LMP REAL ESTATE INCOME FUND INC.
Form N-CSR
February 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-21098**

LMP Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant s telephone number, including area code: (888)777-0102

Date of fiscal year end: **December 31**

Date of reporting period: **December 31, 2013**

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

Annual Report December 31, 2013

LMP

REAL ESTATE INCOME FUND INC. (RIT)

What s inside

Fund objectives

The Fund s primary investment objective is high current income and the Fund s secondary investment objective is capital appreciation.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of LMP Real Estate Income Fund Inc. for the twelve-month reporting period ended December 31, 2013. Please read on for a detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

January 31, 2014

Investment commentary

Economic review

The U.S. economy continued to grow over the twelve months ended December 31, 2013 (the reporting period). Looking back, U.S. gross domestic product (GDP)[i] growth, as reported by the U.S. Department of Commerce, was 1.1% during the first quarter of 2013. The economic expansion then accelerated, as GDP growth was 2.5% during the second quarter. This was partially due to increases in exports and non-residential fixed investments, along with a smaller decline in federal government spending versus the previous quarter. The economy gained further momentum during the third quarter, with GDP growth of 4.1%, its best reading since the fourth quarter of 2011. Stronger growth was driven, in part, by an increase in private inventory investment, a deceleration in imports and accelerating state and local government spending. The U.S. Department of Commerce s initial reading for fourth quarter 2013 GDP growth, released after the reporting period ended, was 3.2%. Slower growth was due to several factors, including a deceleration in private inventory investment, declining federal government spending and less residential fixed investments.

The U.S. job market improved during the reporting period, although unemployment remained elevated from a historical perspective. When the period began, unemployment, as reported by the U.S. Department of Labor, was 7.9%. Unemployment fell to 7.7% in February 2013 and generally edged lower over the remainder of the period, falling to 6.7% in December. This represented the lowest level since October 2008. However, falling unemployment during the period was partially due to a decline in the workforce participation rate, which was 62.8% in December, its lowest level since 1978. In addition, the number of longer-term unemployed continues to be high, as roughly 37.7% of the 10.4 million Americans looking for work in December 2013 had been out of work for more than six months.

While sales of existing-homes declined at times throughout the reporting period given rising mortgage rates, they moved higher at the end of the year. According to the National Association of Realtors (NAR), existing-home sales rose 1.0% on a seasonally adjusted basis in December 2013 versus the previous month, although they were 0.6% lower than in December 2012. However, existing homes sales in 2013 were 9.1% higher than the previous year and 2013 s sales were the strongest since 2006. In addition, the NAR reported that the median existing-home price for all housing types was $198,100 in December 2013, up 9.9% from December 2012. The inventory of homes available for sale in December 2013 was 11% lower than the previous month at a 4.6 month supply at the current sales pace but 1.6% higher than in December 2012.

The manufacturing sector expanded during the majority of the reporting period, although it experienced a temporary soft patch. Based on the Institute for Supply Management s Purchasing Managers Index (PMI)[ii], manufacturing expanded during the first four months of the reporting period. It then contracted in May 2013, with a PMI of 49.0 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). This represented the PMI s lowest reading since June 2009. However, the contraction was a short-term setback, as the PMI rose over the next seven months and peaked at 57.3 in November,

Investment commentary (cont d)

the best reading since April 2011. The PMI then moderated somewhat in December 2013, edging back to a still strong 57.0.

The Federal Reserve Board (Fed)[iii] took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate[iv] at a historically low range between zero and 0.25%. At its meeting in December 2012, the Fed announced that it would continue purchasing $40 billion per month of agency mortgage-backed securities (MBS), as well as initially purchasing $45 billion per month of longer-term Treasuries. At its meeting that ended on June 19, 2013, the Fed did not make any material changes to its official policy statement. However, in a press conference following the meeting, Fed Chairman Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year. In a surprise to many investors, at its meeting that ended on September 18, 2013, the Fed did not taper its asset purchase program and said that it decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. At its meeting that concluded on December 18, 2013, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency mortgage-backed securities at a pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $40 billion per month rather than $45 billion per month. At the Fed s meeting that concluded on January 29, 2014, after the reporting period ended, it announced that in February 2014 it would further taper its asset purchases, to a total of $65 billion a month ($30 billion per month of agency mortgage-backed securities and $35 billion per month of longer-term Treasury securities).

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Kenneth D. Fuller

Chairman, President and

Chief Executive Officer

January 31, 2014

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

Fund overview

Q. What is the Fund s investment strategy?

A. The Fund s primary investment objective is high current income with capital appreciation as a secondary investment objective. The Fund has a fundamental policy of concentrating its investments in the U.S. real estate industry and not in any other industry. The Fund primarily invests in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by real estate companies, including real estate investment trusts (REITs)[i]. Real estate companies are companies that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial and residential real estate, or have at least 50% of their assets invested in such real estate.

Our investment process focuses on finding securities with sustainable, high or growing distributions that are covered by a company s operating cash flows. We also look for securities that are trading at a discount to what we believe is the intrinsic value of the company. We feel this provides the Fund with additional capital appreciation potential, as well as superior defensive characteristics. Sector allocation is largely an outgrowth of our fundamental securities analysis.

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by real estate companies, including REITs. At least 80% of the Fund s total assets will be invested, under normal market conditions, in income-producing securities issued by REITs.

It is the Fund s intention to invest approximately 60% to 80% of its total assets in common shares issued by real estate companies and 20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by real estate companies. The actual percentage of common, preferred and convertible preferred shares and debt securities in the Fund s portfolio may vary over time based on our assessment of market conditions. Our use of leverage is also based on our current view of the risk/return profile of the market. While we do not expect to change the amount of leverage we use frequently, it will be managed in accordance with market conditions and will not be held static if we believe it makes sense to make an adjustment.

ClearBridge Investments, LLC (ClearBridge) is the subadviser to the Fund. ClearBridge provides day-to-day portfolio management services to the Fund, while the Fund s investment manager, Legg Mason Partners Fund Advisor, LLC (LMPFA), provides management and administrative services to the Fund and supervises the Fund-related activities of ClearBridge. Mark McAllister serves as senior portfolio manager and John Baldi as co-portfolio manager to the Fund.

Q. What were the overall market conditions during the Fund s reporting period?

A. After a strong year in 2012, the U.S. REIT market underperformed the broad U.S. equity market in 2013 for the first year since 2008. The Fund s benchmark, the MSCI U.S. REIT Index[ii] returned 2.47% for the year and

Fund overview (cont d)

the FTSE NAREIT All REITs Index[iii], which includes both equity and mortgage REITs, produced a 3.2% total return for the same period. In comparison, the S&P 500 Index[iv] produced a total return for the period of 32.39%.

Q. How did we respond to these changing market conditions?

A. We made a number of changes to the Fund during the reporting period. These included the initiation of positions in the common stocks of two high-quality apartment REITs, a significant reduction of our health care REIT common stock holdings, an increase in our position in the common stock of the one commercial mortgage REIT we owned coming into the year, and a net increase in our agency residential mortgage REIT common stock holdings. In addition, we made adjustments to our preferred stock holdings over the course of the period. We maintained our Fund borrowings constant with 2012 s year-end level, which helped to dampen the Fund s volatility when REITs began to sell off after Federal Reserve Board (Fed) Chairman Ben Bernanke s public comments in May about commencing the tapering of the Fed s quantitative easing program.

Performance review

For the twelve months ended December 31, 2013, LMP Real Estate Income Fund Inc. returned 0.97% based on its NAV and -2.41% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the MSCI U.S. REIT Index, returned 2.47% for the same period. The Lipper Real Estate Closed-End Funds Category Average[vi] returned 3.13% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling $0.72 per share*. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of December 31, 2013. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2013

Price Per Share	12-Month Total Return**
$11.60 (NAV)	0.97%
$10.06 (Market Price)	-2.41%

All figures represent past performance and are not a guarantee of future results.

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions at NAV.

Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.

Q. What were the leading contributors to performance?

A. On an absolute basis the Fund had positive returns in five of the seven REIT industry sub-sectors, with the greatest

* Distributions paid by the Fund may be comprised of income, capital gains and/or return of capital. For the character of distributions paid during the fiscal year ended December 31, 2013, please refer to page 14 of this report.

contributions to returns coming from the specialized REITs and retail REITs sub-sectors. Relative to the benchmark, overall sector allocation contributed to performance for the period. Most notably, an underweight within the residential REITs sub-sector and an overweight to the diversified REITs sub-sector helped relative performance as the former underperformed the benchmark while the latter outperformed. Additionally, security selection in the specialized and industrial REITs sub-sectors helped relative returns for the period.

In terms of individual Fund holdings, leading contributors to performance for the period included Omega Healthcare Investors, Starwood Property Trust, Inland Real Estate, Hospitality Properties Trust and Ramco-Gershenson Properties Trust.

Q. What were the leading detractors from performance?

A. On an absolute basis, the Fund s allocation to residential REITs and office REITs showed negative returns over the year. Relative to the Fund s benchmark, our underweight allocation to the industrial REITs sub-sector detracted from performance, as this sub-sector outperformed in 2013. Overall security selection also had a negative impact on performance for the period, with the greatest negative effects stemming from the office REITs and diversified REITs sub-sectors. The negative impact from security selection in these sub-sectors was overwhelmingly driven by strong performance by securities we did not own rather than underperformance by those securities which we held. For example, we did not own Commonwealth REIT, an office REIT that received a hostile takeover offer which caused the common shares to generate a total return of over 54% for the year. Other securities that we did not hold and which therefore hurt relative performance include the common shares of Felcor Lodging Trust Inc. and Strategic Hotels & Resorts, Inc.

In terms of individual Fund holdings, leading detractors from performance for the period included Dundee Real Estate Investment Trust, Westfield Group, Digital Realty Trust, HCP and Campus Crest Communities.

Q. Were there any significant changes to the Fund during the reporting period?

A. There were a number of specific changes made to the Fund over the course of the reporting period. Among the largest additions to the Fund s portfolio were preferred shares of General Growth Properties and National Retail Properties, along with common shares of Healthcare Trust of America, Simon Property Group and AvalonBay Communities. We also eliminated four Fund holdings over the course of the period: Mack-Cali Realty and CYS Investments common stock and preferred shares of Digital Realty Trust and Strategic Hotels & Resorts.

Looking for additional information?

The Fund is traded under the symbol RIT and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XRITX on most financial websites. *Barron s* and the *Wall Street Journal s* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.lmcef.com.

Fund overview (cont d)

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

Thank you for your investment in LMP Real Estate Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Mark McAllister

Portfolio Manager

ClearBridge Investments, LLC

John Baldi

Portfolio Manager

ClearBridge Investments, LLC

January 17, 2014

RISKS: Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. In addition, investment in funds that concentrate their investments in one sector or industry may involve greater risk than more broadly diversified funds. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder s risk of loss. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Portfolio holdings and breakdowns are as of December 31, 2013 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund s top ten holdings (as a percentage of net assets) as of December 31, 2013 were: Macerich Co. (5.5%), Starwood Property Trust Inc. (5.5%), Liberty Property Trust (4.5%), EPR Properties (4.1%), Kilroy Realty Corp. (3.9%), Inland Real Estate Corp. (3.8%), Westfield Group (3.6%), Hospitality Properties Trust (3.4%), HCP Inc. (3.2%) and Senior Housing Properties Trust (3.2%). Please refer to pages 7 through 9 for a list and percentage breakdown of the Fund s holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund s top five sector holdings (as a percentage of net assets) as of December 31, 2013 were: Shopping Centers (24.8%), Diversified (22.8%), Lodging/Resorts (15.0%), Office (12.9%) and Health Care (12.6%). The Fund s portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

[i] Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

[ii] The MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs) that are included in the MSCI U.S. Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The Index represents approximately 85% of the U.S. REIT universe.

[iii] The FTSE NAREIT All REITs Index consists of all tax-qualified Real Estate Investment Trusts (REITs) listed on the New York Stock Exchange, American Stock Exchange or NASDAQ National Market List.

[iv] The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

[v] The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

[vi] Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2013, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 12 funds in the Fund s Lipper category.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund s investments as of December 31, 2013 and December 31, 2012. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments

December 31, 2013

LMP Real Estate Income Fund Inc.

Security	Shares	Value
Common Stocks 88.2%		
Apartments 6.5%		
Apartment Investment and Management Co., Class A Shares	98,200	$ 2,544,362 (a)
AvalonBay Communities Inc.	17,800	2,104,494 (a)
Campus Crest Communities Inc.	331,220	3,116,780 (a)
Equity Residential	16,300	845,481
Total Apartments		*8,611,117*
Diversified 16.2%		
Digital Realty Trust Inc.	74,200	3,644,704 (a)
Dundee Real Estate Investment Trust	125,000	3,391,386 (a)
EPR Properties	112,000	5,505,920 (a)
Lexington Corporate Properties Trust	105,100	1,073,071
Liberty Property Trust	176,000	5,961,120 (a)
Retail Properties of America Inc., Class A Shares	148,000	1,882,560 (a)
Total Diversified		*21,458,761*
Health Care 12.6%		
HCP Inc.	116,390	4,227,285 (a)
Health Care REIT Inc.	63,800	3,417,766 (a)
Healthcare Trust of America Inc., Class A Shares	170,100	1,673,784
OMEGA Healthcare Investors Inc.	108,000	3,218,400 (a)
Senior Housing Properties Trust	190,000	4,223,700 (a)
Total Health Care		*16,760,935*
Industrial 2.0%		
DCT Industrial Trust Inc.	362,360	*2,583,627* (a)
Lodging/Resorts 4.2%		
Hersha Hospitality Trust	190,000	1,058,300
Hospitality Properties Trust	166,000	4,486,980 (a)
Total Lodging/Resorts		*5,545,280*
Mortgage 8.8%		
American Capital Agency Corp.	115,310	2,224,330 (a)
Annaly Capital Management Inc.	224,700	2,240,259 (a)
Starwood Property Trust Inc.	262,000	7,257,400 (a)
Total Mortgage		*11,721,989*
Office 10.1%		
BioMed Realty Trust Inc.	130,000	2,355,600 (a)
First Potomac Realty Trust	163,619	1,902,889
Highwoods Properties Inc.	110,200	3,985,934 (a)
Kilroy Realty Corp.	103,740	5,205,673 (a)
Total Office		*13,450,096*

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2013

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
Regional Malls 7.5%			
Macerich Co.		125,000	$ 7,361,250 (a)
Simon Property Group Inc.		17,400	2,647,584 (a)
Total Regional Malls			*10,008,834*
Retail - Free Standing 2.9%			
Spirit Realty Capital Inc.		384,769	*3,782,279*
Shopping Centers 17.4%			
Excel Trust Inc.		249,000	2,836,110 (a)
Inland Real Estate Corp.		480,000	5,049,600 (a)
Kite Realty Group Trust		264,000	1,734,480
Ramco-Gershenson Properties Trust		247,620	3,897,539 (a)
Regency Centers Corp.		85,000	3,935,500 (a)
Urstadt Biddle Properties, Class A Shares		46,000	848,700 (a)
Westfield Group		534,000	4,811,000
Total Shopping Centers			*23,112,929*
Total Common Stocks (Cost $93,105,442)			**117,035,847**
	Rate		
Preferred Stocks 37.5%			
Apartments 1.2%			
Apartment Investment & Management Co., Series Z	7.000%	61,424	*1,544,506*
Diversified 6.6%			
DuPont Fabros Technology Inc., Cumulative, Series B	7.625%	68,000	1,548,360
EPR Properties, Series E	9.000%	60,000	1,665,600
LBA Realty Fund LP, Cumulative Redeemable	8.750%	90,000	3,619,692
Retail Properties of America Inc., Cumulative	7.000%	90,000	1,899,000
Total Diversified			*8,732,652*
Lodging/Resorts 10.8%			
Ashford Hospitality Trust, Series E	9.000%	97,000	2,571,470 (a)
Chesapeake Lodging Trust, Series A	7.750%	70,000	1,721,300
Hersha Hospitality Trust, Series B	8.000%	120,000	3,022,800
LaSalle Hotel Properties, Series H	7.500%	26,266	645,093
LaSalle Hotel Properties, Series I	6.375%	30,000	605,400
Pebblebrook Hotel Trust, Series C	6.500%	27,000	549,720
Pebblebrook Hotel Trust, Series A	7.875%	118,000	2,946,460
Sunstone Hotel Investors Inc., Series D	8.000%	88,917	2,222,925
Total Lodging/Resorts			*14,285,168*
Office 2.8%			
Alexandria Real Estate Equities Inc., Series D	7.000%	50,000	1,255,000
Corporate Office Properties Trust, Series L	7.375%	105,000	2,471,700
Total Office			*3,726,700*

See Notes to Financial Statements.

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
Regional Malls 4.4%			
CBL & Associates Properties Inc., Series E	6.625%	70,000	$ 1,488,200
General Growth Properties Inc., Series A	6.375%	96,000	1,934,400
Glimcher Realty Trust, Series H	7.500%	105,000	2,424,450
Total Regional Malls			*5,847,050*
Retail - Free Standing 3.1%			
National Retail Properties Inc., Series D	6.625%	64,001	1,417,622
National Retail Properties Inc., Series E	5.700%	85,000	1,627,963
Realty Income Corp., Cumulative, Series F	6.625%	44,070	1,054,595
Total Retail - Free Standing			*4,100,180*
Shopping Centers 7.4%			
Cedar Realty Trust Inc., Series B	7.250%	107,400	2,470,200
Excel Trust Inc., Series B	8.125%	67,000	1,738,650
Kite Realty Group Trust, Series A	8.250%	140,999	3,560,225 [(a)]
Urstadt Biddle Properties Inc., Cumulative, Series F	7.125%	87,500	2,015,125
Total Shopping Centers			*9,784,200*
Storage 1.2%			
CubeSmart, Cumulative, Series A	7.750%	66,000	*1,659,900*
Total Preferred Stocks (Cost $51,764,418)			**49,680,356**
Total Investments 125.7% (Cost $144,869,860#)			**166,716,203**
Liabilities in Excess of Other Assets (25.7)%			(34,035,667)
Total Net Assets 100.0%			**$ 132,680,536**

[(a)] All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 5).

Aggregate cost for federal income tax purposes is $146,001,568.

Abbreviation used in this schedule:

REIT Real Estate Investment Trust

See Notes to Financial Statements.

Statement of assets and liabilities

December 31, 2013

Assets:	
Investments, at value (Cost $144,869,860)	$ 166,716,203
Cash	2,124,696
Dividends and distributions receivable	1,494,849
Prepaid expenses	9,607
Total Assets	***170,345,355***
Liabilities:	
Loan payable (Note 5)	37,000,000
Payable for securities purchased	406,677
Investment management fee payable	122,232
Accrued expenses	135,910
Total Liabilities	***37,664,819***
Total Net Assets	**$ 132,680,536**
Net Assets:	
Par value ($0.001 par value; 11,441,022 shares issued and outstanding; 100,000,000 shares authorized)	$ 11,441
Paid-in capital in excess of par value	127,437,783
Overdistributed net investment income	(686,973)
Accumulated net realized loss on investments and foreign currency transactions	(15,928,197)
Net unrealized appreciation on investments and foreign currencies	21,846,482
Total Net Assets	**$ 132,680,536**
Shares Outstanding	11,441,022
Net Asset Value	$11.60

See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2013

Investment Income:	
Dividends and distributions	$ 9,731,114
Return of capital	(1,931,973)
Interest	1,863
Less: Foreign taxes withheld	(66,426)
Total Investment Income	***7,734,578***
Expenses:	
Investment management fee (Note 2)	1,642,277
Interest expense (Note 5)	344,109
Transfer agent fees	79,439
Audit and tax	58,850
Commitment fees (Note 5)	40,555
Legal fees	40,362
Shareholder reports	33,485
Directors fees	24,664
Stock exchange listing fees	19,512
Fund accounting fees	14,617
Insurance	4,007
Custody fees	3,148
Miscellaneous expenses	12,806
Total Expenses	***2,317,831***
Less: Fee waivers and/or expense reimbursements (Note 2)	(91,238)
Net Expenses	***2,226,593***
Net Investment Income	**5,507,985**
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions (Notes 1 and 3):	
Net Realized Gain (Loss) From:	
Investment transactions	4,056,398
REIT distributions	1,281,019
Foreign currency transactions	(2,301)
Net Realized Gain	***5,335,116***
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(9,096,558)
Foreign currencies	127
Change in Net Unrealized Appreciation (Depreciation)	***(9,096,431)***
Net Loss on Investments and Foreign Currency Transactions	**(3,761,315)**
Increase in Net Assets from Operations	**$ 1,746,670**

See Notes to Financial Statements.

Statements of changes in net assets

For the Years Ended December 31,	2013	2012
Operations:		
Net investment income	$ 5,507,985	$ 5,151,756
Net realized gain	5,335,116	4,742,629
Change in net unrealized appreciation (depreciation)	(9,096,431)	15,038,483
Increase in Net Assets From Operations	***1,746,670***	***24,932,868***
Distributions to Shareholders From (Note 1):		
Net investment income	(8,235,946)	(8,231,150)
Decrease in Net Assets From Distributions to Shareholders	***(8,235,946)***	***(8,231,150)***
Fund Share Transactions:		
Reinvestment of distributions (6,018 and 3,803 shares issued, respectively)	82,392	45,143
Increase in Net Assets From Fund Share Transactions	***82,392***	***45,143***
Increase (Decrease) in Net Assets	***(6,406,884)***	***16,746,861***
Net Assets:		
Beginning of year	139,087,420	122,340,559
End of year*	**$ 132,680,536**	**$ 139,087,420**
*Includesoverdistributed net investment income of:	$(686,973)	$(1,460,268)

See Notes to Financial Statements.

Statement of cash flows

For the Year Ended December 31, 2013

Increase (Decrease) in Cash:	
Cash Provided (used) by Operating Activities:	
Net increase in net assets resulting from operations	$ 1,746,670
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(23,300,761)
Proceeds from sales of portfolio securities	20,511,775
Net purchases, sales and maturities of short-term investments	5,899,000
Return of capital	1,931,973
Litigation payment received	14,219
Increase in dividends and distributions receivable	(116,806)
Increase in prepaid expenses	(1,674)
Decrease in payable for securities purchased	(1,466,057)
Decrease in investment management fee payable	(2,905)
Decrease in interest payable	(4,153)
Increase in accrued expenses	26,314
Net realized gain on investments	(4,056,398)
Change in unrealized depreciation of investments	9,096,558
Net Cash Provided By Operating Activities*	***10,277,755***
Cash Flows from Financing Activities:	
Distributions paid on common stock net of reinvestment	$ (8,153,554)
Net Cash Used in Financing Activities	***(8,153,554)***
Net Increase in Cash	**2,124,201**
Cash at Beginning of year	495
Cash at End of year	$ 2,124,696
Non-Cash Financing Activities:	
Proceeds from reinvestment of distributions	$ 82,392

* Included in operating expenses is cash of $348,262 paid for interest on borrowings.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended December 31:	2013	2012	2011	2010	2009
Net asset value, beginning of year[1]	$12.16	$10.70	$11.07	$8.98	$6.46
Income (loss) from operations:					
Net investment income	0.48	0.45	0.45	0.36	0.45
Net realized and unrealized gain (loss)	(0.32)	1.73	(0.10)	2.45	3.01
Total income from operations	***0.16***	***2.18***	***0.35***	***2.81***	***3.46***
Less distributions paid to common stock shareholders from:					
Net investment income	(0.72)	(0.72)	(0.72)	(0.29)	(0.44)
Return of capital				(0.43)	(0.50)
Total distributions	***(0.72)***	***(0.72)***	***(0.72)***	***(0.72)***	***(0.94)***
Net asset value, end of year	$11.60	$12.16	$10.70	$11.07	$8.98
Market price, end of year	$10.06	$10.97	$9.25	$10.10	$8.05
Total return based on NAV[2,3]	***0.97%***	***20.84%***	***4.02%***	***33.49%***	***63.57%***
Total return, based on Market Price[4]	***(2.41)%***	***26.85%***	***(1.44)%***	***35.86%***	***97.75%***
Net assets, end of year (millions)	$133	$139	$122	$127	$103
Ratios to average net assets:[5]					
Gross expenses	1.59%	1.74%	1.85%	2.08%	2.48%
Net expenses[6]	1.53[7,8]	1.68[7,8]	1.82[7,8]	2.08	2.42[7,9]
Net investment income	3.79	3.86	4.13	3.57	6.76
Portfolio turnover rate	**11%**	**43%**	**23%**	**12%**	**19%**
Supplemental data:					
Loans Outstanding, End of Year (000s)	$37,000	$37,000	$37,000	$45,000	$34,000
Asset Coverage for Loan Outstanding	459%	476%	431%	381%	402%
Weighted Average Loan (000s)	$37,000	$37,000	$43,268	$38,690	$27,499
Weighted Average Interest Rate on Loans	0.93%	1.10%	0.99%	1.53%	1.38%

1 Per share amounts have been calculated using the average shares method.

2 Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

3 The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

4 The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

5 Calculated on the basis of average net assets of common stock shareholders.

6 The impact of compensating balance arrangements, if any, was less than 0.01%.

See Notes to Financial Statements.

[7] Reflects fee waivers and/or expense reimbursements.

[8] LMPFA agreed to a waiver in the amount of 0.05% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and will extend through June 30, 2014.

[9] LMPFA contractually agreed to waive a portion of its management fee in the amount of 0.20% of the Fund s average daily Managed Assets for the 12-month period ended July 31, 2008 and 0.10% of the Fund s average daily Managed Assets for the 12-month period ended July 31, 2009. The waiver was eliminated August 1, 2009.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

LMP Real Estate Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is high current income and the Fund s secondary objective is capital appreciation.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment s fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund s Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund s pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer s financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

Notes to financial statements (cont d)

The following is a summary of the inputs used in valuing the Fund s assets carried at fair value:

ASSETS

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Common stocks	$ 117,035,847			$ 117,035,847
Preferred stocks:				
Diversified	5,112,960	$ 3.619,692		8,732,652
Retail-free standing	2,472,217	1,627,963		4,100,180
Other preferred stocks	36,847,524			36,847,524
Total investments	**$ 161,468,548**	**$ 5,247,655**		**$ 166,716,203**

See Schedule of Investments for additional detailed categorizations.

For the year ended December 31, 2013, as a result of the fair value pricing procedures for international equities utilized by the Fund, certain securities have transferred in and out of Level 1 and Level 2 measurements during the period. The Fund s policy is to recognize transfers between levels as of the end of the reporting period. At December 31, 2013, securities valued at $4,811,000 were transferred from Level 2 to Level 1 within the fair value hierarchy.

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund s holding period. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian, acting on the Fund s behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(d) Concentration risk. The Fund invests in securities related to the real estate industry and is subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage- related risks.

(e) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(f) Distributions to shareholders. Dividends and distributions to shareholders are recorded monthly by the Fund on the ex-dividend date for the shareholders of common stock. The Fund s policy is to pass through to its shareholders substantially all Real Estate Investment Trust (REIT) distributions and other income it receives, less operating expenses. The character of REIT distributions received from portfolio securities held by the Fund is generally comprised of investment income, long-term capital gains, and return of capital. The Fund reclassifies amounts within the Statement of Operations primarily based on information provided by REITs after the Fund s fiscal year end. In those instances where such information is not available, the Fund estimates the amounts based on amounts reported by the REITs in the prior year. After all remaining REITs report the actual character of distributions paid during the year, the Fund adjusts estimates previously recorded to actual.

Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which may be adjusted

Notes to financial statements (cont d)

from time to time by the Fund s Board of Directors. Under Fund s Managed Distribution Policy, if, for any monthly distribution, net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund s assets (and constitute a return of capital). The Board of Directors may terminate the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such termination could have an adverse effect on the market price for Fund s shares.

(g) Cash flow information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(h) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian s fees is paid indirectly by credits earned on the Fund s cash on deposit with the bank.

(i) Federal and other taxes. It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund s financial statements.

Management has analyzed the Fund s tax positions taken on income tax returns for all open tax years and has concluded that as of December 31, 2013, no provision for income tax is required in the Fund s financial statements. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(j) Reclassification. GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. During the current year, the following reclassifications have been made:

	Overdistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	$ 3,193,163		$ (3,193,163)
(b)	308,093	$ (308,093)	

[a] Reclassifications are primarily due to a taxable overdistribution.

[b] Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes and book/tax differences in the treatment of passive foreign investment companies.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager and ClearBridge Investments, LLC (ClearBridge) is the Fund s subadviser. LMPFA and ClearBridge are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.90% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage (Managed Assets).

LMPFA delegates to the subadviser the day-to-day portfolio management of the Fund. For its services, LMPFA pays ClearBridge 70% of the net management fee it receives from the Fund.

LMPFA also agreed to a waiver in the amount of 0.05% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and will extend through June 30, 2014.

During periods in which the Fund is utilizing leverage, the fees which are payable to LMPFA as a percentage of the Fund s net assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund s Managed Assets.

During the year ended December 31, 2013, fees waived and/or expenses reimbursed amounted to $91,238.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended December 31, 2013, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	$ 23,300,761
Sales	20,511,775

At December 31, 2013, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 28,233,652
Gross unrealized depreciation	(7,519,017)
Net unrealized appreciation	**$ 20,714,635**

4. Derivative instruments and hedging activities

GAAP requires enhanced disclosure about an entity s derivative and hedging activities.

During the year ended December 31, 2013, the Fund did not invest in any derivative instruments.

Notes to financial statements (cont d)

5. Line of credit

The Fund has a revolving credit agreement with a financial institution, which allows the Fund to borrow up to an aggregate amount of $75,000,000. The agreement has a 180 day term unless notice to the contrary is given to the Fund. The Fund pays a commitment fee at an annual rate of 0.50% on the unutilized portion of the loan. The interest on the loan is calculated at a variable rate based on the LIBOR plus any applicable margin. Interest expense related to the loan for the year ended December 31, 2013 was $344,109. For the year ended December 31, 2013, the Fund incurred a commitment fee in the amount of $40,555. For the year ended December 31, 2013, the Fund had an average daily loan balance outstanding of $37,000,000 and the weighted average interest rate was 0.93%. At December 31, 2013, the Fund had $37,000,000 of borrowings outstanding per this credit agreement.

6. Distributions subsequent to December 31, 2013

The following distributions have been declared by the Fund s Board of Directors and are payable subsequent to the period of this report:

Record Date	Payable Date	Amount
1/24/14	1/31/14	$0.0600
2/21/14	2/28/14	$0.0600
3/21/14	3/28/14	$0.0600
4/17/14	4/25/14	$0.0600
5/23/14	5/30/14	$0.0600
6/20/14	6/27/14	$0.0600

7. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended December 31, were as follows:

	2013	2012
Distributions Paid From:		
Ordinary income	$ 8,235,946	$ 8,231,150

As of December 31, 2013, the components of accumulated earnings on a tax basis were as follows:

Capital loss carryforward**	$ (15,612,366)
Other book/tax temporary differences[(a)]	128,904
Unrealized appreciation (depreciation)[(b)]	20,714,774
Total accumulated earnings (losses) net	**$ 5,231,312**

** During the taxable year ended December 31, 2013, the Fund utilized $ 4,845,297 of its deferred capital losses and capital loss carryforward available from prior years. As of December 31, 2013, the Fund had the following net capital loss carryforwards remaining:

Year of Expiration	Amount
12/31/2017	$ (15,485,965)
12/31/2018	(126,401)
	$ (15,612,366)

These amounts will be available to offset any future taxable capital gains.

(a) Other book/tax temporary differences are attributable primarily to book/tax differences in the treatment of distributions from real estate investment trusts, the deferral of certain late year losses for tax purposes and book/tax differences in the timing of the deductibility of various expenses.

(b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales and the realization for tax purposes of unrealized gains on investments in passive foreign investment companies.

8. Recent accounting pronouncement

The Fund has adopted the disclosure provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update 2011-11 (ASU 2011-11), *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* along with the related scope clarification provisions of FASB Accounting Standards Update 2013-01 (ASU 2013-01) entitled *Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 is intended to enhance disclosures on the offsetting of financial assets and liabilities by requiring entities to disclose both gross and net information about financial instruments and transactions that are either offset in the statement of assets and liabilities or subject to a master netting agreement or similar arrangement. ASU 2013-01 limits the scope of ASU 2011-11 s disclosure requirements on offsetting to financial assets and financial liabilities related to derivatives, repurchase and reverse repurchase agreements, and securities lending and securities borrowing transactions.

Report of independent registered public accounting firm

The Board of Directors and Shareholders

LMP Real Estate Income Fund Inc.:

We have audited the accompanying statement of assets and liabilities of LMP Real Estate Income Fund Inc. (the Fund), including the schedule of investments, as of December 31, 2013, and the related statement of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2013, by correspondence with the custodian and brokers or by other appropriate auditing procedures. 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 financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of LMP Real Estate Income Fund Inc. as of December 31, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York

February 24, 2014

Board approval of management agreement and sub-advisory agreements
(unaudited)

Background

The Investment Company Act of 1940, as amended (the 1940 Act), requires that the Board of Directors (the Board) of LMP Real Estate Income Fund, Inc. (the Fund), including a majority of its members that are not considered to be interested persons under the 1940 Act (the Independent Directors) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement) with the Fund s manager, Legg Mason Partners Fund Advisor, LLC (the Manager), and the sub-advisory agreement (the Sub-Advisory Agreement) with the Manager s affiliate, ClearBridge Investments, LLC (formerly, ClearBridge Advisors, LLC) (ClearBridge or the Sub-Adviser). At a meeting (the Contract Renewal Meeting) held in-person on November 13 and 14, 2013, the Board, including the Independent Directors, considered and approved the continuation of the Management Agreement and the Sub-Advisory Agreement for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreement, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information) about the Manager and the Sub-Adviser, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board s supervision (collectively, the Legg Mason Closed-end Funds), certain portions of which are discussed below. A presentation made by the Manager and the Sub-Adviser to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreement encompassed the Fund and other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Adviser to the Fund. The Board s evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Board of the Fund and the other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Adviser.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Adviser provides the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreement. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Adviser.

Board approval of management agreement and sub-advisory agreement

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreement, the Board, including the Independent Directors, considered the factors below.

Nature, extent and quality of the services under the management agreement and sub-advisory agreement

The Board received and considered Contract Renewal Information regarding the nature, extent and quality of services provided to the Fund by the Manager and the Sub-Adviser

Board approval of management agreement and sub-advisory agreements (unaudited) (cont d)

under the Management Agreement and the Sub-Advisory Agreement, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund s compliance policies and procedures established pursuant to the 1940 Act.

The Board considered the qualifications, backgrounds and responsibilities of the Fund s senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board s discussions with the Manager and the Sub-Adviser at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager and its affiliates and the financial resources available to the corporate parent of the Manager, Legg Mason, Inc. (Legg Mason), to support its activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager s coordination and oversight of the services provided to the Fund by the Sub-Adviser and others. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement (the Delegation Provision), the Manager currently does not provide day-to-day portfolio management services to the Fund; rather, portfolio management services since September 1, 2012 have been provided to the Fund by ClearBridge pursuant to the Sub-Advisory Agreement. From August 15, 2011 to September 1, 2012, the Manager was responsible for day-to-day portfolio management activities. Prior to August 15, 2011, day-to-day portfolio management responsibilities, in accordance with the Delegation Provision, were delegated by the Manager pursuant to the Delegation Provision to AEW Capital Management, L.P. (AEW), an unaffiliated sub-adviser, pursuant to a separate sub-advisory agreement (the AEW Sub-Advisory Agreement) with the Manager. At the request of the Board, the Manager proposed and implemented a Management Fee waiver (the Management Fee Waiver) of 0.05% for three years, until June 30, 2014, as a result of the elimination of AEW s fees under the AEW Sub-Advisory Agreement, which were paid by the Manager.

In reaching its determinations regarding continuation of the Management Agreement and the Sub-Advisory Agreement, the Board considered the responsibilities of the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager s coordination and oversight of the services provided to the Fund by the Sub-Adviser and others. The Board also took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased and have held their shares based in part upon the reputation and resources available to the Manager and the Sub-Adviser.

The Board concluded that, overall, the nature, extent and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement have been satisfactory under the circumstances.

Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged real estate closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of nine funds, including the Fund, for the 1-, 3- and 5-year periods ended June 30, 2013 and four funds for the 10-year period ended such date. The Board noted that it had received and discussed with the Manager and the Sub-Adviser information throughout the year at periodic intervals comparing the Fund s performance against its benchmark and its peer funds as selected by Lipper.

