Energy sold 100% of their ownership interests in NuStar GP Holdings. In April 2007, Valero GP Holdings changed its name to NuStar GP Holdings, and we changed our name to NuStar Energy L.P. (NuStar Energy).

Operations

Our operations are managed by NuStar GP, LLC, formerly Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., and a wholly owned subsidiary of NuStar GP Holdings.

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P., formerly Valero Logistics Operations, L.P. (NuStar Logistics), and Kaneb Pipe Line Operating Partnership, L.P. (KPOP). We have three business segments: storage, transportation and asphalt and fuels marketing. As of December 31, 2007, our assets included:

- 61 refined product terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom providing approximately 58.5 million barrels of storage capacity and one crude oil terminal facility providing approximately 3.4 million barrels of storage capacity;
- 60 crude oil storage tanks providing storage capacity of 12.5 million barrels;
- 8,251 miles of refined product pipelines, including approximately 2,000 miles of anhydrous ammonia pipelines, with 21 associated terminals providing storage capacity of 4.6 million barrels and two tank farms providing storage capacity of 1.2 million barrels; and
- 812 miles of crude oil pipelines with 11 associated storage tanks providing storage capacity of 1.7 million barrels.

On November 6, 2007, we entered into a definitive agreement to acquire CITGO Asphalt Refining Company’s asphalt operations and assets (East Coast Asphalt Operations) for approximately $450.0 million, plus an inventory adjustment. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals on the East Coast with a combined storage capacity of 4.8 million barrels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements represent the consolidated operations of the Partnership and our controlled subsidiaries. Inter-partnership balances and transactions have been eliminated in consolidation. The operations of certain crude oil, refined product pipelines and refined product terminals in which we own an undivided interest, are proportionately consolidated in the accompanying consolidated financial statements. Investments in 50% or less owned entities are accounted for using the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. On an ongoing basis, management reviews their estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Cash and Cash Equivalents

Cash equivalents are all highly liquid investments with an original maturity of three months or less when acquired.

Accounts Receivable

Accounts receivable represent valid claims against non-affiliated customers for products sold or services rendered. We extend credit terms to certain customers after review of various credit indicators, including the customer's credit rating. Outstanding customer receivable balances are regularly reviewed for possible non-payment indicators and allowances for doubtful accounts are recorded based upon management's estimate of collectability at the time of their review.

Inventories

Inventories consist of petroleum products purchased for resale and are valued at the lower of cost or market. Cost is determined using the weighted-average cost method.

Property and Equipment

Additions to property and equipment, including reliability and expansion capital expenditures and capitalized interest, are recorded at cost.

Reliability capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend their useful lives. Strategic capital expenditures represent capital expenditures to expand or upgrade the operating capacity, increase efficiency or increase the earnings potential of existing assets, whether through construction or acquisition. Repair and maintenance costs associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

Depreciation of property and equipment is recorded on a straight-line basis over the estimated useful lives of the related assets. Gains or losses on sales or other dispositions of property are recorded in income and are reported in "Other income (expense), net" in the consolidated statements of income. When property or equipment is retired or otherwise disposed of, the difference between the carrying value and the net proceeds is recognized as gain or loss in the consolidated statement of income in the year retired.

Goodwill and Intangible Assets

Goodwill represents the excess of cost of an acquired entity over the fair value of net assets acquired less liabilities assumed. Intangible assets are assets that lack physical substance (excluding financial assets). Goodwill acquired in a business combination is not amortized. Intangible assets with finite useful lives are amortized on a straight-line basis over five to 47 years. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. We use October 1 of each year as our annual valuation date for the impairment test. Based on the results of the impairment tests performed as of October 1, 2007, 2006 and 2005, no impairment had occurred.

Investment in Joint Ventures

Skelly-Belvieu Pipeline Company, LLC. Formed in 1993, the Skelly-Belvieu Pipeline Company, LLC (Skelly-Belvieu) owns a liquefied petroleum gas pipeline that begins in Skellytown, Texas and extends to Mont Belvieu, Texas near Houston. Skelly-Belvieu is owned 50% by the Partnership and 50% by ConocoPhillips. We account for this investment under the equity method of accounting.

ST Linden Terminals, LLC. Formed in 1998, the 44-acre facility provides us with deep-water terminalling capabilities at New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. ST Linden Terminals, LLC (Linden) is owned 50% by the Partnership and 50% by NIC Holding Corp. We account for this investment under the equity method of accounting.

Deferred Charges and Other Assets

“Deferred charges and other assets, net” primarily include the following:

- deferred financing costs amortized over the life of the related debt obligation using the effective interest method;
- deferred costs incurred in connection with acquiring a customer contract, which is amortized over the life of the contract;
- deferred dry-docking costs incurred in connection with major maintenance activities on our marine vessels, which are amortized over the period of time estimated to lapse until the next dry-docking occurs; and
- the fair value of our interest rate swap agreements.

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and investment in joint ventures, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows. We believe that the carrying amounts of our long-lived assets as of December 31, 2007 are recoverable.

Taxes Other than Income Taxes

Taxes other than income taxes include primarily liabilities for ad valorem taxes, franchise taxes, and value added taxes.

Income Taxes

We are a limited partnership and generally are not subject to federal or state income taxes. Accordingly, the taxable income or loss of the Partnership, which may vary substantially from income or loss reported for financial reporting purposes, is generally included in the federal and state income tax returns of the individual partners. For transfers of publicly held units subsequent to our initial public offering, we have made an election permitted by Section 754 of the Internal Revenue Code to adjust the common unit purchaser’s tax basis in our underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expenses to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder’s purchase price for the common units.

We conduct certain of our operations through taxable wholly owned corporate subsidiaries. Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are measured using enacted tax rates expected to apply to taxable income in the year those temporary differences are expected to be recovered or settled.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 clarifies the accounting for uncertain income tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes,” by defining a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FIN 48, we recognize a tax position if it is more-likely-than-not that the tax position will be sustained, based on the technical merits of the position, upon examination. We record uncertain tax positions in the financial statements at the largest amount of benefit that is more-likely-than-not to be realized. We adopted FIN 48 effective January 1, 2007, which did not affect our financial position or results of operations. We had no unrecognized tax benefits as of January 1, 2007 or December 31, 2007.

NuStar Energy or certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. For U.S. federal and state purposes, tax years subject to examination are 2003 through 2007 and for our major non-U.S. jurisdictions, tax years subject to examination are 2001 through 2007.

Asset Retirement Obligations

We record a liability, which is referred to as an asset retirement obligation, at fair value for the estimated cost to retire a tangible long-lived asset at the time we incur that liability, which is generally when the asset is purchased, constructed or leased. We record a liability for asset retirement obligations when we have a legal obligation to incur costs to retire the asset and when a reasonable estimate of the fair value of the obligation can be made. If a reasonable estimate cannot be made at the time the liability is incurred, we record the liability when sufficient information is available to estimate the fair value.

We have asset retirement obligations with respect to certain of our assets due to various legal obligations to clean and/or dispose of those assets at the time they are retired. However, these assets can be used for extended and indeterminate period of time as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain our assets and continue making improvements to those assets based on technological advances. As a result, we believe that our assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any asset, we estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

We also have legal obligations in the form of leases and right of way agreements, which require us to remove certain of our assets upon termination of the agreement. However, these lease or right of way agreements generally contain automatic renewal provisions that extend our rights indefinitely or we have other legal means available to extend our rights. We have recorded a liability of approximately $0.8 million and $2.0 million as of December 31, 2007 and 2006, respectively, which is included in “Other long-term liabilities” on the consolidated balance sheet, for conditional asset retirement obligations related to the retirement of terminal assets with lease and right of way agreements.

Environmental Remediation Costs

Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. These environmental obligations are based on estimates of probable undiscounted future costs over a 20-year time period using currently available technology and applying current regulations, as well as our own internal environmental policies. The environmental liabilities have not been reduced by possible recoveries from third parties. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods.

Product Imbalances

Product imbalances occur when customers deliver more or less refined product volumes into our pipelines than they are entitled to receive. We value assets and liabilities related to product imbalances at current market prices. Product imbalance liabilities are included in “Accrued liabilities” on the consolidated balance sheet (see Note 9). Included in “Other current assets” are $13.6 million and $9.9 million of product imbalance assets as of December 31, 2007 and 2006, respectively.

Revenue Recognition

Revenues for the storage segment include fees for tank storage agreements, whereby a customer agrees to pay for a certain amount of storage in a tank over a period of time (storage lease revenues), and throughput agreements, whereby a customer pays a fee per barrel for volumes moving through our terminals (throughput revenues). Our terminals also provide blending, handling and filtering services. Our facilities at Point Tupper and St. Eustatius also charge fees to provide ancillary services such as pilotage, tug assistance, line handling, launch service, emergency response services and other ship services. Storage lease revenues are recognized when services are provided to the customer. Throughput revenues are recognized as refined products are delivered out of our terminal and as crude oil and certain other refinery feedstocks are received by the related refinery. Revenues for ancillary services are recognized as those services are provided.

Revenues for the transportation segment are derived from interstate and intrastate pipeline transportation of refined product and crude oil. Transportation revenues (based on pipeline tariffs) are recognized as refined products or crude oil are delivered out of the pipelines.

Revenues from the sale of petroleum products, which are included in our asphalt and fuels marketing segment, are recognized when product is delivered to the customer and title and risk pass to the customer. Additionally, the revenues of our asphalt and fuels marketing segment include the mark-to-market impact of certain derivative instruments that are part of our limited trading program.

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF No. 06-3). EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include sales, use, value added, and some excise taxes. These taxes should be presented on either a gross or a net basis, and if reported on a gross basis, a company should disclose amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. We present taxes on a net basis in our consolidated financial statements.

Income Allocation

Our net income for each quarterly reporting period is first allocated to the general partner in an amount equal to the general partner's incentive distribution calculated based upon the declared distribution for the respective reporting period. The remaining net income is allocated among the limited and general partners in accordance with their respective 98% and 2% interests.

Net Income per Unit Applicable to Limited Partners

We have identified the general partner and the subordinated units 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 and subordinated units outstanding during the period. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit applicable to limited partners is the same because we have no potentially dilutive securities outstanding. The amount of net income per unit allocated to subordinated units was equal to the amount allocated to the common units for the periods prior to the conversion of the subordinated units into common units in May 2006.

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting partners' equity that, under United States generally accepted accounting principles, are excluded from net income, such as foreign currency translation adjustments.

Derivative Financial Instruments

We are a party to certain interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of our fixed-rate senior notes. We account for the interest rate swaps as fair value hedges and recognize the fair value of each interest rate swap in the consolidated balance sheet as either an asset or liability. The interest rate swap contracts qualify for the shortcut method of accounting prescribed by SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS 133). As a result, changes in the fair value of the derivatives will completely offset the changes in the fair value of the underlying hedged debt.

Since the operations of our asphalt and fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to mitigate the effect of commodity price fluctuations. The derivative instruments we use consist primarily of futures contracts and swaps traded on the NYMEX.

Derivative instruments designated and qualifying as fair value hedges under Statement of Financial Accounting Standards No. 133 (SFAS 133) are recorded in the consolidated balance sheet as assets or liabilities at fair value with mark-to-market adjustments recorded in "Cost of product sales." The offsetting gain or loss on the associated hedged physical inventory is recognized concurrently in "Cost of product sales." We record derivative instruments that do not qualify for hedge accounting under SFAS 133 in the consolidated balance sheet as assets or liabilities at fair value with mark-to-market adjustments recorded in "Cost of product sales." Fair value is based on quoted market prices.

On a limited basis, we also enter into derivative commodity instruments based on our analysis of market conditions in order to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges. We record these derivatives in the consolidated balance sheet as assets or liabilities at fair value with mark-to-market adjustments recorded in "Revenues."

Operating Leases

We recognize rent expense on a straight-line basis over the lease term, including the impact of both scheduled rent increases and free or reduced rents (commonly referred to as "rent holidays").

Stock-based Compensation

NuStar GP, LLC has adopted various long-term incentive plans, which provide employees and directors of NuStar GP, LLC providing services to NuStar Energy, with the right to receive NS common units. NuStar GP, LLC accounts for awards of NS unit options and restricted units at fair value in accordance with Emerging Issues Task Force Issue No. 02-08, "Accounting for Options Granted to Employee in Unrestricted, Publicly Traded Shares of an Unrelated Entity" (EITF 02-08). EITF 02-08 requires a company that grants its employees equity of an unrelated entity to account for such awards as a derivative, whereby a liability for the award is recorded at inception. Subsequent changes in the fair value of the award are included in the determination of net income. The fair value of NS unit options is determined using the Black-Scholes model at each reporting date. The fair value of NS restricted units equals the market price of NS common units at each reporting date. NuStar GP, LLC records compensation expense each reporting period such that the cumulative compensation expense recorded equals the current fair value and considering the percentage of the award that has vested. NuStar GP, LLC records compensation expense related to NS unit options until such options are exercised, and compensation expense related to NS restricted units until the date of vesting.

NuStar GP Holdings has adopted a long-term incentive plan that provides employees, consultants and directors of NuStar GP Holdings and its affiliates with rights to receive NuStar GP Holdings common units under specified conditions. NuStar GP Holdings accounts for awards of NSH restricted units and unit options granted to its directors or employees of NuStar GP, LLC at fair value in accordance with Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), "Share-Based Payment." The fair value of NSH unit options is determined using the Black-Scholes model at the grant date and the fair value of the NSH restricted unit equals the market price of NSH common units at the grant date. NuStar GP Holdings recognizes compensation expense for NSH restricted units and unit options ratably over the vesting period based on the fair value of the units at the grant date.

We reimburse our general partner completely for the expense resulting from awards to employees and directors of NuStar GP, LLC. We include such compensation expense in "General and administrative expenses" on the consolidated statements of income. We do not reimburse our general partner for the expense resulting from awards to non-employee directors of NuStar GP Holdings.

Under these employee stock compensation plans, certain awards provide that employees vest in the award when they retire or will continue to vest in the award after retirement over the nominal vesting period established in the award. Through 2005, we accounted for such awards by recognizing compensation expense over the nominal vesting period. By analogy to the transition rules of SFAS No. 123R and the Securities and Exchange Commission's (SEC) amended Rule 4-01(a) of Regulation S-X, we changed our method of recognizing compensation expense to the non-substantive vesting period approach for any awards granted after January 1, 2006. Under the non-substantive vesting period approach, compensation expense is recognized immediately for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved if that date is expected to occur during the nominal vesting period.

Margin Deposits

Margin deposits relate to our exchange-traded derivative contracts and generally vary based on changes in the value of the contracts. Margin deposits totaling $8.6 million are included in “Other current assets” on the consolidated balance sheet as of December 31, 2007. Prior to 2007, we were not a party to any exchange-traded derivative contracts.

New Accounting Pronouncements

FASB Statement No. 157. In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements.” Statement No. 157, as amended, defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. Statement No. 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of Statement No. 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The FASB deferred the effective date for one year for all nonfinancial assets and liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We will still need to apply the recognition and disclosure provisions of Statement No. 157 for financial assets and liabilities and for nonfinancial assets and liabilities that are re-measured at least annually. The adoption of Statement No. 157 effective January 1, 2008 has not materially affected our financial position or results of operations.

FASB Statement No. 159. In February 2007, the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” Statement No. 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on an instrument-by-instrument basis, with changes in fair value recognized in earnings as those changes occur. The adoption of Statement No. 159 effective January 1, 2008 has not affected our financial position or results of operations.

FASB Statement No. 141R. In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007), Business Combinations. Statement 141R will significantly change the accounting for business combinations. Under Statement 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement 141R will change the accounting treatment for certain specific items, such as acquisition costs, acquired contingent liabilities, restructuring costs, changes in deferred tax asset valuation allowances and other items. Statement 141R also includes a substantial number of new disclosure requirements. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, we will not adopt the provisions of Statement 141R until January 1, 2009.

Reclassifications

Certain previously reported amounts in the 2006 and 2005 consolidated financial statements have been reclassified to conform to the 2007 presentation.

3. ACQUISITIONS

Completed During 2006

Capwood Pipeline

Effective January 1, 2006, we purchased a 23.77% interest in Capwood pipeline from Valero Energy for $12.8 million, which was paid from borrowings under our existing revolving credit agreement. The Capwood pipeline is a 57-mile crude oil pipeline that extends from Patoka, Illinois to Wood River, Illinois. Plains All American Pipeline L.P., the operator of the Capwood pipeline, owns the remaining 76.23% interest. Our financial statements include the results of operations of our interest in the Capwood pipeline in the transportation segment for the years ended December 31, 2007 and 2006.

St. James Crude Facility

On December 1, 2006, we acquired a crude oil storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for approximately $141.7 million (the St. James Acquisition). The acquisition includes 17 crude oil tanks with a total capacity of approximately 3.3 million barrels. Additionally, the facility has three docks with barge and ship access. The facility is located on the west bank of the Mississippi River approximately 60 miles west of New Orleans. We funded the acquisition with borrowings under our revolving credit agreement. The financial statements include the results of operations in the storage segment commencing on December 1, 2006.

The St. James Acquisition was accounted for using the purchase method. The purchase price and purchase price allocation were as follows (in thousands):

Cash paid for St. James Terminal	$140,900
Transaction costs	759
Total	$141,659

Current assets	$ 53
Property and equipment	126,258
Goodwill	13,898
Intangible assets	1,450
Total	$141,659

Since the effect of the St. James Acquisition was not significant, we have not presented pro forma financial information for the years ended December 31, 2006 and 2005 that give effect to the St. James Acquisition as of January 1, 2006 and 2005.

Completed During 2005

Kaneb Acquisition

On July 1, 2005, we completed our acquisition (Kaneb Acquisition) of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb). We acquired all of KSL's outstanding equity securities for approximately $509 million in cash, which was primarily funded by borrowings under our $525 million term credit agreement. Additionally, we issued approximately 23.8 million of our common units valued at approximately $1.45 billion in exchange for all of the outstanding common units of KPP.

The financial statements include the results of operations of the Kaneb Acquisition commencing on July 1, 2005.

Purchase Price Allocation

The Kaneb Acquisition was accounted for using the purchase method. The purchase price and final purchase price allocation were as follows (in thousands):

Cash paid for the outstanding equity securities of KSL	$ 509,307
Value of NuStar Energy's common units issued in exchange for KPP units	1,451,249
Transaction costs	9,505
Fair value of long-term debt assumed	779,707
Fair value of other liabilities assumed	179,864
Total	$ 2,929,632

Current assets	$ 605,721
Property and equipment	1,429,652
Goodwill	769,727
Intangible assets	58,900
Other noncurrent assets	65,632
Total	$ 2,929,632

Unaudited Pro Forma Information

The unaudited pro forma financial information below includes the historical financial information of Kaneb and the Partnership for the periods indicated. This financial information assumes the following:

- we completed the Kaneb Acquisition on January 1, 2005;
- we borrowed $525.0 million to purchase all of the outstanding equity securities of KSL;
- we issued approximately 23.8 million common units in exchange for all of the outstanding common units of KPP;

- we received a contribution from our general partner of $29.2 million to maintain its 2% interest; and
- the results of operations of the Held Separate Businesses (as defined below in Note 4), Martin Oil LLC, (a marketing subsidiary of KSL) and the Australian and New Zealand subsidiaries are reported as discontinued operations.

The unaudited pro forma information presented below is not necessarily indicative of the results of future operations:

	Year Ended December 31, 2005 (Thousands of Dollars, Except Per Unit Data)
Revenues	$ 1,005,662
Operating income	130,347
Income from continuing operations	$ 83,084
Income from discontinued operations	9,853
Net income	$ 92,937
Net income per unit applicable to limited partners:	
Continuing operations	$ 1.48
Discontinued operations	0.21
Net income	$ 1.69

4. DISPOSITIONS

Sale of Australia and New Zealand Subsidiaries

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for total proceeds of $70.1 million. This transaction included the sale of eight terminals with an aggregate storage capacity of approximately 1.1 million barrels. The results of operations for the Australia and New Zealand Subsidiaries for 2006 and 2005 have been included in income from discontinued operations. Revenues and pre-tax income related to the Australia and New Zealand Subsidiaries, included in income from discontinued operations, were $5.0 million and $0.6 million, respectively, for the year ended December 31, 2006 and were $10.1 million and $0.2 million, respectively, for the year ended December 31, 2005. Income tax expense associated with the Australia and New Zealand Subsidiaries totaled $0.3 million and $0.1 million for the years ended December 31, 2006 and 2005, respectively. Additionally, the income from discontinued operations includes interest expense of approximately $0.8 million and $1.5 million allocated to the Australia and New Zealand Subsidiaries for the years ended December 31, 2006 and 2005, respectively, which was based upon the expected proceeds and the interest rate applicable to our debt.

Sale of Held Separate Businesses

In conjunction with the Kaneb Acquisition, we agreed with the United States Federal Trade Commission to divest certain assets. These assets consisted of two California terminals handling refined products, blendstocks, and crude oil, three East Coast refined product terminals, and a 550-mile refined products pipeline with four truck terminals and storage in the U.S. Rocky Mountains (collectively, the Held Separate Businesses).

On September 30, 2005, we sold the Held Separate Businesses to Pacific Energy Partners, L.P. for approximately $455.0 million. Results of operations related to the Held Separate Businesses are classified as income from discontinued operations in the consolidated statement of income for the year ended December 31, 2005. Revenues and pre-tax income related to the Held Separate Businesses were $14.2 million and $3.2 million, respectively, for the year ended December 31, 2005. Income tax expense was not included in discontinued operations related to the Held Separate Businesses as they were owned by entities that were not subject to income tax. Additionally, interest expense of approximately $4.9 million was allocated to the Held Separate Businesses as certain of our debt agreements required us to use the proceeds from the sale of the Held Separate Businesses to repay outstanding debt.

Sale of Martin Oil LLC

In a separate transaction that occurred simultaneously with the closing of the Kaneb Acquisition, we sold all of our interest in Kaneb's commodity trading business, Martin Oil LLC, to Valero Energy for approximately $26.8 million.

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The changes in the allowance for doubtful accounts consisted of the following:

	Year Ended December 31,	
	2007	2006
	(Thousands of Dollars)	
Balance as of beginning of year	$ 1,220	$ 1,976
Decrease in allowance credited to expense	(544)	(276)
Accounts charged against the allowance, net of recoveries	(324)	(492)
Foreign currency translation	13	12
Balance as of end of year	$ 365	$ 1,220

6. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following:

	Estimated Useful Lives	December 31,	
	(Years)	2007	2006
		(Thousands of Dollars)	
Land	-	$ 108,216	$ 93,929
Land and leasehold improvements	10 - 35	75,013	59,043
Buildings	15 - 40	39,789	37,533
Pipeline, storage and terminals and equipment	20 - 35	2,435,381	2,327,129
Rights of way	20 - 40	102,217	102,211
Construction in progress	-	183,500	74,513
Total		2,944,116	2,694,358
Less accumulated depreciation and amortization		(452,030)	(349,223)
Property and equipment, net		$2,492,086	$2,345,135

Capitalized interest costs included in property and equipment were $6.0 million, $1.8 million and $1.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Depreciation and amortization expense for property and equipment was $102.8 million, $92.5 million and $62.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

In the fourth quarter of 2005, a portion of the Three Rivers to Pettus to Corpus Christi refined product pipeline was permanently idled. As a result, we recorded an impairment charge of $2.1 million, included in "Other income (expense), net" in the accompanying consolidated statement of income for the year ended December 31, 2005.

7. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	December 31, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	(Thousands of Dollars)			
Intangible assets subject to amortization:				
Customer relationships	$58,900	$ (14,690)	$58,900	$ (8,795)
Non-compete agreements	1,765	(1,407)	1,765	(1,054)
Terminaling agreement	1,000	(333)	—	—
Consulting agreements	—	—	1,150	(652)
Other	2,809	(282)	2,359	(141)
Total	$64,474	$ (16,712)	$64,174	$ (10,642)

All of our intangible assets are subject to amortization. Amortization expense for intangible assets was $7.2 million, $6.5 million and $3.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. The estimated aggregate amortization expense is approximately $6.7 million for the year ending December 31, 2008, $6.4 million for the year ended December 31, 2009, $6.0 million for the years ending December 31, 2010 and 2011 and $5.9 million for the year ended December 31, 2012.

8. INVESTMENT IN JOINT VENTURES

The following table presents summarized combined unaudited financial information related to our joint ventures as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005:

	December 31,	
	2007	2006
	(Thousands of Dollars)	
Balance Sheet Information:		
Current assets	$10,387	$ 8,622
Property, plant and equipment, net	81,645	68,809
Total assets	$92,032	$77,431
Current liabilities	$ 6,328	$ 3,375
Members' equity	85,704	74,056
Total liabilities and members' equity	$92,032	$77,431

	Year Ended December 31,		
	2007	2006	2005 (a)
	(Thousands of Dollars)		
Statement of Income Information:			
Revenues	$31,502	$28,858	$28,008
Net income	13,528	12,355	11,320
Our share of net income (b)	6,833	5,969	2,499
Our share of distributions	544	5,268	4,932

(a) Revenues and net income reflect the amounts for the year ended December 31, 2005. Our share of net income and distributions related to investments in the joint ventures acquired as part of the Kaneb Acquisition reflect amounts for the six months ended December 31, 2005.

(b) Our share of net income shown in the table includes $0.1 million and $0.2 million of income that is included in income from discontinued operations in the consolidated statement of income for the years ended December 31, 2006 and 2005, respectively.

Skelly-Belvieu Pipeline Company

Upon the formation of Skelly-Belvieu, we contributed certain equipment to Skelly-Belvieu in exchange for 50% of its members' equity. Our investment in Skelly-Belvieu was recorded at the carrying amount of the contributed equipment. However, the financial statements of Skelly-Belvieu reflect these assets at fair value at the date of formation. As a result, our 50% share of Skelly-Belvieu's members' equity exceeds the carrying value of our investment. This excess, which totaled $7.1 million and $7.4 million as of December 31, 2007 and 2006, respectively, is being accreted into income over the average life of the assets held by Skelly-Belvieu, or 33 years.

ST Linden Terminals, LLC

As part of the Kaneb Acquisition, we acquired an investment in Linden. As part of the final allocation in 2006 of the purchase price of Kaneb, we recorded our investment in Linden at fair value. As a result, the carrying value of our investment in Linden exceeds our 50% share of its members' equity. This excess totaled $44.5 million and $44.9 million as of December 31, 2007 and 2006, respectively, of which $8.0 million is being amortized into expense over the average life of the assets held by Linden, or 25 years. The balance not being amortized has been allocated to goodwill of Linden.

9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	December 31, 2007	December 31, 2006
	(Thousands of Dollars)	
Employee wages and benefit costs	$17,633	$12,093
Unearned income	2,401	2,369
Environmental costs	5,435	5,583
Product shortages	10,513	7,796
Other	11,207	9,810
Accrued liabilities	$47,189	$37,651

10. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2007	December 31, 2006
	(Thousands of Dollars)	
6.05% senior notes due 2013, net of unamortized discount of ($337) in 2007 and ($437) in 2006 and a fair value adjustment of $1,646 in 2007 and ($2,902) in 2006	$ 231,241	$ 246,662
6.875% senior notes due 2012, net of unamortized discount of ($143) in 2007 and ($174) in 2006 and a fair value adjustment of $586 in 2007 and ($2,006) in 2006	100,444	97,820
7.75% senior notes due 2012, including a fair value adjustment of $28,225 in 2007 and $33,328 in 2006	278,225	283,328
5.875% senior notes due 2013, including a fair value adjustment of $10,668 in 2007 and $12,243 in 2006	260,668	262,243
$1,250 million revolving credit agreement	527,976	—
$525 million term credit agreement	—	225,000
$600 million revolving credit agreement	—	190,526
UK term loan	41,628	41,118
Port Authority of Corpus Christi note payable	6,107	7,670
Total debt	1,446,289	1,354,367
Less current portion	(663)	(647)
Long-term debt, less current portion	$1,445,626	$1,353,720

The long-term debt repayments are due as follows (in thousands):

2008	$ 663
2009	713
2010	770
2011	832
2012	920,503
Thereafter	482,163
Total repayments	1,405,644
Net fair value adjustment and unamortized discount	40,645
Total debt	$ 1,446,289

Interest payments totaled $89.5 million, $75.0 million and $53.2 million for the years ended December 31, 2007, 2006 and 2005, respectively.

6.875% and 6.05% Senior Notes

On March 18, 2003, NuStar Logistics issued $250 million of 6.05% senior notes, maturing in 2013, with interest payable semi-annually in arrears on March 15 and September 15 of each year.

On July 15, 2002, NuStar Logistics issued $100.0 million of 6.875% senior notes, maturing in 2012, with interest payable semi-annually in arrears on January 15 and July 15 of each year.

The 6.05% and the 6.875% senior notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness of NuStar Logistics. Both series of senior notes contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions.

At the option of NuStar Logistics, the 6.05% and the 6.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. The NuStar Logistics senior notes also include a change-in-control provision, which requires (1) that Valero Energy or an investment grade entity own, directly or indirectly, 51% of our general partner interests and (2) that we (or an investment grade entity) own, directly or indirectly, all of the general partner and limited partner interests in NuStar Logistics.

Due to the completed sale of Valero Energy's remaining interests in NuStar GP Holdings on December 22, 2006, the change-in-control provision was triggered, and NuStar Logistics offered to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase. This offer expired on January 23, 2007, with approximately $20.1 million of the 6.05% senior notes tendered to us for repurchase. We retired the senior notes that were tendered with borrowings under our $600 million revolving credit agreement on February 1, 2007. The retirement of those senior notes did not significantly affect either our financial position or results of operations.

7.75% and 5.875% Senior Notes

As a result of the Kaneb Acquisition, we assumed the outstanding senior notes issued by KPOP, having an aggregate face value of $500.0 million, and an aggregate fair value of $555.0 million. We use the effective interest method to amortize the difference between the fair value and the face value of the senior notes as a reduction of interest expense over the remaining lives of the senior notes.

The senior notes were issued in two series, the first of which bears interest at 7.75% annually (due semi-annually on February 15 and August 15) and matures February 15, 2012. The second series bears interest at 5.875% annually (due on June 1 and December 1) and matures June 1, 2013.

The 7.75% and 5.875% senior notes do not contain sinking fund requirements. These notes contain restrictions on our ability to incur indebtedness secured by liens, to engage in certain sale-leaseback transactions, to engage in certain transactions with affiliates, as defined, and to utilize proceeds from the disposition of certain assets. At the option of KPOP, the 7.75% and 5.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date.

The senior notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy. In connection with the Kaneb Acquisition, NuStar Energy fully and unconditionally guaranteed the outstanding senior notes issued by KPOP. Additionally, effective July 1, 2005, both NuStar Logistics and KPOP fully and unconditionally guaranteed the outstanding senior notes of the other.

2007 Revolving Credit Agreement

On December 10, 2007, NuStar Logistics replaced the existing $600 million revolving credit agreement with the $1.25 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement), which includes a Euro sub-limit $250 million. NuStar Logistics borrowed $528.4 million under the 2007 Revolving Credit Agreement to repay in full the balance on its $600 million revolving credit agreement (the Revolving Credit Agreement) and $525 million term loan agreement (the Term Loan Agreement). Obligations under the 2007 Revolving Credit Agreement are guaranteed by NuStar Energy and KPOP. KPOP will be released from its guarantee of the 2007 Revolving Credit Agreement when it no longer guarantees NuStar Logistics public debt instruments.

As of December 31, 2007, we had $720.8 million available for borrowing under the 2007 Revolving Credit Agreement. The 2007 Revolving Credit Agreement bears interest based on either an alternative base rate or a LIBOR based rate, which was 5.7% as of December 31, 2007. The weighted-average interest rate related to outstanding borrowings under the 2007 Revolving Credit Agreement for the year ended December 31, 2007 was 5.7%.

The 2007 Revolving Credit Agreement requires that we maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions if any defaults, as defined in the agreements, exist or would result from the distribution. The 2007 Revolving Credit Agreement also requires us to maintain, as of the end of each rolling period, consisting of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2007 Revolving Credit Agreement) not to exceed 5.00-to-1.00; provided, that if at any time NuStar Energy or any of its restricted subsidiaries consummates an acquisition for an aggregate net consideration of at least $100 million, then for two rolling periods, the last day of which immediately follows the day on which such acquisition is consummated, the consolidated debt coverage ratio must not exceed 5.50-to-1.00. Management believes that we are in compliance with all ratios and covenants of the 2007 Revolving Credit Agreement as of December 31, 2007.

Term Loan Agreement

On July 1, 2005, we entered into the Term Loan Agreement, the majority of which was used to fund the Kaneb Acquisition. The weighted-average interest rate related to outstanding borrowings under the Term Loan Agreement for the year ended December 31, 2007 was 6.0%. The $225.0 million balance on the Term Loan Agreement was paid in full on December 10, 2007 with the proceeds from the 2007 Revolving Credit Agreement.

Revolving Credit Agreement

On July 1, 2005, we entered into the Revolving Credit Agreement. The weighted-average interest rate related to outstanding borrowings under the Revolving Credit Agreement for the year ended December 31, 2007 was 5.7%. The $303.4 million balance on the Revolving Credit Agreement was paid in full on December 10, 2007 with the proceeds from the 2007 Revolving Credit Agreement.

UK Term Loan

KPOP’s UK subsidiary, Kaneb Terminals Limited, is the borrower of £21 million ($41.6 million and $41.1 million as of December 31, 2007 and 2006, respectively). This amended and restated term loan agreement (the UK Term Loan) bears interest at 6.65% annually and matures on December 11, 2012.

In December 2007, the UK Term Loan contains was amended to be consistent with the covenants and provisions of the 2007 Revolving Credit Agreement. Management believes that we are in compliance with all ratios and covenants of the UK Term Loan as of December 31, 2007.

Port Authority of Corpus Christi Note Payable

The proceeds from the original $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) were used for the construction of a crude oil storage facility in Corpus Christi, Texas. The note payable is due in annual installments of $1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility. Interest on the unpaid principal balance accrues at a rate of 8.0% per annum. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi.

11. HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Our operations are subject to extensive federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management and pollution prevention measures. Our operations are also subject to extensive federal and state health and safety laws and regulations, including those relating to pipeline safety. The principal environmental and safety risks associated with our operations relate to unauthorized emissions into the air, unauthorized releases into soil, surface water or groundwater, and personal injury and property damage. Compliance with these environmental and safety laws, regulations and permits increases our capital expenditures and our overall cost of business, and violations of these laws, regulations and/or permits can result in significant civil and criminal liabilities, injunctions or other penalties.

The pipelines in the Central West System, the East Pipeline, the North Pipeline and the Ammonia Pipeline are subject to federal regulation by one or more of the following governmental agencies or laws: the Federal Energy Regulatory Commission (the FERC), the Surface Transportation Board (the STB), the Department of Transportation (DOT), the Environmental Protection Agency (EPA), and the Homeland Security Act. Additionally, the operations and integrity of the Pipelines are subject to the respective state jurisdictions along the route of the systems.