The Lipper Performance Information comparing the Fund s performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund s performance for each of the 1- and 5-year periods ended June 30, 2013 was ranked second among the funds in the Performance Universe and was ranked fifth among the funds in the Performance Universe for the 3-year period ended such date. In each period, the Fund s performance was at or better than the Performance Universe median for that period. In addition to the Fund s performance relative to the Performance Universe, the Board considered the Fund s performance in absolute terms and relative to its benchmark. During the 1-year period ended June 30, 2013, the Fund outperformed its benchmark by more than 4.8% on a net asset value basis. The Fund outperformed its benchmark during the 5-year period ended June 30, 2013 while underperforming its benchmark during the 3-and 10-year periods ended such date. The Board noted that the current portfolio management team, first as employees of the Manager during the period August 15, 2011 to September 1, 2012 and thereafter as employees of the Sub-Adviser, assumed responsibility for the Fund s portfolio management on August 15, 2011. The Fund s investment results for each of the 3- and 5-year periods ended June 30, 2013 were attributable in part to AEW, which exercised responsibility for day-to-day management of the Fund s investment portfolio until August 15, 2011.

Based on the reviews and discussions of Fund performance with the Manager and the Sub-Adviser and considering other relevant factors noted above, the Board concluded that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreement for an additional period not to exceed one year would be in the interests of the Fund and its shareholders.

Board approval of management agreement and sub-advisory agreements (unaudited) (cont d)

Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fee (the Sub-Advisory Fee) payable to the Sub-Adviser under the Sub-Advisory Agreement in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Adviser. The Board noted that the Sub-Advisory Fee payable to the Sub-Adviser under the Sub-Advisory Agreement is paid by the Manager, not the Fund, and accordingly, that the retention of the Sub-Adviser does not increase the fees or expenses otherwise incurred by the Fund s shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund s overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Lipper. The comparison was based upon the constituent funds latest fiscal years. The Expense Group consisted of the Fund and six other leveraged real estate closed-end funds, as classified by Lipper, with average net assets ranging from the Fund s $133.5 million to $1.048 billion.

The Lipper Expense Information, comparing the Management Fee as well as the Fund s actual total expenses to the Fund s Expense Group, showed, among other things, that the Fund s contractual Management Fee and actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds), compared on the basis of common share assets only, ranked sixth and fifth, respectively, among the funds in the Expense Group and were worse than (i.e., higher) than the Expense Group median for that expense component. The Fund s actual Management Fee, compared on the basis of common share and leveraged assets, ranked fourth among the Expense Group funds and was at the Expense Group median for that expense component. The Fund s actual total expenses, whether compared on the basis of common share assets or on the basis of common share and leveraged assets, each ranked fourth among the funds in the Expense Group and in each case were at the Expense Group median. The Board considered that the small number of funds in the Expense Group and the Fund s small size in relation to the other Expense Group funds made meaningful comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients (collectively, institutional clients) generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to institutional clients. Among other things, institutional clients have fewer compliance, administration and other needs than the Fund and the Fund is subject not only to heightened regulatory requirements relative to institutional clients but also to requirements for listing on the New York Stock Exchange. The Contract Renewal Information noted further that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund s chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry by the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and the services provided to the Legg Mason Open-end Funds. The Board considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fee were reasonable in light of the nature, extent and overall quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement.

Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager s fiscal years ended March 31, 2013 and March 31, 2012. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager s revenue and cost allocation methodologies used in preparing such profitability data. The Board received a report from an outside consultant engaged by the Manager that had reviewed the Manager s revenue and cost allocation methodologies. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager had increased by 4% during the period covered by the analysis. The Board concluded that the profitability to the Manager was reasonable in light of the nature, extent and overall quality of the investment advisory and other services provided to the Fund. In doing so, however, the Board noted that the Management Fee Waiver is scheduled to expire on June 30, 2014 and that the Manager s profitability, therefore, likely will increase for future periods.

Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund s assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund s investment portfolio,

Board approval of management agreement and sub-advisory agreements (unaudited) (cont d)

rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure, which incorporates no breakpoints reducing the Management Fee at specified increased asset levels, was appropriate under present circumstances.

Other benefits to the manager and the sub-adviser

The Board considered other benefits received by the Manager, the Sub-Adviser and their affiliates as a result of their relationship with the Fund and did not regard such benefits as excessive.

* * * * * *

In light of all of the foregoing and other relevant factors, the Board determined that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreement would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year. No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreement, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreement as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreement in private sessions with their independent legal counsel at which no representatives of the Manager or Sub-Adviser were present.

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of LMP Real Estate Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Kenneth D. Fuller, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

Independent Directors :

Carol L. Colman

Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Daniel P. Cronin

Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Paolo M. Cucchi

Year of birth	1941
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[1] and length of time served	Since 2002
Principal occupation(s) during past five years	Emeritus Professor of French and Italian at Drew University (since 2014); formerly, Professor of French and Italian at Drew University (2009 to 2014); Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Additional information (unaudited) (cont d)

Information about Directors and Officers

Independent Directors cont d	
Leslie H. Gelb	
Year of birth	1937
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994)
William R. Hutchinson	
Year of birth	1942
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2002
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)
Eileen A. Kamerick[2]	
Year of birth	1958
Position(s) held with Fund[1]	Director and Member of Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2013
Principal occupation(s) during past five years	CFO, Press Ganey Associates (health care informatics company) (since 2012); formerly Managing Director and CFO, Houlihan Lokey (international investment bank) (2010 to 2012); Senior Vice President, CFO & CLO, Tecta America Corp. (commercial roofing company) (2008 to 2010); Executive Vice President and CFO, Bearing Point Inc. (management and technology consulting firm) (2008); Executive Vice President, CFO and CAO Heidrick & Struggles (international executive search and leadership consulting firm) (2004 to 2008)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (since 2003)

Independent Directors cont d

Riordan Roett

Year of birth	1938
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Jeswald W. Salacuse

Year of birth	1938
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President and Member, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited; India Fund, Inc. and Asia Tigers Fund, Inc. (since 1993)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Interested Director and Officer:	
Kenneth D. Fuller[3]	
Year of birth	1958
Position(s) held with Fund[1]	Director, Chairman, President and Chief Executive Officer, Class I
Term of office[1] and length of time served	Since 2013
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2013); Officer and/or Trustee/Director of 167 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2013); President and Chief Executive Officer of LM Asset Services, LLC (LMAS) and Legg Mason Fund Asset Management, Inc. (LMFAM) (formerly registered investment advisers) (since 2013); formerly, Senior Vice President of LMPFA (2012 to 2013); formerly, Director of Legg Mason & Co. (2012 to 2013); formerly, Vice President of Legg Mason & Co. (2009 to 2012); formerly, Vice President Equity Division of T. Rowe Price Associates (1993 to 2009), as well as Investment Analyst and Portfolio Manager for certain asset allocation accounts (2004 to 2009).
Number of portfolios in fund complex overseen by Director (including the Fund)	155
Other board memberships held by Director during past five years	None
Additional Officers:	
Ted P. Becker Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1951
Position(s) held with Fund[1]	Chief Compliance Officer
Term of office[1] and length of time served	Since 2006
Principal occupation(s) during past five years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Additional Officers cont d

Vanessa A. Williams

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1979
Position(s) with Fund[1]	Identity Theft Prevention Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. (since 2012); Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (2011 to 2013); formerly, Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. (2006 to 2008) and Legg Mason & Co. predecessors (prior to 2006)

Robert I. Frenkel

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1954
Position(s) held with Fund[1]	Secretary and Chief Legal Officer
Term of office[1] and length of time served	Since 2003
Principal occupation(s) during past five years	Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Thomas C. Mandia

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1962
Position(s) held with Fund[1]	Assistant Secretary
Term of office[1] and length of time served	Since 2006
Principal occupation(s) during past five years	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of LMAS (since 2002) and LMFAM (since 2013)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Additional Officers cont d	
Richard F. Sennett Legg Mason 100 International Drive, 7th Floor, Baltimore, MD 21202	
Year of birth	1970
Position(s) held with Fund[1]	Principal Financial Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)
Steven Frank Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1967
Position(s) held with Fund[1]	Treasurer
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2002); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010)
Jeanne M. Kelly Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1951
Position(s) held with Fund[1]	Senior Vice President
Term of office[1] and length of time served	Since 2007
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006) and LMFAM (since 2013); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

[1] The Fund s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2016, year 2014 and year 2015, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund s executive officers are chosen each year at the first meeting of the Fund s Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

[2] Effective February 1, 2013, Ms. Kamerick became a Director.

[3] Effective June 1, 2013, Mr. Fuller was appointed to the position of Chairman, President and Chief Executive Officer. Prior to this date, R. Jay Gerken served as Chairman, President and Chief Executive Officer. Mr. Gerken retired effective May 31, 2013, Mr. Fuller is an interested person of the Fund as defined in the 1940 Act because Mr. Fuller is an officer of LMPFA and certain of its affiliates.

Annual chief executive officer and principal financial officer certifications (unaudited)

The Fund s Chief Executive Officer (CEO) has submitted to the NYSE the required annual certification and the Fund also has included the certifications of the Fund s CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund s Form N-CSR filed with the SEC for the period of this report.

Other shareholder communications regarding accounting matters (unaudited)

The Fund s Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, Accounting Matters). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer (CCO). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund s Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

Dividend reinvestment plan (unaudited)

Under the Fund s Dividend Reinvestment Plan (Plan), a shareholder whose shares of Common Stock are registered in his own name will have all distributions from the Fund reinvested automatically by American Stock Transfer & Trust Company (AST), as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own Common Stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to Fund shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of AST as dividend-paying agent.

If the Fund declares a dividend or capital gains distribution payable either in Common Shares or in cash, shareholders who are not Plan participants will receive cash, and Plan participants will receive the equivalent amount in Common Shares. When the market price of the Common Shares is equal to or exceeds 98% of the net asset value per share of the Common Shares on the Determination Date (as defined below), Plan participants will be issued Common Shares valued at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Determination Date or (b) 95% of the market price per share of the common stock on the Determination Date. The Determination Date is the dividend or capital gains distribution record date or, if that date is not a New York Stock Exchange (NYSE) trading day, the immediately preceding trading day.

If 98% of the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the Determination Date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the Determination Date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the record date for the next succeeding dividend or distribution to be made to the Common Shareholders, except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Shares at the close of trading on the Exchange on the Determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan agent will cease purchasing Common Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the Determination date or (b) 95% of the then current market price per share. You may withdraw from the Plan by notifying the Plan Agent in writing at 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at www.Investpower.com or by calling the Plan Agent at 1-877-366-6441. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent s investment of the most recently declared dividend or distribution on the Common Shares.

AST will maintain all shareholder accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common Shares in the account of each Plan participant will be held by AST on behalf of the Plan participant, and each shareholder s proxy will include those shares purchased pursuant to the Plan.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions. AST s fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges apply with respect to Common Shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in Common Shares or in cash. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to open market purchases made in connection with the reinvestment of dividends or capital gains distributions.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by AST, with the Fund s prior written consent, on at least 30 days written notice to Plan participants. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. The Plan Agent is authorized to deduct brokerage commissions actually incurred for this transaction from the proceeds. All correspondence concerning the Plan should be directed by mail to American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at www.Investpower.com or by telephone at 1-888-888-0151.

Important tax information (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended December 31, 2013:

Record date:	Monthly
Payable date:	January 2013 - December 2013
Ordinary income:	
Qualified dividend income for individuals	1.13%
Dividends qualifying for the dividends received deduction for corporations	1.13%

Please retain this information for your records.

LMP

Real Estate Income Fund Inc.

Directors

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

Kenneth D. Fuller*

Chairman

William R. Hutchinson

Eileen A. Kamerick**

Riordan Roett

Jeswald W. Salacuse

Officers

Kenneth D. Fuller*

President and Chief Executive Officer

Richard F. Sennett

Principal Financial Officer

Ted P. Becker

Chief Compliance Officer

Vanessa A. Williams

Identity Theft Prevention Officer

Robert I. Frenkel

Secretary and Chief Legal Officer

Thomas C. Mandia

Assistant Secretary

Steven Frank

Treasurer

Jeanne M. Kelly

Senior Vice President

LMP Real Estate Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Investment manager

Legg Mason Partners Fund Advisor, LLC

Subadviser

ClearBridge Investments, LLC

Custodian

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

Transfer agent

American Stock Transfer & Trust Company 6201 15th Avenue

Brooklyn, NY 11219

Independent registered public accounting firm

KPMG LLP

345 Park Avenue

New York, NY 10154

Legal counsel

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

New York Stock Exchange Symbol

RIT

* Effective June 1, 2013, Mr. Fuller became Chairman, President and Chief Executive Officer.

** Effective February 1, 2013, Ms. Kamerick became a Director.

Legg Mason Funds Privacy and Security Notice

Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the Privacy Notice) addresses the Legg Mason Funds privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

- Personal information included on applications or other forms;
- Account balances, transactions, and mutual fund holdings and positions;
- Online account access user IDs, passwords, security challenge question responses; and
- Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual s total debt, payment history, etc.).

How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

- Employees, agents, and affiliates on a need to know basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds behalf, including companies that may perform marketing services solely for the Funds;
- The Funds representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT

Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

Keeping You Informed of the Funds Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

The Funds Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds internal data security policies restrict access to your non-public personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds website at www.leggmason.com, or contact the Fund at 1-888-777-0102.

Revised April 2011

NOT PART OF THE ANNUAL REPORT

LMP Real Estate Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices, shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund s website at www.lmcef.com and (3) on the SEC s website at www.sec.gov.

This report is transmitted to the shareholders of LMP Real Estate Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock

Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

FD02814 2/14 SR14-2140

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that William R. Hutchinson possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Hutchinson as the Audit Committee s financial expert. Mr. Hutchinson is an independent Director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending December 31, 2012 and December 31, 2013 (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $53,800 in December 31, 2012 and $53,800 in December 31, 2013.

b) Audit-Related Fees. The aggregate fees billed in the Reporting period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant s financial statements were $0 in December 31, 2012 and $0 in December 31, 2013.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the LMP Real Estate Income Fund Inc. (service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the Reporting Periods

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were $4,000 in December 31, 2012 and $4,500 in December 31, 2013. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the LMP Real Estate Income Fund Inc.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA) and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to LMP Real Estate Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit

services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund s independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

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The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the LMP Real Estate Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2012 and 2013; Tax Fees were 100% and 100% for 2012 and 2013; and Other Fees were 100% and 100% for 2012 and 2013.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to LMP Real Estate Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to LMP Real Estate Income Fund Inc. during the reporting period were $0 in 2013.

(h) Yes. LMP Real Estate Income Fund Inc. s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant s independence. All services provided by the Auditor to the LMP Real Estate Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a) 58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

William R. Hutchinson

Paolo Cucchi

Carol Colman

Daniel Cronin

Leslie Gelb

Eileen A, Kamerick

Riordan Roett

Jeswald Salacuse

b) Not Applicable.

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ITEM 6. SCHEDULE OF INVESTMENTS.
Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser s Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund s website at http://www.lmcef.com and (3) on the SEC s website at http://www.sec.gov.

PROXY VOTING GUIDELINES & PROCEDURES SUMMARY

Concerning ClearBridge Investments LLC

(f/ka ClearBridge Advisors LLC)

(ClearBridge)

I. TYPES OF ACCOUNTS FOR WHICH CLEARBRIDGE VOTES PROXIES
ClearBridge votes proxies for each client that has specifically authorized us to vote them in the investment management contract or otherwise and votes proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves the responsibility to vote proxies to the plan trustees or other named fiduciary. These policies and procedures are intended to fulfill applicable requirements imposed on ClearBridge by the Investment Advisers Act of 1940, as amended, the Investment Company Act of 1940, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations adopted under these laws.

II. GENERAL GUIDELINES
In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the accounts we manage and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values.

III. HOW CLEARBRIDGE VOTES
Section V of these policies and procedures sets forth certain stated positions. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Section V that we consider in voting on such issue, we consider those factors and vote on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that we consider in voting on such issue, we vote on a case-by-case basis in accordance with the general principles set forth above. We may utilize an external service provider to provide us with information and/or a recommendation with regard to proxy votes but we are not required to follow any such recommendations. The use of an external service provider does not relieve us of our responsibility for the proxy vote.

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For routine matters, we usually vote according to our policy or the external service provider s recommendation, although we are not obligated to do so and an individual portfolio manager may vote contrary to our policy or the recommendation of the external service provider. If a matter is non-routine, *e.g.*, management s recommendation is different than that of the external service provider and ClearBridge is a significant holder or it is a significant holding for ClearBridge, the issues will be highlighted to the appropriate investment teams and their views solicited by members of the Proxy Committee. Different investment teams may vote differently on the same issue, depending upon their assessment of clients best interests.

ClearBridge s proxy voting process is overseen and coordinated by its Proxy Committee.

IV. CONFLICTS OF INTEREST

In furtherance of ClearBridge s goal to vote proxies in the best interests of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge s interests and those of its clients before voting proxies on behalf of such clients.

A. Procedures for Identifying Conflicts of Interest

ClearBridge relies on the following to seek to identify conflicts of interest with respect to proxy voting:

1. ClearBridge s employees are periodically reminded of their obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships or personal or business relationships relating to another Legg Mason business unit, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge s General Counsel/Chief Compliance Officer.

2. ClearBridge s finance area maintains and provides to ClearBridge Compliance and proxy voting personnel an up- to-date list of all client relationships that have historically accounted for or are projected to account for greater than 1% of ClearBridge s net revenues.

3. As a general matter, ClearBridge takes the position that relationships between a non-ClearBridge Legg Mason unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-ClearBridge Legg Mason affiliate) do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer because ClearBridge operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between ClearBridge and certain other Legg Mason business units. As noted above, ClearBridge employees are under an obligation to bring such conflicts of interest, including conflicts of interest which may arise because of an attempt by another Legg Mason business unit or non-ClearBridge Legg Mason officer or employee to influence proxy voting by ClearBridge to the attention of ClearBridge Compliance.

4. A list of issuers with respect to which ClearBridge has a potential conflict of interest in voting proxies on behalf of client accounts will be maintained by ClearBridge proxy voting personnel. ClearBridge will not vote proxies relating to such issuers until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described in Section IV below.

B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest

1. ClearBridge maintains a Proxy Committee which, among other things, reviews and addresses conflicts of interest brought to its attention. The Proxy Committee is comprised of such ClearBridge personnel (and others, at ClearBridge s request), as are designated from time to time. The current members of the Proxy Committee are set forth in the Proxy Committee s Terms of Reference.

2. All conflicts of interest identified pursuant to the procedures outlined in Section IV. A. must be brought to the attention of the Proxy Committee for resolution. A proxy issue that will be voted in accordance with a stated ClearBridge position on such issue or in accordance with the recommendation of an independent third party generally is not brought to the attention of the Proxy Committee for a conflict of interest review because ClearBridge s position is that any conflict of interest issues are resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party.

3. The Proxy Committee will determine whether a conflict of interest is material. A conflict of interest will be considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, ClearBridge s decision-making in voting the proxy. All materiality determinations will be based on an assessment of the particular facts and circumstances. A written record of all materiality determinations made by the Proxy Committee will be maintained.

4. If it is determined by the Proxy Committee that a conflict of interest is not material, ClearBridge may vote proxies notwithstanding the existence of the conflict.

5. If it is determined by the Proxy Committee that a conflict of interest is material, the Proxy Committee will determine an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination shall be based on the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc. Such methods may include:

   disclosing the conflict to clients and obtaining their consent before voting;

   suggesting to clients that they engage another party to vote the proxy on their behalf;

   in the case of a conflict of interest resulting from a particular employee s personal relationships, removing such employee from the decision-making process with respect to such proxy vote; or

   such other method as is deemed appropriate given the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc.*

A written record of the method used to resolve a material conflict of interest shall be maintained.

C. Third Party Proxy Voting Firm - Conflicts of Interest

With respect to a third party proxy voting firm described herein, the Proxy Committee will periodically review and assess such firm s policies, procedures and practices with respect to the disclosure and handling of conflicts of interest.

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V. VOTING POLICY

These are policy guidelines that can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account holding the shares being voted. There may be occasions when different investment teams vote differently on the same issue. A ClearBridge investment team (*e.g.*, ClearBridge s Social Awareness Investment team) may adopt proxy voting policies that supplement these policies and procedures. In addition, in the case of Taft-Hartley clients, ClearBridge will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services (ISS) PVS Proxy Voting Guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

* Especially in the case of an apparent, as opposed to actual, conflict of interest, the Proxy Committee may resolve such conflict of interest by satisfying itself that ClearBridge s proposed vote on a proxy issue is in the best interest of client accounts and is not being influenced by the conflict of interest.

A. Election of Directors

1. Voting on Director Nominees in Uncontested Elections.

a. We withhold our vote from a director nominee who:

attended less than 75 percent of the company s board and committee meetings without a valid excuse (illness, service to the nation/local government, work on behalf of the company);

were members of the company s board when such board failed to act on a shareholder proposal that received approval of a majority of shares cast for the previous two consecutive years;

received more than 50 percent withheld votes of the shares cast at the previous board election, and the company has failed to address the issue as to why;

is an insider where: (1) such person serves on any of the audit, compensation or nominating committees of the company s board, (2) the company s board performs the functions typically performed by a company s audit, compensation and nominating committees, or (3) the full board is less than a majority independent (unless the director nominee is also the company CEO, in which case we will vote FOR);

is a member of the company s audit committee, when excessive non-audit fees were paid to the auditor, or there are chronic control issues and an absence of established effective control mechanisms.

b. We vote for all other director nominees.

2. Chairman and CEO is the Same Person.

We vote on a case-by-case basis on shareholder proposals that would require the positions of the Chairman and CEO to be held by different persons. We would generally vote FOR such a proposal unless there are compelling reasons to vote against the proposal, including:

Designation of a lead director

Majority of independent directors (supermajority)

All independent key committees

Size of the company (based on market capitalization)

Established governance guidelines

Company performance

3. Majority of Independent Directors

a. We vote for shareholder proposals that request that the board be comprised of a majority of independent directors. Generally that would require that the director have no connection to the company other than the board seat. In determining whether an independent director is truly independent (e.g. when voting on a slate of director candidates), we consider certain factors including, but not necessarily limited to, the following: whether the director or his/her company provided professional services to the company or its affiliates either currently or in the past year; whether the director has any transactional relationship with the company; whether the director is a significant customer or supplier of the company; whether the director is employed by a foundation or university that received significant grants or endowments from the company or its affiliates; and whether there are interlocking directorships.

b. We vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

4. Stock Ownership Requirements

We vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.

5. Term of Office

We vote against shareholder proposals to limit the tenure of independent directors.

6. Director and Officer Indemnification and Liability Protection

a. Subject to subparagraphs 2, 3, and 4 below, we vote for proposals concerning director and officer indemnification and liability protection.

b. We vote for proposals to limit and against proposals to eliminate entirely director and officer liability for monetary damages for violating the duty of care.

c. We vote against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.

d. We vote for only those proposals that provide such expanded coverage noted in subparagraph 3 above in cases when a director s or officer s legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, *and* (2) if only the director s legal expenses would be covered.

7. Director Qualifications

a. We vote case-by-case on proposals that establish or amend director qualifications. Considerations include how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.

b. We vote against shareholder proposals requiring two candidates per board seat.

B. Proxy Contests

1. Voting for Director Nominees in Contested Elections

We vote on a case-by-case basis in contested elections of directors. Considerations include: chronology of events leading up to the proxy contest; qualifications of director nominees (incumbents and dissidents); for incumbents, whether the board is comprised of a majority of outside directors; whether key committees (i.e.: nominating, audit, compensation) comprise solely of independent outsiders; discussion with the respective portfolio manager(s).

2. Reimburse Proxy Solicitation Expenses

3. We vote on a case-by-case basis on proposals to provide full reimbursement for dissidents waging a proxy contest. Considerations include: identity of persons who will pay solicitation expenses; cost of solicitation; percentage that will be paid to proxy solicitation firms.

C. Auditors

1. Ratifying Auditors

We vote for proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company s financial position or there is reason to believe the independent auditor has not followed the highest level of ethical conduct. Specifically, we will vote to ratify auditors if the auditors only provide the company audit services and such other audit-related and non-audit services the provision of which will not cause such auditors to lose their independence under applicable laws, rules and regulations.

2. Financial Statements and Director and Auditor Reports

We generally vote for management proposals seeking approval of financial accounts and reports and the discharge of management and supervisory board members, unless there is concern about the past actions of the company s auditors or directors.

3. Remuneration of Auditors

We vote for proposals to authorize the board or an audit committee of the board to determine the remuneration of auditors, unless there is evidence of excessive compensation relative to the size and nature of the company.

4. Indemnification of Auditors

We vote against proposals to indemnify auditors.

D. Proxy Contest Defenses

1. Board Structure: Staggered vs. Annual Elections

   a. We vote against proposals to classify the board.

   b. We vote for proposals to repeal classified boards and to elect all directors annually.

2. Shareholder Ability to Remove Directors

   a. We vote against proposals that provide that directors may be removed *only* for cause.

   b. We vote for proposals to restore shareholder ability to remove directors with or without cause.

   c. We vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies.

   d. We vote for proposals that permit shareholders to elect directors to fill board vacancies.

3. Cumulative Voting

   a. If plurality voting is in place for uncontested director elections, we vote for proposals to permit or restore cumulative voting.

   b. If majority voting is in place for uncontested director elections, we vote against cumulative voting.

   c. If plurality voting is in place for uncontested director elections, and proposals to adopt both cumulative voting and majority voting are on the same slate, we vote for majority voting and against cumulative voting.

4. Majority Voting

We vote for non-binding and/or binding resolutions requesting that the board amend a company s by-laws to stipulate that directors need to be elected with an affirmative majority of the votes cast, provided that it does not conflict with the state law where the company is incorporated. In addition, all resolutions need to provide for a carve-out for a plurality vote standard when there are more nominees than board seats (i.e. contested election). In addition, ClearBridge strongly encourages companies to adopt a post-election director resignation policy setting guidelines for the company to follow to promptly address situations involving holdover directors.

5. Shareholder Ability to Call Special Meetings

a. We vote against proposals to restrict or prohibit shareholder ability to call special meetings.

b. We vote for proposals that provide shareholders with the ability to call special meetings, taking into account a minimum ownership threshold of 10 percent (and investor ownership structure, depending on bylaws).

6. Shareholder Ability to Act by Written Consent

a. We vote against proposals to restrict or prohibit shareholder ability to take action by written consent.

b. We vote for proposals to allow or make easier shareholder action by written consent.

7. Shareholder Ability to Alter the Size of the Board

a. We vote for proposals that seek to fix the size of the board.

b. We vote against proposals that give management the ability to alter the size of the board without shareholder approval.

8. Advance Notice Proposals

We vote on advance notice proposals on a case-by-case basis, giving support to those proposals which allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible.

9. Amendment of By-Laws

a. We vote against proposals giving the board exclusive authority to amend the by-laws.

b. We vote for proposals giving the board the ability to amend the by-laws in addition to shareholders.

10. Article Amendments (not otherwise covered by ClearBridge Proxy Voting Policies and Procedures).
We review on a case-by-case basis all proposals seeking amendments to the articles of association.

We vote for article amendments if:

- shareholder rights are protected;
- there is negligible or positive impact on shareholder value;
- management provides adequate reasons for the amendments; and
- the company is required to do so by law (if applicable).

E. Tender Offer Defenses

1. Poison Pills

   a. We vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.

   b. We vote on a case-by-case basis on shareholder proposals to redeem a company s poison pill. Considerations include: when the plan was originally adopted; financial condition of the company; terms of the poison pill.

   c. We vote on a case-by-case basis on management proposals to ratify a poison pill. Considerations include: sunset provision - poison pill is submitted to shareholders for ratification or rejection every 2 to 3 years; shareholder redemption feature -10% of the shares may call a special meeting or seek a written consent to vote on rescinding the rights plan.

2. Fair Price Provisions

   a. We vote for fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.

   b. We vote for shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.

3. Greenmail

   a. We vote for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company s ability to make greenmail payments.

b. We vote on a case-by-case basis on anti-greenmail proposals when they are bundled with other charter or bylaw amendments.

4. Unequal Voting Rights

a. We vote against dual class exchange offers.

11

b. We vote against dual class re-capitalization.

5. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

a. We vote against management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.

b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

6. Supermajority Shareholder Vote Requirement to Approve Mergers

a. We vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

7. White Squire Placements

We vote for shareholder proposals to require approval of blank check preferred stock issues.

F. Miscellaneous Governance Provisions

1. Confidential Voting

a. We vote for shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: in the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.

b. We vote for management proposals to adopt confidential voting subject to the proviso for contested elections set forth in sub-paragraph A.1 above.

2. Equal Access

We vote for shareholder proposals that would allow significant company shareholders equal access to management s proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

3. Bundled Proposals

We vote on a case-by-case basis on bundled or conditioned proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders best interests and therefore not in the best interests of the beneficial owners of accounts, we vote against the proposals. If the combined effect is positive, we support such proposals.

4. Shareholder Advisory Committees

We vote on a case-by-case basis on proposals to establish a shareholder advisory committee. Considerations include: rationale and cost to the firm to form such a committee. We generally vote against such proposals if the board and key nominating committees are comprised solely of independent/outside directors.

5. Other Business

We vote for proposals that seek to bring forth other business matters.

6. Adjourn Meeting

We vote on a case-by-case basis on proposals that seek to adjourn a shareholder meeting in order to solicit additional votes.

7. Lack of Information

We vote against proposals if a company fails to provide shareholders with adequate information upon which to base their voting decision.

G. Capital Structure

1. Common Stock Authorization

a. We vote on a case-by-case basis on proposals to increase the number of shares of common stock authorized for issue, except as described in paragraph 2 below.

b. Subject to paragraph 3, below we vote for the approval requesting increases in authorized shares if the company meets certain criteria:

Company has already issued a certain percentage (i.e. greater than 50%) of the company s allotment.

The proposed increase is reasonable (i.e. less than 150% of current inventory) based on an analysis of the company s historical stock management or future growth outlook of the company.

c. We vote on a case-by-case basis, based on the input of affected portfolio managers, if holding is greater than 1% of an account.

2. Stock Distributions: Splits and Dividends

We vote on a case-by-case basis on management proposals to increase common share authorization for a stock split, provided that the split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the split.

3. Reverse Stock Splits

We vote for management proposals to implement a reverse stock split, provided that the reverse split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the reverse split.

a. Blank Check Preferred Stock

b. We vote against proposals to create, authorize or increase the number of shares with regard to blank check preferred stock with unspecified voting, conversion, dividend distribution and other rights.

c. We vote for proposals to create declawed blank check preferred stock (stock that cannot be used as a takeover defense).

d. We vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

e. We vote for proposals requiring a shareholder vote for blank check preferred stock issues.

4. Adjust Par Value of Common Stock

We vote for management proposals to reduce the par value of common stock.

5. Preemptive Rights

a. We vote on a case-by-case basis for shareholder proposals seeking to establish them and consider the following factors:

Size of the Company.

Characteristics of the size of the holding (holder owning more than 1% of the outstanding shares).

Percentage of the rights offering (rule of thumb less than 5%).

b. We vote on a case-by-case basis for shareholder proposals seeking the elimination of pre-emptive rights.

6. Debt Restructuring

We vote on a case-by-case basis for proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. Generally, we approve proposals that facilitate debt restructuring.

7. Share Repurchase Programs

We vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

8. Dual-Class Stock

We vote for proposals to create a new class of nonvoting or sub voting common stock if:

- It is intended for financing purposes with minimal or no dilution to current shareholders
- It is not designed to preserve the voting power of an insider or significant shareholder

9. Issue Stock for Use with Rights Plan

10. We vote against proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

11. Debt Issuance Requests

When evaluating a debt issuance request, the issuing company s present financial situation is examined. The main factor for analysis is the company s current debt-to- equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company s bond rating, increasing its investment risk factor in the process. A gearing level up to 100 percent is considered acceptable.

We vote for debt issuances for companies when the gearing level is between zero and 100 percent.

We view on a case-by-case basis proposals where the issuance of debt will result in the gearing level being greater than 100 percent. Any proposed debt issuance is compared to industry and market standards.

12. Financing Plans

We generally vote for the adopting of financing plans if we believe they are in the best economic interests of shareholders.

H. Executive and Director Compensation

In general, we vote for executive and director compensation plans, with the view that viable compensation programs reward the creation of stockholder wealth by having high payout sensitivity to increases in shareholder value. Certain factors, however, such as repricing underwater stock options without shareholder approval, would cause us to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary.

1. OBRA-Related Compensation Proposals

a. Amendments that Place a Cap on Annual Grant or Amend Administrative Features

We vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Internal Revenue Code.

b. Amendments to Added Performance-Based Goals

We vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of the Internal Revenue Code.

c. Amendments to Increase Shares and Retain Tax Deductions Under OBRA

We vote for amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) the Internal Revenue Code.

d. Approval of Cash or Cash-and-Stock Bonus Plans

We vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of the Internal Revenue Code.

Expensing of Options

We vote for proposals to expense stock options on financial statements.

2. Index Stock Options

We vote on a case by case basis with respect to proposals seeking to index stock options. Considerations include whether the issuer expenses stock options on its financial statements and whether the issuer s compensation committee is comprised solely of independent directors.

3. Shareholder Proposals to Limit Executive and Director Pay

a. We vote on a case-by-case basis on all shareholder proposals that seek additional disclosure of executive and director pay information. Considerations include: cost and form of disclosure. We vote for such proposals if additional disclosure is relevant to shareholder s needs and would not put the company at a competitive disadvantage relative to its industry.

b. We vote on a case-by-case basis on all other shareholder proposals that seek to limit executive and director pay.

We have a policy of voting to reasonably limit the level of options and other equity- based compensation arrangements available to management to reasonably limit shareholder dilution and management compensation. For options and equity-based compensation arrangements, we vote FOR proposals or amendments that would result in the available awards being less than 10% of fully diluted outstanding shares (i.e. if the combined total of shares, common share equivalents and options available to be awarded under all current and proposed compensation plans is less than 10% of fully diluted shares). In the event the available awards exceed the 10% threshold, we would also consider the % relative to the common practice of its specific industry (e.g. technology firms). Other considerations would include, without limitation, the following:

Compensation committee comprised of independent outside directors

Maximum award limits

Repricing without shareholder approval prohibited

3-year average burn rate for company

Plan administrator has authority to accelerate the vesting of awards

Shares under the plan subject to performance criteria

4. Golden Parachutes

a. We vote for shareholder proposals to have golden parachutes submitted for shareholder ratification.

b. We vote on a case-by-case basis on all proposals to ratify or cancel golden parachutes. Considerations include: the amount should not exceed 3 times average base salary plus guaranteed benefits; golden parachute should be less attractive than an ongoing employment opportunity with the firm.

5. Golden Coffins

a. We vote for shareholder proposals that request a company not to make any death benefit payments to senior executives estates or beneficiaries, or pay premiums in respect to any life insurance policy covering a senior executive s life (golden coffin). We carve out benefits provided under a plan, policy or arrangement applicable to a broader group of employees, such as offering group universal life insurance.

b. We vote for shareholder proposals that request shareholder approval of survivor benefits for future agreements that, following the death of a senior executive, would obligate the company to make payments or awards not earned.

6. Anti Tax Gross-up Policy

a. We vote for proposals that ask a company to adopt a policy whereby it will not make, or promise to make, any tax gross-up payment to its senior executives, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy; we also vote for proposals that ask management to put gross-up payments to a shareholder vote.

b. We vote against proposals where a company will make, or promise to make, any tax gross-up payment to its senior executives without a shareholder vote, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy.

7. Employee Stock Ownership Plans (ESOPs)

We vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is excessive (i.e., generally greater than five percent of outstanding shares).

8. Employee Stock Purchase Plans

a. We vote for qualified plans where all of the following apply:

The purchase price is at least 85 percent of fair market value

The offering period is 27 months or less

The number of shares allocated to the plan is five percent or less of outstanding shares

If the above do not apply, we vote on a case-by-case basis.

b. We vote for non-qualified plans where all of the following apply:

All employees of the company are eligible to participate (excluding 5 percent or more beneficial owners)

There are limits on employee contribution (ex: fixed dollar amount)

There is a company matching contribution with a maximum of 25 percent of an employee s contribution

There is no discount on the stock price on purchase date (since there is a company match)

If the above do not apply, we vote against the non-qualified employee stock purchase plan.

9. 401(k) Employee Benefit Plans

We vote for proposals to implement a 401(k) savings plan for employees.

10. Stock Compensation Plans

a. We vote for stock compensation plans which provide a dollar-for-dollar cash for stock exchange.

b. We vote on a case-by-case basis for stock compensation plans which do not provide a dollar-for-dollar cash for stock exchange using a quantitative model.

11. Directors Retirement Plans

a. We vote against retirement plans for non-employee directors.

b. We vote for shareholder proposals to eliminate retirement plans for non-employee directors.

12. Management Proposals to Reprice Options

We vote on a case-by-case basis on management proposals seeking approval to reprice options. Considerations include the following:

Historic trading patterns

Rationale for the repricing

Value-for-value exchange

Option vesting

Term of the option

Exercise price

Participation

13. Shareholder Proposals Recording Executive and Director Pay

a. We vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.

b. We vote against shareholder proposals requiring director fees be paid in stock only.

c. We vote for shareholder proposals to put option repricing to a shareholder vote.

d. We vote for shareholder proposals that call for a non-binding advisory vote on executive pay (say-on-pay). Company boards would adopt a policy giving shareholders the opportunity at each annual meeting to vote on an advisory resolution to ratify the compensation of the named executive officers set forth in the proxy statement s summary compensation table.

e. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

f. We vote on a case-by-case basis for all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

14. Management Proposals On Executive Compensation

a. For non-binding advisory votes on executive officer compensation, when management and the external service provider agree, we vote for the proposal. When management and the external service provider disagree, the proposal becomes a refer item. In the case of a Refer item, the factors under consideration will include the following:

Company performance over the last 1-, 3- and 5-year periods on a total shareholder return basis

Performance metrics for short- and long-term incentive programs

CEO pay relative to company performance (is there a misalignment)

Tax gross-ups to senior executives

Change-in-control arrangements

Presence of a clawback provision, ownership guidelines, or stock holding requirements for senior executives

b. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

15. Stock Retention / Holding Period of Equity Awards

We vote on a case-by-case basis on shareholder proposals asking companies to adopt policies requiring senior executives to retain all or a significant (>50 percent) portion of their shares acquired through equity compensation plans, either:

While employed and/or for one to two years following the termination of their employment; or

For a substantial period following the lapse of all other vesting requirements for the award, with ratable release of a portion of the shares annually during the lock-up period

The following factors will be taken into consideration:

Whether the company has any holding period, retention ratio, or named executive officer ownership requirements currently in place

Actual stock ownership of the company s named executive officers

Policies aimed at mitigating risk taking by senior executives

Pay practices at the company that we deem problematic

I. State/Country of Incorporation

1. Voting on State Takeover Statutes

a. We vote for proposals to opt out of state freeze-out provisions

b. We vote for proposals to opt out of state disgorgement provisions.

2. Voting on Re-incorporation Proposals

We vote on a case-by-case basis on proposals to change a company s state or country of incorporation. Considerations include: reasons for re-incorporation (i.e. financial, restructuring, etc); advantages/benefits for change (i.e. lower taxes); compare the differences in state/country laws governing the corporation.

3. Control Share Acquisition Provisions

a. We vote against proposals to amend the charter to include control share acquisition provisions.

b. We vote for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

c. We vote for proposals to restore voting rights to the control shares.

d. We vote for proposals to opt out of control share cashout statutes.

J. Mergers and Corporate Restructuring

1. Mergers and Acquisitions

We vote on a case-by-case basis on mergers and acquisitions. Considerations include: benefits/advantages of the combined companies (i.e. economies of scale, operating synergies, increase in market power/share, etc); offer price (premium or discount); change in the capital structure; impact on shareholder rights.

2. Corporate Restructuring

We vote on a case-by-case basis on corporate restructuring proposals involving minority squeeze outs and leveraged buyouts. Considerations include: offer price, other alternatives/offers considered and review of fairness opinions.

3. Spin-offs

We vote on a case-by-case basis on spin-offs. Considerations include the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

4. Asset Sales

We vote on a case-by-case basis on asset sales. Considerations include the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

5. Liquidations

We vote on a case-by-case basis on liquidations after reviewing management s efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

6. Appraisal Rights

We vote for proposals to restore, or provide shareholders with, rights of appraisal.

7. Changing Corporate Name

We vote for proposals to change the corporate name , unless the proposed name change bears a negative connotation.

8. Conversion of Securities

We vote on a case-by-case basis on proposals regarding conversion of securities. Considerations include the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

9. Stakeholder Provisions

We vote against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

K. Social and Environmental Issues

1. In general we vote on a case-by-case basis on shareholder social and environmental proposals, on the basis that their impact on share value may be difficult to quantify. In most cases, however, we vote for disclosure reports that seek additional information, particularly when it appears the company has not adequately addressed shareholders social and environmental concerns. In determining our vote on shareholder social and environmental proposals, we also analyze the following factors:

   a. whether adoption of the proposal would have either a positive or negative impact on the company s short-term or long-term share value;

   b. the percentage of sales, assets and earnings affected;

   c. the degree to which the company s stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;

   d. whether the issues presented should be dealt with through government or company-specific action;

   e. whether the company has already responded in some appropriate manner to the request embodied in a proposal;

   f. whether the company s analysis and voting recommendation to shareholders is persuasive;

   g. what other companies have done in response to the issue;

   h. whether the proposal itself is well framed and reasonable;

   i. whether implementation of the proposal would achieve the objectives sought in the proposal; and

   j. whether the subject of the proposal is best left to the discretion of the board.

2. Among the social and environmental issues to which we apply this analysis are the following:

a. Energy Efficiency and Resource Utilization

b. Environmental Impact and Climate Change

c. Human Rights and Impact on Communities of Corporate Activities

d. Equal Employment Opportunity and Non Discrimination

e. ILO Standards and Child/Slave Labor

f. Product Integrity and Marketing

g. Sustainability Reporting

h. Board Representation

i. Animal Welfare

L. Miscellaneous

1. Charitable Contributions

We vote against proposals to eliminate, direct or otherwise restrict charitable contributions.

2. Political Contributions

In general, we vote on a case-by-case basis on shareholder proposals pertaining to political contributions. In determining our vote on political contribution proposals we consider, among other things, the following:

Does the company have a political contributions policy publicly available

How extensive is the disclosure on these documents

What oversight mechanisms the company has in place for approving/reviewing political contributions and expenditures

Does the company provide information on its trade association expenditures

Total amount of political expenditure by the company in recent history

3. Operational Items

   a. We vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

b. We vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.

c. We vote for by-law or charter changes that are of a housekeeping nature (updates or corrections).

d. We vote for management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable.

e. We vote against shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.

f. We vote against proposals to approve other business when it appears as voting item.

4. Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- that the meeting has been convened under local regulatory requirements
- the presence of a quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- regulatory filings
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting

We generally vote for these and similar routine management proposals.

5. Allocation of Income and Dividends

We generally vote for management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and unusually small or large.

6. Stock (Scrip) Dividend Alternatives

a. We vote for most stock (scrip) dividend proposals.

b. We vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

ClearBridge has determined that registered investment companies, particularly closed end investment companies, raise special policy issues making specific voting guidelines frequently inapplicable. To the extent that ClearBridge has proxy voting authority with respect to shares of registered investment companies, ClearBridge shall vote such shares in the best interest of client accounts and subject to the general fiduciary principles set forth herein without regard to the specific voting guidelines set forth in Section V. A. through L.

The voting policy guidelines set forth in Section V may be changed from time to time by ClearBridge in its sole discretion.

VI. OTHER CONSIDERATIONS

In certain situations, ClearBridge may determine not to vote proxies on behalf of a client because ClearBridge believes that the expected benefit to the client of voting shares is outweighed by countervailing considerations. Examples of situations in which ClearBridge may determine not to vote proxies on behalf of a client include:

A. Share Blocking

Proxy voting in certain countries requires share blocking. This means that shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (e.g. one week) with a designated depositary. During the blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to client accounts by the designated depositary. In deciding whether to vote shares subject to share blocking, ClearBridge will consider and weigh, based on the particular facts and circumstances, the expected benefit to clients of voting in relation to the detriment to clients of not being able to sell such shares during the applicable period.

B Securities on Loan

Certain clients of ClearBridge, such as an institutional client or a mutual fund for which ClearBridge acts as a sub-adviser, may engage in securities lending with respect to the securities in their accounts. ClearBridge typically does not direct or oversee such securities lending activities. To the extent feasible and practical under the circumstances, ClearBridge will request that the client recall shares that are on loan so that such shares can be voted if ClearBridge believes that the expected benefit to the client of voting such shares outweighs the detriment to the client of recalling such shares (*e.g.*, foregone income). The ability to timely recall shares for proxy voting purposes typically is not entirely within the control of ClearBridge and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time for such shares to be voted may not be possible due to applicable proxy voting record dates and administrative

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Mark McAllister ClearBridge Investments, LLC 620 Eighth Avenue New York, NY 10018	Since 2011	Co-portfolio manager of the fund; Managing Director and Senior Portfolio Manager of ClearBridge; Mr. McAllister has 25 years of investment industry experience.
John Baldi ClearBridge Investments, LLC 620 Eighth Avenue New York, NY 10018	Since 2011	Co-portfolio manager of the fund; Director and Senior Research Analyst of ClearBridge; Mr. Baldi has fourteen years of related investment industry experience.

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund s portfolio manager for the fund. Unless noted otherwise, all information is provided as of December 31, 2013.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund s portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Name of PM	Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Advisory Fee is Performance-Based	Assets Managed for which Advisory Fee is Performance-Based
Mark McAllister	Other Registered Investment Companies	2	$ 1.20 billion	None	None
	Other Pooled Vehicles	4	$ 1.1 billion	None	None
	Other Accounts	None	None	None	None
John Baldi	Other Registered Investment Companies	None	None	None	None
	Other Pooled Vehicles	None	None	None	None
	Other Accounts	None	None	None	None

(a)(3): *Portfolio Manager Compensation*

The portfolio managers participate in a competitive compensation program that is designed to attract and retain outstanding investment professionals and closely align the interests of its investment professionals with those of its clients and overall firm results. The total compensation program includes a significant incentive component that rewards high performance standards, integrity, and collaboration consistent with the firm s values. Portfolio manager compensation is reviewed and modified each year as appropriate to reflect changes in the market and to ensure the continued alignment with the goals stated above. The portfolio managers and other investment professionals receive a combination of base compensation and discretionary compensation, comprising a cash incentive award and deferred incentive plans described below.

Base salary compensation. Base salary is fixed and primarily determined based on market factors and the experience and responsibilities of the investment professional within the firm.

Discretionary compensation. In addition to base compensation managers may receive discretionary compensation.

Discretionary compensation can include:

Cash Incentive Award

Deferred Incentive Plan (CDIP) a mandatory program that typically defers 15% of discretionary year-end compensation into managed products. For portfolio managers, one-third of this deferral tracks the performance of their primary managed product, one-third tracks the performance of a composite portfolio of the firm s new products and one-third can be elected to track the performance of one or more of managed funds. Consequently, portfolio managers can have two-thirds of their CDIP award tracking the performance of their primary managed product.

For centralized research analysts, two-thirds of their deferral is elected to track the performance of one of more of managed funds, while one-third tracks the performance of the new product composite.

The manager then makes a company investment in the proprietary managed funds equal to the deferral amounts by fund. This investment is a company asset held on the balance sheet and paid out to the employees in shares subject to vesting requirements.

Legg Mason Restricted Stock Deferral a mandatory program that typically defers 5% of discretionary year-end compensation into Legg Mason restricted stock. The award is paid out to employees in shares subject to vesting requirements.

Legg Mason Restricted Stock and Stock Option Grants a discretionary program that may be utilized as part of the total compensation program. These special grants reward and recognize significant contributions to our clients, shareholders and the firm and aid in retaining key talent.

Several factors are considered when determining discretionary compensation for portfolio managers. These include but are not limited to:

Investment performance. A portfolio manager s compensation is linked to the pre-tax investment performance of the fund/accounts managed by the portfolio manager. Investment performance is calculated for 1-, 3-, and 5-year periods measured against the applicable product benchmark (*e.g.*, a securities index and, with respect to a fund, the benchmark set forth in the fund s Prospectus) and relative to applicable industry peer groups. The greatest weight is generally placed on 3- and 5-year performance.

Appropriate risk positioning that is consistent with the investment philosophy and the Investment Committee/CIO approach to generation of alpha;

Overall firm profitability and performance;

Amount and nature of assets managed by the portfolio manager;

Contributions for asset retention, gathering and client satisfaction;

Contribution to mentoring, coaching and/or supervising;

Contribution and communication of investment ideas in the Investment Committee meetings and on a day to day basis;

Market compensation survey research by independent third parties

Potential Conflicts of Interest

Potential conflicts of interest may arise when the fund s portfolio manager also has day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the fund s portfolio manager.

The manager and the fund have adopted compliance polices and procedures that are designed to address various conflicts of interest that may arise for the manager and the individuals that each employs. For example, the manager seeks to minimize the effects of competing interests for the time and attention of the portfolio manager by assigning the portfolio manager to manage funds and accounts that share a similar investment style. The manager has also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the manager and the fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear. These potential conflicts include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund s ability to take full advantage of the investment opportunity.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

Selection of Broker/Dealers. Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide brokerage and research services (as those terms are defined in Section 28(e) of the 1934 Act), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the sub-adviser determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts managed. For this reason, a brokerage committee reviews, among other things, the allocation of brokerage to broker/dealers, best execution and soft dollar usage.

Variation in Compensation. A conflict of interest may arise where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the manager s management fee and/or the portfolio manager s compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/ or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the manager and/or its affiliates have interests. Similarly, the desire to maintain assets under management or to enhance the portfolio manager s performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

Related Business Opportunities. The manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the manager and its affiliates.

(a)(4): *Portfolio Manager Securities Ownership*

The table below identifies the dollar range of securities beneficially owned by the portfolio manager as of December 31, 2013.

Portfolio Manager	Dollar Range of Portfolio Securities Beneficially Owned
Mark McAllister	$10,001-50,000
John Baldi	None

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not Applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a- 3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

LMP Real Estate Income Fund Inc.

By: /s/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: February 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: February 25, 2014

By: /s/ Richard F. Sennett
Richard F. Sennett
Principal Financial Officer

Date: February 25, 2014

:10pt;">$
(0.56
)
Discontinued operations
0.15

—

0.15

Total
$
2.78

$
3.19

$
(0.41

)
Weighted-average limited partner units outstanding
65,018,301

62,946,987

2,071,314

Annual Highlights
Net income decreased $17.4 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to a decrease in other income, partially offset by income from discontinued operations. In addition, segment operating income decreased $7.1 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, due to decreased operating income from the asphalt and fuels marketing and transportation segments, partially offset by increased operating income from the storage segment. However, consolidated operating income remained flat as the decrease in segment operating income was offset by lower general and administrative expenses.

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

	Year Ended December 31,		
	2011	2010	Change
Storage:			
Throughput (barrels/day)	693,269	669,435	23,834
Throughput revenues	$80,246	$75,605	$4,641
Storage lease revenues	486,525	444,233	42,292
Total revenues	566,771	519,838	46,933
Operating expenses	285,639	263,820	21,819
Depreciation and amortization expense	87,737	77,071	10,666
Segment operating income	$193,395	$178,947	$14,448
Transportation:			
Refined products pipelines throughput (barrels/day)	514,261	529,946	(15,685)
Crude oil pipelines throughput (barrels/day)	317,427	371,726	(54,299)
Total throughput (barrels/day)	831,688	901,672	(69,984)
Throughput revenues	$311,514	$316,072	$(4,558)
Operating expenses	113,946	116,884	(2,938)
Depreciation and amortization expense	51,165	50,617	548
Segment operating income	$146,403	$148,571	$(2,168)
Asphalt and Fuels Marketing:			
Product sales and other revenue	$5,455,659	$3,615,890	$1,839,769
Cost of product sales	5,205,574	3,371,854	1,833,720
Gross margin	250,085	244,036	6,049
Operating expenses	157,282	132,918	24,364
Depreciation and amortization expense	20,949	20,257	692
Segment operating income	$71,854	$90,861	$(19,007)
Consolidation and Intersegment Eliminations:			
Revenues	$(62,129)	$(48,739)	$(13,390)
Cost of product sales	(29,864)	(21,425)	(8,439)
Operating expenses	(32,213)	(27,590)	(4,623)
Total	$(52)	$276	$(328)
Consolidated Information:			
Revenues	$6,271,815	$4,403,061	$1,868,754
Cost of product sales	5,175,710	3,350,429	1,825,281
Operating expenses	524,654	486,032	38,622
Depreciation and amortization expense	159,851	147,945	11,906
Segment operating income	411,600	418,655	(7,055)
General and administrative expenses	(103,050)	(110,241)	7,191
Other depreciation and amortization expense	(6,738)	(5,857)	(881)
Consolidated operating income	$301,812	$302,557	$(745)

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Storage

Storage revenues increased $46.9 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to:

- an increase of $18.8 million from completed tank expansion projects at our St. Eustatius and St. James terminals;
- an increase of $8.7 million at our St. Eustatius facility mainly due to increased throughput and related handling fees, as well as new customer contracts, rate escalations and increased reimbursable revenues;
- an increase of $7.0 million across various domestic terminals due to rate escalations, new customer contracts, and increased reimbursable revenues;
- an increase of $6.4 million related to the Turkey Acquisition and the Asphalt Holdings Acquisition; and
- an increase of $5.1 million at our UK and Amsterdam terminals, primarily due to the effect of foreign exchange rates and new customer contracts.

Operating expenses increased $21.8 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to increased expenses at our St. Eustatius and UK terminals resulting from the increased activity discussed above, cancelled capital projects, the Turkey Acquisition and the Asphalt Holdings Acquisition.

Depreciation and amortization expense increased $10.7 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to the completion of various terminal upgrade and expansion projects, the Turkey Acquisition and the Asphalt Holdings Acquisition.

Transportation

Revenues decreased $4.6 million and throughputs decreased 69,984 barrels per day for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to:

- a decrease in revenues of $8.5 million and a decrease in throughputs of 32,395 barrels per day on our crude oil and refined product pipelines serving the Three Rivers refinery mainly due to a turnaround in 2011 and the customer receiving crude oil from alternate sources, thus reducing the volume transported on our crude oil pipeline;
- a decrease in revenues of $6.2 million and a decrease of 48,564 barrels per day on our pipelines serving the Ardmore refinery, mainly due to a turnaround in March and April 2011, followed by operational issues and a shift in supply volumes; and
- a decrease in revenues of $5.3 million and a decrease in throughputs of 18,453 barrels per day on the Houston pipeline mainly due to market conditions that favored exporting instead of shipping on our pipeline.

These decreases in revenues were partially offset by:

- an increase in revenues of $7.0 million and an increase in throughputs of 14,891 barrels per day on pipelines serving the McKee refinery, mainly due to increased crude run rates in 2011 resulting from more favorable economic conditions compared to 2010, as well as operational issues and turnaround activity at the refinery in 2010;
- an increase in revenues of $4.6 million and an increase in throughputs of 19,660 barrels per day on two reactivated pipelines in South Texas due to increased activity in the Eagle Ford Shale region; and
- an increase in revenues of $4.5 million and an increase in throughputs of 4,349 barrels per day on the North Pipeline, mainly due to turnaround activity during the second quarter of 2010 at the refinery served by the pipeline.

Asphalt and Fuels Marketing

Sales and cost of product sales increased $1,839.8 million and $1,833.7 million, respectively, resulting in an increase in total gross margin of $6.0 million for the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in total gross margin was primarily due to an increase of $35.0 million in the gross margin from our fuels marketing operations resulting from increased volumes and higher sales prices in 2011 for our crude trading, fuel oil trading and bunker fuel sales.

These increases in gross margin were partially offset by a decrease of $28.9 million in the gross margin from our asphalt operations, mainly due to a decrease in sales volumes, as well as a lower gross margin per barrel. Volumes decreased in 2011 due to weak demand for asphalt in our market. Midwest refiners, which had access to lower cost crude oil, sold lower-priced asphalt in our market, which contributed to the decrease in volumes and gross margin per barrel. The gross margin per barrel for our asphalt operations decreased to $7.49 for the year ended December 31, 2011, compared to $7.73 for the year ended December 31, 2010.

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Operating expenses increased $24.4 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to higher idle capacity costs at our asphalt refineries and increased rental expenses resulting mainly from additional tank rentals.

Depreciation and amortization expense increased $0.7 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due the amortization of deferred costs related to completed turnarounds at our asphalt refineries.

Consolidation and Intersegment Eliminations

Revenue, cost of product sales and operating expense eliminations primarily relate to storage and transportation fees charged to the asphalt and fuels marketing segment by the transportation and storage segments. The increases in consolidation and intersegment eliminations for the year ended December 31, 2011, compared to the year ended December 31, 2010, were mainly due to higher additional tank rentals by the asphalt and fuels marketing segment from the storage segment.

General

General and administrative expenses decreased $7.2 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to lower compensation expense associated with our long-term incentive plans, which fluctuates with our unit price.

Interest expense, net increased $3.4 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, mainly due to the issuance of $450.0 million of 4.80% senior notes in August 2010, which was partially offset by a lower weighted-average pay rate on our fixed-to-floating interest rate swaps.

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

	Year Ended December 31,	
	2011	2010
	(Thousands of Dollars)	
Storage agreement early termination costs	$(5,000)	$—
Contingent loss adjustment	(3,250)	—
Gain from insurance recoveries	—	13,500
Gain (loss) from sale or disposition of assets	209	(510)
Foreign exchange gains (losses)	2,078	(1,507)
Other, net	2,620	4,451
Other (expense) income, net	$(3,343)	$15,934

For the year ended December 31, 2011, “Other (expense) income, net” included $5.0 million in costs associated with the early termination of a third-party storage agreement at our Paulsboro, New Jersey asphalt refinery. The gain from insurance recoveries for the year ended December 31, 2010 resulted from insurance claims related to damage primarily at our Texas City, Texas terminal caused by Hurricane Ike in 2008.

Income tax expense increased $5.0 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, mainly due to the reversal of a deferred tax asset valuation allowance in 2010. The receipt of $13.5 million in insurance proceeds in 2010 related to Hurricane Ike and the Asphalt Holdings Acquisition caused us to reevaluate the recorded valuation allowance related to certain net operating loss carryforwards previously expected to expire unused. In addition, income tax expense in 2011 increased as a result of higher taxable income subject to the Texas Margins Tax.

Income from discontinued operations is associated with the San Antonio Refinery, which we acquired in April 2011 and sold on January 1, 2013. The San Antonio Refinery contributed $18.6 million in gross margin, which included $16.4 million in hedge gains. During the fourth quarter of 2011, we decided to adjust the refinery’s operations, which caused a shift in the future production yields of the San Antonio Refinery. This change caused certain forecasted sales of gasoline products to be replaced with distillate sales; therefore, we concluded these forecasted gasoline sales were probable not to occur, and we discontinued cash flow hedging treatment for the related commodity contracts. We recorded gains of $16.4 million related to these contracts for the year ended December 31, 2011.

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TRENDS AND OUTLOOK

We expect our operating income for 2013 to be higher than 2012 in each of our three reporting segments.

Storage Segment

We expect storage segment earnings for the first half of 2013 to be less than the comparable period of 2012. Higher earnings from completed projects at our St. James and St. Eustatius terminals should be more than offset by lower revenues at various other terminals, higher maintenance expenses and the effect of turnarounds at refineries served by our storage segment. However, we expect the full year benefit of these St. James and St. Eustatius projects plus the projected fourth quarter completion of several construction projects will produce full-year 2013 results that are higher than 2012 results. We expect to see benefit from tank expansion projects already completed at our St. Eustatius terminal in the Caribbean, as well as our St. James, Louisiana terminal. In addition, we expect to benefit from a full year's results from an internal growth project completed at our St. James, Louisiana terminal in 2012.

Pipeline Segment

In 2013, we expect earnings for the pipeline segment (formerly known as the transportation segment) to be higher than 2012. Increased crude oil pipeline throughputs as a result of the Eagle Ford Shale projects completed in 2012 and benefits from our acquisition of crude assets from TexStar Midstream Services, LP and certain of its affiliates, should contribute to higher earnings.

On February 18, 2013, we received a letter from TexStar that purports to terminate the rights of the parties to proceed to a closing on our acquisition of the natural gas liquids pipeline and fractionation assets. We do not believe TexStar has the legal right to terminate the asset purchase agreement, and we notified them of our position on February 21, 2013. We are evaluating all of our legal options. While the natural gas liquids pipeline and fractionation assets present opportunities for NuStar, if we do not complete the acquisition, we do not expect that to have a material adverse impact on our results of operations.

Asphalt and Fuels Marketing Segment

We completed the sale of 50% of the Asphalt Operations in the third quarter of 2012. Upon closing of the sale, we deconsolidated the Asphalt Operations and we will prospectively report our remaining investment using the equity method of accounting. Due to our remaining ownership interest in the Asphalt Operations, we will not report those historic results of operations as discontinued operations. Therefore, our 2013 results of operations for this segment will not be comparable to the corresponding prior periods.

The first half of 2013 will present challenges, but we expect 2013 results for the fuels marketing operations to be higher than the results for 2012, primarily due to higher projected earnings from heavy fuel oil and bunker fuel marketing. However, due to the many factors affecting margins of these businesses, actual results may be higher or lower than what we currently forecast.

In 2013, in order to better reflect the current business in this segment, we plan to rename it as the “Fuels Marketing Segment.” We believe this name is a more accurate description of the operations that remain after our deconsolidation of the Asphalt Operations and the January 2013 sale of the San Antonio refinery.

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

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LIQUIDITY AND CAPITAL RESOURCES

General

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

Cash Flows for the Years Ended December 31, 2012, 2011 and 2010

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

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Net cash provided by (used in):			
Operating activities	$299,203	$94,468	$362,500
Investing activities	(345,800)	(443,254)	(300,215)
Financing activities	110,669	186,721	56,266
Effect of foreign exchange rate changes on cash	2,033	(1,559)	564
Net increase (decrease) in cash and cash equivalents	$66,105	$(163,624)	$119,115

Net cash provided by operating activities for the year ended December 31, 2012 was $299.2 million, compared to $94.5 million for the year ended December 31, 2011. For the year ended December 31, 2012, we reported a net loss of $227.2 million, compared to net income of $221.6 million for the year ended December 31, 2011. The net loss for the year ended December 31, 2012 included $271.8 million of non-cash asset impairment charges. In addition, working capital decreased by $90.2 million for the year ended December 31, 2012, compared to an increase of $265.5 million for the year ended December 31, 2011. Please refer to the Working Capital Requirements section below for a discussion of the changes in working capital. Cash flows from operating activities for the year ended December 31, 2012 also include an adjustment to net loss for a pre-tax, non-cash gain on a legal settlement of $28.7 million.

For the year ended December 31, 2012, net cash provided by operating activities, proceeds from long-term debt borrowings, net of repayments, proceeds from our issuance of common units and proceeds from the Asphalt Sale were used to fund our distributions to unitholders and our general partner, the TexStar Asset Acquisition and strategic and reliability capital expenditures.

Net cash provided by operating activities for the year ended December 31, 2011 was $94.5 million, compared to $362.5 million for the year ended December 31, 2010, primarily due to higher investments in working capital in 2011 compared to 2010. Our working capital increased by $265.5 million in 2011, compared to $6.9 million in 2010. The Working Capital Requirements section below discusses the reasons for the changes in working capital. Our significant investment in working capital in 2011 caused our cash generated from operations to fall short of our cash requirements for reliability capital expenditures and distributions. As a result, we utilized borrowings under our revolving credit agreement and Gulf Opportunity Zone revenue bonds, combined with cash on hand, to fund that shortfall, our strategic capital expenditures and acquisitions. We used the net proceeds of $324.0 million from our issuance of common units, including the general partner contribution to maintain its 2% general partner interest, to reduce outstanding borrowings under our revolving credit agreement.

For the year ended December 31, 2010, net cash provided by operating activities was used to fund distributions to unitholders and the general partner in the aggregate amount of $305.2 million and reliability capital expenditures. We used net proceeds of $245.2 million from our issuance of common units, including the general partner contribution to maintain its 2% general partner interest, and the net proceeds of $445.4 million from the issuance of senior notes to reduce outstanding borrowings under our revolving credit agreement, fund the Asphalt Holdings Acquisition and fund our strategic capital expenditures. Cash flows from investing activities also included insurance proceeds of $13.5 million related to damages caused by Hurricane Ike in the third quarter of 2008 primarily at our Texas City terminal.

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Revolving Credit Agreement

On May 2, 2012, NuStar Logistics replaced its $1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement) with a new $1.5 billion five-year revolving credit agreement, as amended (the 2012 Revolving Credit Agreement), which includes the ability to borrow up to the equivalent of $250.0 million in Euros. NuStar Logistics used borrowings of $588.6 million under the 2012 Revolving Credit Agreement and cash on hand to repay in full the balance on the 2007 Revolving Credit Agreement. Obligations under the 2012 Revolving Credit Agreement are guaranteed by NuStar Energy and NuPOP. NuPOP will be released from its guarantee of the 2012 Revolving Credit Agreement when it no longer guarantees NuStar Logistics public debt instruments.

The 2012 Revolving Credit Agreement contains customary restrictive covenants, including requiring us to maintain, as of the end of each rolling period, which consists of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2012 Revolving Credit Agreement) not to exceed 5.00-to-1.00. Moreover, if we consummate an acquisition for an aggregate net consideration of at least $50.0 million, the maximum consolidated debt coverage ratio will increase to 5.50-to-1.00 for two rolling periods. As of December 31, 2012, our consolidated debt coverage ratio could not exceed 5.50-to-1.00, as a result of the TexStar Asset Acquisition. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the 2012 Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of December 31, 2012, our consolidated debt coverage ratio was 5.0x, and we had $780.6 million available for borrowing.

The 2012 Revolving Credit Agreement permits unlimited investments in joint ventures and unconsolidated subsidiaries, provided that no default exists, but limits the amount of cash distributions for such joint ventures and unconsolidated subsidiaries included in the calculation of the consolidated debt coverage ratio to 20% of consolidated EBITDA. In addition, the 2012 Revolving Credit Agreement provided that we would be in compliance with the consolidated debt coverage ratio as long as it did not exceed 6.50-to-1.00 for the rolling period ended June 30, 2012 or 6.00-to-1.00 for the rolling period ending September 30, 2012. The 2012 Revolving Credit Agreement further stipulates that if the Asphalt Operations were owned by an unconsolidated joint venture, the maximum allowed consolidated debt coverage would revert to 5.00-to-1.00, unless we consummated an acquisition, as discussed above.

Please refer to Note 13 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for a more detailed discussion on certain of our long-term debt agreements.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, where our St. James, Louisiana, terminal is located, issued Revenue Bonds (NuStar Logistics, L.P. Project) Series 2008, Series 2010, Series 2010A, Series 2010B and Series 2011 associated with our St. James terminal expansion pursuant to the Gulf Opportunity Zone Act of 2005 (Gulf Opportunity Zone Revenue Bonds). The interest rate on these bonds is based on a weekly tax-exempt bond market interest rate, and interest is paid monthly. Following the issuance, the proceeds were deposited with a trustee and will be disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansion. The amount remaining in trust is included in “Other long-term assets, net,” and the amount of bonds issued is included in “Long-term debt, less current portion” in our consolidated balance sheets.

NuStar Logistics is solely obligated to service the principal and interest payments associated with the bonds. Certain lenders under our 2012 Revolving Credit Agreement issued letters of credit on our behalf to guarantee the payment of interest and principal on the bonds. These letters of credit rank equally with existing senior unsecured indebtedness of NuStar Logistics.

The following table summarizes Gulf Opportunity Zone Revenue Bonds outstanding as of December 31, 2012:

Date Issued	Maturity Date	Amount Outstanding	Amount of Letter of Credit		Amount Received from Trustee	Amount Remaining in Trust	Average Annual Interest Rate	
		(Thousands of Dollars)						
June 26, 2008	June 1, 2038	$55,440	$56,169		$ 55,440	$—	0.17	%
July 15, 2010	July 1, 2040	100,000	101,315	(a)	100,000	—	0.17	%
October 7, 2010	October 1, 2040	50,000	50,658		24,580	25,420	0.17	%

December 29, 2010	December 1, 2040	85,000	86,118	24,481	60,519	0.17	%
August 29, 2011	August 1, 2041	75,000	76,085	34,381	40,619	0.17	%
	Total	$365,440	$370,345	$ 238,882	$126,558		

(a) On June 6, 2012, NuStar Logistics entered into a Letter of Credit Agreement with Mizuho Corporate Bank, Ltd., pursuant to which Mizuho issued a letter of credit in the amount of $101.3 million to the trustee associated with this bond issuance. This letter of credit ranks equally with existing senior unsecured indebtedness of NuStar Logistics but does not restrict the

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amount we can borrow under the 2012 Revolving Credit Agreement.

Shelf Registration Statements and Issuance of Common Units

Our shelf registration statement on Form S-3 became effective on May 13, 2010, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP (the 2010 Shelf Registration Statement). We also have a shelf registration statement on Form S-3 that was effective on April 29, 2011 (the 2011 Shelf Registration Statement). The 2011 Shelf Registration Statement permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP, having an aggregate value of up to $200.0 million.

On September 10, 2012, we issued 7,130,000 common units representing limited partner interests at a price of $48.94 per unit. We used the net proceeds from this offering of $343.9 million, including a contribution of $7.1 million from our general partner to maintain its 2% general partner interest, for general partnership purposes, including repayments of outstanding borrowings under our 2012 Revolving Credit Agreement and working capital purposes.

On December 9, 2011, we issued 6,037,500 common units representing limited partner interests at a price of $53.45 per unit. We used the net proceeds from this offering of $318.0 million, including a contribution of $6.6 million from our general partner to maintain its 2% general partner interest, mainly to reduce outstanding borrowings under our 2007 Revolving Credit Agreement.

On May 23, 2011, in connection with the 2011 Shelf Registration Statement, we entered into an Equity Distribution Agreement (the Equity Distribution Agreement) with Citigroup Global Markets Inc. (Citigroup). Under the Equity Distribution Agreement, we may from time to time sell an aggregate of up to $200.0 million NuStar Energy common units representing limited partner interests, using Citigroup as our sales agent. Sales of common units will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, in block transactions or as otherwise agreed by us and Citigroup. Under the terms of the Equity Distribution Agreement, we may also sell common units to Citigroup as principal for its own account at a price to be agreed upon at the time of sale. In September and October 2011, we sold 108,029 NuStar Energy common units under the Equity Distribution Agreement for net proceeds of $6.0 million, including a contribution of $0.1 million from our general partner to maintain its 2% general partner interest.

On May 19, 2010, we issued 4,400,000 common units representing limited partner interests at a price of $56.55 per unit. We used the net proceeds from this offering of $245.2 million, including a contribution of $5.1 million from our general partner to maintain its 2% general partner interest, mainly to reduce outstanding borrowings under our 2007 Revolving Credit Agreement and for the Asphalt Holdings Acquisition.

If the capital markets become more volatile, our access to the capital markets may be limited, or we could face increased costs.

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

Capital Requirements

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

- reliability capital expenditures, such as those required to maintain equipment reliability and safety; and
- strategic capital expenditures, such as those to expand and upgrade pipeline capacity or terminal facilities and to construct new pipelines, terminals and storage tanks. In addition, strategic capital expenditures may include acquisitions of pipelines, terminals or storage tank assets, as well as certain capital expenditures related to

support functions.

During the year ended December 31, 2012, our reliability capital expenditures totaled $39.5 million, consisting of $36.9 million primarily related to maintenance upgrade projects at our terminals, which are classified as "Reliability capital expenditures" in the consolidated statements of cash flows, and $2.6 million of turnaround expenditures at our San Antonio Refinery, which are classified as "Investment in other long-term assets" in our consolidated statements of cash flows. Strategic capital expenditures for the year ended December 31, 2012 totaled $373.7 million and were primarily related to projects in the Eagle Ford Shale region in South Texas, at our St. James, Louisiana and St. Eustatius terminals and at our corporate office.

For 2013, we expect to incur approximately $475.0 million to $645.0 million of capital expenditures, including approximately $35.0 million to $45.0 million for reliability capital projects and $440.0 million to $600.0 million for strategic capital expenditures, not including acquisitions. We continue to evaluate our capital budget and make changes as economic conditions warrant. Depending upon current economic conditions, our actual capital expenditures for 2013 may exceed or be lower than

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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 2013, and our internal growth projects can be accelerated or scaled back depending on the capital markets.

Working Capital Requirements

The Asphalt Operations, which we deconsolidated as of September 28, 2012, required us to make substantial investments in working capital. Increases in the prices of the commodities we purchased caused our working capital requirements to increase, which reduced our liquidity. Our working capital requirements varied with fluctuations in commodity prices and the seasonal nature of asphalt demand as we built and stored asphalt inventories during periods of lower demand in order to sell it during periods of higher demand. This seasonal variance in demand also affected our accounts receivable and accounts payable balances, which vary depending on timing of payments.