We have adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations and education, product safety, occupational health and the handling, storage, use and disposal of hazardous materials that are designed to prevent material environmental or other damage, to ensure the safety of our pipelines, our employees, the public and the environment and to limit the financial liability that could result from such events. Future governmental action and regulatory initiatives could result in changes to expected operating permits and procedures, additional remedial actions or increased capital expenditures and operating costs that cannot be assessed with certainty at this time. In addition, contamination resulting from spills of crude oil and refined products occurs within the industry. Risks of additional costs and liabilities are inherent within the industry, and there can be no assurances that significant costs and liabilities will not be incurred in the future.

Valero Energy has agreed to indemnify us for a period of ten years from the date of acquisition for pre-acquisition environmental liabilities related to assets transferred or otherwise acquired by the Partnership from Valero Energy or UDS. Excluded from this indemnification are liabilities that result from a change in environmental law after the date of acquisition.

Additionally, Exxon Mobil Corporation (ExxonMobil) has agreed to indemnify us for pre-acquisition environmental liabilities in connection with off site disposal activities performed prior to September 4, 2003 related to the Paulsboro refined product terminal acquisition.

As an operator or owner of the assets, we could be held liable for pre-acquisition environmental liabilities should Valero Energy or ExxonMobil be unable to fulfill their obligations. However, we believe that such a situation is unlikely.

Environmental and safety exposures and liabilities are difficult to assess and estimate due to unknown factors such as the timing and extent of remediation, the determination of our liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental and safety laws and regulations may change in the future. Although environmental and safety costs may have a significant impact on the results of operations for any single period, we believe that such costs will not have a material adverse effect on our financial position.

The balance of and changes in the accruals for environmental matters were as follows:

	December 31,	
	2007	2006
	(Thousands of Dollars)	
Balance as of beginning of year	$ 13,683	$ 17,509
Additions to accrual	3,872	2,625
Amounts related to the Australia and New Zealand subsidiaries	—	(3,051)
Payments	(6,474)	(3,541)
Foreign currency translation	43	141
Balance as of end of year	$ 11,124	$ 13,683

Accruals for environmental matters are included in the consolidated balance sheet as follows:

	December 31, 2007	December 31, 2006
	(Thousands of Dollars)	
Accrued liabilities	$ 5,435	$ 5,583
Other long-term liabilities	5,689	8,100
Accruals for environmental matters	$11,124	$13,683

12. COMMITMENTS AND CONTINGENCIES

Contingencies

We have contingent liabilities resulting from various litigation, claims and commitments, the most significant of which are discussed below. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending our self in legal matters are expensed as incurred. As of December 31, 2007, we have recorded $1.1 million of accruals related to settled matters and $47.5 million of accruals for contingent losses. The actual payment of any amounts accrued and the timing of such payments ultimately made is uncertain. We believe that should we be unable to successfully defend ourselves in any of these matters, the ultimate payment of any or all of the amounts reserved would not have a material adverse effect on our financial position or liquidity. However, if any actual losses ultimately exceed the amounts accrued, there could be a material adverse effect on our results of operations.

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

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of $3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy was awarded $1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the trial court’s final judgment to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. Once that stay is lifted, we intend to resume vigorous prosecution of the appeal.

The Otis AFB is a part of a Superfund Site pursuant to CERCLA. The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the Texas state court’s final judgment assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two spill areas. In 2002, the Department of Justice asserted that it had incurred over $49.0 million in costs and expected to incur additional costs of approximately $19.0 million for remediation of the two spill areas. The Department of Justice has not filed a lawsuit against us related to this matter and we have not made any payments toward costs incurred by the Department of Justice.

Port of Vancouver Matter. We own a chemical and refined product terminal on property owned by the Port of Vancouver, and we lease the land under the terminal from the Port of Vancouver. Under an Agreed Order entered into with the Washington Department of Ecology when Kaneb purchased the terminal in 1998, Kaneb agreed to investigate and remediate groundwater contamination by the terminal’s previous owner and operator originating from the terminal. Investigation and remediation at the terminal are ongoing in compliance with the Agreed Order. In April 2006, the Washington Department of Ecology commented on our site investigation work plan and asserted that the groundwater contamination at the terminal was commingled with a groundwater contamination plume under other property owned by the Port of Vancouver. Since that time, we have negotiated with the Washington Department of Ecology, and on

November 7, 2007, we entered into an Agreed Order that outlines a plan for site assessment, monitoring and interim action with regard to the plume for which Kaneb is responsible. The Agreed Order contains a diagram indicating that the plume for which Kaneb is responsible is separate from proximately located plumes. Based on the Agreed Order, and the fact that there is no currently pending claim asserting that Kaneb is responsible for the second plume, we believe at this time that this issue is resolved.

Department of Justice Matter. In a letter dated February 6, 2008, the Department of Justice (the DOJ) advised us that Region VII of the EPA has requested that the DOJ initiate a lawsuit against KPOP for violations of the Clean Water Act. The notice alleges that KPOP violated the Clean Water Act by failing to prepare a Facility Response Plan, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII by August 30, 1994. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances.

EPA Investigation. On November 14, 2006, agents of the EPA presented a search warrant issued by a U.S. District Court at one of our California terminals. Since then, the U.S. District Court has also served us with five subpoenas. The search warrant and subpoenas all seek information regarding allegations of potential illegal conduct by us, certain of our subsidiaries and/or our employees concerning compliance with certain environmental and safety laws and regulations.

We are cooperating fully with the EPA in producing documents in response to the subpoenas. We have no information as to when the EPA will conclude their investigation, and we are also conducting an internal investigation of any possible noncompliance. At this time, the EPA has not suggested any fines or penalties.

There can be no assurances that the conclusion of the EPA's investigation will not result in a determination that we violated applicable laws. If we are found to have violated such laws, we could be subject to fines, civil penalties and criminal penalties. A final determination that we violated applicable laws could, among other things, result in our debarment from future federal government contracts.

Because of the preliminary nature of the investigation, we are not able to estimate a loss or range of loss, if any. However, if any of the consequences described above ultimately occur, it is reasonably possible that the effects could be material to our results of operations in the period we would be required to record a liability, and could be material to our cash flows in the periods we would be required to pay such liability.

Other

We are also a party to additional claims and legal proceedings arising in the ordinary course of business. We believe the possibility is remote that the final outcome of any of these claims or proceedings to which we are a party would have a material adverse effect on our financial position, results of operations or liquidity; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

Commitments

Future minimum rental payments applicable to all noncancellable operating leases and purchase obligations as of December 31, 2007 are as follows:

	Operating Leases	Purchase Obligations
	(Thousands of Dollars)	
2008	$ 11,034	$544,294
2009	7,650	110,953
2010	7,099	7,069
2011	6,557	968
2012	6,394	962
Thereafter	102,368	1,523
Future minimum lease payments	$141,102	$665,769

Rental expense for all operating leases totaled $21.0 million, $15.3 million and $8.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

The purchase obligations primarily relate to purchases of inventory for resale to our customers.

13. DERIVATIVES, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to: (i) manage our exposure to commodity price risk, (ii) engage in a trading program and (iii) manage our exposure to interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, NYMEX 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. We have a risk management group that has direct oversight responsibilities for our risk policies and our trading controls and procedures and certain aspects of risk management. Our risk management group also approves all new risk management strategies through a formal process.

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

	Year Ended December 31,	
	2007	2006
	(Thousands of Dollars)	
Deferred charges and other assets, net	$ 2,231	$ —
Accrued liabilities	$ 4,622	$ —
Other long-term liabilities	—	4,908
Total liability	$ 4,622	$ 4,908

Commodity Price Risk

We are exposed to commodity price risk with respect to our product inventories and related firm commitments to purchase and/or sell such inventories. We utilize NYMEX futures to manage our exposure to changes in the fair value of our product inventories and related firm commitments.

On a limited basis, we also enter into derivative commodity instruments based on our analysis of market conditions in order to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges.

The earnings impact of our derivative activity was as follows:

	Year Ended December 31, 2007		
	Mark-to-market, net	Settled	Total
	(Thousands of Dollars)		
Commodity price-risk hedging loss	$ (3,017)	$(4,519)	$(7,536)
Trading gain (loss)	3	(2,332)	(2,329)
Total	$ (3,014)	$(6,851)	$(9,865)

During 2007, we recorded $1.6 million of income representing the change in fair value of inventories designated as the hedged item in qualifying fair value hedge relationships resulting in $0.1 million of income due to the ineffectiveness of our fair value hedges. The ineffectiveness is recorded in “Cost of product sales” in the consolidated statements of income. No component of the associated derivative instruments’ gains or losses was excluded from our assessment of hedge ineffectiveness.

Prior to 2007, we had not entered into any commodity derivatives with earnings impact.

Interest Rate Risk

We are a party to interest rate swap agreements to manage our exposure to changes in interest rates. The interest rate swap agreements have an aggregate notional amount of $167.5 million, of which $60.0 million is tied to the maturity of the 6.875% senior notes and $107.5 million is tied to the maturity of the 6.05% senior notes. Under the terms of the interest rate swap agreements, we will receive a fixed rate (6.875% and 6.05% for the $60.0 million and $107.5 million of interest rate swap agreements, respectively) and will pay a variable rate based on LIBOR plus a percentage that varies with each agreement. As of December 31, 2007 and 2006, the weighted average effective interest rate for the interest rate swaps was 6.1% and 7.1%, respectively.

The estimated fair value of our fixed-rate debt as of December 31, 2007 and 2006 was $927.2 million and $939.2 million, respectively, as compared to the carrying amount of $918.3 million and $938.8 million, respectively. These fair values were estimated using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. Interest rates on borrowings under the 2007 Revolving Credit Agreement float with market rates and thus the carrying amount approximates fair value.

Concentration of Credit Risk

We are exposed to credit risk on our hedging instruments in the event of nonperformance by counterparties. However, because our hedging activities are transacted only with highly rated institutions, we do not anticipate nonperformance by any of these counterparties.

For the years ended December 31, 2007, 2006 and 2005 we derived approximately 18%, 23% and 34%, respectively, of our revenues from Valero Energy and its subsidiaries, our largest customer. No other single customer accounted for more than 10% of our consolidated operating revenues. Valero Energy and its subsidiaries are investment grade customers; therefore, we do not believe that the trade receivable from Valero Energy represents a significant credit risk. However, the concentration of business with Valero Energy, which is a large refining and retail marketing company, has the potential to impact NuStar Energy, both positively and negatively, to changes in the refining and marketing industry.

14. RELATED PARTY TRANSACTIONS

Our operations are managed by the general partner of our general partner, NuStar GP, LLC. The 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. We reimburse NuStar GP, LLC for all costs related to its employees. We had a receivable of $0.8 million and a payable of $2.3 million, as of December 31, 2007 and December 31, 2006, respectively, to NuStar GP, LLC, with both amounts representing payroll and plan benefits, net of payments made by us. We also had a long-term payable as of December 31, 2007 and 2006 of $5.7 million to NuStar GP, LLC related to amounts payable for retiree medical benefits and other post-employment benefits.

Prior to December 22, 2006, Valero Energy controlled our general partner. We have transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs and lease expense, which were reported as related party transactions in the consolidated statement of income. Due to Valero Energy’s sale of its interest in NuStar GP Holdings on December 22, 2006, we ceased reporting transactions with Valero Energy as related party transactions subsequent to that date.

The following table summarizes information pertaining to related party transactions with NuStar GP, LLC for the year ended December 31, 2007 and with Valero Energy for the years ended December 31, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005 (a)
	(Thousands of Dollars)		
Revenues	$ —	$260,980	$234,485
Operating expenses 65	93,211	94,587	60,921
General and administrative expenses	37,702	32,183	19,356

(a) The amounts reflected in the table include revenues and operating expenses of $1,867 and $1,850, respectively, which are included in income from discontinued operations in the consolidated statement of income.

Agreements with NuStar GP Holdings

Non-Compete Agreement

On July 19, 2006, we entered into a non-compete agreement with NuStar GP Holdings, Riverwalk Logistics, L.P., and NuStar GP, LLC (the Non-Compete Agreement). The Non-Compete Agreement became effective on December 22, 2006 when NuStar GP Holdings ceased to be subject to the Amended and Restated Omnibus Agreement, dated March 31, 2006. Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. NuStar GP Holdings will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. With respect to any other business opportunities, neither the Partnership nor NuStar GP Holdings are prohibited from engaging in any business, even if the Partnership and NuStar GP Holdings would have a conflict of interest with respect to such other business opportunity.

Agreements with Valero Energy

We have entered into a number of operating agreements with Valero Energy, which govern the required services provided to and received from Valero Energy. Most of the operating agreements include adjustment provisions, which allow us to increase the handling, storage and throughput fees we charge to Valero Energy based on a consumer price index. In addition, the pipeline tariffs charged by us are reviewed annually and adjusted based on an inflation index and may also be adjusted to take into consideration additional costs incurred to provide the transportation services. The following is a summary of the significant terms of the individual agreements.

Services Agreement

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to us under the terms of various services agreements between us and Valero Energy. The terms of these services agreements generally provided that the costs of employees who performed services directly on our behalf, including salaries, wages and employee benefits, were charged directly to us. In addition, Valero Energy charged us a net administrative services fee, which was $1.8 million and $6.6 million for the years ended December 31, 2006 and 2005, respectively.

Although Valero Energy no longer provided employees to work directly on our behalf, Valero Energy continued to provide certain services to us under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). Under the 2007 Services Agreement, we paid Valero Energy approximately $1.1 million for the year ended December 31, 2007 for administrative services (primarily information system services and human resource services) and telecommunication services.

On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. As a result, Valero Energy paid us a termination fee of $13.0 million in May 2007 in accordance with the terms of the 2007 Services Agreement. However, Valero Energy continued providing certain services over a period of time sufficient to allow us to assume those functions by the end of 2007.

Omnibus Agreement

On March 31, 2006, we entered into an amended and restated omnibus agreement (the 2006 Omnibus Agreement) with Valero Energy, NuStar GP, LLC, Riverwalk Logistics, L.P., and NuStar Logistics. The 2006 Omnibus Agreement superseded the Omnibus Agreement among the parties dated effective April 16, 2001. The 2006 Omnibus Agreement governed potential competition between Valero Energy and us.

With the closing of NuStar GP Holding’s secondary public offering on December 22, 2006, Valero Energy ceased to own 20% or more of us, which allows Valero Energy to compete with us.

Also under the 2006 Omnibus Agreement, Valero Energy agreed to indemnify us for environmental liabilities related to the assets transferred to us in connection with our initial public offering, provided that such liabilities arose prior to and are discovered within ten years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

Pipelines and Terminals Usage Agreement - McKee, Three Rivers and Ardmore

Under the terms of the Pipelines and Terminals Usage Agreement dated April 16, 2001, we provide transportation services that support Valero Energy’s refining and marketing operations relating to the McKee, Three Rivers and Ardmore refineries. Pursuant to the agreement, Valero Energy has agreed through April 2008:

- to transport in our crude oil pipelines at least 75% of the aggregate volumes of crude oil shipped to the McKee, Three Rivers and Ardmore refineries;
- to transport in our refined product pipelines at least 75% of the aggregate volumes of refined products shipped from the McKee, Three Rivers and Ardmore refineries; and
- to use our refined product terminals for terminalling services for at least 50% of all refined products shipped from the McKee, Three Rivers and Ardmore refineries.

If market conditions change with respect to the transportation of crude oil or refined products, or to the end markets in which Valero Energy sells refined products, in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use our pipelines and terminals that serve the McKee, Three Rivers and Ardmore refineries at the required levels, Valero Energy’s obligation to us will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect.

In the event Valero Energy does not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. For the years ended December 31, 2007, 2006 and 2005, Valero Energy exceeded its obligations under the Pipelines and Terminals Usage Agreement. Additionally, Valero Energy has agreed not to challenge, or cause others to challenge, our interstate or intrastate tariffs for the transportation of crude oil and refined products until at least April 2008.

Crude Oil Storage Tank Agreements

In conjunction with the acquisition of the Crude Oil Storage Tanks in March 2003, we entered into the following agreements with Valero Energy:

- *Handling and Throughput Agreement*, dated March 2003, pursuant to which Valero Energy agreed to pay us a fee for 100% of crude oil and certain other feedstocks delivered to each of the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery and to use our logistic assets for handling all deliveries to these refineries. The throughput fees are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The initial term of the handling and throughput agreement is ten years, which may be extended by Valero Energy for up to an additional five years.
- *Services and Secondment Agreements*, dated March 2003, pursuant to which Valero Energy agreed to provide personnel to us who perform operating and routine maintenance services related to the crude oil storage tank operations. The annual reimbursement for those services is an aggregate $3.5 million. The initial term of the services and secondment agreements is ten years, which we may extend for an additional five years. In addition to the fees we have agreed to pay Valero Energy under the services and secondment agreements, we are

responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the services and secondment agreements. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes.

- *Lease and Access Agreements*, dated March 2003, pursuant to which Valero Energy leases to us the land on which the crude oil storage tanks are located for an aggregate amount of $0.7 million per year. The initial term of each lease is 25 years, subject to automatic renewal for successive one-year periods thereafter. We may terminate any of these leases upon 30 days notice after the initial term or at the end of a renewal period. In addition, we may terminate any of these leases upon 180 days notice prior to the expiration of the current term if we cease to operate the crude oil storage tanks or cease business operations.

South Texas Pipelines and Terminals Agreements

In conjunction with the acquisition of the South Texas Pipelines and Terminals in March 2003, we entered into the following agreements with Valero Energy:

- *Terminalling Agreement*, dated March 2003, pursuant to which Valero Energy agreed, during the initial period of five years, to pay a terminalling fee for each barrel of refined product stored or handled by or on behalf of Valero Energy at the terminals, including an additive fee for gasoline additive blended at the terminals. At the Houston Hobby Airport terminal, Valero Energy agreed to pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.
- *Throughput Commitment Agreement*, dated March 2003, pursuant to which Valero Energy agreed, for an initial period of seven years:
  - to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi refineries' gasoline and distillate production but only if the combined throughput in these pipelines is less than 110,000 barrels per day;
  - to transport in the Pettus to San Antonio refined product pipeline 25% of the Three Rivers refinery gasoline and distillate production and in the Pettus to Corpus Christi refined product pipeline 90% of the Three Rivers refinery raffinate production;
  - to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refineries;
  - to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and
  - to use the San Antonio East terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

In the event Valero Energy does not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. Valero Energy's obligation to transport 90% of the Three Rivers refinery raffinate production in the Pettus to Corpus Christi refined product pipeline was suspended in the fourth quarter of 2005 due to the temporary idling of the pipeline in the fourth quarter of 2005.

St. James Terminalling Agreement

On December 1, 2006, we executed a terminal services agreement with Valero Energy for the St. James, Louisiana crude oil facility (the St. James Terminal Agreement). Pursuant to the St. James Terminal Agreement, we will provide crude oil storage and blending services to Valero Energy for a minimum throughput fee of $1.175 million per month, plus $0.08 per barrel throughput in excess of 4 million barrels per month and $0.03 per barrel blended. The St. James Terminal Agreement has an initial term of five years, with an option to extend for an additional five years, provided that Valero Energy provides notice of its intent to extend the term at least one year prior to the expiration of the initial term.

Corpus Christi North Beach Storage Facility

Effective January 1, 2007, we entered into a one-year terminal service agreement with Valero Energy for the 1.6 million barrels of capacity at our Corpus Christi North Beach storage facility. This agreement automatically renewed from year- to-year until either party elected to terminate upon 90-days written notice. This agreement was terminated on December 31, 2007.

We entered into a five-year shell barrel capacity lease agreement with Valero Energy on January 1, 2008 for the 1.6 million barrels of capacity at our Corpus Christi North Beach storage facility for $0.56 million per month. This lease automatically renews for additional one-year terms after the initial term unless either party terminates it with a 90-day written notice. Pursuant to this agreement, Valero Energy has agreed to maintain an annual average throughput of at least 70,000 barrels per day. In the event Valero Energy does not maintain the minimum guaranteed annual volume, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by a per barrel rate.

Other Agreements

We have other minor storage and throughput contracts with Valero Energy.

15. EMPLOYEE BENEFIT PLANS

We rely on employees of NuStar GP, LLC to provide the necessary services to conduct our U.S. operations. Prior to July 1, 2006, the employees of NuStar GP, LLC were included in the various employee benefit plans of Valero Energy, which included a defined benefit pension plan, a retiree welfare benefit plan, health and welfare benefits, a defined contribution retirement plan, equity incentive plans and nonqualified deferred compensation plans. On July 19, 2006, employees of NuStar GP, LLC began participating in newly enacted, comparable plans sponsored by NuStar GP, LLC as follows:

- The NuStar GP, LLC Thrift Plan (the Thrift Plan), is a qualified employee profit-sharing plan which became effective June 26, 2006. Participation in the Thrift Plan is voluntary and is open to substantially all of NuStar GP, LLC employees who become eligible to participate upon date of hire. Thrift Plan participants can make basic contributions from 1% up to 30% of their total annual compensation. The maximum match by NuStar GP, LLC is 75% of each participant's basic contributions up to 8% based on the participant's total annual compensation. Effective January 1, 2008, the Thrift Plan was amended to change the maximum match by NuStar GP, LLC to 100% of each participant's total contribution up to 6% based on the participant's total annual compensation.
- The NuStar GP, LLC Pension Plan (the Pension Plan), is a qualified non-contributory defined benefit plan which became effective July 6, 2006. The Pension Plan covers substantially all of NuStar GP, LLC's employees and generally provides eligible employees with retirement income based on years of service and compensation during the period of service. Employees may become eligible to receive benefits after five years of service, including service recognized by Valero Energy for vesting purposes under the Valero Energy pension plan. All benefit obligations associated with service for certain employees who were participants in the Valero Energy pension plan through June 30, 2006, including the effect of future salary increases, are the responsibility of Valero Energy. All benefit obligations related to service by NuStar GP, LLC employees on or after July 1, 2006 will be covered by the Pension Plan. Effective January 1, 2008, the plan was amended to change the name of the plan to the NuStar Pension Plan.
- The NuStar GP, LLC Excess Thrift Plan (the Excess Thrift Plan), which became effective July 1, 2006, provides benefits to a select group of management or other highly compensated employees. The Excess Thrift Plan provides benefits to those employees of NuStar GP, LLC whose annual additions under the Thrift Plan are subject to the limitations on such annual additions as provided under §415 of the Internal Revenue Code of 1986, as amended (the Code), and/or who are constrained from making maximum contributions under the Thrift Plan by §401(a)(17) of the Code, which limits the amount of an employee's annual compensation which may be taken into account under that plan. The contribution to the Excess Thrift Plan is equivalent to the matching contributions that would have been credited to the employee's qualified Thrift Plan account for matching contributions had the plan contributions not been impacted by various IRS limits. The Excess Thrift Plan is comprised of two separate components, consisting of (1) an "excess benefit plan" as defined under §3(36) of The Employee Retirement Income Security Act of 1974, as amended (ERISA) and (2) a plan that is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Each component of the Excess Thrift Plan shall consist of a separate plan for purposes of Title I of ERISA.