Within working capital, our inventory balances decreased by $112.6 million during the year ended December 31, 2012,
compared to an increase of $160.1 million during the year ended December 31, 2011, due to a decrease in crude oil purchases related to the Asphalt Operations and decreases in bunker fuel sales as we reduced the scope of our bunker fuel operations in certain markets in 2012. In addition, accounts receivable decreased by $160.4 million during the year ended December 31, 2012, compared to an increase of $231.0 million during the year ended December 31, 2011, mainly due to decreases in bunker fuel sales in 2012. Higher inventory balances would typically also result in higher amounts of accounts payable, offsetting the impact to working capital. During the year ended December 31, 2012, accounts payable decreased $43.5 million, consistent with the decrease in inventory during the period.

The receivable from related parties increased by $113.0 million during the year ended December 31, 2012, primarily due to a receivable from Asphalt JV of $109.4 million as of December 31, 2012, mainly associated with a crude oil supply agreement. Please refer to the Related Party Transactions section below for a discussion of agreements with the Asphalt JV.

During the year ended December 31, 2011, our inventory balances increased by $160.1 million, compared to $26.6 million during the year ended December 31, 2010, mainly due to rising crude oil prices in 2011. In addition, inventory volumes increased in 2011 primarily due to increased heavy fuel trading activity. In addition, accounts receivable increased by $231.0 million during the year ended December 31, 2011, compared to $90.4 million during the year ended December 31, 2010, mainly due to higher overall sales, resulting mainly from increased crude and heavy fuel trading activity and the San Antonio Refinery Acquisition.

Higher inventory balances would typically also result in higher amounts of accounts payable, offsetting the impact to working capital. In 2011, accounts payable increased $140.9 million, compared to $81.0 million in 2010, partially offsetting the increase in inventory. With respect to our contango and asphalt winterfill strategies, we typically paid for the inventory prior to selling it. Due to the potential for this discrepancy in timing between paying for and selling our inventory, increases in our accounts payable will not always offset increases in our inventory balances within our working capital. As a result, the volume of inventory we maintained and the average cost of those inventories associated with our contango and asphalt winterfill strategies would significantly affect our working capital requirements.

The Asphalt JV requires significant amounts of working capital to conduct its business. NuStar Logistics agreed to provide an unsecured credit facility to the Asphalt JV to fund working capital loans to the Asphalt JV in an aggregate principal amount not to exceed $250.0 million. We have agreed to provide guarantees or credit support, as applicable, of up to $150.0 million under operating contracts related to the Asphalt Operations. We believe that the Asphalt JV's current sources of capital are adequate to meet the Asphalt JV's working capital needs. However, if the Asphalt JV's working capital needs increase more than anticipated, we may be forced to seek additional sources of capital, which may not be available or available on commercially reasonable terms.

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."

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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,		
	2012	2011	2010
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	$7,486	$6,630	$6,227
General partner incentive distribution	41,242	36,326	33,304
Total general partner distribution	48,728	42,956	39,531
Limited partners’ distribution	325,526	288,550	271,847
Total cash distributions	$374,254	$331,506	$311,378
Cash distributions per unit applicable to limited partners	$4.380	$4.360	$4.280

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.

In February 2013, we declared a quarterly cash distribution of $1.095 that was paid on February 14, 2013 to unitholders of record on February 11, 2013. This distribution related to the fourth quarter of 2012 and totaled $98.1 million, of which $12.8 million represented our general partner’s interest and incentive distribution.

Debt Obligations

As of December 31,2012, we were a party to the following debt agreements:

- the 2012 Revolving Credit Agreement due May 2, 2017, with a balance of $440.3 million as of December 31, 2012;
- NuStar Logistics’ 6.05% senior notes due March 15, 2013 with a face value of $229.9 million; 7.65% senior notes due April 15, 2018 with a face value of $350.0 million; 4.80% senior notes due September 1, 2020 with a face value of $450.0 million; and 4.75% senior notes due February 1, 2022 with a face value of $250.0 million
- NuPOP’s 5.875% senior notes due June 1, 2013 with a face value of $250.0 million;
- NuStar Logistics’ $365.4 million Gulf Opportunity Zone Revenue Bonds due from 2038 to 2041;
- the £21 million term loan due December 10, 2013 (the UK Term Loan); and
- the $12.0 million note payable in annual installments through December 31, 2015 to the Port of Corpus Christi Authority of Nueces County, Texas, with a balance of $0.6 million as of December 31, 2012, associated with the construction of a crude oil storage facility in Corpus Christi, Texas (Port Authority of Corpus Christi Note Payable).

Management believes that, as of December 31, 2012, we are in compliance with all ratios and covenants of both the 2012 Revolving Credit Agreement and the UK Term Loan, which has substantially the same covenants as the 2012 Revolving Credit Agreement. Our other long-term debt obligations do not contain any financial covenants that differ from those contained in the 2012 Revolving Credit Agreement. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments.

Please refer to Note 13 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for a more detailed discussion of our debt agreements.

Credit Ratings

The following table reflects the current outlook and ratings that have been assigned to the debt of our wholly owned subsidiaries:

	Standard & Poor’s	Moody’s Investor Service	Fitch
Ratings	BB+	Ba1	BB
Outlook	Stable	Stable	Stable

In July 2012, Standard & Poor’s (S&P) lowered our credit rating to BB+ from BBB- and revised the outlook to Stable. In January 2013, Moody’s Investor Service (Moody’s) lowered our credit rating to Ba1 from Baa3 and held the outlook stable. In

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2012, Fitch Ratings lowered our credit rating to BB from BBB- and revised the outlook to Stable.

The interest rates applicable to the 2012 Revolving Credit Agreement do not adjust unless both S&P and Moody's change their ratings; therefore, the interest rate on the 2012 Revolving Credit Agreement increased by 0.375% effective January 2013. The interest rate on NuStar Logistics' $350.0 million of 7.65% senior notes increased by 0.25% in July 2012 as a result of the S&P downgrade and by another 0.25% in January 2013 as a result of the Moody's downgrade. The downgrade by Moody's also caused the interest rate on the UK Term Loan to increase by 0.375% effective January 2013. These downgrades may also require us to provide additional credit support for certain contracts.

Interest Rate Swaps

As of December 31, 2012 and 2011, we were a party to forward-starting swap agreements for the purpose of hedging interest rate risk. As of December 31, 2011, we were also a party to fixed-to-floating interest rate swap agreements for the purpose of hedging interest rate risk. The following table aggregates information about our interest rate swaps agreements:

	Notional Amount		Fair Value	
	December 31,		December 31,	
	2012	2011	2012	2011
	(Thousands of Dollars)			
Type of interest rate swap agreements:				
Fixed-to-floating	$—	$270,000	$—	$2,335
Forward-starting	$275,000	$500,000	$(40,911)	$(49,199)

Please refer to Note 2 and Note 17 of the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for a more detailed discussion on our interest rate swaps.

Long-Term Contractual Obligations

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, 2012:

	Payments Due by Period						
	2013	2014	2015	2016	2017	Thereafter	Total
	(Thousands of Dollars)						
Long-term debt maturities	$514,651	$—	$—	$—	$440,330	$1,415,440	$2,370,421
Interest payments	73,020	57,927	57,927	57,927	52,869	90,154	389,824
Operating leases	39,448	31,718	26,194	22,344	18,717	97,135	235,556
Purchase obligations:							
Crude oil	2,375,412	2,375,412	593,854	—	—	—	5,344,678
Other purchase obligations	7,191	6,242	3,264	2,736	432	216	20,081

Long-term debt maturities in the table represent our scheduled future maturities of long-term debt principal for the periods indicated. We have $514.7 million of debt maturing in 2013, which we intend to refinance with borrowings under our 2012 Revolving Credit Agreement or other sources of capital, pending market conditions.

The interest payments calculated for our variable-rate debt are based on the outstanding borrowings and the interest rate as of December 31, 2012. The interest payments on our fixed-rate debt are based on the stated interest rates, the outstanding balances as of December 31, 2012 and interest payment dates.

Our operating leases consist primarily of leases for tugs and barges utilized at our St. Eustatius and Point Tupper facilities and land leases at various terminal facilities.

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 crude oil purchase obligations consist of a crude supply agreement to purchase an annual average of 75,000 barrels per day of crude oil over a minimum seven-year period from an affiliate of Petróleos de Venezuela S. A.

(PDVSA), the national oil company of Venezuela. The value of this crude oil purchase obligation fluctuates according to a market-based pricing formula

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using published market indices, subject to adjustment per the agreement. We estimated the value of the crude oil purchase obligation based on market prices as of December 31, 2012.

Simultaneously with the Asphalt Sale, we entered into a crude oil supply agreement with Asphalt JV (the Asphalt JV Crude Oil Supply Agreement) that commits Asphalt JV to purchase from us in a given year the lesser of (i) the number of barrels of crude oil required to be purchased by us from PDVSA under the PDVSA Crude Oil Supply Agreement for such year or (ii) 35,000 barrels per day of crude oil multiplied by the number of days in such year. The price for the crude oil under this agreement will be the actual price paid by us to PDVSA under the PDVSA Crude Oil Supply Agreement and will include any credits received or adjustments made. The Asphalt JV Crude Oil Supply Agreement is effective for the term of the PDVSA Crude Oil Supply Agreement.

We entered into a crude purchase agreement with Statoil Brasil Oleo E Gas Limitada on November 17, 2010, which committed us to purchase an average of 10,000 barrels per day of crude oil over a three-year period, beginning in December 2011. We terminated this agreement in the fourth quarter of 2012.

Environmental, Health and Safety

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

The balance of and changes in our accruals for environmental matters as of and for the years ended December 31, 2012 and 2011 are included in Note 14 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.

Contingencies

We are subject to certain loss contingencies, the outcomes of which could have an adverse effect on our cash flows and results of operations, as further disclosed in Note 15 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplemental Data.”

RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Revenues	$5,380	$1,039	$—
Operating expenses	$139,178	$144,274	$137,634
General and administrative expenses	$62,490	$66,220	$71,554
Interest income	$1,219	$—	$—
Expenses included in discontinued operations, net of tax	$8,804	$6,288	$—

NuStar GP, LLC

Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under the services agreement described below employees of NuStar GP, LLC provide services to both NuStar Energy and NuStar GP Holdings; therefore, we reimburse NuStar GP, LLC for all costs related to its employees, other than costs associated with NuStar GP Holdings.

NuStar Energy and NuStar GP, LLC entered into a services agreement effective January 1, 2008 (the GP Services Agreement). On July 19, 2006, we entered into a non-compete agreement with NuStar GP Holdings, Riverwalk Logistics, L.P., and NuStar GP, LLC effective on December 22, 2006 (the Non-Compete Agreement). Please refer to Note 18 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for a more detailed discussion of agreements with NuStar GP Holdings.

We had a payable to NuStar GP, LLC of $1.4 million and $6.7 million as of December 31, 2012 and 2011, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of December 31, 2012 and 2011 of $18.1 million and $14.5 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

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Asphalt JV

In connection with the Asphalt Sale, we provided an unsecured revolving credit facility that will be available to fund working capital needs and for general purposes of Asphalt JV in an aggregate principal amount not to exceed $250.0 million for a term of seven years. The NuStar JV Facility matures on September 28, 2019 and bears interest based on either an alternative base rate or a LIBOR-based rate. We recognize interest income over the term of the facility in "Interest expense, net" on the consolidated statements of comprehensive income. As of December 31, 2012, the interest rate was 2.8%. In the event NuStar Energy no longer owns an equity interest in Asphalt JV, the interest rate increases and the availability under the NuStar JV Facility is reduced to a maximum of $167.0 million after two years and $83.0 million after three years. On December 31, 2012, our note receivable from Asphalt JV totaled $95.7 million under the NuStar JV Facility.

In addition, during the term of the NuStar JV Facility, NuStar Energy will provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. As of December 31, 2012, NuStar Energy has provided guarantees for commodity purchases, lease obligations and certain utilities for Asphalt JV with a maximum potential exposure of $137.1 million. In addition, NuStar has provided two guarantees to suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. A majority of the guarantees were in existence prior to the Asphalt Sale and have no expiration date. In the event NuStar Energy must fund its obligation under these guarantees, that amount will be added to borrowings under the NuStar JV Facility, but it will not reduce the availability under the NuStar Facility.

Also, as of December 31, 2012, we had a receivable from Asphalt JV of $109.4 million mainly associated with crude oil sales under our crude oil supply agreement with Asphalt JV. Please refer to Note 18 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a detailed discussion of our other related party transactions with Asphalt JV

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, plant and equipment. Due to the expected long useful lives of our property, plant and equipment, we depreciate our property, plant and equipment over periods ranging from 10 years to 40 years. Changes in the estimated useful lives of our property, plant 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.

We perform an assessment of goodwill annually or more frequently if events or changes in circumstances indicate that the related asset might be impaired. Our qualitative annual assessment includes, among other things, industry and market considerations, overall financial performance, other entity-specific events and events affecting individual reporting units. If after assessing the totality of events or circumstances for each reporting unit, we determine that it is more likely than not that the carrying value exceeds its fair value amount, then an impairment test is performed on that reporting unit.

The goodwill assessment and, if necessary, the impairment test is performed for each reporting unit to which goodwill has been allocated, consisting of the following:

- crude oil pipelines;
- refined product pipelines;
- refined product terminals, excluding our St. Eustatius and Point Tupper facilities;
- St. Eustatius and Point Tupper terminal operations; and
- bunkering activity at our St. Eustatius and Point Tupper facilities.

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

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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 for the qualitative analysis and, if necessary, to test for recoverability and to determine fair value, significant impairment charges could result in the future, thus affecting our future reported net income.

Derivative Financial Instruments

We utilize various derivative instruments to manage our exposure to commodity price risk and manage our exposure to interest rate risk. We record derivative instruments in the consolidated balance sheets at fair value, and apply hedge accounting when appropriate. We record changes to the fair values of derivative instruments in earnings for fair value hedges or as part of "Accumulated other comprehensive income" (AOCI) for the effective portion of cash flow hedges. We reclassify the effective portion of cash flow hedges from AOCI to earnings when the underlying forecasted transaction occurs or becomes probable not to occur. We recognize ineffectiveness resulting from our derivatives immediately in earnings. With respect to cash flow hedges, we must exercise judgment to assess the probability of the forecasted transaction, which, among other things, depends upon market factors and our ability to reliably operate our assets.

Environmental Liabilities

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. Environmental 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 laws and regulations may change in the future. 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. Due to the inherent uncertainty of litigation, actual amounts paid may differ from amounts estimated, and such differences will be charged to income in the period when final determination is made.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We manage our exposure to changing interest rates principally through the use of a combination of fixed-rate debt and variable-rate debt. In addition, we utilize fixed-to-floating interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt. We also enter into forward-starting interest rate swap agreements to lock in the rate on the interest payments related to forecasted debt issuances. Borrowings under the 2012 Revolving Credit Agreement and the Gulf Opportunity Zone Revenue Bonds expose us to increases in applicable interest rates.

The following tables provide information about our long-term debt and interest rate derivative instruments, all of which are sensitive to changes in interest rates. For long-term debt, principal cash flows and related weighted-average interest rates by expected maturity dates are presented. For our fixed-to-floating interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected (contractual) maturity dates. We had no fixed-to-floating interest rate swaps as of December 31, 2012. Weighted-average variable rates are based on implied forward interest rates in the yield curve at the reporting date.

	December 31, 2012							
	Expected Maturity Dates							
	2013	2014	2015	2016	2017	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$514,651	$—	$—	$—	$—	$1,050,000	$1,564,651	$1,601,985
Weighted-average interest rate	5.7 %	—	—	—	—	5.8 %	5.8 %	
Variable rate	$—	$—	$—	$—	$440,330	$365,440	$805,770	$775,135
Weighted-average interest rate	—	—	—	—	1.9 %	0.1 %	1.1 %	

	December 31, 2011							
	Expected Maturity Dates							
	2012	2013	2014	2015	2016	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$383,456	$479,932	$—	$—	$—	$800,000	$1,663,388	$1,787,532
Weighted-average interest rate	7.4 %	6.0 %	—	—	—	6.0 %	6.3 %	
Variable rate	$229,295	$—	$—	$—	$—	$365,440	$594,735	$590,033
Weighted-average interest rate	1.2 %	—	—	—	—	0.1 %	0.5 %	
Interest Rate Swaps								
Fixed-to-Floating:								
Notional amount	$—	$—	$—	$—	$—	$270,000	$270,000	$2,335
Weighted-average pay rate	3.2 %	3.4 %	3.7 %	4.4 %	4.9 %	5.7 %	4.7 %	
Weighted-average receive rate	4.8 %	4.8 %	4.8 %	4.8 %	4.8 %	4.8 %	4.8 %	

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

Notional Amount		Period of Hedge	Weighted-Average Fixed Rate	Fair Value	
December 31, 2012	December 31, 2011		December 31, 2012	December 31, 2012	December 31, 2011
(Thousands of Dollars)				(Thousands of Dollars)	
$125,000	$125,000	03/13 – 03/23	3.5%	$(18,921)	$(12,720)
150,000	150,000	06/13 – 06/23	3.5%	(21,990)	(14,470)
—	225,000		—	—	(22,009)
$275,000	$500,000		3.5%	$(40,911)	$(49,199)

Commodity Price Risk

Since the operations of our asphalt and fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to attempt to mitigate the effects of commodity price fluctuations. The derivative instruments we use consist primarily of commodity futures and swap contracts. Please refer to our derivative financial instruments accounting policy in Note 2 of Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplemental Data” for further information.

We have a risk management committee that oversees our trading controls and procedures and certain aspects of risk management. Our risk management committee also reviews all new risk management strategies in accordance with our risk management policy, which was approved by our board of directors.

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The commodity contracts disclosed below represent only those contracts exposed to commodity price risk at the end of the period. Please refer to Note 17 of Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplemental Data" for the volume and related fair value of all commodity contracts.

	December 31, 2012			
	Contract Volumes (Thousands of Barrels)	Weighted Average Pay Price	Weighted Average Receive Price	Fair Value of Current Asset (Liability) (Thousands of Dollars)
Fair Value Hedges:				
Futures – long:				
(refined products)	10	$127.47	N/A	$ (1)
Futures – short:				
(refined products)	55	N/A	$127.99	$ 36
Swaps – long:				
(refined products)	11	$97.76	N/A	$ 2
Swaps – short:				
(refined products)	36	N/A	$96.58	$ (51)
Economic Hedges and Other Derivatives:				
Futures – long:				
(crude oil and refined products)	88	$97.60	N/A	$ 202
Futures – short:				
(crude oil and refined products)	94	N/A	$100.13	$ (142)
Swaps – long:				
(crude oil and refined products)	5,196	$93.75	N/A	$ (2,329)
Swaps – short:				
(crude oil and refined products)	6,952	N/A	$94.43	$ (2,033)
Forward purchase contracts:				
(crude oil)	2,998	$100.03	N/A	$ 12,574
Forward sales contracts:				
(crude oil)	2,998	N/A	$99.68	$ (9,365)
Total fair value of open positions exposed to commodity price risk				$ (1,107)

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	December 31, 2011			
	Contract Volumes (Thousands of Barrels)	Weighted Average Pay Price	Weighted Average Receive Price	Fair Value of Current Asset (Liability) (Thousands of Dollars)
Fair Value Hedges:				
Futures – short:				
(refined products)	20	N/A	$ 121.65	$ (15)
Cash Flow Hedges:				
Swaps – long:				
(crude oil)	9,353	$ 106.69	N/A	$ (103,078)
Swaps – short:				
(refined products)	8,805	N/A	$ 127.97	$ 126,067
Economic Hedges and Other Derivatives:				
Futures – long:				
(crude oil and refined products)	643	$ 98.79	N/A	$ 919
Futures – short:				
(crude oil and refined products)	800	N/A	$ 101.77	$ (2,075)
Swaps – long:				
(refined products)	1,355	$ 97.25	N/A	$ (1,455)
Swaps – short:				
(refined products)	2,283	N/A	$ 101.20	$ 8,756
Forward purchase contracts:				
(crude oil)	2,294	$ 106.01	N/A	$ (1,803)
Forward sales contracts:				
(crude oil)	2,294	N/A	$ 105.20	$ 3,683
Total fair value of open positions exposed to commodity price risk				$ 30,999

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our management assessed the effectiveness of NuStar Energy L.P's internal control over financial reporting as of December 31, 2012. In its evaluation, management used the criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The effectiveness of internal control over financial reporting as of December 31, 2012 has been audited by KPMG LLP, the independent registered public accounting firm who audited our consolidated financial statements included in this Form 10-K. KPMG LLP's attestation on the effectiveness of our internal control over financial reporting appears on page 62.

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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. (a Delaware limited partnership) and subsidiaries (the Partnership) as of December 31, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2013 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

/s/ KPMG LLP
San Antonio, Texas
March 1, 2013

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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 NuStar Energy L.P. (a Delaware limited partnership) and subsidiaries' (the Partnership's) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NuStar Energy L.P. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NuStar Energy L.P. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 1, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
San Antonio, Texas
March 1, 2013

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

	December 31, 2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$83,602	$17,497
Accounts receivable, net of allowance for doubtful accounts of $808 and $2,147 as of December 31, 2012 and 2011, respectively	387,943	547,808
Receivable from related parties	109,833	—
Inventories	173,228	587,785
Income tax receivable	1,265	4,148
Other current assets	65,238	43,685
Assets held for sale	118,334	—
Total current assets	939,443	1,200,923
Property, plant and equipment, at cost	4,287,859	4,413,305
Accumulated depreciation and amortization	(1,049,399)	(982,837)
Property, plant and equipment, net	3,238,460	3,430,468
Intangible assets, net	92,435	38,923
Goodwill	951,024	846,717
Investment in joint ventures	102,945	66,687
Deferred income tax asset	3,108	9,141
Note receivable from related party	95,711	—
Other long-term assets, net	189,963	288,331
Total assets	$5,613,089	$5,881,190
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$286,422	$364,959
Accounts payable	397,633	454,326
Payable to related party	1,408	6,735
Accrued interest payable	23,741	29,833
Accrued liabilities	124,203	71,270
Taxes other than income tax	9,893	13,455
Income tax payable	2,671	3,222
Total current liabilities	845,971	943,800
Long-term debt, less current portion	2,124,582	1,928,071
Long-term payable to related party	18,071	14,502
Deferred income tax liability	32,114	35,437
Other long-term liabilities	7,356	95,045
Commitments and contingencies (Note 15)		
Partners' equity:		
Limited partners (77,886,078 and 70,756,078 common units outstanding as of December 31, 2012 and 2011, respectively)	2,573,263	2,817,069
General partner	57,986	62,539
Accumulated other comprehensive loss	(58,865)	(27,407)
Total NuStar Energy L.P. partners' equity	2,572,384	2,852,201
Noncontrolling interest	12,611	12,134

Total partners' equity	2,584,995	2,864,335
Total liabilities and partners' equity	$5,613,089	$5,881,190

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Services revenues:			
Third parties	$875,508	$833,770	$794,134
Related party	4,589	1,039	—
Total service revenues	880,097	834,809	794,134
Product sales:			
Third parties	5,074,788	5,437,006	3,608,927
Related party	791	—	—
Total product sales	5,075,579	5,437,006	3,608,927
Total revenues	5,955,676	6,271,815	4,403,061
Costs and expenses:			
Cost of product sales	4,930,174	5,175,710	3,350,429
Operating expenses:			
Third parties	403,586	380,380	348,398
Related party	139,178	144,274	137,634
Total operating expenses	542,764	524,654	486,032
General and administrative expenses:			
Third parties	42,266	36,830	38,687
Related party	62,490	66,220	71,554
Total general and administrative expenses	104,756	103,050	110,241
Depreciation and amortization expense	165,021	166,589	153,802
Asset impairment loss	249,646	—	—
Goodwill impairment loss	22,132	—	—
Gain on legal settlement	(28,738)	—	—
Total costs and expenses	5,985,755	5,970,003	4,100,504
Operating (loss) income	(30,079)	301,812	302,557
Equity in (loss) earnings of joint ventures	(9,378)	11,458	10,500
Interest expense, net	(90,889)	(81,727)	(78,280)
Interest income from related party	1,219	—	—
Other (expense) income, net	(26,511)	(3,343)	15,934
(Loss) income from continuing operations before income tax expense	(155,638)	228,200	250,711
Income tax expense	22,494	16,713	11,741
(Loss) income from continuing operations	(178,132)	211,487	238,970
(Loss) income from discontinued operations, net of tax	(49,105)	10,114	—
Net (loss) income	(227,237)	221,601	238,970
Less net (loss) income attributable to noncontrolling interest	(621)	140	—
Net (loss) income attributable to NuStar Energy L.P.	$(226,616)	$221,461	$238,970
Net (loss) income per unit applicable to limited partners:			
Continuing operations	$(2.95)	$2.63	$3.19
Discontinued operations	(0.66)	0.15	$—
Total (Note 22)	$(3.61)	$2.78	$3.19
Weighted-average limited partner units outstanding	72,957,417	65,018,301	62,946,987

See Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Thousands of Dollars)

	Year Ended December 31,		
	2012	2011	2010
Net (loss) income	$(227,237)	$221,601	$238,970
Other comprehensive (loss) income:			
Foreign currency translation adjustment, net of income tax expense of $414, $458 and $516	10,677	(18,431)	3,450
Net unrealized (loss) gain on cash flow hedges	(94,269)	(53,452)	33,560
Net loss (gain) reclassified into income on cash flow hedges	53,232	(5,030)	1,680
Total other comprehensive (loss) income	(30,360)	(76,913)	38,690
Comprehensive (loss) income	(257,597)	144,688	277,660
Less comprehensive income (loss) attributable to noncontrolling interest	477	(2,866)	—
Comprehensive (loss) income attributable to NuStar Energy L.P.	$(258,074)	$147,554	$277,660

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2012	2011	2010
Cash Flows from Operating Activities:			
Net (loss) income	$(227,237)	$221,601	$238,970
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	170,651	168,286	153,802
Amortization of debt related items	(7,016)	(12,392)	(7,767)
Loss (gain) on sale or disposition of assets, including insurance recoveries	26,902	(262)	(12,990)
Asset and goodwill impairment loss	271,778	—	—
Gain on legal settlement	(28,738)	—	—
Deferred income tax expense (benefit)	1,542	4,351	(1,733)
Equity in loss (earnings) of joint ventures	9,378	(11,458)	(10,500)
Distributions of equity in earnings of joint ventures	6,364	14,374	9,625
Changes in current assets and current liabilities (Note 23)	90,247	(265,453)	(6,867)
Other, net	(14,668)	(24,579)	(40)
Net cash provided by operating activities	299,203	94,468	362,500
Cash Flows from Investing Activities:			
Reliability capital expenditures	(36,903)	(41,349)	(50,562)
Strategic capital expenditures	(373,692)	(294,311)	(219,268)
Acquisitions	(315,810)	(100,690)	(43,026)
Investment in other long-term assets	(2,610)	(8,990)	(3,469)
Proceeds from sale or disposition of assets	42,650	2,086	2,610
Proceeds from sale of Asphalt Operations	436,276	—	—
Increase in note receivable from related party	(95,711)	—	—
Proceeds from insurance recoveries	—	—	13,500
Net cash used in investing activities	(345,800)	(443,254)	(300,215)
Cash Flows from Financing Activities:			
Proceeds from long-term debt borrowings	2,549,145	915,749	899,365
Proceeds from short-term debt borrowings	71,880	33,800	177,041
Proceeds from senior note offering, net of issuance costs	247,398	—	445,431
Long-term debt repayments	(2,648,475)	(768,150)	(1,204,313)
Short-term debt repayments	(71,880)	(33,800)	(197,041)
Proceeds from issuance of common units, net of issuance costs	336,415	317,285	240,148
Contributions from general partner	7,121	6,708	5,078
Distributions to unitholders and general partner	(365,279)	(322,046)	(305,154)
(Payments for) proceeds from termination of interest rate swaps	(5,678)	33,433	—
Other, net	(9,978)	3,742	(4,289)
Net cash provided by financing activities	110,669	186,721	56,266
Effect of foreign exchange rate changes on cash	2,033	(1,559)	564
Net increase (decrease) in cash and cash equivalents	66,105	(163,624)	119,115
Cash and cash equivalents as of the beginning of the period	17,497	181,121	62,006
Cash and cash equivalents as of the end of the period	$83,602	$17,497	$181,121

See Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
Years Ended December 31, 2012, 2011 and 2010
(Thousands of Dollars, Except Unit Data)

	Limited Partners						
	Units	Amount	General Partner	Accumulated Other Comprehensive Income (Loss)	Total NuStar Energy L.P. Partners' Equity	Noncontrolling Interest	Total Partners' Equity
Balance as of January 1, 2010	60,210,549	$2,423,689	$53,469	$ 7,810	$2,484,968	$ —	$2,484,968
Net income	—	201,553	37,417	—	238,970	—	238,970
Other comprehensive income	—	—	—	38,690	38,690	—	38,690
Cash distributions to partners	—	(266,517)	(38,637)	—	(305,154)	—	(305,154)
Issuance of common units, including contribution from general partner	4,400,000	240,148	5,078	—	245,226	—	245,226
Balance as of December 31, 2010	64,610,549	2,598,873	57,327	46,500	2,702,700	—	2,702,700
Acquisition	—	—	—	—	—	15,000	15,000
Net income	—	181,439	40,022	—	221,461	140	221,601
Other comprehensive loss	—	—	—	(73,907)	(73,907)	(3,006)	(76,913)
Cash distributions to partners	—	(280,528)	(41,518)	—	(322,046)	—	(322,046)
Issuance of common units, including contribution from general partner	6,145,529	317,285	6,708	—	323,993	—	323,993
Balance as of December 31, 2011	70,756,078	2,817,069	62,539	(27,407)	2,852,201	12,134	2,864,335
Net (loss) income	—	(262,502)	35,886	—	(226,616)	(621)	(227,237)
Other comprehensive (loss) income	—	—	—	(31,458)	(31,458)	1,098	(30,360)
Cash distributions to partners	—	(317,719)	(47,560)	—	(365,279)	—	(365,279)
Issuance of common	7,130,000	336,739	7,121	—	343,860	—	343,860

units, including contribution from general partner							
Other	—	(324)	—	—	(324)	—	(324)
Balance as of December 31, 2012	77,886,078	$2,573,263	$57,986	$ (58,865)	$2,572,384	$ 12,611	$2,584,995

See Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2012, 2011 and 2010

1. ORGANIZATION AND OPERATIONS

Organization

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. Unless otherwise indicated, the terms "NuStar Energy 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. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 15.0% total interest in us as of December 31, 2012.

Operations

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

Storage. We own terminal and storage facilities in the United States, Canada, Mexico, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom and Turkey providing approximately 83.2 million barrels of storage capacity. Our terminals provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including crude oil and other feedstocks.

Transportation. We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 5,484 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. The East and North Pipelines also include 21 terminals providing storage capacity of 4.9 million barrels, and the East Pipeline includes 2 tank farms providing storage capacity of 1.4 million barrels . In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 1,150 miles of crude oil pipelines in Texas, Oklahoma, Kansas, Colorado and Illinois, as well as associated crude oil storage facilities providing storage capacity of 2.5 million barrels 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.

Asphalt and Fuels Marketing. Our asphalt and fuels marketing segment includes our fuels marketing operations and, through September 28, 2012, our asphalt operations. Within our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. Our asphalt operations included two asphalt refineries with a combined throughput capacity of 104,000 barrels per day at which we refine crude oil to produce asphalt and certain other refined products, as well as terminal facilities with an aggregate storage capacity of 5.3 million barrels. On September 28, 2012, we sold a 50% ownership interest in NuStar Asphalt LLC, previously a wholly owned subsidiary, and started reporting our remaining investment using the equity method of accounting. Therefore, the results of our asphalt operations are reported in "Equity in (loss) earnings of joint ventures" in the consolidated statements of income and not within our segments beginning on September 28, 2012. See Note 5. Dispositions for additional discussion. In addition, in 2012, NuStar Asphalt LLC temporarily ceased refining operations at the Savannah facility and began to operate it as an asphalt terminal.

The activities of the asphalt and fuels marketing segment expose us to the risk of fluctuations in commodity prices, which has a direct impact on the results of operations for the asphalt and fuels marketing segment. We enter into derivative contracts to attempt to mitigate the effect of commodity price fluctuations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements represent the consolidated operations of the Partnership and our subsidiaries. Noncontrolling interests are separately disclosed on the financial statements. Inter-partnership balances and transactions have been eliminated in consolidation. The operations of certain pipelines and terminals in which we own an undivided interest are proportionately consolidated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles

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(GAAP) 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. Management may revise estimates due to changes in facts and circumstances.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash is cash held in escrow, pledged as collateral or restricted to use for vendor payables. As of December 31, 2012, restricted cash totaled $15.2 million and is included in "Other current assets" in the consolidated balance sheets.

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 crude oil, refined petroleum products, and material and supplies. Inventories, except those associated with a qualifying fair value hedge, are valued at the lower of cost or market. Cost is determined using the weighted-average cost method. Our inventory, other than materials and supplies, consists of one end-product category, petroleum products, which we include in the asphalt and fuels marketing segment. Accordingly, we determine lower of cost or market adjustments on an aggregate basis. Inventories associated with qualifying fair value hedges are valued at current market prices. Materials and supplies are valued at the lower of average cost or market.

Property, Plant and Equipment

We record additions to property, plant and equipment, including reliability and strategic capital expenditures, at cost. Reliability capital expenditures are 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 are capital expenditures to expand or upgrade the operating capacity, increase efficiency or increase the earnings potential of existing assets, whether through construction or acquisition, along with certain capital expenditures related to support functions. 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, plant 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 (expense) income, 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 in the year retired.

Goodwill and Intangible Assets

Goodwill acquired in a business combination is not amortized and is assessed for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. We use October 1 as our annual valuation date for our impairment assessment. In 2011, we adopted amended guidance that provides an option to first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. We assessed the totality of events and circumstances as of October 1, 2012 and determined that a quantitative goodwill impairment test was not necessary, and no goodwill impairment had occurred. We performed a quantitative goodwill impairment test as of October 1, 2010 and determined that no impairment had occurred.

Intangible assets are recorded at cost and are assets that lack physical substance (excluding financial assets). Our intangible assets are amortized on a straight-line basis over 10 to 47 years.

Investment in Joint Ventures

We account for our investment in the joint ventures using the equity method of accounting.
NuStar Asphalt LLC. On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary, to an affiliate of Lindsay Goldberg LLC, a private investment firm.

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

Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy, including the asphalt refineries located in Paulsboro, New Jersey and Savannah, Georgia. Upon closing, we deconsolidated Asphalt JV and started reporting our remaining investment in Asphalt JV using the equity method of accounting. See Note 5. Dispositions for additional discussion of the Asphalt Sale.

ST Linden Terminals, LLC. The 44-acre facility provides deep-water terminalling capabilities at New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. As part of our acquisition of Kaneb Pipeline Partners, L.P. and Kaneb Services LLC in July 2005 (the Kaneb Acquisition), we acquired an investment in ST Linden Terminals, LLC (Linden). Linden is owned 50% by the Partnership and 50% by NIC Holding Corp. In connection with the Kaneb Acquisition, we recorded our investment in Linden at fair value, which exceeded our 50% share of its members' equity. This excess totaled $43.0 million and $43.3 million as of December 31, 2012 and 2011, respectively, a portion of which is being amortized into expense over the average life of the assets held by Linden, or 25 years. The remaining balance not amortized represents goodwill of Linden.

Note Receivable from Related Party

The note receivable from related party consists of the amounts due to us from Asphalt JV under a $250.0 million unsecured revolving credit facility. The note receivable is recorded at the outstanding principal amount, and we recognize interest income ratably over the term of the facility in "Interest income from related party" on the consolidated statements of income. See Note. 18 Related Party Transactions for additional information on our agreements with Asphalt JV.

Other Long-Term Assets

"Other long-term assets, net" primarily include the following:

- funds deposited with a trustee related to revenue bonds issued by the Parish of St. James associated with our St. James terminal expansion (see Note 13. Debt for additional information on the Gulf Opportunity Zone Revenue Bonds);
- asphalt tank heel inventory and ammonia pipeline linefill;
- deferred financing costs amortized over the life of the related debt obligation using the effective interest method; and
- long-term derivative assets.

Impairment of Long-Lived Assets

We review long-lived assets, including property, plant and equipment and investment in joint ventures, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We perform the evaluation of recoverability using undiscounted estimated net cash flows generated by the related asset. If we deem an asset to be impaired, we determine the amount of impairment as the amount by which the net carrying value exceeds its fair value. We believe that the carrying amounts of our long-lived assets as of December 31, 2012 are recoverable.

Taxes Other than Income Taxes

Taxes other than income taxes include liabilities for ad valorem taxes, franchise taxes, sales and use taxes, excise fees and taxes and value added taxes.

Income Taxes

We are a limited partnership and generally are not subject to federal or state income taxes. Accordingly, our taxable income or loss, 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 our 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. We account for income taxes related to our taxable subsidiaries using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred taxes using enacted tax rates expected to apply to taxable income in the year those temporary differences are expected to be recovered or settled.

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

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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 had no unrecognized tax benefits as of December 31, 2012 and 2011.

NuStar Energy and 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 2008 through 2012 and for our major non-U.S. jurisdictions, tax years subject to examination are 2008 through 2012, both according to standard statute of limitations. NuStar has waived the statute of limitations for limited items for the tax years 2006 and 2007 as a result of an ongoing income tax audit in Canada.

Asset Retirement Obligations

We record a liability for asset retirement obligations at the fair value of the estimated costs 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, 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 an 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 costs of performing the retirement activities and record a liability for the fair value of these costs.

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 $0.6 million as of December 31, 2012 and 2011, which is included in “Other long-term liabilities” in the consolidated balance sheets, 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

We incur product imbalances as a result of variances in pipeline meter readings and volume fluctuations within the East Pipeline system due to pressure and temperature changes. We use quoted market prices as of the reporting date to value our assets and liabilities related to product imbalances. Product imbalance liabilities are included in “Accrued liabilities” and product imbalance assets are included in “Other current assets” in the consolidated balance sheets.

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 and tanks (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 received in or 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, crude oil and anhydrous ammonia. Transportation revenues (based on pipeline tariffs) are recognized as the refined product, crude oil or anhydrous ammonia is delivered out of the pipelines.

Revenues from the sale of asphalt and other 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.

We collect taxes on certain revenue transactions to be remitted to governmental authorities, which may include sales, use, value added and some excise taxes. These taxes are not included in revenue.

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

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting partners’ equity that are excluded from net income, such as foreign currency translation adjustments and mark-to-market adjustments on derivative instruments designated and qualifying as cash flow hedges.

Derivative Financial Instruments

We formally document all relationships between hedging instruments and hedged items. This process includes identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument’s effectiveness will be assessed. To qualify for hedge accounting, at inception of the hedge we assess whether the derivative instruments that are used in our hedging transactions are expected to be highly effective in offsetting changes in cash flows or the fair value of the hedged items. Throughout the designated hedge period and at least quarterly, we assess whether the derivative instruments are highly effective and continue to qualify for hedge accounting. To assess the effectiveness of the hedging relationship both prospectively and retrospectively, we use regression analysis to calculate the correlation of the changes in the fair values of the derivative instrument and related hedged item.

We record commodity derivative instruments in the consolidated balance sheets at fair value. We recognize mark-to-market adjustments for derivative instruments designated and qualifying as fair value hedges (Fair Value Hedges) and the related change in the fair value of the associated hedged physical inventory or firm commitment within “Cost of product sales.” For derivative instruments designated and qualifying as cash flow hedges (Cash Flow Hedges), we record the effective portion of mark-to-market adjustments as a component of “Accumulated other comprehensive income” (AOCI) until the underlying hedged forecasted transactions occur and are recognized in income. Any hedge ineffectiveness is recognized immediately in “Cost of product sales.” Once a hedged transaction occurs, we reclassify the effective portion from AOCI to “Cost of product sales.” If it becomes probable that a hedged transaction will not occur, then the associated gains or losses are reclassified from AOCI to “Cost of product sales” immediately. For derivative instruments that have associated underlying physical inventory but do not qualify for hedge accounting (Economic Hedges and Other Derivatives), we record the mark-to-market adjustments in “Cost of product sales” or “Operating expenses.”

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, which include forward-starting interest rate swap agreements related to forecasted probable debt issuances. Under the terms of these swap agreements, we pay a fixed rate and receive a rate based on three month USD LIBOR. We entered into the swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. We account for the forward-starting interest rate swaps as Cash Flow Hedges, and we recognize the fair value of each interest rate swap in the consolidated balance sheets. We record the effective portion of mark-to-market adjustments as a component of AOCI, and any hedge ineffectiveness is recognized immediately in “Interest expense, net.” The amount accumulated in AOCI will be

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amortized into “Interest expense, net” over the term of the forecasted debt.

We classify cash flows associated with our derivative instruments as operating cash flows in the consolidated statements of cash flows, except for receipts or payments associated with terminated forward-starting interest rate swap agreements, which are included in cash flows from financing activities.

In addition, we entered into fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes. Under the terms of these swap agreements, we received a fixed rate and paid a variable rate that varied with each agreement. We accounted for the fixed-to-floating interest rate swaps as Fair Value Hedges and recognized the fair value of each interest rate swap in the consolidated balance sheets. Except for one interest rate swap agreement we entered into and terminated in 2011, the interest rate swap agreements qualified for the shortcut method of accounting. As a result, changes in the fair value of the swaps completely offset the changes in the fair value of the underlying hedged debt. We terminated all remaining interest rate swaps during the year ended December 31, 2012.

From time to time, we also entered into derivative commodity instruments based on our analysis of market conditions in order to attempt to profit from market fluctuations. These derivative instruments were financial positions entered into without underlying physical inventory and are not considered hedges. We recorded these derivatives in the consolidated balance sheets as assets or liabilities at fair value with mark-to-market adjustments recorded in “Product sales.” We no longer enter into commodity derivatives without underlying physical inventory.

See Note 17. Derivatives and Risk Management Activities for additional information regarding our derivative financial instruments.

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”).

Unit-based Compensation

NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, has adopted various long-term incentive plans that provide the Compensation Committee of the Board of Directors of NuStar GP, LLC with the right to grant employees and directors of NuStar GP, LLC providing services to NuStar Energy the right to receive NS common units. NuStar GP, LLC accounts for awards of NS common unit options, restricted units and performance awards at fair value 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. NuStar GP, LLC determines the fair value of NS unit options using the Black-Scholes model at each reporting date. NuStar GP, LLC determines the fair value of NS restricted units and performance awards using the market price of NS common units at each reporting date. However, performance awards are earned only upon NuStar Energy’s achievement of an objective performance measure. NuStar GP, LLC records compensation expense each reporting period such that the cumulative compensation expense recognized equals the current fair value of 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 the Compensation Committee of the Board of Directors of NuStar GP Holdings with the right to grant employees, consultants and directors of NuStar GP Holdings and its affiliates, including NuStar GP, LLC, rights to receive NSH common units. 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. 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.

Under these long-term incentive 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.

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.

We reimburse NuStar GP, LLC for the expenses resulting from NS and NSH 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 NuStar GP, LLC for the expense resulting from NSH awards to non-employee directors of NuStar GP Holdings.

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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 are included in "Other current assets" in the consolidated balance sheets.
Foreign Currency Translation
The functional currencies of our foreign subsidiaries are the local currency of the country in which the subsidiary is located, except for our subsidiaries located in St. Eustatius in the Caribbean (formerly the Netherlands Antilles), whose functional currency is the U.S. dollar. The assets and liabilities of our foreign subsidiaries with local functional currencies are translated to U.S. dollars at period-end exchange rates, and income and expense items are translated to U.S. dollars at weighted-average exchange rates in effect during the period. These translation adjustments are included in "Accumulated other comprehensive income" in the equity section of the consolidated balance sheets. Gains and losses on foreign currency transactions are included in "Other (expense) income, net" in the consolidated statements of income.
Reclassifications
Certain previously reported amounts in the 2011 and 2010 consolidated financial statements and notes have been reclassified to conform to the 2012 presentation. As further discussed in Note 5. Dispositions, we sold the San Antonio Refinery and related assets on January 1, 2013. As a result, we have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the asphalt and fuels marketing segment, as discontinued operations for the years ended December 31, 2012 and 2011. In addition, we reclassified \$8.9 million and \$2.8 million of storage lease revenues for the years ended December 31, 2011 and 2010, respectively, that were previously recognized in "Product sales" to "Service revenues" on the consolidated statements of income.

3. NEW ACCOUNTING PRONOUNCEMENTS
Balance Sheet Offsetting
In December 2011, the Financial Accounting Standards Board (FASB) amended the disclosure requirements about offsetting assets and liabilities. The amended guidance requires new disclosures to enable users of financial statements to reconcile differences in the offsetting requirements under U.S. GAAP and International Financial Reporting Standards. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The amended guidance is effective for annual and interim reporting periods beginning on or after
January 1, 2013, and retrospective application is required. Accordingly, we will adopt the amended guidance January 1, 2013, and we do not expect it to have a material impact on our disclosures.
In January 2013, the FASB further amended and clarified the scope of balance sheet offsetting disclosure requirements. The amended guidance limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The disclosures are required irrespective of whether the transactions are offset in the consolidated balance sheets. The effective date remains unchanged. Accordingly, we will adopt this amended guidance January 1, 2013, and we do not expect it to have a material impact on our disclosures.
Other Comprehensive Income
In February 2013, the FASB further amended the disclosure requirements for the presentation of comprehensive income.
The amended guidance requires that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The amended guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. Accordingly, we

will adopt the amended guidance January 1, 2013. Substantially all of the information required under the amended guidance is already required to be disclosed elsewhere in the financial statements; therefore, we do not expect it to have a material impact on our financial statement presentation or disclosures.

4. ACQUISITIONS

TexStar Asset Acquisition

On December 13, 2012, NuStar Logistics acquired the TexStar Crude Oil Assets (as defined below), including 100% of the partnership interest in TexStar Crude Oil Pipeline, LP, from TexStar Midstream Services, LP and certain of its affiliates (collectively, TexStar) for $325.4 million (the TexStar Asset Acquisition), pursuant to an Asset Purchase Agreement (the Purchase Agreement). The TexStar Crude Oil Assets consist of approximately 140 miles of crude oil pipelines and gathering

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lines, as well as five terminals and storage facilities providing 0.6 million barrels of storage capacity. The consolidated statements of income include the results of operations for the TexStar Asset Acquisition in the transportation segment commencing on December 13, 2012.

We accounted for the TexStar Asset Acquisition using the acquisition method. The fair value of the consideration transferred was allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition, pending completion of an independent appraisal and other evaluations. The purchase price and preliminary purchase price allocation was as follows (in thousands):

Cash paid for the TexStar Asset Acquisition	$ 315,810
Fair value of liabilities assumed	9,600
Purchase price	$ 325,410
Property, plant and equipment, net	$ 129,614
Goodwill	127,896
Intangible assets	67,900
Purchase price allocation	$ 325,410

Pursuant to the Purchase Agreement, NuStar Logistics also agreed to purchase 38 miles of natural gas liquids (NGL) Y-grade pipeline and two fractionators with a combined capacity of 57,000 barrels per day (the NGL Assets) for approximately $100.0 million (Second Closing). If the Second Closing does not occur, it will have no impact on the Crude Oil Assets. We expect to fund the purchase price of the NGL Assets with borrowings under our 2012 Revolving Credit Agreement. On February 18, 2013, we received a letter from TexStar that purports to terminate the rights of the parties to proceed to a closing on our acquisition of the NGL Assets. We do not believe TexStar has the legal right to terminate the Second Closing, and we notified them of our position on February 21, 2013. We are evaluating all of our legal options.

San Antonio Refinery

On April 19, 2011, we purchased certain refining and storage assets, inventory and other working capital items from AGE
Refining, Inc. for $62.0 million, including the assumption of certain environmental liabilities. The assets consist of a 14,500
barrel per day refinery in San Antonio, Texas and 0.4 million barrels of aggregate storage capacity (the San Antonio Refinery Acquisition). The final purchase price was allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition. On January 1, 2013, we sold the refinery and related assets; see Note 5. Dispositions for additional discussion.

Turkey Acquisition

On February 9, 2011, we acquired 75% of the outstanding capital of a Turkish company, which owns two terminals in Mersin, Turkey, with an aggregate 1.4 million barrels of storage capacity, for approximately $57.0 million (the Turkey Acquisition). Both terminals are connected via pipelines to an offshore platform located approximately three miles off the Mediterranean Sea coast. The Turkey Acquisition was accounted for using the acquisition method. The purchase price was allocated based on the estimated fair values of the individual assets acquired, liabilities assumed and noncontrolling interest at the date of acquisition. The consolidated statements of income include the results of operations for the Turkey Acquisition commencing on February 9, 2011.

Asphalt Holdings, Inc.

On May 21, 2010, we acquired the capital stock of Asphalt Holdings, Inc. for $53.3 million, including liabilities assumed (Asphalt Holdings Acquisition). The acquisition includes three storage terminals with an aggregate storage capacity of approximately 1.8 million barrels located in Alabama along the Mobile River. The consolidated statements of income include the results of operations for the Asphalt Holdings Acquisition commencing on May 21, 2010.

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5. DISPOSITIONS

San Antonio Refinery

On January 1, 2013, we sold the San Antonio Refinery and related assets, which included inventory, a terminal in Elmendorf, Texas and a pipeline connecting the terminal and refinery for approximately $115.0 million (the San Antonio Refinery Sale). We have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the transportation and asphalt and fuels marketing segment, as discontinued operations for the years ended December 31, 2012 and 2011, none of which were attributable to the noncontrolling interest. We allocated interest expense of $3.9 million and $2.0 million for the years ended December 31, 2012 and 2011, respectively, to discontinued operations based on the ratio of net assets discontinued to consolidated net assets.

The following table summarizes the results from discontinued operations:

	Year Ended December 31,	
	2012	2011
	(Thousands of Dollars)	
Revenues	$561,131	$303,440
(Loss) income before income tax expense	$(49,078)	$10,280

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

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

Asphalt Operations

On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary, to an affiliate of Lindsay Goldberg LLC (Lindsay Goldberg), a private investment firm. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy, including asphalt refineries located in Paulsboro, New Jersey and Savannah, Georgia (collectively, the Asphalt Operations). Lindsay Goldberg paid $175.0 million for the Class A equity interests (Class A Interests) of Asphalt JV, while we retained the Class B equity interests with a fair value of $52.0 million (Class B Interests). The Class A Interests have a distribution preference over the Class B Interests, as well as a liquidation preference.

NuStar Asphalt Refining, LLC and NuStar Marketing LLC are wholly owned subsidiaries of NuStar Asphalt LLC. Unless otherwise indicated, the term “Asphalt JV” is used in this report to refer to Asphalt JV, to one or more of its consolidated subsidiaries or to all of them taken as a whole.

We received $263.8 million from Asphalt JV for inventory related to the Asphalt Operations. Asphalt JV funded the purchase of that inventory with proceeds from borrowings under a third-party asset-based revolving credit facility (the Third-Party Financing) and a $250.0 million unsecured revolving credit facility provided by NuStar Energy (the NuStar JV Facility). In addition to the NuStar JV Facility, we entered into various other agreements with Asphalt JV. See Note 18. Related Party Transactions for additional discussion of our agreements with Asphalt JV.

In the fourth quarter of 2012, we incurred employee benefit costs of $5.7 million resulting from the Asphalt Sale, which is included in the operating expenses of the asphalt and fuels marketing segment.

Deconsolidation. We determined the equity of Asphalt JV is not sufficient to finance its activities without additional subordinated support, including support provided by us as described in Note 18. Related Party Transactions. Therefore, we determined the Asphalt JV is a variable interest entity (VIE). An entity is required to consolidate a VIE if the entity is considered the primary beneficiary of the VIE. We analyzed our relationship with Asphalt JV, including our representation on the board of members, our equity interests and our rights under the various agreements with Asphalt JV and determined that we do not have the power to direct the activities most significant to the economic performance of Asphalt JV. As a result, we are not the primary beneficiary of Asphalt JV. Upon closing, we deconsolidated Asphalt JV and started reporting our remaining investment in Asphalt JV using the equity method of accounting. Since the fair value of the consideration we received was less than the carrying amount of the net assets of the Asphalt Operations upon deconsolidation, we recognized a loss of $23.8 million in “Other (expense) income, net” in the consolidated statements of income for the year ended December 31, 2012.

As of December 31, 2012, we included our 50% ownership interest in Asphalt JV within “Investment in joint ventures” on the consolidated balance sheet. The consolidated statements of income include our portion of the results of operations for Asphalt JV in “Equity in (loss) earnings of joint ventures” commencing on September 28, 2012. Because of our continued involvement with Asphalt JV, we have not presented the results of operations for the Asphalt Operations prior to closing as discontinued operations. Beginning on September 28, 2012, we have presented transactions between us and Asphalt JV as related party transactions in the consolidated financial statements.

Our maximum exposure to loss as a result of our involvement with Asphalt JV is approximately $545.3 million, which consists of (i) our investment in Asphalt JV of $35.9 million as of December 31, 2012, (ii) up to $250.0 million under the NuStar JV Facility, (iii) up to $150.0 million for credit support, including guarantees, and (iv) a receivable from Asphalt JV of $109.4 million as of December 31, 2012.

Terminal Sales

On April 16, 2012, we sold five terminals in Georgia and Alabama with an aggregate storage capacity of 1.8 million barrels for total proceeds of $30.8 million.

6. ASSET IMPAIRMENTS

In anticipation of the Asphalt Sale, we evaluated the goodwill and other long-lived assets associated with the Asphalt Operations for potential impairment. As of June 30, 2012, we estimated the fair value of the Asphalt Operations reporting unit as the sum of (i) the purchase price to be paid by Lindsay Goldberg for the Class A Interests of Asphalt JV, (ii) the fair value of the Class B Interests of Asphalt JV that we would retain and (iii) the fair value of the working capital, primarily inventory. We determined the fair value of the Class B Interests using a combination of estimated discounted future cash flows and a pricing model. The fair value of the working capital was based on estimated current market prices. The estimated fair value of the Asphalt Operations reporting unit was less than its carrying value, which resulted in the recognition of a goodwill impairment loss of $22.1 million in the second quarter of 2012. In addition, in the second quarter of 2012, we recorded an asset impairment loss of $244.3 million in order to write-down the carrying value of long-lived assets related to the Asphalt Operations, including fixed assets, intangible assets and other long-term assets, to their estimated fair value. The goodwill impairment loss and the asset impairment loss related to the Asphalt Operations are reported in the asphalt and fuels marketing segment.

In the second quarter of 2012, we reduced the carrying value of the fixed assets of one of our refined product terminals to its estimated fair value and recorded an asset impairment loss of $2.1 million. The impairment loss resulted from changing market conditions that reduced the estimated cash flows for that terminal. The impairment loss associated with this refined product terminal was reported in the storage segment. In addition, we recorded an asset impairment loss of $3.3 million in the second quarter of 2012 in order to reduce the carrying value of certain corporate assets we intend to sell to their estimated sales price of $2.8 million. These corporate assets are included in “Assets held for sale” on the consolidated balance sheet as of December 31, 2012.

The total asset impairment loss consisted of the following:

	Year Ended December 31, 2012 (Thousands of Dollars)
Asphalt Operations:	
Property, plant and equipment, net	$232,759
Intangible assets, net	6,564
Other long-term assets, net	4,902
Asset impairment loss	244,225
Other:	
Property, plant and equipment, net	5,421
Total asset impairment loss	$249,646

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Balance as of beginning of year	$2,147	$1,457	$1,351
Increase in allowance	27	934	506
Accounts charged against the allowance, net of recoveries	(1,367)	(243)	(396)
Foreign currency translation	1	(1)	(4)
Balance as of end of year	$808	$2,147	$1,457

8. INVENTORIES

Inventories consisted of the following:

	December 31,	
	2012	2011
	(Thousands of Dollars)	
Crude oil	$447	$157,297
Finished products	164,894	421,288
Materials and supplies	7,887	9,200
Total	$173,228	$587,785

Our finished products consist of intermediates, gasoline, distillates and other petroleum products, as well as asphalt as of December 31, 2011. Materials and supplies mainly consist of blending and additive chemicals and maintenance materials used in our transportation and storage segments.

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9. OTHER CURRENT ASSETS

Other current assets consisted of the following:

	December 31, 2012	December 31, 2011
	(Thousands of Dollars)	
Prepaid expenses	$18,008	$16,555
Restricted cash	15,227	—
Product advances	14,764	11,137
Derivative assets	9,358	12,112
Margin deposits	6,192	1,083
Product imbalances	1,232	2,117
Other	457	681
Other current assets	$65,238	$43,685

10. PROPERTY, PLANT AND EQUIPMENT

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

	Estimated Useful Lives (Years)	December 31, 2012	December 31, 2011
		(Thousands of Dollars)	
Land	—	$133,341	$134,900
Land and leasehold improvements	10 - 35	110,575	108,508
Buildings	15 - 40	120,499	66,792
Pipelines, storage and terminals	20 - 35	3,529,925	3,298,188
Refining equipment	20 - 35	2,000	512,466
Rights-of-way	20 - 40	148,021	107,104
Construction in progress	—	243,498	185,347
Total		4,287,859	4,413,305
Less accumulated depreciation and amortization		(1,049,399)	(982,837)
Property, plant and equipment, net		$3,238,460	$3,430,468

Capitalized interest costs added to property, plant and equipment totaled $7.7 million, $5.4 million and $3.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Depreciation and amortization expense for property, plant and equipment totaled $157.8 million, $157.2 million and $144.2 million for the years ended December 31, 2012, 2011 and 2010, respectively, including depreciation expense associated with the San Antonio Refinery, which is included in "(Loss) income from discontinued operations, net of tax" on the consolidated statements of income.

11. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	December 31, 2012		December 31, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	(Thousands of Dollars)			
Customer relationships	$137,470	$(46,951)	$81,025	$(44,068)
Other	2,359	(443)	2,809	(843)
Total	$139,829	$(47,394)	$83,834	$(44,911)

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All of our intangible assets are subject to amortization. Amortization expense for intangible assets was $7.8 million, $8.3 million and $7.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated aggregate amortization expense for the next five years is as follows:

	Amortization Expense
	(Thousands of Dollars)
2013	$13,845
2014	13,845
2015	10,898
2016	9,109
2017	7,950

12. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	December 31,	
	2012	2011
	(Thousands of Dollars)	
Derivative liabilities	$60,121	$27,433
Employee wages and benefit costs	15,381	24,325
Unearned income	10,476	8,866
TexStar Asset Acquisition contingent consideration	9,600	—
Liabilities held for sale	7,910	—
Other	20,715	10,646
Accrued liabilities	$124,203	$71,270

13. DEBT

Long-term debt consisted of the following:

		December 31,	
	Maturity	2012	2011
		(Thousands of Dollars)	
$1.5 billion revolving credit agreement	2017	$440,330	$—
$1.2 billion revolving credit agreement	2012	—	229,295
4.75% senior notes	2022	250,000	—
4.80% senior notes	2020	450,000	450,000
7.65% senior notes	2018	350,000	350,000
6.05% senior notes	2013	229,932	229,932
6.875% senior notes	2012	—	100,000
7.75% senior notes	2012	—	250,000
5.875% senior notes	2013	250,000	250,000
Gulf Opportunity Zone revenue bonds	2038 thru 2041	365,440	365,440
UK term loan	2013	34,142	32,582
Port Authority of Corpus Christi note payable	2015	577	874
Net fair value adjustments and unamortized discounts	N/A	40,583	34,907
Total debt		2,411,004	2,293,030
Less current portion		286,422	364,959
Long-term debt, less current portion		$2,124,582	$1,928,071

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

2013 (a)	$514,651
2014	—
2015	—
2016	—
2017	440,330
Thereafter	1,415,440
Total repayments	2,370,421
Net fair value adjustments and unamortized discounts	40,583
Total debt	$2,411,004

(a) NuStar Logistics intends to repay the $229.9 million 6.05% senior notes due March 15, 2013 with borrowings under our $1.5 billion five-year revolving credit agreement. As such, the 6.05% senior notes are included in “Long-term debt, less current portion” on the consolidated balance sheet as of December 31, 2012.

Interest payments totaled $118.4 million, $115.1 million and $91.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Revolving Credit Agreements

On May 2, 2012, NuStar Logistics replaced its $1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement) with a new $1.5 billion five-year revolving credit agreement, as amended (the 2012 Revolving Credit Agreement), which includes the ability to borrow up to the equivalent of $250.0 million in Euros. NuStar Logistics used borrowings of $588.6 million under the 2012 Revolving Credit Agreement and cash on hand to repay in full the balance on the 2007 Revolving Credit Agreement. Obligations under the 2012 Revolving Credit Agreement are guaranteed by NuStar Energy and NuPOP. NuPOP will be released from its guarantee of the 2012 Revolving Credit Agreement when it no longer guarantees NuStar Logistics public debt instruments.

The 2012 Revolving Credit Agreement bears interest, at our option, based on either an alternative base rate or a LIBOR-based rate. The interest rate on the 2012 Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or subsequently upgraded) by certain credit rating agencies. In July 2012, Standard & Poor’s (S&P) lowered our credit rating to BB+ from BBB-, and in January 2013, Moody’s Investor Service (Moody’s) lowered our credit rating to Ba1 from Baa3. The interest rates applicable to the 2012 Revolving Credit Agreement do not adjust unless both S&P and Moody’s change their ratings; therefore, the interest rate on the 2012 Revolving Credit Agreement increased by 0.375% effective January 2013. As of December 31, 2012, our weighted-average interest rate was 1.9%. During the year ended December 31, 2012, the weighted-average interest rate related to borrowings under the 2012 Revolving Credit Agreement was 1.6%.

The 2012 Revolving Credit Agreement contains customary restrictive covenants, including requiring us to maintain, as of the end of each rolling period, which consists of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2012 Revolving Credit Agreement) not to exceed 5.00-to-1.00. Moreover, if we consummate an acquisition for an aggregate net consideration of at least $50.0 million, the maximum consolidated debt coverage ratio will increase to 5.50-to-1.00 for two rolling periods. As of December 31, 2012, our consolidated debt coverage ratio could not exceed 5.50-to-1.00, as a result of the TexStar Asset Acquisition. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the 2012 Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of December 31, 2012, our consolidated debt coverage ratio was 5.0x, and we had $780.6 million available for borrowing.

The 2012 Revolving Credit Agreement permits unlimited investments in joint ventures and unconsolidated subsidiaries, provided that no default exists, but limits the amount of cash distributions for such joint ventures and unconsolidated subsidiaries included in the calculation of the consolidated debt coverage ratio to 20% of consolidated

EBITDA. In addition, the 2012 Revolving Credit Agreement provided that we would be in compliance with the consolidated debt coverage ratio as long as it did not exceed 6.50-to-1.00 for the rolling period ended June 30, 2012 or 6.00-to-1.00 for the rolling period ending September 30, 2012. The 2012 Revolving Credit further stipulates that if the Asphalt Operations were owned by an unconsolidated joint venture, the maximum allowed consolidated debt coverage would revert to 5.00-to-1.00, unless we consummated an acquisition, as discussed above.

Letters of credit issued under our 2012 Revolving Credit Agreement totaled $279.1 million as of December 31, 2012. Letters of credit are limited to $750.0 million and also may restrict the amount we can borrow under the 2012 Revolving Credit

Agreement.

Senior Notes

NuStar Logistics' Senior Notes. On February 2, 2012, NuStar Logistics issued $250.0 million of 4.75% senior notes under our May 13, 2010 shelf registration statement, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP (the 2010 Shelf Registration Statement). The net proceeds of $247.4 million were used to repay the outstanding principal amount of NuPOP's $250.0 million 7.75% senior notes due February 15, 2012. The interest on the 4.75% senior notes is payable semi-annually in arrears on February 1 and August 1 of each year beginning on August 1, 2012. The notes will mature on February 1, 2022.

In July 2012, we repaid the $100.0 million of 6.875% senior notes due July 15, 2012 with borrowings under our 2012 Revolving Credit Agreement.

Interest is payable semi-annually in arrears for the $250.0 million of 4.75% senior notes, $450.0 million of 4.80% senior notes, $350.0 million of 7.65% senior notes and $229.9 million of 6.05% senior notes (collectively, the NuStar Logistics Senior Notes). The interest rate payable on the 7.65% senior notes is subject to adjustment if our debt rating is downgraded (or subsequently upgraded) by certain credit rating agencies. The interest rate on NuStar Logistics' $350.0 million of 7.65% senior notes increased by 0.25% in July 2012 as a result of the S&P downgrade and by another 0.25% in January 2013 as a result of the Moody's downgrade. The NuStar Logistics Senior Notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness of NuStar Logistics and contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the NuStar Logistics Senior Notes. In addition, the NuStar Logistics 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 NuStar Logistics 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 6.05% senior notes also include a change-in-control provision, which requires that (1) an investment-grade entity own, directly or indirectly, 51% of our general partner interests; and (2) we (or an investment-grade entity) own, directly or indirectly, all of the general partner and limited partner interests in NuStar Logistics.

NuPOP's Senior Notes. As a result of the Kaneb Acquisition, we assumed the outstanding senior notes issued by NuPOP, having an aggregate face value of $500.0 million, and an aggregate fair value of $555.0 million at the acquisition date (the NuPOP Senior Notes). 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 bore interest at 7.75% annually and matured in 2012, and the second series bears interest at 5.875% annually and matures in 2013.

The NuPOP 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 NuPOP, the NuPOP 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 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 NuPOP. Additionally, effective July 1, 2005, both NuStar Logistics and NuPOP fully and unconditionally guaranteed the outstanding senior notes of the other. NuPOP will be released from its guarantee of senior notes issued by NuStar Logistics when it no longer guarantees any obligations of NuStar Energy, or any of its subsidiaries, including NuStar Logistics, under any bank facility or public debt instrument.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, where our St. James, Louisiana, terminal is located, issued Revenue Bonds (NuStar Logistics, L.P. Project) Series 2008, Series 2010, Series 2010A, Series 2010B and Series 2011 associated with our St. James terminal expansion pursuant to the Gulf Opportunity Zone Act of 2005. The interest rate on these bonds is based on a weekly tax-exempt bond market interest rate, and interest is paid monthly. Following the issuance, the proceeds were deposited with a trustee and will be disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansion. We include the amount remaining in trust in “Other long-term assets, net,” and we include the amount of bonds issued in “Long-term debt, less current portion” in our consolidated balance sheets.

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NuStar Logistics is solely obligated to service the principal and interest payments associated with the bonds. Certain lenders under our 2012 Revolving Credit Agreement issued letters of credit on our behalf to guarantee the payment of interest and principal on the bonds. These letters of credit rank equally with existing senior unsecured indebtedness of NuStar Logistics.

The following table summarizes Gulf Opportunity Zone Revenue Bonds outstanding as of December 31, 2012:

Date Issued	Maturity Date	Amount Outstanding	Amount of Letter of Credit		Amount Received from Trustee	Amount Remaining in Trust	Average Annual Interest Rate	
		(Thousands of Dollars)						
June 26, 2008	June 1, 2038	$55,440	$56,169		$ 55,440	$—	0.17	%
July 15, 2010	July 1, 2040	100,000	101,315	(a)	100,000	—	0.17	%
October 7, 2010	October 1, 2040	50,000	50,658		24,580	25,420	0.17	%
December 29, 2010	December 1, 2040	85,000	86,118		24,481	60,519	0.17	%
August 29, 2011	August 1, 2041	75,000	76,085		34,381	40,619	0.17	%
	Total	$365,440	$370,345		$ 238,882	$126,558		

(a) On June 6, 2012, NuStar Logistics entered into a Letter of Credit Agreement with Mizuho Corporate Bank, Ltd., pursuant to which Mizuho issued a letter of credit in the amount of $101.3 million to the trustee associated with this bond issuance. This letter of credit ranks equally with existing senior unsecured indebtedness of NuStar Logistics but does not restrict the amount we can borrow under the 2012 Revolving Credit Agreement.

UK Term Loan

NuPOP's UK subsidiary, NuStar Terminals Limited, is the party to the £21 million amended and restated term loan agreement (the UK Term Loan), which bore interest at 6.65% annually and had an original maturity date of December 10, 2012. On December 11, 2012, NuStar Terminals Limited amended the UK Term Loan to extend the maturity date to December 10, 2013.

In addition, the UK Term Loan will bear interest at 2.25% annually, subject to a one-time increase if our debt rating is downgraded by Moody's. As such, the interest rate increased by 0.375% effective January 2013, following Moody's downgrade. The amendment also ensures the covenants and ratios of the UK Term Loan are substantially the same as the 2012 Revolving Credit Agreement, as amended. Management believes that we comply with all ratios and covenants of the UK Term Loan as of December 31, 2012.

Our other long-term debt obligations do not contain any financial covenants. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments.

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. The wharfage and dockage fees paid to the Port Authority of Corpus Christi in connection with the use of the crude oil storage facility have exceeded certain limits per the terms of the note, which have accelerated the repayment of the unpaid principal balance. On February 6, 2013, we repaid the remaining principle balance of $0.6 million.

Line of Credit

On July 2, 2012, our short-term line of credit that had an uncommitted borrowing capacity of up to $20.0 million was terminated. We borrowed and repaid $71.9 million during the year ended December 31, 2012 under this line of credit based on liquidity needs. The weighted-average interest rate related to outstanding borrowings under this short-term line of credit during the year ended December 31, 2012 was 2.0%.

14. 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, pollution prevention measures, pipeline integrity and operator qualifications, among others. 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, process safety management, 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 petroleum 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.

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:

	Year Ended December 31,	
	2012	2011
	(Thousands of Dollars)	
Balance as of the beginning of year	$23,113	$8,569
Additions to accrual	4,766	4,054
San Antonio Refinery Acquisition	(5,957)	14,000
Payments	(5,242)	(3,498)
San Antonio Refinery Sale	(7,910)	—
Asphalt Sale	(3,300)	—
Foreign currency translation	71	(12)
Balance as of the end of year	$5,541	$23,113

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

	December 31,	
	2012	2011
	(Thousands of Dollars)	
Accrued liabilities	$2,717	$3,312
Other long-term liabilities	2,824	19,801
Accruals for environmental matters	$5,541	$23,113

15. COMMITMENTS AND CONTINGENCIES

Contingencies

We have contingent liabilities resulting from various litigation, claims and commitments, the most significant of which are discussed below. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of December 31, 2012, we have accrued $0.5 million for contingent losses. The amount that will ultimately be paid related to these matters may

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differ from the recorded accruals, and the timing of such payments is uncertain.

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

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

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the United States Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to us indicating that the past and estimated future remediation expenses associated with one plume are $71.9 million. We reached an agreement to settle the claims of the United States government with respect to the Otis AFB pipeline and to resolve the underlying dispute between Kaneb and Grace. The settlement was approved by the United States Bankruptcy Court for the District of Delaware and a consent decree was entered by the United States District Court for the District of Massachusetts. Pursuant to the terms of the settlement, we paid approximately $13.1 million to the U.S. government in July 2012 and received releases of claims from various private parties and a covenant not to sue from the U.S. government. In connection with the settlement, we recognized a gain of $28.7 million during the second quarter of 2012.

Other. We are also a party to additional claims and legal proceedings arising in the ordinary course of business. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

Commitments

Future minimum rental payments applicable to all noncancellable operating leases and purchase obligations as of December 31, 2012 are as follows:

	Payments Due by Period						
	2013	2014	2015	2016	2017	There-after	Total
	(Thousands of Dollars)						
Operating leases	$39,448	$31,718	$26,194	$22,344	$18,717	$97,135	$235,556
Purchase obligations:							
Crude oil	2,375,412	2,375,412	593,854	—	—	—	5,344,678
Other purchase obligations	7,191	6,242	3,264	2,736	432	216	20,081

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Rental expense for all operating leases totaled $73.9 million, $70.0 million and $63.7 million for the years ended December 31, 2012, 2011 and 2010, respectively, including rental expense associated with the San Antonio Refinery, which is included in "(Loss) income from discontinued operations, net of tax" on the consolidated statements of income. Our operating leases consist primarily of the following:

- a ten-year lease for tugs and barges utilized at our St. Eustatius facility for bunker fuel sales, with two five-year renewal options;
- leases for tugs and barges utilized at our Point Tupper facility for bunker fuel sales, with lease terms ranging from five to ten years; and
- land leases at various terminal facilities.

Our crude oil purchase obligations consist of a crude supply agreement to purchase an annual average of 75,000 barrels per day of crude oil over a minimum seven-year period from an affiliate of Petróleos de Venezuela S. A. (PDVSA), the national oil company of Venezuela. The value of this crude oil purchase obligations fluctuates according to a market-based pricing formula using published market indices, subject to adjustment per the agreement. We estimated the value of the crude oil purchase obligation based on market prices as of December 31, 2012. Simultaneously with the Asphalt Sale, we entered into a crude oil supply agreement with Asphalt JV that commits Asphalt JV to purchase from us a minimum amount of crude oil annually. See Note 18. Related Party Transactions for additional discussion of our agreements with Asphalt JV.