- The NuStar GP, LLC Excess Pension Plan (the Excess Pension Plan) provides benefits to those employees of NuStar GP, LLC whose pension benefits under the Pension Plan and the Valero Energy pension plan (where applicable) are subject to limitations under the Code, or who are otherwise indirectly constrained by the Code from realizing the maximum benefit available to them under the terms of the Pension Plan and the Valero Energy pension plan (where applicable). Effective as of July 1, 2006, eligible NuStar GP, LLC employees ceased accruing additional benefits under Valero Energy's excess pension plan (the Prior Excess Pension Plan). The Excess Pension Plan is an "excess benefit plan" as defined under §3(36) of ERISA, for those benefits provided in excess of Section 415 of the Code. Benefits provided as a result of other statutory limitations are limited to a select group of management or other highly compensated employees. The Excess Pension Plan provides a single, nonqualified defined benefit to those NuStar GP, LLC employees for their pre-July 1, 2006 benefit accruals under the Prior Excess Pension Plan and their post-July 1, 2006 benefit accruals under the Excess Pension Plan.
- The NuStar GP, LLC Supplemental Executive Retirement Plan (the SERP) provides those highly compensated, management personnel of NuStar GP, LLC who were accruing benefits under the Valero Energy supplemental executive retirement plan (Prior SERP) up until July 1, 2006, and those who may subsequently become eligible, with a supplement to the retirement benefit they may otherwise receive under the Pension Plan and the Valero Energy pension plan (where applicable). The SERP provides a single, nonqualified defined benefit to those NuStar GP, LLC employees for their pre-July 1, 2006 benefit accruals under the Prior SERP and their post-July 1, 2006 benefit accruals under the SERP.
- The NuStar GP, LLC Retiree Benefits Plan is a post-retirement medical benefits plan effective July 1, 2006 from which benefits became payable to eligible employees beginning January 1, 2007. NuStar GP, LLC retained the liabilities for the benefit obligations related to the postretirement medical benefits for those employees who are not "retirement eligible" (employees over 55 years old with five years of service and eligible to receive benefits under the Valero Energy pension plan) on July 19, 2006, and certain long-term disability benefits (LTD) under the Valero Energy flex benefits plan totaling $6.1 million and $0.7 million, respectively, as of July 1, 2006. Valero Energy retained the responsibility for the postretirement medical benefit obligation for employees who were retirement eligible on July 19, 2006, and those who subsequently become retirement eligible and elected to receive a benefit on or before December 31, 2006 under the Valero Energy pension plan.

None of the Excess Thrift Plan, the Excess Pension Plan or the SERP is intended to constitute either a qualified plan under the provisions of Section 401 of the Code or a funded plan subject to ERISA. All costs incurred by our general partner related to these employee benefit plans, excluding compensation expense related to the long-term incentive plans, were and will continue to be reimbursed by us at cost. Effective January 1, 2008, in compliance with recently issued section 409(a) of the Code, the Excess Pension Plan and the SERP were amended to provide that all benefits under those plans will be paid in a single lump-sum payment.

Long-Term Incentive Plans

Our general partner also sponsors the following:

- The Second Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), under which NuStar GP, LLC may award up to 1,500,000 common units. Awards under the 2000 LTIP can include unit options, restricted units, performance awards, distribution equivalent rights (DERs) and contractual rights to receive common units. As of December 31, 2007, a total of 711,602 common units remained available to be awarded under the UIP.
- The 2003 Employee Unit Incentive Plan (the UIP) under which NuStar GP, LLC may award up to 500,000 NuStar Energy common units to employees of NuStar GP, LLC or its affiliates, excluding officers and directors of NuStar GP, LLC and its affiliates. Awards under the UIP can include unit options, restricted units and distribution equivalent rights (DERs). As of December 31, 2007, a total of 265,326 common units remained available to be awarded under the UIP.

- The 2002 Unit Option Plan (the UOP) under which NuStar GP, LLC may award up to 200,000 NuStar Energy unit options to officers and directors of NuStar GP, LLC or its affiliates, of which substantially all of the unit options have been awarded as of December 31, 2007.
- The 2006 Long-Term Incentive Plan (the 2006 LTIP) under which NuStar GP Holdings may award up to 2,000,000 units to employees, consultants and directors of NuStar GP Holdings and its affiliates, including us. Awards under the 2006 LTIP can include unit options, performance units, restricted units, phantom units, unit grants and unit appreciation rights of NuStar GP Holdings, LLC. As of December 31, 2007, a total of 1,667,637 NuStar GP Holdings units remained available to be awarded under the 2006 LTIP.

Our share of compensation expense related to the various long term incentive plans described previously, except for grants to non-employee directors of NuStar GP Holdings, was $3.8 million, $2.4 million and $1.5 million, respectively, for the years ended December 31, 2007, 2006 and 2005. We record such amounts in “General and administrative expenses” in the consolidated statements of income for those years.

The number of awards granted under the above noted plans were as follows:

	Year Ended December 31,					
	2007		2006		2005	
	Granted	Vesting	Granted	Vesting	Granted	Vesting
2000 LTIP:						
Performance awards	10,840	1/3 per year	8,940	1/3 per year	—	—
Unit options	204,675	1/5 per year	203,975	1/5 per year	25,075	1/5 per year
Restricted units	117,575	1/5 per year	51,140	1/5 per year	14,920	1/5 per year
Restricted units (grants to non-employee directors of NuStar GP, LLC)	3,510	1/3 per year	2,307	1/3 per year	1,340	1/3 per year
UOP	—	—	—	—	14,925	1/5 per year
UIP:						
Unit options	—	—	15,200	1/5 per year	128,300	1/5 per year
Restricted units	12,730	1/5 per year	9,740	1/5 per year	31,800	1/5 per year
2006 LTIP:						
Unit options	324,100	(a)	—	—	—	—
Restricted units (grants to non-employee directors of NuStar GP Holdings)	5,489	1/3 per year	2,886	1/3 per year	—	—

(a) Unit options granted under the 2006 LTIP vest in annual one-third increments beginning on the third anniversary of the grant date.

16. PARTNERS’ EQUITY, ALLOCATIONS OF NET INCOME AND CASH DISTRIBUTIONS

Partners’ Equity

On November 19, 2007, we issued 2,600,000 common units representing limited partner interests at a price of $57.20 per unit. We received proceeds of $146.1 million, including a contribution of $3.0 million from our general partner to maintain its 2% general partner interest, net of issuance costs. The proceeds were used to repay a portion of the outstanding principal balance under our then active $600 million revolving credit agreement.

On July 1, 2005, we issued 23,768,355 of our common units valued at approximately $1.45 billion in exchange for all of the outstanding common units of KPP. In order to maintain a 2% general partner interest, Riverwalk Logistics, L.P. contributed $29.2 million to us.

Subordinated Units

Effective April 1, 2006, we satisfied all the conditions included in our partnership agreement for the subordination period to end. Accordingly, all 9,599,322 subordinated units converted into common units on a one-for-one basis on May 8, 2006, the first business day after the record date for the distribution related to the first quarter earnings of 2006. Riverwalk Holdings, LLC held the 9,599,322 subordinated units at the time of conversion.

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, subordinated unitholders and 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 done after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to the general partner.

During the year ended December 31, 2006, our general partner reimbursed us for certain charges we incurred related to services historically provided under our services agreement with Valero Energy. United States generally accepted accounting principles required us to record the charges as expenses and record the reimbursement as a capital contribution.

The following table details the calculation of net income applicable to the general partner:

	Year Ended December 31,		
	2007	2006	2005
		(Thousands of Dollars)	
Net income applicable to general partner and limited partners' interest	$150,298	$149,530	$111,073
Charges reimbursed by general partner	—	575	—
Net income before charges reimbursed by general partner	150,298	150,105	111,073
Less general partner incentive distribution	18,426	14,778	8,711
Net income before charges reimbursed by general partner and after general partner incentive distribution	131,872	135,327	102,362
General partner interest	2%	2%	2%
General partner allocation of net income before charges reimbursed by general partner and after general partner incentive distribution	2,637	2,707	2,047
Charges reimbursed by general partner	—	(575)	—
General partner incentive distribution	18,426	14,778	8,711
Net income applicable to general partner	$ 21,063	$ 16,910	$ 10,758

Cash Distributions

We make quarterly distributions of 100% of our available cash, generally defined as cash receipts less cash disbursements and cash reserves established by the general partner, in its sole discretion. These quarterly distributions are declared and paid within 45 days subsequent to each quarter-end. The limited partner unitholders are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized). Our cash is first distributed 98% to the limited partners and 2% to the general partner until there has been distributed to the unitholders an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution for any prior quarter. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels shown below:

	Percentage of Distribution	
Quarterly Distribution Amount per Unit	Unitholders	General Partner
Up to $0.60	98%	2%
Above $0.60 up to $0.66	90%	10%
Above $0.66	75%	25%

The table set forth below shows our cash distributions earned for the periods shown with respect to the general and limited partners:

	Year Ended December 31,		
	2007	2006	2005 (a)
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	$ 4,092	$ 3,742	$ 3,036
General partner incentive distribution	18,426	14,778	10,259
Total general partner distribution	22,518	18,520	13,295
Limited partners' distribution	182,076	168,515	138,500
Total cash distributions	$ 204,594	$ 187,035	$ 151,795
Cash distributions per unit applicable to limited partners	$ 3.835	$ 3.600	$ 3.365

(a) For the second quarter 2005, our net income allocation to general and limited partners reflected a total cash distribution based on the partnership interests outstanding as of June 30, 2005. On July 1, 2005, we issued approximately 23.8 million of our common units in exchange for all outstanding units of KPP in connection with the Kaneb Acquisition. Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter. As such, the actual cash payment made with respect to the second quarter 2005 included the distributions paid to former Kaneb unitholders. The general partner's portion of the actual cash payment made with respect to the second quarter 2005 was higher than the net income allocation to the general partner as the units had increased prior to the record date. Therefore, the distribution paid related to the year ended December 31, 2005 is more than the amount allocated to the general partner in our net income allocation.

On January 24, 2008, we declared a quarterly cash distribution of $0.985 which was paid on February 14, 2008 to unitholders of record on February 7, 2008. This distribution related to the fourth quarter of 2007 and totaled $55.0 million, of which $6.3 million represented the general partner's share of such distribution. The general partner's distribution included a $5.2 million incentive distribution.

17. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

	Year Ended December 31,		
	2007	2006	2005
	(Thousands of Dollars)		
Decrease (increase) in current assets:			
Accounts receivable	$(22,079)	$27,307	$(39,397)
Receivable from related party	(786)	1,168	(2,678)
Inventories	(71,457)	257	(6,042)
Other current assets	(8,603)	6,181	(11,475)
Increase (decrease) in current liabilities:			
Payable to related party	(2,315)	(9,493)	8,634
Accounts payable	72,918	(7,106)	58,920
Accrued interest payable	182	1,135	(259)
Accrued liabilities	9,546	(8,300)	(3,782)
Taxes other than income taxes	2	1,345	(3,323)
Income taxes payable	1,266	(1,799)	(534)
Changes in current assets and current liabilities	$(21,326)	$10,695	$ 64

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

	Year Ended December 31,		
	2007	2006	2005
	(Thousands of Dollars)		
Cash paid for interest, net of amount capitalized	$83,450	$73,206	$52,154
Cash paid for income taxes, net of tax refunds received	$ 9,081	$ 7,234	$ 1,663

Non-cash investing and financing activities for the year ended December 31, 2007 included:

- adjustments to property and equipment, goodwill and intangible assets resulting from adjustments to the purchase price allocations related to the St. James Acquisition;
- acquisition of other current assets in exchange for a note payable; and
- adjustments to the fair value of our interest rate swap agreements.

Non-cash investing activities for the year ended December 31, 2006 included adjustments mainly to property and equipment and goodwill resulting from the final purchase price allocation related to the Kaneb Acquisition.