We entered into a crude purchase agreement with Statoil Brasil Oleo E Gas Limitada on November 17, 2010, which committed us to purchase an average of 10,000 barrels per day of crude oil over a three-year period, beginning in December 2011. We terminated this agreement in the fourth quarter of 2012.

16. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; and Level 3, defined as unobservable inputs in which little or no market data exists. We consider counterparty credit risk and our own credit risk in the determination of all estimated fair values.

Product Imbalances

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

Interest Rate Swaps

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

Commodity Derivatives

We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, we include these derivative instruments in Level 2 of the fair value hierarchy. See Note 17. Derivatives and Risk Management Activities for a discussion of our derivative instruments.

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The following assets and liabilities are measured at fair value:

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	$1,232	$—	$—	$1,232
Commodity derivatives	1,001	8,357	—	9,358
Other long-term assets, net:				
Commodity derivatives	—	9,206	—	9,206
Accrued liabilities:				
Product imbalances	(1,686)	—	—	(1,686)
Commodity derivatives	—	(19,210)	—	(19,210)
Interest rate swaps	—	(40,911)	—	(40,911)
Total	$547	$(42,558)	$—	$(42,011)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	$2,117	$—	$—	$2,117
Commodity derivatives	2,978	9,134	—	12,112
Other long-term assets, net:				
Commodity derivatives	—	27,084	—	27,084
Interest rate swaps	—	2,335	—	2,335
Accrued liabilities:				
Product imbalances	(1,469)	—	—	(1,469)
Commodity derivatives	—	(5,424)	—	(5,424)
Interest rate swaps	—	(22,009)	—	(22,009)
Other long-term liabilities:				
Interest rate swaps	—	(27,190)	—	(27,190)
Total	$3,626	$(16,070)	$—	$(12,444)

Fair Value of Financial Instruments

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

	December 31,	
	2012	2011
	(Thousands of Dollars)	
Fair value	$2,377,120	$2,377,565
Carrying amount	$2,411,004	$2,293,030

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

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As of December 31, 2012, we also had a note receivable from related party of $95.7 million under the NuStar JV Facility. The note receivable related to the NuStar JV Facility is recorded at the outstanding principal amount, and the fair value of the note receivable was $91.7 million as of December 31, 2012. We estimated the fair value of the note receivable using discounted cash flows, which use observable inputs such as time to maturity and market interest rates, and determined the fair value falls in Level 2 of the fair value hierarchy. See Note 18. Related Party Transactions for additional information on the NuStar JV Facility.

17. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to commodity price risk and manage our exposure to interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules to help ensure that our hedging activities address our market risks. Our risk management committee oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We are a party to certain interest rate swap agreements to manage our exposure to changes in interest rates. We entered into fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes. We account for our fixed-to-floating interest rate swaps as fair value hedges. In the fourth quarter of 2011, we entered into fixed-to-floating interest rate swap agreements with an aggregate notional amount of $270.0 million related to the 4.80% senior notes. Under the terms of these interest rate swap agreements, we receive a fixed 4.8% and will pay a variable rate based on one month USD LIBOR plus a percentage that varies with each agreement. During the year ended December 31, 2011, we entered into and terminated a fixed-to-floating interest rate swap agreement with a notional amount of $40.0 million related to the 7.65% senior notes issued in April 2008. We also terminated interest rate swap agreements with an aggregate notional amount of $617.5 million associated with our 4.80%, 6.05% and 6.875% senior notes during the year ended December 31, 2011. We received $33.4 million in connection with the terminations, which we are amortizing into “Interest expense, net” over the remaining lives of the associated senior notes. We included the proceeds from the termination of interest rate swap agreements in cash flows from financing activities on the consolidated statements of cash flows. As of December 31, 2011, the weighted-average interest rate that we paid under our fixed-to-floating interest rate swaps was 3.1%.

During the six months ended June 30, 2012, we entered into and terminated fixed-to-floating interest rate swap agreements with an aggregate notional amount of $200.0 million related to the 4.75% senior notes issued on February 2, 2012. Under the terms of these interest rate swap agreements, we received a fixed rate of 4.75% and paid a variable rate based on one month USD LIBOR plus a percentage that varied with each agreement. We also terminated fixed-to-floating interest rate swap agreements with an aggregate notional amount of $270.0 million associated with our 4.80% senior notes. We received $19.7 million in connection with the terminations, which we are amortizing into “Interest expense, net” over the remaining lives of the 4.80% and 4.75% senior notes. The termination payments are included in cash flows from financing activities on the consolidated statements of cash flows. We had no fixed-to-floating interest rate swaps as of December 31, 2012, and the total aggregate notional amount of the fixed-to-floating interest rate swaps was $270.0 million as of December 31, 2011.

We are also a party to forward-starting interest rate swap agreements related to forecasted probable debt issuances in 2013. Under the terms of the swaps, we will pay a fixed rate and receive a rate based on three month USD LIBOR. We entered into these swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. These swaps qualified and we designated them as cash flow hedges. In connection with the issuance of the 4.75%

senior notes on February 2, 2012, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $225.0 million. We paid $25.4 million in connection with the terminations, which is being amortized into "Interest expense, net" over the life of the 4.75% senior notes. The termination payment is included in cash flows from financing activities on the consolidated statements of cash flows. As of December 31, 2012 and 2011, the total aggregate notional amount of the forward-starting interest rate swaps was $275.0 million and $500.0 million, respectively.

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The following table summarizes information about our forward-starting swaps as of December 31, 2012:

Notional Amount	Period of Hedge	Weighted-Average Fixed Rate	
(Thousands of Dollars)			
$125,000	03/13 – 03/23	3.5	%
150,000	06/13 – 06/23	3.5	%
$275,000		3.5	%

Commodity Price Risk

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

We entered into commodity swap contracts to hedge the price risk associated with the San Antonio Refinery. These contracts fixed the purchase price of crude oil and sales prices of refined products for a portion of the expected production of the San Antonio Refinery, thereby attempting to mitigate the risk of volatility of future cash flows associated with hedged volumes. These contracts qualified, and we designated them, as cash flow hedges. During the fourth quarter of 2011, we decided to adjust the refinery's operations, which caused a shift in the future production yields of the San Antonio refinery. This change caused certain forecasted sales of gasoline products to be replaced with distillate sales; therefore, we concluded that these forecasted gasoline sales were probable not to occur, and we discontinued cash flow hedging treatment for the related commodity contracts. We recorded gains of $16.4 million related to these contracts for the year ended December 31, 2011, including $15.1 million which we reclassified from accumulated other comprehensive loss. In anticipation of the San Antonio Refinery Sale, we concluded that these forecasted sales were probable not to occur. Therefore, we discontinued cash flow hedging treatment for the related commodity contracts in December 2012 and incurred a loss of $21.7 million, which we reclassified from accumulated other comprehensive loss to "(Loss) income from discontinued operations, net of tax."

Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and we record associated gains and losses in net income. Changes in the fair values are recorded in net income. We no longer enter into commodity derivatives without underlying physical inventory.

The volume of commodity contracts is based on open derivative positions and represents the combined volume of our long and short positions on an absolute basis, which totaled 18.4 million barrels and 27.8 million barrels as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, we had $6.2 million and $1.1 million, respectively, of margin deposits related to our derivative instruments.

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

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		December 31,			
		2012	2011	2012	2011
		(Thousands of Dollars)			
Derivatives Designated as Hedging Instruments:					
Commodity contracts	Other current assets	$1,471	$36,116	$(811)	$(33,616)
Commodity contracts	Other long-term assets, net	—	86,052	—	(66,175)
Interest rate swaps	Other long-term assets, net	—	2,335	—	—
Interest rate swaps	Accrued liabilities	—	—	(40,911)	(22,009)
Interest rate swaps	Other long-term liabilities	—	—	—	(27,190)
Total		1,471	124,503	(41,722)	(148,990)
Derivatives Not Designated as Hedging Instruments:					
Commodity contracts	Other current assets	22,269	15,568	(13,571)	(5,956)
Commodity contracts	Other long-term assets, net	39,322	7,207	(30,116)	—
Commodity contracts	Accrued liabilities	17,406	519	(36,616)	(5,943)
Total		78,997	23,294	(80,303)	(11,899)
Total Derivatives		$80,468	$147,797	$(122,025)	$(160,889)

The earnings impact of our derivative activity was as follows:

Derivatives Designated as Fair Value Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
		(Thousands of Dollars)		
Year ended December 31, 2012:				
Interest rate swaps	Interest expense, net	$17,345	$(17,345)	$—
Commodity contracts	Cost of product sales	(10,505)	12,139	1,634
Total		$6,840	$(5,206)	$1,634
Year ended December 31, 2011:				
Interest rate swaps	Interest expense, net	$(55,183)	$54,588	$(595)
Commodity contracts	Cost of product sales	(10,228)	9,004	(1,224)
Total		$(65,411)	$63,592	$(1,819)
Year ended December 31, 2010:				
Interest rate swaps	Interest expense, net	$(27,443)	$27,443	$—
Commodity contracts	Cost of product sales	(3,221)	13,946	10,725
Total		$(30,664)	$41,389	$10,725

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Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Income Statement Location (a)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
	(Thousands of Dollars)		(Thousands of Dollars)	
Year ended December 31, 2012:				
Interest rate swaps	$ (17,069)	Interest expense, net	$(1,749)	$—
Commodity contracts	(77,200)	(Loss) income from discontinued operations	(51,483)	4,010
Total	$ (94,269)		$(53,232)	$4,010
Year ended December 31, 2011:				
Interest rate swaps	$ (84,199)	Interest expense, net	$—	$—
Commodity contracts	30,747	(Loss) income from discontinued operations	5,030	(4,010)
Total	$ (53,452)		$5,030	$(4,010)
Year ended December 31, 2010:				
Interest rate swaps	$ 35,000	Interest expense, net	$—	$—
Commodity contracts	(1,440)	Cost of product sales	(1,680)	—
Total	$ 33,560		$(1,680)	$—

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

(b) For the years ended December 31, 2012 and 2011, the amount associated with commodity contracts includes losses of $21.7 million and gains of $15.1 million, respectively, as a result of our decision to discontinue cash flow hedging treatment because the hedged forecasted transactions were probable not to occur.

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income (Thousands of Dollars)
Year ended December 31, 2012:		
Commodity contracts	Revenues	$(7,654)
Commodity contracts	Cost of product sales	20,138
Commodity contracts	(Loss) income from discontinued operations	6,176
Total		$18,660
Year ended December 31, 2011:		
Commodity contracts	Revenues	$235
Commodity contracts	Cost of product sales	(11,661)
Commodity contracts	Operating expenses	46

Commodity contracts	(Loss) income from discontinued operations	7,207	
Total		$(4,173	)
Year ended December 31, 2010:			
Commodity contracts	Cost of product sales	$(3,050	)
Commodity contracts	Operating expenses	(52	)
Total		$(3,102	)

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For derivatives designated as cash flow hedging instruments, once a hedged transaction occurs, we reclassify the effective portion from AOCI to “Interest expense, net” for our forward-starting interest rate swaps or to “(Loss) income from discontinued operations, net of tax” for our commodity contracts associated with the San Antonio Refinery. As of December 31, 2012, we expect to reclassify a loss of $4.7 million to “Interest expense, net” within the next twelve months. The maximum length of time over which we are hedging our exposure to the variability in future cash flows is approximately 5 months for our forward-starting interest rate swaps.

18. RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Revenues	$5,380	$1,039	$—
Operating expenses	$139,178	$144,274	$137,634
General and administrative expenses	$62,490	$66,220	$71,554
Interest income	$1,219	$—	$—
Expenses included in discontinued operations, net of tax	$(8,804)	$(6,288)	$—

NuStar GP, LLC

Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under a services agreement between NuStar Energy and NuStar GP, LLC, employees of NuStar GP, LLC perform services for our U.S. operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations.

GP Services Agreement. NuStar Energy and NuStar GP, LLC entered into a services agreement effective January 1, 2008 (the GP Services Agreement). The GP Services Agreement provides that NuStar GP, LLC will furnish administrative and certain operating services necessary to conduct the business of NuStar Energy. All employees providing services to both NuStar GP Holdings and NuStar Energy are employed by NuStar GP, LLC; therefore, NuStar Energy reimburses NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings (the Holdco Administrative Services Expense). The GP Services Agreement has an original termination date of December 31, 2012, but will automatically renew every two-year unless terminated by either party upon six months’ prior written notice.

We had a payable to NuStar GP, LLC of $1.4 million and $6.7 million as of December 31, 2012 and 2011, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of December 31, 2012 and 2011 of $18.1 million and $14.5 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

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.

Asphalt JV

Financing Agreements and Credit Support. The NuStar JV Facility is an unsecured revolving credit facility provided by NuStar Energy that will be available to fund working capital needs and for general purposes of Asphalt JV in an aggregate principal amount not to exceed $250.0 million for a term of seven years. The NuStar JV Facility matures on September 28, 2019 and bears interest based on either an alternative base rate or a LIBOR-based rate. As of December 31, 2012, the interest rate was 2.8%. In the event NuStar Energy no longer owns an equity interest in Asphalt JV, the interest rate increases and the availability under the NuStar JV Facility is reduced to a maximum of $167.0 million after two years and $83.0 million after three years. As of December 31, 2012, our note receivable from Asphalt JV totaled $95.7 million under the NuStar JV Facility.

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In addition, during the term of the NuStar JV Facility, NuStar Energy will provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. As of December 31, 2012, NuStar Energy has provided guarantees for commodity purchases, lease obligations and certain utilities for Asphalt JV with a maximum potential exposure of $137.1 million. In addition, NuStar has provided two guarantees to suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. A majority of the guarantees were in existence prior to the Asphalt Sale and have no expiration date. In the event NuStar Energy must fund its obligation under these guarantees, that amount will be added to borrowings under the NuStar JV Facility, but it will not reduce the availability under the NuStar Facility.

Terminal Service Agreements. Simultaneously with the Asphalt Sale, we entered into four terminal service agreements with Asphalt JV for our terminals in Wilmington, NC, Rosario, NM, Catoosa, OK and Houston, TX. Pursuant to the terms of the agreements, we provide aggregate storage capacity of 0.8 million barrels and blending services to Asphalt JV for a service charge of $1.5 million per year. The storage charge will be adjusted annually based on the percentage increase in the consumer price index. The terminal service agreements each have a term of ten years, with Asphalt JV's option to extend for an additional five years. Asphalt JV also has the option to terminate any terminal service agreement with 90 days written notice. If any of the terminal service agreements are extended, the storage charge will be based on the then-current fair market storage rates for comparable storage services charged by us to third parties.

In addition, we have terminal service agreements with Asphalt JV for our terminals in Jacksonville, FL, Dumfries, VA, and Baltimore, MD. These terminal service agreements have lease terms ranging from one to five years, with annual renewal options. Asphalt JV has the option to terminate any of these agreements at the end of a lease term with a 90 days written notice. Pursuant to the terms of the agreements, we provide aggregate storage capacity of approximately 0.6 million barrels to Asphalt JV for a storage charge of approximately $6.3 million per year, plus applicable throughput and handling fees.

Crude Oil Supply Agreements. In connection with the Asphalt Sale, NuStar Marketing LLC assigned the crude oil supply agreement (the PDVSA Crude Oil Supply Agreement) with an affiliate of Petróleos de Venezuela S. A. (PDVSA) to NuStar Logistics.

Simultaneously with the Asphalt Sale, we entered into a crude oil supply agreement with Asphalt JV (the Asphalt JV Crude Oil Supply Agreement) that commits Asphalt JV to purchase from us in a given year the lesser of (i) the number of barrels of crude oil required to be purchased by us from PDVSA under the PDVSA Crude Oil Supply Agreement for such year or (ii) 35,000 barrels per day of crude oil multiplied by the number of days in such year. The price for the crude oil under this agreement will be the actual price paid by us to PDVSA under the PDVSA Crude Oil Supply Agreement and will include any credits received or adjustments made. The Asphalt JV Crude Oil Supply Agreement is effective for the term of the PDVSA Crude Oil Supply Agreement. As of December 31, 2012, we had a receivable from Asphalt JV of $109.4 million mainly associated with crude oil sales under the Asphalt JV Crude Oil Supply Agreement.

Services Agreements Between Asphalt JV and NuStar GP,LLC. In conjunction with the Asphalt Sale, NuStar GP, LLC entered into a services agreement with Asphalt JV, effective September 28, 2012 (the Asphalt JV Services Agreement). The Asphalt JV Services Agreement provides that NuStar GP, LLC will furnish certain administrative and other operating services necessary to conduct the business of Asphalt JV. Asphalt JV will compensate NuStar GP, LLC for these services through an annual fee totaling $10.0 million, subject to adjustment based on the annual merit increase percentage applicable to NuStar GP, LLC employees for the most recently completed contract year. The Asphalt JV Services Agreement will terminate on December 31, 2017 and will automatically renew for successive two-year terms. Asphalt JV may terminate the Asphalt JV Services Agreement at any time, with 180 days prior written notice or reduce the level of service with 45 days prior written notice.

In addition, NuStar GP, LLC entered into an employee services agreement with Asphalt JV, effective September 28, 2012 (the Asphalt JV Employee Services Agreement). The Asphalt JV Employee Services Agreement provided that certain of NuStar GP, LLC employees would provide employee-services to Asphalt JV. In exchange, Asphalt JV would reimburse NuStar GP, LLC for the compensation expense of those employees at the same rates that were in effect at the effective date of the Asphalt JV Employee Services Agreement, including an annual bonus amount that does not exceed NuStar GP, LLC’s target bonus plan. The employees covered under the Asphalt JV Employee Services Agreement were not entitled to any new unit-based compensation grants from NuStar GP, LLC, and Asphalt JV was not responsible for unit-based compensation costs prior to the effective date. The Asphalt JV Employee Services Agreement terminated on December 31, 2012, and effective January 1, 2013, those employees became employees of NuStar Asphalt Refining, LLC.

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19. EMPLOYEE BENEFIT PLANS AND LONG-TERM INCENTIVE PLANS

Employee Benefit Plans

We rely on employees of NuStar GP, LLC to provide the necessary services to conduct our U.S. operations. NuStar GP, LLC sponsors various employee benefit plans.

The NuStar Pension Plan (the Pension Plan) is a qualified non-contributory defined benefit pension plan that became effective July 1, 2006. The Pension Plan covers substantially all of NuStar GP, LLC's employees and generally provides eligible employees with retirement income calculated under a final average pay formula (FAP) or a cash balance formula. Employees hired before January 1, 2011 are covered under FAP, which is based on years of service and compensation during their period of service, and employees become fully vested in their benefits upon attaining five years of vesting service. Employees hired on January 1, 2011 or after are covered under the cash balance formula, which is based on age and service and interest credits, and employees become fully vested in their benefits upon attaining three years of vesting service.

NuStar GP, LLC also maintains an excess pension plan (the Excess Pension Plan) and a supplemental executive retirement plan (the SERP). The Excess Pension Plan and the SERP are nonqualified deferred compensation plans that provide benefits to a select group of management or other highly compensated employees of NuStar GP, LLC. Benefits under the Excess Pension Plan and the SERP are generally payable in a single lump sum payment upon the employee's separation from service.

The NuStar Thrift Plan (the Thrift Plan) is a qualified employee profit-sharing plan that became effective June 26, 2006. Participation in the Thrift Plan is voluntary and is open to substantially all NuStar GP, LLC employees upon their date of hire, except for part-time employees (as defined in the Thrift Plan), who become eligible upon completing one year of service (as defined in the Thrift Plan). Thrift Plan participants can contribute from 1% up to 30% of their total annual compensation to the Thrift Plan in the form of pre-tax and/or after tax employee contributions. NuStar GP, LLC makes matching contributions in an amount equal to 100% of each participant's employee contributions up to a maximum of 6% of the participant's total annual compensation.

NuStar GP, LLC also maintains an excess thrift plan (the Excess Thrift Plan) that became effective July 1, 2006. The Excess Thrift Plan is a nonqualified deferred compensation plan that provides benefits to those employees of NuStar GP, LLC whose compensation and/or annual contributions under the Thrift Plan are subject to the limitations applicable to qualified retirement plans under the Internal Revenue Code of 1986, as amended. Benefits under the Excess Thrift Plan are generally payable in a single lump sum payment upon the employee's separation from service.

NuStar GP, LLC also provides a post-retirement medical benefits plan for retired employees, referred to as other post-retirement benefits.

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 Internal Revenue Code or a funded plan subject to the Employee Retirement Income Security Act.

We also maintain several other defined contribution plans for certain international employees located in Canada, the Netherlands and the United Kingdom. For the years ended December 31, 2012, 2011 and 2010, our costs for these plans totaled $2.6 million, $2.6 million and $2.5 million, respectively.

Long-Term Incentive Plans

NuStar GP, LLC also sponsors the following:

- The Third Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), under which NuStar GP, LLC may award up to 3,250,000 NS common units. Awards under the 2000 LTIP can include NS unit options, restricted units, performance awards, distribution equivalent rights (DER) and contractual rights to receive common units. As of December 31, 2012, a total of 1,569,173 NS common units remained available to be awarded under the 2000 LTIP.
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- The 2003 Employee Unit Incentive Plan (the UIP) under which NuStar GP, LLC may award up to 500,000 NS 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 NS unit options, restricted units and DER. As of December 31, 2012, a total of 226,277 NS common units remained available to be awarded under the UIP.
- The 2002 Unit Option Plan under which NuStar GP, LLC may award up to 200,000 NS unit options to officers and directors of NuStar GP, LLC or its affiliates, of which substantially all of the NS unit options have been awarded as of December 31, 2012.
- The 2006 Long-Term Incentive Plan (the 2006 LTIP) under which NuStar GP Holdings may award up to

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2,000,000 NSH units to employees, consultants and directors of NuStar GP Holdings and its affiliates, including us. Awards under the 2006 LTIP can include NSH unit options, performance awards, DER, restricted units, phantom units, unit grants and unit appreciation rights. As of December 31, 2012, a total of 1,510,971 NSH units remained available to be awarded under the 2006 LTIP.

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

	Year Ended December 31,					
	2012		2011		2010	
	Granted	Vesting	Granted	Vesting	Granted	Vesting
2000 LTIP:						
Performance awards	33,445	(a)	27,111	(a)	21,380	(a)
Restricted units	231,855	1/5 per year	208,195	1/5 per year	191,430	1/5 per year
Restricted units (grants to non-employee directors of NuStar GP, LLC)	8,170	1/3 per year	6,760	1/3 per year	3,938	1/3 per year
UIP:						
Restricted units (b)	15,382	1/5 per year	14,005	1/5 per year	11,520	1/5 per year
2006 LTIP:						
Restricted units	25,640	1/5 per year	24,970	1/5 per year	21,935	1/5 per year
Restricted units (grants to non-employee directors of NuStar GP Holdings) (c)	10,601	1/3 per year	9,987	1/3 per year	6,156	1/3 per year

(a) Performance awards vest 1/3 per year if certain performance measures are met.

(b) The UIP restricted unit grants include 3,392, 2,880 and 2,460 restricted unit awards granted to certain international employees for the years ended December 31, 2012, 2011 and 2010, respectively, that vest 1/3 per year, as defined in the award agreements.

(c) We do not reimburse NuStar GP, LLC for compensation expense relating to these awards.

Our share of compensation expense related to the various long-term incentive plans and benefit plans described above is as follows:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Long-term incentive plans	$7,745	$8,521	$20,349
Benefit plans	$17,921	$13,684	$13,129

20. OTHER (EXPENSE) INCOME

Other (expense) income consisted of the following:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Loss on deconsolidation of Asphalt JV	(23,800)	—	—
(Loss) gain from sale or disposition of assets	(3,351)	209	(510)
Storage agreement early termination costs	—	(5,000)	—
Contingent loss adjustment	—	(3,250)	—
Gain from insurance recoveries	—	—	13,500

Foreign exchange (losses) gains	(1,422)	2,078	(1,507)
Other, net	2,062	2,620	4,451
Other (expense) income, net	$(26,511)	$(3,343)	$15,934

For the year ended December 31, 2011, "Other (expense) income, net" included $5.0 million in costs associated with the early termination of a third-party storage agreement at our Paulsboro, New Jersey asphalt refinery and a contingent loss adjustment of $3.3 million related to a legal settlement.

The gain from insurance recoveries for the year ended December 31, 2010 resulted from insurance claims related to damage primarily at our Texas City, Texas terminal caused by Hurricane Ike in 2008.

21. PARTNERS' EQUITY

Issuance of Common Units

On September 10, 2012, we issued 7,130,000 common units representing limited partner interests at a price of $48.94 per unit under our 2010 Shelf Registration Statement. We used the net proceeds from this offering of $343.9 million, including a contribution of $7.1 million from our general partner to maintain its 2% general partner interest, for general partnership purposes, including repayments of outstanding borrowings under our 2012 Revolving Credit Agreement and working capital purposes.

On December 9, 2011, we issued 6,037,500 common units representing limited partner interests at a price of $53.45 per unit under our 2010 Shelf Registration Statement. We used the net proceeds from this offering of $318.0 million, including a contribution of $6.6 million from our general partner to maintain its 2% general partner interest, mainly to reduce outstanding borrowings under our 2007 Revolving Credit Agreement.

Our shelf registration statement on Form S-3 became effective on April 29, 2011, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP, having an aggregate value of up to $200.0 million (the 2011 Shelf Registration Statement). On May 23, 2011, in connection with the 2011 Shelf Registration Statement, we entered into an Equity Distribution Agreement (the Equity Distribution Agreement) with Citigroup Global Markets Inc. (Citigroup). Under the Equity Distribution Agreement, we may from time to time sell an aggregate of up to $200.0 million NuStar Energy common units representing limited partner interests, using Citigroup as our sales agent. In September and October 2011, we issued 108,029 NuStar Energy common units under the Equity Distribution Agreement for net proceeds of $6.0 million, including a contribution of $0.1 million from our general partner to maintain its 2% general partner interest.

On May 19, 2010, we issued 4,400,000 common units representing limited partner interests at a price of $56.55 per unit under our 2010 Shelf Registration Statement. We used the net proceeds from this offering of $245.2 million, including a contribution of $5.1 million from our general partner to maintain its 2% general partner interest, mainly to reduce outstanding borrowings under our 2007 Revolving Credit Agreement and for the Asphalt Holdings Acquisition.

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in the components included in "Accumulated other comprehensive income (loss)" were as follows:

	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
	(Thousands of Dollars)		
Balance as of January 1, 2010	$8,050	$(240)	$7,810
Activity	3,450	35,240	38,690
Balance as of December 31, 2010	11,500	35,000	46,500
Activity	(15,425)	(58,482)	(73,907)
Balance as of December 31, 2011	(3,925)	(23,482)	(27,407)
Activity	9,579	(41,037)	(31,458)

Balance as of December 31, 2012	$5,654	$(64,519)	$(58,865)

Other comprehensive income (loss) attributable to the noncontrolling interest consisted of foreign currency translation adjustment gains of $1.1 million and losses of $3.0 million, for the years ended December 31, 2012 and 2011, respectively. We did not have a noncontrolling interest for the year ended December 31, 2010.

Allocations of Net Income

General Partner. Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and

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priority of cash distributions that the common 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 made after giving effect to priority income allocations, if any, in an amount equal to incentive cash distributions allocated 100% to the general partner. The following table details the calculation of net income applicable to the general partner:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Net (loss) income attributable to NuStar Energy L.P.	$(226,616)	$221,461	$238,970
Less general partner incentive distribution (a)	41,242	36,319	33,304
Net (loss) income after general partner incentive distribution	(267,858)	185,142	205,666
General partner interest	2%	2%	2%
General partner allocation of net (loss) income after general partner incentive distribution	(5,356)	3,703	4,113
General partner incentive distribution	41,242	36,319	33,304
Net income applicable to general partner	$35,886	$40,022	$37,417

(a) The net income allocation to the general partner’s incentive distribution is less than the actual distribution made with respect to 2011, which is shown in the distribution table below, due to the issuance of common units after the end of the third quarter but before the record date.

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 a minimum quarterly distribution of 0.60 per unit each quarter ($2.40 annualized). Our cash is first distributed 98% to the limited partners and 2% to the general partner until the amount distributed to our unitholders is equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution for any prior quarter. Cash in excess of the minimum quarterly distributions is distributed to our unitholders and our general partner based on the percentages shown below.

Our 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%

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

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	$7,486	$6,630	$6,227
General partner incentive distribution	41,242	36,326	33,304
Total general partner distribution	48,728	42,956	39,531
Limited partners' distribution	325,526	288,550	271,847
Total cash distributions	$374,254	$331,506	$311,378
Cash distributions per unit applicable to limited partners	$4.380	$4.360	$4.280

In February 2013, we declared a quarterly cash distribution of $1.095 that was paid on February 14, 2013 to unitholders of record on February 11, 2013. This distribution related to the fourth quarter of 2012 and totaled $98.1 million, of which $12.8 million represented our general partner's interest and incentive distribution.

22. NET INCOME PER UNIT

The following table details the calculation of earnings per unit:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars, Except Per Unit Data)		
Net (loss) income attributable to NuStar Energy L.P.	$(226,616)	$221,461	$238,970
Less general partner distribution (including IDR)	48,728	42,948	39,531
Less limited partner distribution	325,526	288,497	271,847
Distributions greater than earnings	$(600,870)	$(109,984)	$(72,408)
General partner earnings:			
Distributions	$48,728	$42,948	$39,531
Allocation of distributions greater than earnings (2%)	(12,019)	(2,201)	(1,447)
Total	$36,709	$40,747	$38,084
Limited partner earnings:			
Distributions	$325,526	$288,497	$271,847
Allocation of distributions greater than earnings (98%)	(588,851)	(107,783)	(70,961)
Total	$(263,325)	$180,714	$200,886
Weighted-average limited partner units outstanding	72,957,417	65,018,301	62,946,987
Net (loss) income per unit applicable to limited partners	$(3.61)	$2.78	$3.19

23. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Decrease (increase) in current assets:			
Accounts receivable	$160,435	$(230,980)	$(90,369)
Receivable from related parties	(113,018)	—	—
Inventories	112,589	(160,139)	(26,595)
Income tax receivable	2,921	(4,265)	—
Other current assets	(26,050)	(1,825)	31,373
Increase (decrease) in current liabilities:			
Accounts payable	(43,451)	140,898	80,980
Payable to related party	(5,339)	(3,603)	(218)
Accrued interest payable	(6,092)	126	8,179
Accrued liabilities	11,259	(10,087)	(6,488)
Taxes other than income tax	(2,444)	2,574	(4,793)
Income tax payable	(563)	1,848	1,064
Changes in current assets and current liabilities	$90,247	$(265,453)	$(6,867)

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable consolidated balance sheets due to:

- the changes in assets held for sale being reflected in the line items to which the changes relate in the table above;
- current assets and current liabilities acquired and disposed during the period; and
- the effect of foreign currency translation.

Non-cash investing and financing activities for the years ended December 31, 2012, 2011 and 2010 mainly consist of changes in the fair values of our fixed-to-floating and forward-starting interest rate swaps.

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

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Cash paid for interest, net of amount capitalized	$110,679	$109,027	$87,653
Cash paid for income taxes, net of tax refunds received	$21,032	$14,920	$13,062

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24. 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,		
	2012	2011	2010
	(Thousands of Dollars)		
Current:			
U.S.	$4,469	$3,730	$2,010
Foreign	16,483	8,632	11,464
Total current	20,952	12,362	13,474
Deferred:			
U.S.	6,033	1,009	(3,786)
Foreign	(4,491)	3,342	2,053
Total deferred	1,542	4,351	(1,733)
Total income tax expense	$22,494	$16,713	$11,741

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 the majority 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,	
	2012	2011
	(Thousands of Dollars)	
Deferred income tax assets:		
Net operating losses	$25,567	$17,089
Environmental and legal reserves	291	14,822
Capital loss	—	1,044
Valuation allowance	(78)	(1,161)
Total deferred income tax assets	25,780	31,794
Deferred income tax liabilities:		
Property, plant and equipment	(54,155)	(57,392)
Other	(631)	(698)
Total deferred income tax liabilities	(54,786)	(58,090)
Net deferred income tax liability	$(29,006)	$(26,296)
Reported on the consolidated balance sheets as:		
Deferred income tax asset	$3,108	$9,141
Deferred income tax liability	(32,114)	(35,437)
Net deferred income tax liability	$(29,006)	$(26,296)

As of December 31, 2012, our U.S. corporate operations have net operating loss carryforwards for tax purposes totaling approximately $72.1 million, which are subject to various limitations on use and expire in years 2021 through 2031.

As of December 31, 2012 and 2011, we recorded a valuation allowance of $0.1 million and $1.2 million, respectively, related to our foreign deferred tax assets. We estimate the amount of valuation allowance based upon our expectations of taxable income in the various jurisdictions in which we operate and the period over which we can utilize those future deductions. The valuation allowance reflects uncertainties related to our ability to utilize certain net operating loss carryforwards before they expire. In 2012, we decreased the valuation allowance for the foreign net operating loss by $1.1 million due to changes in our estimates of the amount of those loss carryforwards that will be realized, based upon future taxable income and potential tax planning strategies.

The realization of net deferred income tax assets recorded as of December 31, 2012 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 as of December 31, 2012 will be realized, based on expected future taxable income and potential tax planning strategies.

Grace Energy Corporation Matter

In connection with the settlement of the Grace Energy Corporation matter, we recognized a pre-tax gain of $28.7 million within one of our taxable subsidiaries. As a result, we recorded related income tax expense of $10.1 million, resulting from the reduction of the related deferred income tax asset. See Note 15. Commitments and Contingencies for a discussion on the Grace Energy Corporation matter.

Canadian Income Tax Audit

During the second quarter of 2012, we recorded $1.0 million of additional income tax liability and $2.2 million of interest and penalties associated with an ongoing Canadian income tax audit for the years 2006 through 2011. We also recorded $1.3 million of Canadian withholding tax and $0.7 million of interest and penalties associated with the withholding tax liability
related to interest payments made from our Canadian subsidiaries to a United States entity from 2003 to 2009. We believe that
adequate provisions for uncertainties related to the Canadian audits have been reflected in the financial statements.

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 was 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 5.0 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 1.0 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.

Effective January 1, 2011, the Netherlands Antilles was dissolved, and St. Eustatius became part of the Netherlands. We are uncertain of the impact, if any, to our overall tax liability in St. Eustatius.

25. SEGMENT INFORMATION

Our reportable business segments consist of storage, transportation, and asphalt and fuels marketing. Our segments represent strategic business units that offer different services and products. We evaluate the performance of each segment based on its respective operating income, before general and administrative expenses and certain non-segmental depreciation and amortization expense. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal operations include terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and petroleum refining and marketing. Beginning September 28, 2012, we no longer have asphalt refining due to the Asphalt Sale. Intersegment revenues result from storage and throughput agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage and at pipeline tariff rates based upon the applicable published tariff. Related party revenues mainly result from storage agreements with out joint ventures and the noncontrolling shareholder of our Turkey subsidiary.

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

Results of operations for the reportable segments were as follows:

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Revenues:			
Storage:			
Third parties	$524,249	$513,450	$475,624
Intersegment	66,804	52,282	44,214
Related party	4,589	1,039	—
Total storage	595,642	566,771	519,838
Transportation:			
Third parties	340,455	311,449	315,690
Intersegment	—	65	382
Total transportation	340,455	311,514	316,072
Asphalt and fuels marketing:			
Third parties	5,085,592	5,445,877	3,611,747
Intersegment	—	9,782	4,143
Related party	791	—	—
Total asphalt and fuels marketing	5,086,383	5,455,659	3,615,890
Consolidation and intersegment eliminations	(66,804)	(62,129)	(48,739)
Total revenues	$5,955,676	$6,271,815	$4,403,061
Depreciation and amortization expense:			
Storage	$93,449	$87,737	$77,071
Transportation	52,878	51,165	50,617
Asphalt and fuels marketing	11,253	20,949	20,257
Total segment depreciation and amortization expense	157,580	159,851	147,945
Other depreciation and amortization expense	7,441	6,738	5,857
Total depreciation and amortization expense	$165,021	$166,589	$153,802
Operating (loss) income:			
Storage	$194,567	$193,395	$178,947
Transportation	158,590	146,403	148,571
Asphalt and fuels marketing	(296,785)	71,854	90,861
Consolidation and intersegment eliminations	303	(52)	276
Total segment operating income	56,675	411,600	418,655
Less general and administrative expenses	(104,756)	(103,050)	(110,241)
Less other depreciation and amortization expense	(7,441)	(6,738)	(5,857)
Other asset impairment loss	(3,295)	—	—
Gain on legal settlement	28,738	—	—
Total operating (loss) income	$(30,079)	$301,812	$302,557

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

Revenues by geographic area are shown in the table below.