18. OTHER INCOME

Other income consisted of the following:

	Year Ended December 31, 2007	2006	2005
	(Thousands of Dollars)		
2007 Services Agreement termination fee (see Note 14)	$13,000	$ —	$ —
Business interruption insurance	12,492	—	—
Sale of net profit interest in coal mine	7,250	—	—
Legal settlements	5,758	—	—
Foreign exchange (losses) gains	(6,261)	1,011	(139)
Other	6,591	2,241	(1,356)
Other income (expense), net	$38,830	$3,252	$(1,495)

The business interruption insurance amount consists of insurance proceeds related to lost earnings at our pipelines and terminals that serve Valero Energy's McKee refinery, which experienced a fire in February 2007.

19. INCOME TAXES

Components of income tax expense related to certain of our operations conducted through separate taxable wholly owned corporate subsidiaries were as follows:

	Year Ended December 31, 2007	2006	2005
	(Thousands of Dollars)		
Current:			
U.S.	$ 2,373	$ 245	$ —
Foreign	8,799	5,690	430
Total current	11,172	5,935	430
Deferred:			
U.S.	827	(3,681)	892
Foreign	(551)	3,607	3,391
Total deferred	276	(74)	4,283
Total income tax expense	$11,448	$ 5,861	$4,713

The difference between income tax expense recorded in our consolidated statements of income and income taxes computed by applying the statutory federal income tax rate (35% for all years presented) to income before income tax expense is due to the fact that substantially all of our income is not subject to federal income tax due to our status as a limited partnership.

The tax effects of significant temporary differences representing deferred income tax assets and liabilities were as follows:

	December 31, 2007	December 31, 2006
	(Thousands of Dollars)	
U.S.:		
Net operating losses	$ 21,509	$ 19,257
Environmental and legal reserves	14,611	14,699
Other	784	377
Valuation allowance	(13,276)	(9,744)
Deferred tax assets – U. S.	23,628	24,589
Property and equipment	(13,006)	(13,247)
Net deferred income tax asset – U.S.	$ 10,622	$ 11,342
Foreign:		
Environmental and legal reserves	$ —	$ 338
Other	1,057	142
Capital loss	2,292	—
Valuation allowance	(1,977)	—
Deferred tax assets – foreign	1,372	480
Property and equipment	(35,568)	(33,406)
Net deferred income tax liability – foreign	$(34,196)	$(32,926)

Our U.S. corporate operations have net operating loss carryforwards for tax purposes totaling approximately $61.5 million, which are subject to various limitations on use and expire in years 2008 through 2027.

As of December 31, 2007 and 2006, we have recorded a valuation allowance, substantially all of which was recorded in conjunction with the allocation of the purchase price of the Kaneb Acquisition, due to uncertainties related to our ability to utilize some of our deferred income tax assets, primarily consisting of certain federal net operating loss carryforwards, before they expire. The net change in the total valuation allowance for the year ended December 31, 2007 was an increase of $5.5 million. The valuation allowance is based on our estimates of taxable income in the various jurisdictions in which we operate and the period over which deferred income tax assets will be recoverable.

The realization of net deferred income tax assets recorded as of December 31, 2007 is dependent upon our ability to generate future taxable income in the United States. We believe it is more likely than not that the deferred income tax assets, net of the valuation allowance, as of December 31, 2007 will be realized, based on expected future taxable income and potential tax planning strategies.

St. Eustatius Tax Agreement

On June 1, 1989, the governments of the Netherlands Antilles and St. Eustatius approved a Free Zone and Profit Tax Agreement retroactive to January 1, 1989, which expired on December 31, 2000. This agreement required a subsidiary of Kaneb, which we acquired on July 1, 2005, to pay the greater of 2% of taxable income, as defined therein, or 500,000 Netherlands Antilles guilders (approximately $0.3 million) per year. The agreement further provided that any amounts paid in order to meet the minimum annual payment were available to offset future tax liabilities under the agreement to the extent that the minimum annual payment is greater than 2% of taxable income.

On February 22, 2006, we entered into a revised agreement (the 2005 Tax and Maritime Agreement) with the governments of St. Eustatius and the Netherlands Antilles. The 2005 Tax and Maritime Agreement is effective beginning

January 1, 2005 and expires on December 31, 2014. Under the terms of the 2005 Tax and Maritime Agreement, we agreed to make a one-time payment of five million Netherlands Antilles guilders (approximately $2.8 million) in full and final settlement of all of our liabilities, taxes, fees, levies, charges, or otherwise (including settlement of audits) due or potentially due to St. Eustatius. We further agreed to pay an annual minimum profit tax to St. Eustatius of one million Netherlands Antilles guilders (approximately $0.6 million), beginning as of January 1, 2005. We agreed to pay the minimum annual profit tax in twelve equal monthly installments. To the extent the minimum annual profit tax exceeds 2% of taxable profit (as defined in the 2005 Tax and Maritime Agreement), we can carry forward that excess to offset future tax liabilities. If the minimum annual profit tax is less than 2% of taxable profit, we agreed to pay that difference.

20. SEGMENT INFORMATION

Beginning in the second quarter, we revised the manner in which we internally evaluate our segment performance and made certain organizational changes. As a result, we have changed the way we report our segmental results. Our operating segments consist of storage, transportation and asphalt and fuels marketing. These segments are strategic business units that offer different services, and the performance of each segment is evaluated based on operating income, before general and administrative expenses. 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 services include pipeline transportation services, terminalling and storage lease services and asphalt and fuels marketing. Product sales included in our asphalt and fuels marketing segment consist of sales of petroleum products to third parties. Intersegment revenues are derived from storage and throughput rates consistent with rates charged to third parties and pipeline tariffs based upon the published tariff applicable to all shippers.

Results of operations for the reportable segments were as follows:

	Year Ended December 31,		
	2007	2006	2005
		(Thousands of Dollars)	
Revenues:			
Storage:			
Third party revenues	$ 400,058	$ 355,144	$ 211,672
Intersegment revenues	10,569	8,269	5,963
Total storage	410,627	363,413	217,635
Transportation:			
Third party revenues	296,565	281,010	201,282
Intersegment revenues	231	—	—
Total transportation	296,796	281,010	201,282
Asphalt and fuels marketing	778,391	501,107	246,603
Consolidation and intersegment eliminations	(10,800)	(8,269)	(5,963)
Total revenues	$1,475,014	$1,137,261	$659,557
Depreciation and amortization:			
Storage	$ 62,317	$ 53,121	$ 32,505
Transportation	49,946	47,145	32,390
Asphalt and fuels marketing	423	—	—
Consolidation and intersegment eliminations	1,607	—	—
Total depreciation and amortization	$ 114,293	$ 100,266	$ 64,895
Operating income:			
Storage	$ 114,635	$ 108,486	$ 81,128
Transportation	126,508	122,714	87,060
Asphalt and fuels marketing	21,111	26,915	11,317
Consolidation and intersegment eliminations	(1,740)	—	—
Total segment operating income	260,514	258,115	179,505
Less general and administrative expenses	67,915	45,216	26,553
Total operating income	$ 192,599	$ 212,899	$152,952

Revenues by geographic area for the years ended December 31, 2007, 2006 and 2005 are shown in the table below. The geographic area is based on the location of our customer.

	Year Ended December 31,		
	2007	2006	2005
	(Thousands of Dollars)		
United States	$ 655,013	$ 501,756	$ 347,765
Netherlands Antilles	719,084	537,626	255,893
Canada	44,927	51,203	35,639
Other countries	55,990	46,676	20,260
Consolidated revenues	$1,475,014	$1,137,261	$ 659,557

For the years ended December 31, 2007, 2006, and 2005, Valero Energy accounted for 18%, 23% and 34% of our consolidated revenues, respectively. No other single customer accounted for more than 10% of our consolidated revenues.

Revenues from Valero Energy by operating segment were as follows:

	Year Ended December 31,		
	2007	2006	2005
	(Thousands of Dollars)		
Revenues:			
Storage	$115,417	$100,069	$ 93,325
Transportation	147,597	160,911	141,160
Asphalt and fuels marketing	7,426	—	—
Total revenues	$270,440	$260,980	$234,485

Long-lived assets include property, plant and equipment, intangible assets subject to amortization and certain long-lived assets included in “Deferred charges and other assets, net” on the consolidated balance sheets. Geographic information by country for long-lived assets consisted of the following:

	December 31,	
	2007	2006
	(Thousands of Dollars)	
United States	$ 2,109,594	$ 2,050,387
Netherlands Antilles	252,024	240,323
Canada	95,618	82,410
United Kingdom	92,149	90,594
Netherlands	90,157	20,903
Mexico	11,392	22,152
Consolidated long-lived assets	$ 2,650,934	$ 2,506,769

Total assets by reportable segment were as follows:

	December 31, 2007	December 31, 2006
	(Thousands of Dollars)	
Storage	$ 2,116,468	$ 1,974,333
Transportation	1,373,597	1,382,873
Asphalt and fuels marketing	171,028	54,153
Total segment assets	3,661,093	3,411,359
Other partnership assets (including current assets and other noncurrent assets)	121,994	82,849
Total consolidated assets	$ 3,783,087	$ 3,494,208

Changes in the carrying amount of goodwill were as follows:

	Storage	Transportation	Total
		(Thousands of Dollars)	
Balance as of January 1, 2006	$569,745	$ 197,842	$767,587
Kaneb Acquisition final purchase price allocation	27,865	(21,011)	6,854
Balance as of December 31, 2006	597,610	176,831	774,441
St. James Acquisition final purchase price allocation	13,898	—	13,898
Other	(1,856)	(1,464)	(3,320)
Balance as of December 31, 2007	$609,652	$ 175,367	$785,019

Capital expenditures, including acquisitions and investments in other noncurrent assets, by reportable segment were as follows:

	Year Ended December 31, 2007	2006	2005
		(Thousands of Dollars)	
Storage	$203,177	$230,416	$ 762,959
Transportation	25,344	54,678	748,953
Asphalt and fuels marketing	1,755	—	—
Other partnership assets	21,037	4,222	2,781
Total capital expenditures	$251,313	$289,316	$1,514,693

21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and KPOP, both wholly-owned subsidiaries. The senior notes issued by NuStar Logistics and KPOP are fully and unconditionally guaranteed by NuStar Energy, and both NuStar Logistics and KPOP fully and unconditionally guarantee the outstanding senior notes of the other.

As a result, the following condensed consolidating financial statements are being presented as an alternative to providing separate financial statements for NuStar Logistics and KPOP.