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
United States	$4,237,648	$4,530,810	$3,326,674
Netherlands	1,438,297	1,564,062	914,144
Other	279,731	176,943	162,243
Consolidated revenues	$5,955,676	$6,271,815	$4,403,061

For the years ended December 31, 2012 and 2011, Valero Energy Corporation accounted for approximately 11%, or $668.1 million, and 10%, or $684.1 million, of our consolidated revenues, respectively. These revenues were included in all of our reportable business segments. For the year ended December 31, 2010, no single customer accounted for 10% or more of our consolidated revenues.

Long-lived assets include property, plant and equipment, intangible assets subject to amortization and certain long-lived assets included in “Other long-term assets, net” in the consolidated balance sheets. Total amounts of long-lived assets by geographic area were as follows:

	December 31,	
	2012	2011
	(Thousands of Dollars)	
United States	$3,031,559	$3,166,784
Netherlands	464,226	446,855
Other	226,837	219,911
Consolidated long-lived assets	$3,722,622	$3,833,550

Total assets by reportable segment were as follows:

	December 31,	
	2012	2011
	(Thousands of Dollars)	
Storage	$2,627,946	$2,597,904
Transportation	1,720,711	1,251,474
Asphalt and fuels marketing	885,661	1,717,960
Total segment assets	5,234,318	5,567,338
Other partnership assets	378,771	313,852
Total consolidated assets	$5,613,089	$5,881,190

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

Changes in the carrying amount of goodwill were as follows:

	Storage	Transportation	Asphalt and Fuels Marketing	Total
	(Thousands of Dollars)			
Balance as of January 1, 2011	$585,167	$174,848	$53,255	$813,270
Turkey Acquisition preliminary purchase price allocation	33,734	—	—	33,734
Other (a)	(287)	—	—	(287)
Balance as of December 31, 2011	618,614	174,848	53,255	846,717
TexStar Acquisition preliminary purchase price allocation	—	127,896	—	127,896
Asphalt Operations impairment	—	—	(22,132)	(22,132)
Terminal sales (b)	(3,764)	—	—	(3,764)
Other (a)	2,307	—	—	2,307
Balance as of December 31, 2012	$617,157	$302,744	$31,123	$951,024

(a) Includes purchase price adjustments related to acquisitions still subject to the measurement period that ends at the earlier of 12 months from the acquisition date or when information becomes available. Also includes foreign currency translation adjustments.

(b) Goodwill associated with five terminals in Georgia and Alabama sold on April 16, 2012.

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

	Year Ended December 31,		
	2012	2011	2010
	(Thousands of Dollars)		
Storage	$161,672	$263,918	$241,491
Transportation	493,028	45,170	21,300
Asphalt and fuels marketing	20,333	90,683	26,387
Other partnership assets	53,982	45,569	27,147
Total capital expenditures	$729,015	$445,340	$316,325

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26. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

Condensed Consolidating Balance Sheets
December 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$7,033	$1,112	$—	$ 75,457	$—	$83,602
Receivables	—	157,452	10,561	340,144	(10,381)	497,776
Inventories	—	2,320	5,590	165,349	(31)	173,228
Income tax receivable	—	—	—	1,265	—	1,265
Other current assets	—	26,353	1,468	37,417	—	65,238
Assets held for sale	—	35,337	—	82,997	—	118,334
Intercompany receivable	—	353,384	599,599	—	(952,983)	—
Total current assets	7,033	575,958	617,218	702,629	(963,395)	939,443
Property, plant and equipment, net	—	1,423,991	582,299	1,232,170	—	3,238,460
Intangible assets, net	—	18,733	—	73,702	—	92,435
Goodwill	—	145,990	170,652	634,382	—	951,024
Investment in wholly owned subsidiaries	3,133,097	161,957	1,208,595	2,329,595	(6,833,244)	—
Investment in joint ventures	—	35,883	—	67,062	—	102,945
Deferred income tax asset	—	—	—	3,108	—	3,108
Note receivable from related party	—	95,711	—	—	—	95,711
Other long-term assets, net	490	148,384	26,330	14,759	—	189,963
Total assets	3,140,620	2,606,607	2,605,094	5,057,407	(7,796,639)	5,613,089
Liabilities and Partners’ Equity						
Current portion of long-term debt	$—	$1,313	$250,967	$ 34,142	$—	$286,422
Payables	15	122,706	12,657	274,044	(10,381)	399,041
Accrued interest payable	—	22,512	1,224	5	—	23,741
Accrued liabilities	862	76,322	7,542	39,477	—	124,203
Taxes other than income tax	129	5,671	2,830	1,263	—	9,893
Income tax payable	—	247	—	2,424	—	2,671
Intercompany payable	508,365	—	—	444,618	(952,983)	—
Total current liabilities	509,371	228,771	275,220	795,973	(963,364)	845,971
Long-term debt, less current portion	—	2,124,582	—	—	—	2,124,582

Long-term payable to related party	—	12,629	—	5,442	—	18,071
Deferred income tax liability	—	—	—	32,114	—	32,114
Other long-term liabilities	—	2,701	279	4,376	—	7,356
Total partners' equity	2,631,249	237,924	2,329,595	4,219,502	(6,833,275)	2,584,995
Total liabilities and partners' equity	$3,140,620	$2,606,607	$2,605,094	$ 5,057,407	$(7,796,639)	$5,613,089

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

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

Condensed Consolidating Balance Sheets
December 31, 2011
(Thousands of Dollars)

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

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

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Condensed Consolidating Statements of Income (Loss)
For the Year Ended December 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$—	$364,860	$210,712	$ 5,405,157	$(25,053)	$5,955,676
Costs and expenses	1,699	218,289	151,185	5,640,047	(25,465)	5,985,755
Operating (loss) income	(1,699)	146,571	59,527	(234,890)	412	(30,079)
Equity in (loss) earnings of subsidiaries	(224,917)	(361,830)	65,505	112,818	408,424	—
Equity in (loss) earnings of joint ventures	—	(16,117)	—	6,739	—	(9,378)
Interest expense, net	—	(76,311)	(12,546)	(813)	—	(89,670)
Other (expense) income, net	—	(26,596)	1,679	(1,594)	—	(26,511)
(Loss) income from continuing operations before income tax expense	(226,616)	(334,283)	114,165	(117,740)	408,836	(155,638)
Income tax expense	—	255	1,329	20,910	—	22,494
(Loss) income from continuing operations	(226,616)	(334,538)	112,836	(138,650)	408,836	(178,132)
Loss from discontinued operations, net of tax	—	(2,364)	—	(46,355)	(386)	(49,105)
Net (loss) income	(226,616)	(336,902)	112,836	(185,005)	408,450	(227,237)
Less net loss attributable to noncontrolling interest	—	—	—	(621)	—	(621)
Net (loss) income attributable to NuStar Energy L.P.	$(226,616)	$(336,902)	$112,836	$ (184,384)	$408,450	$(226,616)

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

Condensed Consolidating Statements of Income
For the Year Ended December 31, 2011
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$—	$299,226	$199,569	$ 5,805,535	$(32,515)	$6,271,815
Costs and expenses	1,663	176,985	142,077	5,682,209	(32,931)	5,970,003
Operating (loss) income	(1,663)	122,241	57,492	123,326	416	301,812
Equity in earnings of subsidiaries	223,125	12,883	108,644	145,218	(489,870)	—
Equity in earnings of joint venture	—	—	—	11,458	—	11,458
Interest expense, net	—	(56,389)	(22,840)	(2,498)	—	(81,727)
Other income (expense), net	—	1,309	1,936	(6,588)	—	(3,343)
Income from continuing operations before income tax expense	221,462	80,044	145,232	270,916	(489,454)	228,200
Income tax expense	1	(575)	13	17,274	—	16,713
Income from continuing operations	221,461	80,619	145,219	253,642	(489,454)	211,487
(Loss) income from discontinued operations, net of tax	—	(2,793)	—	12,907	—	10,114
Net income	221,461	77,826	145,219	266,549	(489,454)	221,601
Less net income attributable to noncontrolling interest	—	—	—	140	—	140
Net income attributable to NuStar Energy L.P.	$221,461	$77,826	$145,219	$ 266,409	$(489,454)	$221,461

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

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Condensed Consolidating Statements of Income
For the Year Ended December 31, 2010
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$—	$294,163	$172,623	$ 3,959,122	$(22,847)	$4,403,061
Costs and expenses	1,353	189,950	125,495	3,808,276	(24,570)	4,100,504
Operating (loss) income	(1,353)	104,213	47,128	150,846	1,723	302,557
Equity in earnings of subsidiaries	240,343	41,515	120,827	180,242	(582,927)	—
Equity in earnings of joint venture	—	—	—	10,500	—	10,500
Interest income (expense), net	1	(52,486)	(24,353)	(1,442)	—	(78,280)
Other income, net	—	3,163	289	12,482	—	15,934
Income before income tax expense	238,991	96,405	143,891	352,628	(581,204)	250,711
Income tax expense	21	1,303	—	10,417	—	11,741
Net income	$238,970	$95,102	$143,891	$ 342,211	$(581,204)	$238,970

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

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

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Year Ended December 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net (loss) income	$(226,616)	$(336,902)	$112,836	$(185,005)	$408,450	$(227,237)
Other comprehensive (loss) income:						
Foreign currency translation adjustment	—	—	—	10,677	—	10,677
Net unrealized loss on cash flow hedges	—	(17,069)	—	(77,200)	—	(94,269)
Net loss reclassified into income on cash flow hedges	—	1,749	—	51,483	—	53,232
Total other comprehensive loss	—	(15,320)	—	(15,040)	—	(30,360)
Comprehensive (loss) income	(226,616)	(352,222)	112,836	(200,045)	408,450	(257,597)
Less comprehensive gain attributable to noncontrolling interest	—	—	—	477	—	477
Comprehensive (loss) income attributable to NuStar Energy L.P.	$(226,616)	$(352,222)	$112,836	$(200,522)	$408,450	$(258,074)

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

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

Condensed Consolidating Statements of Comprehensive Income
For the Year Ended December 31, 2011
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net income	$221,461	$77,826	$145,219	$ 266,549	$(489,454)	$221,601
Other comprehensive (loss) income:						
Foreign currency translation adjustment	—	—	—	(18,431)	—	(18,431)
Net unrealized (loss) gain on cash flow hedges	—	(84,199)	—	30,747	—	(53,452)
Net gain reclassified into income on cash flow hedges	—	—	—	(5,030)	—	(5,030)
Total other comprehensive (loss) income	—	(84,199)	—	7,286	—	(76,913)
Comprehensive income (loss)	221,461	(6,373)	145,219	273,835	(489,454)	144,688
Less comprehensive loss attributable to noncontrolling interest	—	—	—	(2,866)	—	(2,866)
Comprehensive income (loss) attributable to NuStar Energy L.P.	$221,461	$(6,373)	$145,219	$ 276,701	$(489,454)	$147,554

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

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

Condensed Consolidating Statements of Comprehensive Income
For the Year Ended December 31, 2010
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net income	$238,970	$95,102	$143,891	$ 342,211	$(581,204)	$238,970
Other comprehensive income:						
Foreign currency translation adjustment	—	—	—	3,450	—	3,450
Net unrealized (loss) gain on cash flow hedges	—	35,000	—	(1,440)	—	33,560
Net loss reclassified into income on cash flow hedges	—	—	—	1,680	—	1,680
Total other comprehensive income	—	35,000	—	3,690	—	38,690
Comprehensive income	$238,970	$130,102	$143,891	$ 345,901	$(581,204)	$277,660

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

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

Condensed Consolidating Statements of Cash Flows
For the Year Ended December 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net cash provided by operating activities	$363,639	$86,333	$81,700	$ 149,369	$(381,838)	$299,203
Cash flows from investing activities:						
Capital expenditures	—	(292,873)	(16,114)	(101,608)	—	(410,595)
Acquisitions	—	(201,610)	—	(114,200)	—	(315,810)
Investment in other long-term assets	—	—	—	(2,610)	—	(2,610)
Proceeds from sale or disposition of assets	—	5,166	4,537	32,947	—	42,650
Proceeds from sale of Asphalt Operations	—	436,276	—	—	—	436,276
Increase in note receivable from related party	—	(95,711)	—	—	—	(95,711)
Investment in subsidiaries	(337,123)	(114,200)	—	(34)	451,357	—
Net cash used in investing activities	(337,123)	(262,952)	(11,577)	(185,505)	451,357	(345,800)
Cash flows from financing activities:						
Debt borrowings	—	2,621,025	—	—	—	2,621,025
Debt repayments	—	(2,470,355)	(250,000)	—	—	(2,720,355)
Proceeds from senior note offering, net of issuance costs	—	247,398	—	—	—	247,398
Issuance of common units, net of issuance costs	336,415	—	—	—	—	336,415
General partner contribution	7,121	—	—	—	—	7,121
Distributions to unitholders and general partner	(365,279)	(365,279)	—	(16,567)	381,846	(365,279)
Proceeds from termination of interest rate swaps	—	(5,678)	—	—	—	(5,678)
Contributions from (distributions to) affiliates	—	337,123	—	114,234	(451,357)	—
Net intercompany borrowings (repayments)	2,254	(177,851)	179,877	(4,272)	(8)	—
Other, net	(133)	(9,845)	—	—	—	(9,978)
Net cash (used in) provided by	(19,622)	176,538	(70,123)	93,395	(69,519)	110,669

financing activities						
Effect of foreign exchange rate changes on cash	—	1,179	—	854	—	2,033
Net increase in cash and cash equivalents	6,894	1,098	—	58,113	—	66,105
Cash and cash equivalents as of the beginning of the period	139	14	—	17,344	—	17,497
Cash and cash equivalents as of the end of the period	$7,033	$1,112	$—	$ 75,457	$—	$83,602

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

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

Condensed Consolidating Statements of Cash Flows
For the Year Ended December 31, 2011
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$377,469	$121,416	$59,109	$ (84,135)	$(379,391)	$94,468
Cash flows from investing activities:						
Capital expenditures	—	(197,845)	(8,093)	(129,722)	—	(335,660)
Acquisitions	—	(47,817)	—	(52,873)	—	(100,690)
Investment in other long-term assets	—	—	—	(8,990)	—	(8,990)
Proceeds from sale or disposition of assets	—	63	86	1,937	—	2,086
Investment in subsidiaries	(374,628)	—	(56,727)	(56,759)	488,114	—
Net cash used in investing activities	(374,628)	(245,599)	(64,734)	(246,407)	488,114	(443,254)
Cash flows from financing activities:						
Debt borrowings	—	949,549	—	—	—	949,549
Debt repayments	—	(801,950)	—	—	—	(801,950)
Issuance of common units, net of issuance costs	317,285	—	—	—	—	317,285
General partner contribution	6,708	—	—	—	—	6,708
Distributions to unitholders and general partner	(322,046)	(322,046)	—	(32)	322,078	(322,046)
Proceeds from termination of interest rate swaps	—	33,433	—	—	—	33,433
Contributions from (distributions to) affiliates	—	260,028	56,727	114,053	(430,808)	—
Net intercompany borrowings (repayments)	(4,702)	(105,944)	(51,102)	161,741	7	—
Other, net	—	4,705	—	(963)	—	3,742
Net cash (used in) provided by financing activities	(2,755)	17,775	5,625	274,799	(108,723)	186,721
Effect of foreign exchange rate changes on cash	—	(1,233)	—	(326)	—	(1,559)
Net increase (decrease) in cash and cash equivalents	86	(107,641)	—	(56,069)	—	(163,624)
	53	107,655	—	73,413	—	181,121

Cash and cash equivalents as of the beginning of the period						
Cash and cash equivalents as of the end of the period	$139	$14	$—	$ 17,344	$—	$17,497

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

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

Condensed Consolidating Statements of Cash Flows
For the Year Ended December 31, 2010
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net cash provided by operating activities	$302,373	$144,654	$30,740	$189,918	$(305,185)	$362,500
Cash flows from investing activities:						
Capital expenditures	—	(109,023)	(14,621)	(146,186)	—	(269,830)
Acquisition	—	—	—	(43,026)	—	(43,026)
Investment in other long-term assets	—	—	—	(3,469)	—	(3,469)
Proceeds from sale or disposition of assets	—	25	34	2,551	—	2,610
Proceeds from insurance recoveries	—	—	—	13,500	—	13,500
Investment in subsidiaries	(245,604)	—	—	(25)	245,629	—
Net cash used in investing activities	(245,604)	(108,998)	(14,587)	(176,655)	245,629	(300,215)
Cash flows from financing activities:						
Debt borrowings	—	1,076,406	—	—	—	1,076,406
Debt repayments	—	(1,401,354)	—	—	—	(1,401,354)
Proceeds from senior note offering, net of issuance costs	—	445,431	—	—	—	445,431
Issuance of common units, net of issuance costs	240,148	—	—	—	—	240,148
General partner contribution	5,078	—	—	—	—	5,078
Distributions to unitholders and general partner	(305,154)	(305,154)	—	(31)	305,185	(305,154)
Contributions from (distributions to) affiliates	—	245,604	—	25	(245,629)	—
Net intercompany borrowings (repayments)	3,159	19,424	(16,133)	(6,450)	—	—
Other, net	—	(3,458)	(20)	(811)	—	(4,289)
Net cash (used in) provided by financing activities	(56,769)	76,899	(16,153)	(7,267)	59,556	56,266
Effect of foreign exchange rate changes on cash	—	(6,502)	—	7,066	—	564
Net increase in cash and cash equivalents	—	106,053	—	13,062	—	119,115

Cash and cash equivalents as of the beginning of the period	53	1,602	—	60,351	—	62,006
Cash and cash equivalents as of the end of the period	$53	$107,655	$—	$ 73,413	$—	$181,121

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

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

27. QUARTERLY FINANCIAL DATA (UNAUDITED)

The amounts shown below differ from those previously reported in our quarterly reports on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2012 and June 30 and September 30, 2011 due to the sale of the San Antonio Refinery on January 1, 2013 as discussed in Note 5 Dispositions. The results of operations of the San Antonio Refinery have been presented as discontinued operations for all periods presented.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Thousands of Dollars, Except Per Unit Data)				
2012:					
Revenues	$1,609,405	$1,767,748	$1,593,756	$984,767	$5,955,676
Operating income (loss)	$59,019	$(204,908)	$59,352	$56,458	$(30,079)
Income (loss) from continuing operations	$37,952	$(244,466)	$13,965	$14,417	$(178,132)
Loss from discontinued operations, net of tax	(11,698)	(2,344)	(9,623)	(25,440)	(49,105)
Net income (loss)	$26,254	$(246,810)	$4,342	$(11,023)	$(227,237)
Net income (loss) per unit applicable to limited partners:					
Continuing operations	$0.39	$(3.53)	$0.04	$0.05	$(2.95)
Discontinued operations	(0.16)	(0.03)	(0.13)	(0.32)	(0.66)
Total	$0.23	$(3.56)	$(0.09)	$(0.27)	$(3.61)
Cash distributions per unit applicable to limited partners	$1.095	$1.095	$1.095	$1.095	$4.380
2011:					
Revenues	$1,234,616	$1,496,357	$1,716,437	$1,824,405	$6,271,815
Operating income	$55,731	$114,186	$90,066	$41,829	$301,812
Income from continuing operations	$28,516	$90,044	$68,143	$24,784	$211,487
Income from discontinued operations, net of tax	—	2,561	2,138	5,415	10,114
Net income	$28,516	$92,605	$70,281	$30,199	$221,601
Net income per unit applicable to limited partners:					
Continuing operations	$0.30	$1.23	$0.89	$0.22	$2.63
Discontinued operations	—	0.04	0.03	0.08	0.15
Total	$0.30	$1.27	$0.92	$0.30	$2.78
Cash distributions per unit applicable to limited partners	$1.075	$1.095	$1.095	$1.095	$4.360

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28. SUBSEQUENT EVENTS

On January 22, 2013, NuStar Logistics issued $402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 under our 2010 Shelf Registration Statement, including the underwriters’ option to purchase up to an additional $52.5 million principal amount of the notes, which option was exercised in full. The net proceeds of approximately $391.5 million were used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The 7.625% notes will bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018. Thereafter, the notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes. NuStar Logistics may elect to defer interest payments on the notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to to the notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred.

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

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES.

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were operating effectively as of December 31, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING.

(a) Management’s Report on Internal Control over Financial Reporting.

Management’s report on NuStar Energy L.P.’s internal control over financial reporting required by Item 9A. appears in Item 8. of this report, and is incorporated herein by reference.

(b) Attestation Report of the Registered Public Accounting Firm.

The report of KPMG LLP on NuStar Energy L.P.’s internal control over financial reporting appears in Item 8. of this Form 10-K, and is incorporated herein by reference.

(c) Changes in Internal Controls over Financial Reporting.

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

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
DIRECTORS AND EXECUTIVE OFFICERS OF NUSTAR GP, LLC

We do not have directors or officers. The directors and officers of NuStar GP, LLC, the general partner of our general partner, Riverwalk Logistics, L.P., perform all of our management functions. NuStar GP Holdings, LLC (NuStar GP Holdings), the sole member of NuStar GP, LLC, selects the directors of NuStar GP, LLC (the Board). Officers of NuStar GP, LLC are appointed by its directors.

Set forth below is certain information concerning the directors and executive officers of NuStar GP, LLC:

Name	Age	Position Held with NuStar GP, LLC
William E. Greehey	76	Chairman of the Board
Curtis V. Anastasio	56	President, Chief Executive Officer (CEO) and Director
J. Dan Bates	68	Director
Dan J. Hill	72	Director
Stan McLelland	67	Director
Rodman D. Patton	69	Director
Bradley C. Barron	47	Executive Vice President and General Counsel
Steven A. Blank	58	Executive Vice President, Chief Financial Officer (CFO) and Treasurer
Mary Rose Brown	56	Executive Vice President-Administration
Douglas W. Comeau	56	Executive Vice President & Chief Operating Officer
Thomas R. Shoaf	54	Senior Vice President and Controller

As a limited partnership, we are not required by the NYSE rules to have a nominating committee, and the Board has historically performed the functions served by a nominating committee. However, in 2013, the Board has created a Nominating/Governance & Conflicts Committee to identify candidates for membership on the Board. In accordance with our Corporate Governance Guidelines, individuals are considered for membership on the Board based on their character, judgment, integrity, diversity, age, skills (including financial literacy), independence and experience in the context of the overall needs of the Board. Our directors are also selected based on their knowledge about our industry and their respective experience leading or advising large companies. We require that our directors have the ability to work collegially, exercise good judgment and think critically. In addition, we ask that our directors commit to working hard for our company. The Nominating/Governance & Conflicts Committee strives to find the best possible candidates to represent the interests of NuStar Energy L.P. and its unitholders. As part of its annual self-assessment process, the Board and each of its committees evaluates the mix of independent and non-independent directors, as well as the performance of the directors and the committees, and the Board annually elects a presiding director.

The Board is led by its Chairman, Mr. Greehey. The Board has determined that separating the roles of Chairman and CEO is in the best interest of unitholders at this time. In addition, the Board has appointed Mr. Patton as its presiding director to serve as a point of contact for unitholders wishing to communicate with the Board and to lead executive sessions of the non-management directors.

Mr. Greehey became Chairman of the Board in January 2002. He has also been the Chairman of the board of directors of NuStar GP Holdings since March 2006. Mr. Greehey served as Chairman of the board of directors of Valero Energy Corporation (Valero Energy) from 1979 through January 2007. Mr. Greehey was CEO of Valero Energy from 1979 through December 2005, and President of Valero Energy from 1998 until January 2003.

Mr. Anastasio became the President and a director of NuStar GP, LLC in December 1999. He also became its CEO in June 2000. Mr. Anastasio has also served as President and Chief Executive Officer of NuStar GP Holdings since March 2006, and he has been a director of NuStar GP Holdings since January 2007.

Mr. Bates became a director of NuStar GP, LLC in April 2006. He has been President and CEO of the Southwest Research Institute since 1997. Mr. Bates also serves as Chairman of the board of Signature Science L.L.C. and Vice

Chairman of Southwest Automotive Research Center. He served as Vice Chairman of the board of directors of the Federal Reserve Bank of

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Dallas' San Antonio Branch from January 2005 through December 2009.

Mr. Hill became a director of NuStar GP, LLC in July 2004. From February 2001 through May 2004, he served as a consultant to El Paso Corporation. Prior to that, he served as President and CEO of Coastal Refining and Marketing Company. In 1978, Mr. Hill was named as Senior Vice President of The Coastal Corporation and President of Coastal States Crude Gathering. In 1971, he began managing Coastal's NGL business. Previously, Mr. Hill worked for Amoco and Mobil.

Mr. McLelland became a director of NuStar GP, LLC in October 2005. He has also served as a director of NuStar GP Holdings since July 2006. Mr. McLelland has served as a director of two privately held companies, Patton Surgical Corp. and the general partner of Yorktown Technologies, LP, since November 2003 and June 2004, respectively. Mr. McLelland was U.S. Ambassador to Jamaica from January 1997 until March 2001. Prior to being named U.S. Ambassador to Jamaica, Mr. McLelland was a senior executive with Valero Energy. He joined Valero Energy in 1981 as Senior Vice President and General Counsel, and he served as Executive Vice President and General Counsel from 1990 until 1997.

Mr. Patton became a director of NuStar GP, LLC in June 2001. He retired from Merrill Lynch & Co. in 1999 where he had served as Managing Director in the Energy Group since 1993. Prior to that, he served in investment banking and corporate finance positions with Credit Suisse First Boston (1981-1993) and Blyth Eastman Paine Webber (1971-1981). He has also served as a director of Apache Corporation since 1999 and is a member of its audit committee.

Mr. Barron became Executive Vice President and General Counsel of NuStar GP, LLC and NuStar GP Holdings in February 2012. He served as Senior Vice President and General Counsel of NuStar GP, LLC and NuStar GP Holdings from April 2007 until his promotion in February 2012. He also served as Secretary of NuStar GP, LLC and NuStar GP Holdings from April 2007 to February 2009. He served as Vice President, General Counsel and Secretary of NuStar GP, LLC from January 2006 until his promotion in April 2007. Mr. Barron also served as Vice President, General Counsel and Secretary of NuStar GP Holdings from March 2006 until his promotion in April 2007. Mr. Barron served as Managing Counsel and Corporate Secretary of NuStar GP, LLC from July 2003 until January 2006. From January 2001 until July 2003, he served as Counsel, and then Senior Counsel, to Valero Energy.

Mr. Blank became Executive Vice President, CFO and Treasurer of NuStar GP, LLC and NuStar GP Holdings in February 2012. He served as Senior Vice President and CFO of NuStar GP, LLC from January 2002 until his promotion in February 2012. He also served as NuStar GP, LLC's Treasurer from July 2005 until his promotion in February 2012. He has also served as Senior Vice President, CFO and Treasurer of NuStar GP Holdings since March 2006. From December 1999 until January 2002, he was Chief Accounting and Financial Officer and a director of NuStar GP, LLC. He served as Vice President and Treasurer of Ultramar Diamond Shamrock Corporation from December 1996 until January 2002.

Ms. Brown became Executive Vice President-Administration of NuStar GP, LLC and NuStar GP Holdings in February 2012. She served as Senior Vice President-Administration of NuStar GP, LLC from April 2008 until her promotion in February 2012. She served as Senior Vice President-Corporate Communications from April 2007 through April 2008. Prior to her service to NuStar GP, LLC, Ms. Brown served as Senior Vice President-Corporate Communications for Valero Energy from September 1997 to April 2007.

Mr. Comeau became Executive Vice President & Chief Operating Officer of NuStar GP, LLC and NuStar GP Holdings, LLC in September 2012. He served as Senior Vice President - Corporate Development and Strategic Planning of NuStar GP, LLC from March 2012 until his promotion in September 2012. Prior to his service to NuStar GP, LLC and NuStar GP Holdings, LLC, Mr. Comeau served as Vice President and General Manager of the Benicia Refinery for Valero Energy from August 2003 to March 2012. He served as Vice President - Strategic Capital Review for Valero Energy from January 2001 to August 2003.

Mr. Shoaf became Senior Vice President and Controller of NuStar GP, LLC and NuStar GP Holdings in February 2012. He served as Vice President and Controller of NuStar GP, LLC from July 2005 until his promotion in February 2012. He also served as Vice President and Controller of NuStar GP Holdings from March 2006 until his promotion in February 2012. Mr. Shoaf served as Vice President-Structured Finance for Valero Corporate Services Company, a subsidiary of Valero Energy, from 2001 until his appointment with NuStar GP, LLC.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires directors, executive officers and persons who beneficially own more than 10% of NuStar Energy L.P.'s equity securities to file certain reports with the Securities and Exchange Commission (SEC) concerning their beneficial ownership of NuStar Energy's equity securities within two business days. We believe that during the year ended December 31, 2012 all Section 16(a) reports applicable to our executive officers, directors and greater than 10% stockholders were timely filed, with the exception of a Form 4 filed on January 17, 2013 to report Ms. Brown's purchase of 14,900 units.

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CODE OF ETHICS OF SENIOR FINANCIAL OFFICERS

NuStar GP, LLC has adopted a Code of Ethics for Senior Financial Officers that applies to NuStar GP, LLC's principal executive officer, principal financial officer and controller. This code charges the senior financial officers with responsibilities regarding honest and ethical conduct, the preparation and quality of the disclosures in documents and reports NuStar GP, LLC files with the SEC and compliance with applicable laws, rules and regulations.

CORPORATE GOVERNANCE

AUDIT COMMITTEE

The Audit Committee reviews and reports to the Board on various auditing and accounting matters, including the quality, objectivity and performance of NuStar Energy's internal and external accountants and auditors, the adequacy of its financial controls and the reliability of financial information reported to the public. The Audit Committee also monitors NuStar Energy's compliance with environmental laws and regulations. The Board has adopted a written charter for the Audit Committee. The members of the Audit Committee during 2012 were Rodman D. Patton (Chairman), J. Dan Bates and Dan J. Hill. The Audit Committee met eight times in 2012. For further information, see the "Report of the Audit Committee" below.

The Board has determined that Mr. Patton is an "audit committee financial expert" (as defined by the SEC), and that he is "independent" as that term is used in the NYSE Listing Standards.

REPORT OF THE AUDIT COMMITTEE FOR FISCAL YEAR 2012

Management of NuStar GP, LLC is responsible for NuStar Energy's internal controls and the financial reporting process. KPMG LLP (KPMG), NuStar Energy's independent registered public accounting firm for the year ended December 31, 2012, is responsible for performing an independent audit of NuStar Energy's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) and generally accepted auditing standards, and an audit of NuStar Energy's internal control over financial reporting in accordance with the standards of the PCAOB, and issuing a report thereon. The Audit Committee monitors and oversees these processes and approves the selection and appointment of NuStar Energy's independent registered public accounting firm and recommends the ratification of such selection and appointment to the Board.

The Audit Committee has reviewed and discussed NuStar Energy's audited consolidated financial statements with management and KPMG. The Audit Committee has discussed with KPMG the matters required to be discussed by Statement on Auditing Standards No. 114 by the PCAOB. The Audit Committee has received written disclosures and the letter from KPMG required by applicable requirements of the Audit Committee concerning independence and has discussed with KPMG that firm's independence.

Based on the foregoing review and discussions and such other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to the Board that the audited consolidated financial statements of NuStar Energy be included in NuStar Energy's Annual Report on Form 10-K for the year ended December 31, 2012.

Members of the Audit Committee:

Rodman D. Patton (Chairman)

J. Dan Bates

Dan J. Hill

RISK OVERSIGHT

While it is the job of management to assess and manage our risk, the Board of Directors and its Audit Committee (each where applicable) discuss the guidelines and policies that govern the process by which risk assessment and management is undertaken and evaluate reports from various functions with the management team on risk assessment and management. The Board interfaces regularly with management and receives periodic reports that include updates on operational, financial, legal and risk management matters. The Audit Committee assists the Board in oversight of the integrity of NuStar Energy's financial statements and NuStar Energy's compliance with legal and regulatory requirements, including those related to the health, safety and environmental performance of our company. The Audit Committee also reviews and assesses the performance of NuStar Energy's internal audit function and its independent auditors. The Board receives regular reports from the Audit Committee.

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Evaluation of Compensation Risk. The Compensation Committee has focused on aligning our compensation policies with the long-term interests of NuStar Energy and avoiding short-term rewards for management decisions that could pose long-term risks to NuStar Energy. NuStar Energy's compensation programs are structured so that a considerable amount of our management's compensation is tied to NuStar Energy's long-term fiscal health. The only short-term incentive available to NuStar Energy employees and executives is the all-employee performance bonus. All bonuses, including executive bonuses, are determined with reference to well-defined performance metrics selected by the Compensation Committee and applicable to all employees. Historically, our long-term incentives have taken the form of performance units, restricted units and unit options that typically vest over three- and five-year periods, thereby aligning our employees' interests with the long-term goals of NuStar Energy. No business group or unit is compensated differently than any other, regardless of profitability. There is also a maximum number of performance units that may be earned, based on the performance of NuStar Energy relative to certain peer companies. As such, we believe that our compensation policies encourage employees to operate our business in a fundamentally sound manner and do not create incentives to take risks that are reasonably likely to have a material adverse effect on NuStar Energy.

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ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussion and such other matters the Compensation Committee deemed relevant and appropriate, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this annual report.

Members of the Compensation Committee:
Dan J. Hill (Chairman)
J. Dan Bates
Rodman D. Patton

COMPENSATION DISCUSSION AND ANALYSIS

Executive Compensation Philosophy

Our philosophy for compensating our named executive officers (NEOs) is based on the belief that a significant portion of executive compensation should be incentive-based and determined by both NuStar Energy's and the executive's performance objectives. Our executive compensation programs are designed to accomplish the following long-term objectives:

- increase value to unitholders, while practicing good corporate governance;
- support our business strategy and business plan by clearly communicating what is expected of executives with respect to goals and results;
- provide the Compensation Committee with the flexibility to respond to the continually changing environment in which NuStar Energy operates;
- align executive incentive compensation with NuStar Energy's short- and long-term performance results; and
- provide market-competitive compensation and benefits to enable us to recruit, retain and motivate the executive talent necessary to produce sustainable, superior growth for our unitholders.

Compensation for our NEOs primarily consists of base salary, an annual incentive bonus and long-term, equity-based incentives. Our executives participate in the same group benefit programs available to our salaried employees in the United States. In addition, see "Post-Employment Benefits" below in this Item 11. Our executives do not have employment or severance agreements, other than the change-of-control agreements described below in "Potential Payments Upon Termination or Change of Control." The Compensation Committee targets base salary for our NEOs, as well as annual incentive bonus and long-term incentive awards (expressed, in each case, as a percentage of base salary), at or near the median of our peer group and after reviewing survey data for a group of 849 industrial companies. In each case, an executive's salary and incentive opportunities are determined by the unique responsibilities of his or her position and by each executive's experience and performance, with the market information in mind.

Our NEOs for the year ended December 31, 2012 were: Curtis V. Anastasio, Bradley C. Barron, Steven A. Blank, Mary Rose Brown and Douglas W. Comeau.

Administration of Executive Compensation Programs

Our executive compensation programs are administered by our Board's Compensation Committee. The Compensation Committee is composed of three independent directors who are not participants in our executive compensation programs. Policies adopted by the Compensation Committee are implemented by our compensation and benefits staff. Annually, the Compensation Committee reviews market trends in compensation, including the practices of identified competitors, and the alignment of the compensation program with NuStar Energy's strategy. Specifically, for executive officers, the Compensation Committee:

- establishes and approves target compensation levels for each executive officer;
- approves company performance measures and goals;

- determines the mix between cash and equity compensation, short-term and long-term incentives and benefits;

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- verifies the achievement of previously established performance goals; and
- approves the resulting cash or equity awards to executives.

In making determinations about total compensation for executives, the Compensation Committee takes into account a number of factors, including: the competitive market for talent; compensation paid at peer companies; industry-wide trends; NuStar Energy's performance; the particular executive's role, responsibilities, experience and performance; and retention. The Compensation Committee also considers other equitable factors such as the role, contribution and performance of an individual executive relative to the executive's peers at the company. The Compensation Committee does not assign specific weight to these factors, but rather makes a subjective judgment taking all of these factors into account.