Condensed Consolidating Balance Sheet
December 31, 2007
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Current assets	$ 16	$ 80,362	$ 672,940	$ 279,412	$ (685,596)	$ 347,134
Property and equipment, net	—	942,297	667,132	882,657	—	2,492,086
Intangible assets, net	—	3,551	—	44,211	—	47,762
Goodwill	—	18,613	170,652	595,754	—	785,019
Investment in wholly owned subsidiaries	2,327,401	1,721	730,663	1,458,721	(4,518,506)	—
Investments in joint ventures	—	16,640	—	63,726	—	80,366
Deferred income tax asset	—	—	—	10,622	—	10,622
Deferred charges and other assets, net	75	15,761	382	3,880	—	20,098
Total assets	$2,327,492	$1,078,945	$2,241,769	$ 3,338,983	$(5,204,102)	$3,783,087
Liabilities and Partners' Equity						
Current liabilities Current liabilities	$ 359,547	$ 53,665	$ 30,030	$ 484,764	$ (685,521)	$ 242,485
Long-term debt, less current portion	—	865,105	538,893	41,628	—	1,445,626
Long-term payable to related party	—	—	—	5,684	—	5,684
Deferred income tax liability	—	—	—	34,196	—	34,196
Other long-term liabilities	—	3,984	1,520	54,760	—	60,264
Total partners' equity	1,967,945	156,191	1,671,326	2,717,951	(4,518,581)	1,994,832
Total liabilities and partners' equity	$2,327,492	$1,078,945	$2,241,769	$ 3,338,983	$(5,204,102)	$3,783,087

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

Condensed Consolidating Balance Sheet
December 31, 2006
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Current assets	$ 403	$ 115,210	$ 653,221	$ 145,807	$ (701,643)	$ 212,998
Property and equipment, net	—	935,109	676,494	733,532	—	2,345,135
Intangible assets, net	—	3,427	—	50,105	—	53,532
Goodwill	—	4,715	172,116	597,610	—	774,441
Investment in wholly owned subsidiaries	2,372,469	24,172	668,796	1,345,791	(4,411,228)	—
Investments in joint ventures	—	15,902	—	58,175	—	74,077
Deferred income tax asset	—	—	—	11,342	—	11,342
Deferred charges and other assets, net	228	5,807	604	16,044	—	22,683
Total assets	$2,373,100	$1,104,342	$2,171,231	$2,958,406	$(5,112,871)	$3,494,208
Liabilities and Partners' Equity						
Current liabilities	$ 504,238	$ 44,397	$ 29,385	$ 280,358	$ (701,643)	$ 156,735
Long-term debt, less current portion	—	767,031	545,571	41,118	—	1,353,720
Long-term payable to related party	—	—	—	5,749	—	5,749
Deferred income tax liability	—	—	—	32,926	—	32,926
Other long-term liabilities	—	5,797	3,517	60,083	—	69,397
Total partners' equity	1,868,862	287,117	1,592,758	2,538,172	(4,411,228)	1,875,681
Total liabilities and partners' equity	$2,373,100	$1,104,342	$2,171,231	$2,958,406	$(5,112,871)	$3,494,208

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

Condensed Consolidating Statements of Income
For the Year Ended December 31, 2007
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$ —	$274,001	$149,973	$1,059,813	$ (8,773)	$1,475,014
Costs and expenses	1,966	170,961	108,277	1,009,913	(8,702)	1,282,415
Operating income	(1,966)	103,040	41,696	49,900	(71)	192,599
Equity earnings in subsidiaries	152,264	(12,500)	61,867	107,659	(309,290)	—
Equity earnings from joint ventures	—	738	—	6,095	—	6,833
Interest income (expense), net	—	(52,036)	(25,173)	693	—	(76,516)
Other income, net	—	29,105	178	9,547	—	38,830
Income before income tax expense	150,298	68,347	78,568	173,894	(309,361)	161,746
Income tax expense	—	2,026	—	9,422	—	11,448
Net income	$150,298	$ 66,321	$ 78,568	$ 164,472	$(309,361)	$ 150,298

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

Condensed Consolidating Statements of Income
For the Year Ended December 31, 2006
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$ —	$261,929	$121,835	$ 754,509	$ (1,012)	$1,137,261
Costs and expenses	2,260	145,453	89,984	687,677	(1,012)	924,362
Operating income	(2,260)	116,476	31,851	66,832	—	212,899
Equity earnings in subsidiaries	151,790	154	65,321	72,423	(289,688)	—
Equity earnings from joint ventures	—	815	—	5,067	—	5,882
Interest expense, net	—	(37,145)	(25,093)	(4,028)	—	(66,266)
Other income, net	—	1,242	19	1,991	—	3,252
Income from continuing operations before income tax expense	149,530	81,542	72,098	142,285	(289,688)	155,767
Income tax expense	—	—	—	5,861	—	5,861
Income from continuing operations	149,530	81,542	72,098	136,424	(289,688)	149,906
Income (loss) from discontinued operations	—	—	317	(693)	—	(376)
Net income	$149,530	$ 81,542	$ 72,415	$ 135,731	$(289,688)	$ 149,530

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

Condensed Consolidating Statements of Income
For the Year Ended December 31, 2005
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$ —	$234,444	$ 57,400	$ 368,495	$ (782)	$ 659,557
Costs and expenses	2,752	134,039	44,152	326,444	(782)	506,605
Operating income	(2,752)	100,405	13,248	42,051	—	152,952
Equity earnings in subsidiaries	113,825	(192)	38,462	40,392	(192,487)	—
Equity earnings from joint ventures	—	376	—	1,943	—	2,319
Interest expense, net	—	(25,770)	(13,488)	(2,130)	—	(41,388)
Other expense, net	—	(1,358)	—	(137)	—	(1,495)
Income from continuing operations before income tax expense	111,073	73,461	38,222	82,119	(192,487)	112,388
Income tax expense	—	—	—	4,713	—	4,713
Income from continuing operations	111,073	73,461	38,222	77,406	(192,487)	107,675
Income from discontinued operations	—	—	2,163	1,235	—	3,398
Net income	$111,073	$ 73,461	$ 40,385	$ 78,641	$(192,487)	$ 111,073

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

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2007
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$ 150,298	$ 66,321	$ 78,568	$ 164,472	$ (309,361)	$ 150,298
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	—	46,613	25,107	42,573	—	114,293
Equity earnings, net of distributions	45,069	11,762	(61,867)	(113,190)	111,937	(6,289)
Changes in operating assets and liabilities and other	273	14,935	(7,242)	(43,667)	71	(35,630)
Net cash provided by (used in) operating activities	195,640	139,631	34,566	50,188	(197,353)	222,672
Cash flows from investing activities:						
Capital expenditures	—	(65,653)	(15,689)	(169,909)	—	(251,251)
Proceeds from sale of assets	—	66	15	12,586	—	12,667
Investment in other noncurrent assets	—	(58)		(4)	—	(62)
Other	—	—	—	250	—	250
Net cash provided by (used in) investing activities	—	(65,645)	(15,674)	(157,077)	—	(238,396)
Cash flows from financing activities:						
Proceeds from issuance of common units, net of issuance costs	143,083	—	—	—	—	143,083
Proceeds from long-term debt borrowings	—	1,170,302	—	—	—	1,170,302
Long-term debt repayments	—	(1,077,975)	—	—	—	(1,077,975)
Distributions to unitholders and general partner	(197,333)	(197,333)	—	(20)	197,353	(197,333)
Contributions from general partner	3,035	—	—	—	—	3,035
Net intercompany borrowings (repayments)	(144,555)	35,613	(19,762)	128,704	—	—
Other	—	(3,144)	—	(908)	—	(4,052)
Net cash provided by (used in) financing activities	(195,770)	(72,537)	(19,762)	127,776	197,353	37,060
Effect of foreign exchange rate changes on cash	—	(1,510)	—	1,174	—	(336)
Net increase in cash and cash equivalents	(130)	(61)	(870)	22,061	—	21,000
Cash and cash equivalents at the beginning of the period	137	12,345	992	55,364	—	68,838
Cash and cash equivalents at the end of the period	$ 7	$ 12,284	$ 122	$ 77,425	$ —	$ 89,838

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

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2006
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$ 149,530	$ 81,542	$ 72,415	$ 135,731	$ (289,688)	$ 149,530
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	—	38,135	24,511	37,620	—	100,266
Equity earnings, net of distributions	31,500	(969)	(65,321)	(72,403)	106,379	(814)
Changes in operating assets and liabilities and other	(2,343)	(1,779)	(13,613)	19,564	—	1,829
Net cash provided by (used in) operating activities	178,687	116,929	17,992	120,512	(183,309)	250,811
Cash flows from investing activities:						
Capital expenditures	—	(33,939)	(12,276)	(77,807)	—	(124,022)
Proceeds from sale of assets	—	15	2	71,379	—	71,396
Acquisitions and investment in noncurrent assets	—	(156,275)	(50)	(8,969)	—	(165,294)
Other	(77)	(7,099)	27,112	(22,527)	7,277	4,686
Net cash provided by (used in) investing activities	(77)	(197,298)	14,788	(37,924)	7,277	(213,234)
Cash flows from financing activities:						
Proceeds from long-term debt borrowings	—	269,026	—	—	—	269,026
Long-term debt repayments	—	(83,510)	—	—	—	(83,510)
Distributions to unitholders and general partner	(183,290)	(183,290)	—	(19)	183,309	(183,290)
Net intercompany borrowings (repayments)	4,232	95,075	(31,902)	(67,405)	—	—
Other	575	(6,177)	—	6,754	(7,277)	(6,125)
Net cash provided by (used in) financing activities	(178,483)	91,124	(31,902)	(60,670)	176,032	(3,899)
Effect of foreign exchange rate changes on cash	—	—	—	(894)	—	(894)
Net increase in cash and cash equivalents	127	10,755	878	21,024	—	32,784
Cash and cash equivalents at the beginning of the period	10	1,590	114	34,340	—	36,054
Cash and cash equivalents at the end of the period	$ 137	$ 12,345	$ 992	$ 55,364	$ —	$ 68,838

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

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2005
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	KPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$ 111,073	$ 73,461	$ 40,385	$ 78,641	$ (192,487)	$ 111,073
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	—	34,828	12,073	19,766	—	66,667
Equity earnings, net of distributions	13,964	192	(38,462)	(40,392)	64,698	—
Changes in operating assets and liabilities and other	4,274	12,523	3,645	(11,752)	—	8,690
Net cash provided by (used in) operating activities	129,311	121,004	17,641	46,263	(127,789)	186,430
Cash flows from investing activities:						
Capital expenditures	—	(47,568)	(3,492)	(17,026)	—	(68,086)
Proceeds from sale of assets	—	—	85,466	395,479	—	480,945
Kaneb acquisition	(522,456)	—	850	20,633	—	(500,973)
Other	—	(3,377)	—	(1,472)	3,963	(886)
Net cash provided by (used in) investing activities	(522,456)	(50,945)	82,824	397,614	3,963	(89,000)
Cash flows from financing activities:						
Proceeds from long-term borrowings	—	746,472	—	—	—	746,472
Long-term debt repayments	—	(548,010)	(123,668)	(63,386)	—	(735,064)
Distributions to unitholders and general partner	(127,789)	(127,789)	—	—	127,789	(127,789)
General partner contributions	29,197	—	—	—	—	29,197
Net intercompany borrowings (repayments)	491,737	(163,529)	23,317	(351,525)	—	—
Other	—	8,346	—	5,623	(3,963)	10,006
Net cash provided by (used in) financing activities	393,145	(84,510)	(100,351)	(409,288)	123,826	(77,178)
Effect of foreign exchange rate changes on cash	—	—	—	(345)	—	(345)
Net increase in cash and cash equivalents	—	(14,451)	114	34,244	—	19,907
Cash and cash equivalents at the beginning of the period	10	16,041	—	96	—	16,147
Cash and cash equivalents at the end of the period	$ 10	$ 1,590	$ 114	$ 34,340	$ —	$ 36,054

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

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Thousands of Dollars, Except Per Unit Data)				
2007:					
Revenues	$296,824	$321,032	$397,017	$460,141	$1,475,014
Operating income	45,435	42,086	60,361	44,717	192,599
Net income	31,123	39,697	51,213	28,265	150,298
Net income per unit applicable to limited partners	0.57	0.74	0.97	0.47	2.74
Cash distributions per unit applicable to limited partners	0.915	0.950	0.985	0.985	3.835
2006:					
Revenues	$274,004	$279,968	$292,299	$290,990	$1,137,261
Operating income	55,967	47,316	55,656	53,960	212,899
Net income	39,451	31,553	41,169	37,357	149,530
Net income per unit applicable to limited partners	0.75	0.59	0.79	0.70	2.83
Cash distributions per unit applicable to limited partners	0.885	0.885	0.915	0.915	3.600

Previously reported amounts of revenues and operating income, net have been increased by $2.5 million, $0.5 million and $1.3 million for the quarters ended September 30, 2007, June 30, 2007 and September 30, 2006, respectively, to conform to the revised presentation as of the fourth quarter of 2007.