The Compensation Committee has retained BDO USA, LLP (BDO) as its independent compensation consultant with respect to executive compensation matters. In its role as advisor to the Compensation Committee, BDO was retained directly by the Compensation Committee, which has the authority to select, retain and/or terminate its relationship with a consulting firm. The Compensation Committee determined that there are no conflicts of interest between the Company, the Committee and BDO because BDO provides no other services to NuStar Energy; fees paid to BDO represent less than a fraction of 1% of BDO's worldwide revenues; BDO has policies in place to prevent a conflict of interest, including a policy that no employee of BDO may own NuStar Energy units; and there is no business or personal relationship between BDO's consultant and any of NuStar Energy's officers or directors.

Selection of Compensation Comparative Data

The Compensation Committee relies upon two primary sources of competitive compensation data in assessing base salary rates, annual incentive compensation and long-term incentive compensation: a group of master limited partnerships and other companies in our industry and broader survey data on comparably sized entities.

To establish compensation for the NEOs, including the CEO, the Committee, in consultation with management and BDO, identified a specific peer group (listed below), composed primarily of master limited partnerships but also including independent, regional refining companies, to evaluate competitive rates of compensation (the Compensation Comparative Group). Refining companies, HollyFrontier Corporation and Western Refining Inc., were added to our prior peer list in 2008 to account for our acquisition of asphalt refining and marketing assets from CITGO Asphalt Refining Company (the Asphalt Business) in March 2008. For 2012, each of these organizations, in our opinion, competed with us for executive talent. We intend to reevaluate this group in 2013, particularly with respect to the refining companies, in view of the fact we no longer directly own any refining assets, due to our third quarter 2012 sale of 50% of the Asphalt Business and our first quarter 2013 sale of the San Antonio refinery. The competitive data for these companies is derived from their respective publicly filed annual proxy statements or annual reports on Form 10-K.

Company	Ticker
1. Boardwalk Pipeline Partners	BWP
2. Buckeye Partners LP	BPL
3. Copano Energy LLC	CPNO
4. Crosstex Energy LP	XTEX
5. Enbridge Energy Partners LP	EEP
6. Energy Transfer Partners	ETP
7. Enterprise Product Partners LP	EPD
8. Kinder Morgan Energy LP	KMP
9. Magellan Midstream Partners LP	MMP
10. Mark West Energy Partners	MWE
11. ONEOK Partners, L.P.	OKS
12. Plains All American Pipeline LP	PAA
13. Regency Energy Partners	RGNC

14. Sunoco Logistics Partners LP	SXL
15. HollyFrontier Corporation*	HFC
16. Western Refining Inc.	WNR

* Holly Corporation and Frontier Oil Corporation merged in 2011 to form HollyFrontier Corporation.

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The Compensation Committee also periodically reviews survey data reported on a position-by-position basis to obtain additional information regarding compensation of comparable positions. The survey data consists of general industry data for executive positions reported in the Towers Watson General Industry Executive Compensation database, a proprietary compensation database of approximately 849 U.S. industrial companies that is updated each year. In 2012, at the Committee's request, BDO reviewed and interpreted tabular data from the Towers Watson survey for companies in a range of reported revenues comparable to NuStar Energy's. We refer to the competitive survey data, together with the Compensation Comparative Group data, as the Compensation Comparative Data.

Process and Timing of Compensation Decisions

The Compensation Committee reviews and approves all compensation for the NEOs. Recommendations regarding compensation for NEOs other than the CEO are developed by the CEO in consultation with BDO. In making these recommendations, the CEO considers the Compensation Comparative Data and evaluates the individual performance of each NEO and their respective contributions to the Company. The recommendations are then reviewed by the Compensation Committee, which may accept the recommendations or may make adjustments to the recommended compensation based on their own assessment of the individual's performance and contributions to NuStar Energy.

As required by the Compensation Committee's charter, the compensation of the CEO is reviewed and approved by the Compensation Committee based on the Compensation Comparative Data and other factors; discretionary adjustments may be made based upon their independent evaluation of the CEO's performance and contributions.

Each July, the Compensation Committee reviews the NEOs' total compensation, including base salary and the target levels of annual incentive and long-term incentive compensation. The review includes a comparison with competitive market data provided by BDO, an evaluation of the total compensation of the executive officer group from an internal equity perspective and reviews of reports on the compensation history of each executive. Based on these reviews and evaluations, the Compensation Committee establishes annual salary rates for executive officer positions for the upcoming 12-month period and sets target levels of annual incentive and long-term incentive compensation. Although the target levels are established in July, the long-term incentives are reviewed again at the time of grant, typically in the fourth quarter for unit options and restricted units and in the first quarter for performance units. The Compensation Committee may also review salaries or grant long-term incentive awards at other times during the year because of new appointments, promotions or other extraordinary circumstances.

The following table summarizes the approximate timing of some of our significant compensation events:

Event	Timing
Establishing financial performance objectives for current year's annual incentive bonus; evaluating achievement of bonus metrics in prior year	First quarter
Review and certify financial performance for performance units granted in prior years; grant performance units	First quarter
Review base salaries for executive officers for the current year and targets for annual incentive bonus and long-term incentive grants	Third quarter
Consider grant of restricted unit and unit options to employees and officers and grant restricted units to directors	Fourth quarter
Setting meeting dates for action by the Compensation Committee for the upcoming year	Fourth quarter

Additional information regarding the timing of 2012 long-term incentive grants is discussed below under "Performance Units" and "Restricted Units."

Elements of Executive Compensation

General

Our executive compensation programs currently consist of the following material elements:

- base salaries;
- annual incentive bonuses;
- long-term equity-based incentives, including:

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- performance units; and
- restricted units;
- medical and other insurance benefits, retirement benefits and other perquisites.

We use base salary as the foundation for our executive compensation program. We believe that base salary should provide a fixed level of competitive pay that reflects the executive officer's primary duties and responsibilities, as well as a foundation for incentive opportunities and benefit levels. Our annual incentive bonuses are designed to focus our executives on improving NuStar Energy's distributable cash flow (DCF), a non-GAAP measure of financial performance, which is widely regarded among the master limited partnership (MLP) investment community as a significant determinant of an MLP's unit price. Our long-term equity incentive awards are designed to directly tie an executive's financial reward opportunities with the rewards to unitholders on both an absolute and relative basis, as measured by long-term unit price performance and payment of distributions. Throughout this Item 11, we use the term "Total Direct Compensation" to refer to the sum of an executive officer's base salary, annual incentive bonus and long-term incentive awards for a particular fiscal year. We also offer group medical benefits that allow employees (including NEOs) affordable coverage at group rates, as well as pension benefits that reward continued service and a thrift plan that provides a tax-advantaged savings opportunity.

Relative Size of Primary Elements of Compensation

In setting executive compensation, the Compensation Committee considers the aggregate amount of compensation payable to an executive officer and the form of the compensation. The Compensation Committee seeks to achieve the appropriate balance between salary, cash rewards earned for the achievement of company and personal objectives and long-term incentives that align the interests of our executive officers with those of our unitholders. The size of each element is based on competitive market practices, as well as company and individual performance.

The level of incentive compensation typically increases in relation to an executive officer's responsibilities, with the level of incentive compensation for more senior executive officers being a greater percentage of total compensation than for less senior executives. The Compensation Committee believes that making a significant portion of an executive officer's incentive compensation contingent on long-term unit price performance more closely aligns the executive officer's interests with those of our unitholders.

Because we place such a large proportion of our total executive compensation at risk in the form of variable pay (i.e. annual and long-term incentives), the Compensation Committee does not adjust current compensation based upon realized gains or losses from prior incentive awards. For example, we will not reduce the size of a target long-term incentive grant in a particular year solely because NuStar Energy's unit price performed well during the immediately preceding years. We believe that adopting a policy of making such adjustments would penalize management's current compensation for NuStar Energy's prior success.

The following table summarizes the relative size of base salary and incentive compensation targets for 2012 for each of our NEOs:

	Target Percentage of Total Direct Compensation			
Name	Base Salary (%)	Annual Incentive Bonus (%)	Long-Term Incentives (%)	TOTAL
Anastasio	26	23	51	100
Barron	35	21	44	100
Blank	35	21	44	100
Brown	35	21	44	100
Comeau	31	23	46	100

Individual Performance and Personal Objectives

The Compensation Committee evaluates our NEOs' individual performance and personal objectives with input from our CEO. Our CEO's performance is evaluated by the Compensation Committee in consultation with other members of the Board.

Assessment of individual performance may include objective criteria, but is a largely subjective process. The criteria used to measure an individual's performance may include use of quantitative criteria (e.g., execution of projects within budget, improving an operating unit's profitability, or timely completion of an acquisition or divestiture), as well as more qualitative

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factors, such as the executive officer's ability to lead, ability to communicate and successful adherence to NuStar's core values (i.e., environmental and workplace safety, integrity, work commitment, effective communication and teamwork). There are no specific weights given to any of these various elements of individual performance.

We use our evaluation of individual performance to supplement our objective compensation criteria and adjust an executive officer's recommended compensation. For example, although an individual officer's indicated bonus may be calculated to be $100,000 based on NuStar Energy's performance, an individual performance evaluation might result in a reduction or increase in that amount.

Base Salaries

The base salaries for our executive officers are reviewed annually by the Compensation Committee based on recommendations of our CEO, with input from BDO and our compensation and benefits staff. Our CEO's base salary is reviewed and approved by the Compensation Committee based on its review of recommendations by BDO, our Chairman and our compensation and benefits staff.

The competitiveness of base salaries for each executive position is determined by an evaluation of the compensation data described above. Base salaries may be adjusted to achieve what is determined to be a reasonably competitive level or to reflect promotions, the assignment of additional responsibilities, individual performance or the performance of NuStar Energy. Salaries are also periodically adjusted to remain competitive with the Compensation Comparative Data.

In July 2011, BDO performed a comprehensive review of our NEO's Total Direct Compensation. In July 2012, management reviewed several sets of survey data, including a Aon Hewitt study, a Mercer study and The World At Work, and they also considered anecdotal information about compensation by local companies. Based on this information, management recommended that each NuStar employee throughout the company, including the NEOs, be eligible to receive a merit-based pay raise in the range of 0% to 3.25% of his or her actual salary paid during the prior 12-month period (Eligible Salary). Each NEO received a raise in their base salary in the amount of 3.25% of their Eligible Salary, as provided in the table below.

Name	Annualized Base Salary at December 31, 2012	July 2012 Increase to Prior Annualized Salary
Anastasio	$536,900	$16,900
Barron	309,750	9,750
Blank	373,410	11,750
Brown	334,530	10,530
Comeau (1)	385,000	--

(1) Mr. Comeau was hired in March 2012 at an annual salary of $295,000, and he received a $9,590 raise in July 2012. He was promoted in October 2012, and at that time his salary rate was raised to $385,000.

Annual Incentive Bonus

Our NEOs participate in the annual incentive plan in which all domestic company employees participate. Under the plan, participants can earn annual incentive bonuses based on the following three factors:

- The individual's position, which is used to determine a targeted percentage of annual base salary that may be awarded as incentive bonus. Generally, the target amount for the NEOs is set following the analysis of market practices in the Compensation Comparative Group and a determination of the median bonus target available to comparable executives in those companies;
- NuStar Energy's attainment of specific quantitative financial goals, which are established by the Compensation Committee during the first quarter of the year; and
- A discretionary evaluation by the Compensation Committee of both NuStar Energy's performance and, in the case of the NEOs, the individual executive's performance.

The following table shows the percentage of each NEO's salary paid in 2012 that represents his or her annual bonus target for the fiscal year ended December 31, 2012, before discretionary adjustments, as discussed below:

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Name	Annual Incentive Bonus Target as a Percentage of Base Salary
Anastasio	90
Barron	60
Blank	60
Brown	60
Comeau	75

Determination of Annual Incentive Target Opportunities

As illustrated by the example above, each NEO has an annual incentive opportunity generally based on a stated percentage of his or her base salary. The target amount is awarded for achieving a 100% score on our stated financial goal under the bonus plan. For example, in a year with a 100% score, an executive with a salary of $200,000 and a target annual incentive opportunity equal to 60% of his base annual salary would receive a bonus of $120,000. In addition, the plan allows for the upward or downward adjustment of awards, based upon attainment of the financial goal, equal to a range of 0% to 200% of the target award. If we failed to reach at least the threshold level of performance for our financial goal, the participant would have earned an incentive award of $0. Likewise, if we had achieved the maximum level of performance for the financial goal, the participant could earn up to 200% of his target award.

Once the financial goals have been reviewed and measured, the Compensation Committee has the authority to exercise its discretion in evaluating NuStar Energy's performance. In exercising this discretionary judgment, the Compensation Committee considers such relevant performance factors as growth, attainment of strategic objectives, acquisitions and divestitures, safety and environmental compliance, and other considerations. This discretionary judgment may result in an increase or decrease in the aggregate earned award for all employees based upon the attainment of the financial goals noted above.

The CEO develops individual incentive bonus recommendations based upon the methodology described above. In addition, both the CEO and the Compensation Committee may make adjustments to the recommended incentive bonus amounts based upon an assessment of an individual's performance and contributions to NuStar Energy. The CEO and the Compensation Committee also review and discuss each executive bonus on a case-by-case basis, considering such factors as teamwork, leadership, individual accomplishments and initiative, and may adjust the bonus awarded to reflect these factors.

The bonus target for the CEO is decided solely by the Compensation Committee, and the Compensation Committee may make discretionary adjustments to the calculated level of bonus based upon its independent evaluation of the CEO's performance and contributions.

Company Performance Objectives

In 2012, as in prior years, the Compensation Committee approved a DCF metric for NuStar Energy's bonus metric, based on management's recommendations and input from BDO. In the MLP investment community, DCF is widely regarded as a significant determinant of unit price. As such, the Compensation Committee believes the measure appropriately aligns our management's interest with our unitholders' interest in continuously increasing distributions in a prudent manner.

We derive DCF from our financial statements by adjusting our net income for depreciation and amortization expense, equity earnings from joint ventures and unrealized gains and losses arising from certain derivative contracts. Additionally, we subtract our aggregate annual reliability capital expenditures and add the aggregate annual amount of cash distributions received from equity method investees.

Each year, the Compensation Committee establishes NuStar Energy's budgeted DCF for the year as a target and establishes corresponding levels of performance for which the incentive opportunity would be paid, such that if less than 90% of the target was attained, no bonus would be paid; if 90% of the target was attained, 50% of the incentive opportunity could be paid; if the target was achieved, 100% of the incentive opportunity could be paid; if 110% of the target was attained, 150% of the incentive opportunity could be paid; and if 120% or more of the target was attained, 200% of the incentive opportunity could be paid. The budgeted DCF may be adjusted during the year to account for acquisitions or other significant changes not anticipated at the time the target was determined. In 2012, NuStar's budgeted DCF was $393,000,000.

Determination of Awards

For the 2012 annual incentive bonus determination, the Compensation Committee measured NuStar Energy's DCF against the established target to determine the amount of incentive award earned. NuStar Energy's DCF for 2012 was below 90% of the target. This resulted in the NEOs having a potential annual incentive award equal to 0% of his or her target award.

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Name	Bonuses Paid For 2012 ($)
Anastasio	0
Barron	0
Blank	0
Brown	0
Comeau	0

Long-term Incentive Awards

We provide unit-based, long-term compensation for employees, including executives and directors, through our Third Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), which was approved by our unitholders effective as of May 1, 2011. The 2000 LTIP provides for a variety of unit and unit-based awards, including unit options, restricted units and performance units. Performance units vest (become nonforfeitable) upon the achievement of an objective performance goal. Long-term incentive awards vest over a period determined by the Compensation Committee.

Under the design of the long-term incentive award plan, each plan participant, including the NEOs, are designated a target long-term incentive award expressed as a percentage of base salary. This percentage reflects the fair value of the awards to be granted.

As mentioned above, BDO delivered a comprehensive review of our NEO’s Total Direct Compensation in July 2012. Based on BDO’s review and analysis, the Compensation Committee adjusted the NEO’s long-term incentive targets (expressed as a percent of base salary) as shown in the table below.

Name	Long-Term Incentive Target (% of base salary)
Anastasio	200
Barron	125
Blank	125
Brown	125
Comeau	150

The Compensation Committee allocates a percentage of long-term award value to performance-based awards and a percentage to awards that focus on retention and increasing ownership levels of executive officers. Beginning with the long-term award in the fourth quarter of 2011, the target levels were allocated in the following manner for each individual:

- 35% of the targeted long-term incentive dollar value is awarded to the executive in a grant of performance units. The number of performance units granted is based upon the expected fair value of a single performance unit at the time of grant; and
- 65% of the targeted long-term incentive dollar value is awarded to the executive in the form of restricted units. The number of restricted units granted is based upon the expected fair value of a single restricted unit at the time of grant.

The Compensation Committee reviews and approves all grants for the NEOs. The CEO develops individual grant recommendations based upon the methodology described above, but both the CEO and the Compensation Committee may make adjustments to the recommended grants based upon an assessment of an individual’s performance and contributions to NuStar Energy. Grants to the CEO are decided solely by the Compensation Committee following the methodology described above, and the Compensation Committee may make discretionary adjustments to the calculated level of long-term incentives based upon its independent evaluation of the CEO’s performance and contributions.

Restricted Units

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Name	Restricted Units Granted in 2012 (2)	
	NS	NSH
Anastasio	9,575	6,630
Barron	3,450	2,390
Blank	4,160	2,880
Brown	3,730	2,580
Comeau (1)	11,150	3,565

(1) In addition to the annual grant opportunity, Mr. Comeau received a hiring grant of 3,000 NS restricted units in March 2012 and a grant of 3,000 NS restricted units in October 2012 for his promotion to Chief Operating Officer.
(2) In January 2012, in addition to the annual grants provided in the table, the Compensation Committee awarded the NEOs a special, one-time grant NuStar Energy restricted units based on the company's performance in 2011. That special grant is described below in the "Special Restricted Unit Grant" table.

The restricted units comprise approximately 65% of each executive's total NuStar Energy long-term incentive target. The Compensation Committee presently expects to grant restricted units annually. The executives' long-term incentive targets include approximately 70% NuStar Energy restricted units and 30% NuStar GP Holdings restricted units (in both cases, calculated from an assumed unit value based on the average closing price for the 10 business days approximately one month prior to the Compensation Committee meeting at which the awards are to be approved). The restricted units all vest in equal increments on the anniversary of the grant date over five years. Restricted units of NuStar GP Holdings were introduced into the compensation program in 2008 to reflect the fact that the performance of NuStar GP Holdings is directly tied to the performance of NuStar Energy, since NuStar GP Holdings' sole asset is its interest in NuStar Energy. The NuStar GP Holdings restricted units grants, as well as the grants of the NuStar Energy restricted units, were approved in a joint meeting of the Compensation Committee and the compensation committee of NuStar GP Holdings' Board of Directors.

In 2012, the Compensation Committee and management made a determination that the grants for employees, including management and non-employee directors, would be made as soon as administratively practicable and no earlier than the third business day following our third quarter earnings release. Due to the time required to award and implement the grants, the grant was not made until December 19, 2012.

Performance Units

In April 2012, performance units comprised approximately 35% of each of our NEOs' total NuStar Energy long-term incentive targets. Performance units are earned only upon NuStar Energy's achievement of an objective performance measure, total unitholder return (TUR), as compared with the Compensation Comparative Group. NuStar Energy's TUR is the total return to unitholders, based upon the growth in the unit price, as well as cash distributions to unitholders, during the year. The Compensation Committee believes this type of incentive award strengthens the tie between the named executive's pay and our financial performance.

The number of performance units granted in 2012 was determined by multiplying annual base salary rate by the Long-Term Incentive Target Percentage, and then multiplying that product by 35%. That product is then divided by the assumed value of an individual unit, which is the product of (x) the average unit price for the period of December 15 through December 31 (using the daily closing prices) and (y) a factor that reflects the present value of the award and a risk that the award might be forfeited.

Name	Performance Unit Grants in 2012
Anastasio	8,200
Barron	2,955
Blank	3,565
Brown	3,195
Comeau	2,560

Each award is subject to vesting in three annual increments, based upon our TUR during rolling three-year periods that end on December 31 of each year following the date of grant. At the end of each performance period, our TUR is compared to the Compensation Comparative Group and ranked by quartile. Executives then earn 0%, 50%, 100% or 150% of that portion of the initial grant amount that is vested, depending upon whether our TUR is in the last, 3rd, 2nd or 1st quartile, respectively, and

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they earn 200% if we rank highest in the group. Amounts not earned in a given performance period can be carried forward for one additional performance period and up to 100% of the carried amount can still be earned, depending upon the quartile achieved for that subsequent period.
For the performance period ended December 31, 2011, our performance ranking in the fourth quartile of the group for the three-year period, which resulted in the NEOs receiving none of the 2011 performance units available to vest in January 2012. On January 26, 2012, the Compensation Committee met and discussed NuStar Energy's performance for the period. During that period, NuStar Energy's TUR was 72.41%.
Based on their review of company performance, as well as each NEO's performance during the three-year period ending December 31, 2011, the Compensation Committee awarded a special grant of restricted units as shown in the table below, which vest in equal increments over three years, beginning on the first anniversary date of the grant. Each NEOs agreed to waive his or her right to receive any performance units that would have carried forward into subsequent years as a result of their failure to meet the performance threshold for 2011.

Name	Special One-Time Restricted Unit Grant for 2011 Performance
Anastasio	5,337
Barron	1,818
Blank	2,240
Brown	2,025
Comeau	—

For the performance period ended December 31, 2012, our performance ranked in the fourth quartile of the group for the rolling three-year period, which resulted in the NEOs receiving none of the 2012 performance units available to vest in 2013.

Perquisites and Other Benefits
Perquisites
We provide only minimal perquisites to our executive officers. Mr. Anastasio, Mr. Barron, Mr. Blank and Ms. Brown received federal income tax preparation services in 2012. Executives are also eligible to receive liability insurance. For more information on perquisites, see the Summary Compensation Table and its footnotes.
Other Benefits
We provide other benefits, including medical, life, dental and disability insurance in line with competitive market conditions. Our NEOs are eligible for the same benefit plans provided to our other employees, including our pension plans, 401(K) thrift plan (the Thrift Plan), and insurance and supplemental plans chosen and paid for by employees who desire additional coverage. Executive officers and other employees whose compensation exceeds certain limits are eligible to participate in non-qualified excess benefit programs whereby those individuals can choose to make larger contributions than allowed under the qualified plan rules and receive correspondingly higher benefits. These plans are described below under “Post-Employment Benefits.”

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Post-Employment Benefits

Pension Plans

For a discussion of our pension plans, including the Excess Pension Plan and the Supplemental Executive Retirement Plan, please see the narrative description accompanying the Pension Benefits table below this item.

Nonqualified Deferred Compensation Plans

Excess Thrift Plan

The Excess Thrift Plan provides unfunded 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 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 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 consists of a separate plan for purposes of Title I of ERISA. To the extent a participant's annual total compensation exceeds the compensation limits for the calendar year under §401(a)(17) of the Code ($250,000 for 2012), the participant's excess thrift plan account is credited with that number of hypothetical NuStar Energy units that could have been purchased with the difference between:

- The total company matching contributions that would have been credited to the participant's account under the Thrift Plan had the participant's contributions not been reduced pursuant to §401; and
- The actual company matching contributions credited to such participant's account.

Mr. Anastasio, Mr. Barron, Mr. Blank and Ms. Brown participated in the Excess Thrift Plan in 2012.

Frozen Nonqualified 401(k) Plan

Effective July 1, 2006, we established the NuStar GP, LLC Frozen Nonqualified 401(k) Plan for Former Employees of Ultramar Diamond Shamrock Corporation (the Frozen Plan). The Frozen Plan assumes and continues the frozen Ultramar Diamond Shamrock Corporation Nonqualified 401(k) Plan (the UDS Plan) with respect to the current NuStar GP, LLC employees who had accrued benefits under the UDS Plan. No additional benefits accrue under the Frozen Plan, and we make no contributions to the Frozen Plan. Mr. Anastasio and Mr. Blank have Frozen Plan accounts.

Change-of-Control Severance Arrangements

We entered into change of control agreements with each of the NEOs in, or prior to, 2007. These agreements are intended to assure the continued availability of these executives in the event of certain transactions culminating in a "change of control" as defined in the agreements. The change of control employment agreements have three-year terms, which terms are automatically extended for one year upon each anniversary unless a notice not to extend is given by us. If a "change of control" (as defined in the agreements) occurs during the term of an agreement, then the agreement becomes operative for a fixed three-year period. The agreements provide generally that the executive's terms and conditions of employment (including position, location, compensation and benefits) will not be adversely changed during the three-year period after a change of control of us.

Particular payments under the agreements are triggered commensurate with the occurrence of any of the following: (i) termination of employment by the company other than for "cause" (as defined in the agreements) or disability, (ii) termination by the executive for "good reason" (as defined in the agreements), (iii) termination by the executive other than for "good reason," and (iv) termination of employment because of death or disability. These triggers were designed to ensure the continued availability of the executives following a change of control, and to compensate the executives at appropriate levels if their employment is unfairly or prematurely terminated during the applicable term following a change of control. For more information regarding payments that may be made under our severance arrangements, see our disclosures below under the caption "Potential Payments upon Termination or Change-in-Control Payments."

Employment Agreements

None of the named executive officers have employment agreements other than the change-of-control agreements described above. As a result, in the event of a termination, retirement, death or disability, an officer will only receive compensation or benefits to which he or she would be entitled under the terms of, as applicable, the defined contribution, defined benefit, medical or long-term incentive plans.

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Impact of Accounting and Tax Treatments

Accounting Treatment

NuStar Energy's financial statements include the expense for awards of NuStar Energy unit options and restricted units to NuStar GP, LLC employees and directors and the expense for awards of NuStar GP Holdings unit options and restricted units to NuStar GP, LLC employees, as we are obligated to pay for all costs of NuStar GP, LLC's employees working on our behalf in accordance with the Services Agreement described below in Item 13. Certain Relationships and Related Transactions and Director Independence. Under the Services Agreement, 1% of NuStar GP, LLC's domestic unit compensation expense is charged back to NuStar GP Holdings.

NuStar GP, LLC accounts for awards of NuStar Energy L.P. common units to NuStar GP, LLC's employees and directors 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.

Each month, NuStar GP, LLC determines the fair value of its liability for awards of NuStar Energy unit options and restricted units. The fair value of unit options is determined using the Black-Scholes model at each reporting date. The fair value of restricted units equals the market price of NuStar Energy 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, considering the percentage of the award that has vested to date. NuStar GP, LLC records compensation expense related to unit options until such options are exercised, and records compensation expense for restricted units until the date of vesting.

NuStar GP Holdings accounts for awards of restricted units and unit options awarded to its directors, as well as the employees and directors of NuStar GP, LLC, at fair value. NuStar GP Holdings uses the market price at the grant date as the fair value of restricted units. NuStar GP Holdings estimates the fair value of unit options at the grant date using the Black-Scholes model. For both restricted units and unit options, NuStar GP Holdings recognizes the resulting compensation expense over the vesting period.

For certain awards, the terms of the compensation plans 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. For any awards subsequent to January 1, 2006, we recognize compensation expense 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. Employees are typically retirement eligible at age 55.

Tax Treatment

Under Section 162(m) of the Code, publicly held corporations may not take a tax deduction for compensation in excess of
$1 million paid to the CEO or the other four most highly compensated executive officers unless that compensation meets the Code's definition of "performance-based" compensation. Section 162(m) allows a deduction for compensation to a specified executive that exceeds $1 million only if it is paid (i) solely upon attainment of one or more performance goals, (ii) pursuant to a qualifying performance-based compensation plan adopted by the Compensation Committee, and (iii) the material terms, including the performance goals, of such plan are approved by the unitholders before payment of the compensation. The Compensation Committee considers deductibility under Section 162(m) with respect to compensation arrangements for executive officers. The Compensation Committee believes that it is in the best interest of NuStar Energy for the Compensation Committee to retain its flexibility and discretion to make compensation awards to foster achievement of performance goals established by the Compensation Committee (which may include performance goals defined in the Code) and other corporate goals the Compensation Committee deems important to NuStar Energy's success, such as encouraging employee retention, rewarding achievement of nonquantifiable goals and achieving progress with specific projects. NuStar Energy believes that unit options and performance unit grants qualify as performance-based compensation and are not subject to any deductibility limitations under Section 162(m). Grants of restricted units and other equity-based awards that are not subject to specific quantitative performance measures will likely not qualify as "performance-based" compensation and, in such event, would be subject to 162(m) deduction restrictions.

Compensation-Related Policies

Unit Ownership Guidelines

Our Board, the Compensation Committee and our executives recognize that ownership of NuStar Energy L.P. units is an effective means by which to align the interests of NuStar GP, LLC directors and executives with those of NuStar Energy's unitholders. We have long emphasized and reinforced the importance of unit ownership among our executives and directors.

During 2006, the Compensation Committee worked with its independent compensation consultant to formalize unit ownership and retention guidelines for directors and NuStar GP, LLC officers to ensure continuation of our successful track record in aligning the interests of NuStar GP, LLC directors and officers with those of NuStar Energy's unitholders through ownership of

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NuStar Energy units. The guidelines were approved by the Compensation Committee and the Board in March 2006. In February 2007, in view of the public offerings of NuStar GP Holdings in 2006, the Compensation Committee amended the guidelines to include ownership of either NuStar GP Holdings units or NuStar Energy units. An officer or a director's ownership also includes units subject to vesting.

Non-employee Director Unit Ownership Guidelines

Non-employee directors are expected to acquire and hold during their service as a Board member NuStar Energy units and/or NuStar GP Holdings units with an aggregate value of at least $50,000. Directors have five years from their initial election to the Board to meet the target unit ownership guidelines, and they are expected to continuously own sufficient units to meet the guidelines, once attained.

Officer Unit Ownership Guidelines

Unit ownership guidelines for officers of NuStar GP, LLC are as follows:

Officer	Value of NuStar Energy Units and/or NuStar GP Holdings Units Owned
President	3.0x Base Salary
Senior Vice Presidents and above	2.0x Base Salary
Vice Presidents	1.0x Base Salary

Our officers are expected to meet the applicable guideline within five years of their initial appointment and continuously own sufficient units to meet the guideline, once attained.

Prohibition on Insider Trading and Speculation on NuStar Energy L.P. or NuStar GP Holdings, LLC Units

We have established policies prohibiting our officers, directors and employees from purchasing or selling either NuStar Energy L.P. or NuStar GP Holdings, LLC securities while in possession of material, nonpublic information or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. Our outside directors, officers and certain other employees are prohibited from trading in either NuStar Energy L.P. or NuStar GP Holdings, LLC securities for the period beginning on the last business day of each calendar quarter through the second business day following our disclosure of our quarterly or annual financial results. In addition, our policies prohibit our officers, directors and employees from speculating in the either NuStar Energy L.P. or NuStar GP Holdings, LLC units, which includes short selling (profiting if the market price of our units decreases), buying or selling publicly traded options (including writing covered calls), hedging or any other type of derivative arrangement that has a similar economic effect. Our directors, officers and certain other employees are also required to receive management consent before they enter into margin loans or other financing arrangements that may lead to the ownership or other rights to their NuStar Energy L.P. or NuStar GP Holdings, LLC securities being transferred to a third party.

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EXECUTIVE COMPENSATION

The tables that appear in the following pages of this section provide information required by the SEC regarding compensation paid to or earned by our NEOs for the year ended December 31, 2012. We have used captions and headings in these tables in accordance with the SEC regulations requiring these disclosures. The footnotes to these tables provide important information to explain the values presented in the tables, and are an important part of our disclosures.

SUMMARY COMPENSATION TABLE
FOR FISCAL YEAR ENDED DECEMBER 31, 2012

The following table provides a summary of compensation paid for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 to NuStar GP, LLC's CEO, CFO and to its three other most highly compensated executive officers. The table shows amounts earned by such persons for services rendered to NuStar GP, LLC in all capacities in which they served.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Unit Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)	Total ($)
	2012	528,450	0	1,414,505	0	0	194,066	34,940	2,171,961
Curtis V. Anastasio	2011	504,000	453,600	988,617	0	0	241,385	38,628	2,381,917
President and CEO	2010	480,900	385,000	1,019,418	0	0	190,656	37,001	2,112,975
Bradley C. Barron	2012	304,875	0	503,574	0	0	134,758	19,483	962,690
Executive Vice President and General Counsel	2011	290,570	174,300	355,723	0	0	79,153	15,937	915,683
	2012	367,535	0	610,065	0	0	145,953	24,113	1,147,666
Steven A. Blank	2011	356,395	213,800	433,693	0	0	303,970	26,289	1,253,774
Executive Vice President, CFO and Treasurer	2010	346,015	173,000	442,407	0	0	129,601	25,466	1,116,489
	2012	329,265	0	547,821	0	0	127,380	22,400	1,026,866
Mary Rose Brown	2011	319,335	191,600	388,490	0	0	99,450	14,826	1,013,701
Executive Vice President-Administration	2010	310,085	155,000	396,775	0	0	63,442	18,555	943,857
Douglas W. Comeau Executive Vice President-Chief Operating Officer	2012	251,820	0	821,121	0	0	0	11,594	1,084,535

Footnotes:

(1) The NEOs were not awarded a bonus for 2012. 2011 bonus awards were paid in February 2012 with respect to 2011 performance. 2010 bonus amounts were paid in February 2011 with respect to 2010 performance. Bonuses were determined taking into consideration NuStar Energy's performance in the applicable year, the individual executive's targets and the executive's performance, as described above under "Compensation Disclosure &

Analysis-Annual Incentive Bonus."

(2) The amounts reported represent the grant date fair value of grants of restricted NuStar Energy L.P. units, NuStar Energy L.P. performance units and restricted NuStar GP Holdings, LLC units. Please see "Compensation Discussion and Analysis-Impact of Accounting and Tax Treatment-Accounting Treatment" above in this item for more information.

(3) For the applicable NEOs, the following table identifies the separate amounts attributable to (A) the aggregate change in

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the actuarial present value of the NEO's accumulated benefit under NuStar GP, LLC's defined benefit and actuarial pension plans, including supplemental plans (but excluding tax-qualified defined contribution plans and nonqualified defined contribution plans), and (B) above-market or preferential earnings on compensation that is deferred on a basis that is not tax-qualified.

Name	Year	(A)	(B)	TOTAL
	2012	$194,066	$0	$194,066
Anastasio	2011	241,385	0	241,385
	2010	190,656	0	190,656
Barron	2012	134,758	0	134,758
	2011	79,153	0	79,153
	2012	145,953	0	145,953
Blank	2011	303,970	0	303,970
	2010	129,601	0	129,601
	2012	127,380	0	127,380
Brown	2011	99,450	0	99,450
	2010	63,442	0	63,442
Comeau	2012	—	0	—

(4) The amounts reported in this column for 2012 consist of the following for each officer:

Name	Club Dues (a)	Company Contribution to Thrift Plan	Company Contribution to Excess Thrift Plan	Tax Preparation	Personal Liability Insurance	Executive Health Exams (b)	TOTAL
Anastasio	$1,172	$ 13,700	$18,007	$850	$1,211	$0	$34,940
Barron	0	13,646	3,293	850	1,211	483	19,483
Blank	0	15,000	7,052	850	1,211	0	24,113
Brown	845	14,738	4,756	850	1,211	0	22,400
Comeau	0	11,594	n/a	0	0	0	11,594

(a) Management has determined that club dues will no longer be paid for or reimbursed.

(b) The amount reported is the difference between the value of executive health exams made available to NuStar Energy officers and the value of NuStar Energy's all-employee wellness assessments.

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GRANTS OF PLAN-BASED AWARDS
FOR FISCAL YEAR ENDED DECEMBER 31, 2012
The following table provides further information regarding the grants of plan-based awards to the NEOs.

Name	Grant Date	Date of Approval of Comp Committee	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Unit Awards: Number of Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Unit)	Grant Date Fair Value of Unit and Unit Option Awards ($)
			Threshold (#)	Target (#)	Maximum (#)				
Anastasio	(1)1/26/2012	1/26/2012	—	—	—	5,337	—	—	312,535 (7)
	(2)4/24/2012	4/24/2012	0	8,200	16,400	—	—	—	471,828 (8)
	(3)12/19/2012	10/23/2012	—	—	—	9,575	—	—	439,397 (9)
	(4)12/19/2012	10/23/2012	—	—	—	6,630	—	—	190,745 (10)
Barron	(1)1/26/2012	1/26/2012	—	—	—	1,818	—	—	106,462 (7)
	(2)4/24/2012	4/24/2012	0	2,955	5,910	—	—	—	170,031 (8)
	(3)12/19/2012	10/23/2012	—	—	—	3,450	—	—	158,321 (9)
	(4)12/19/2012	10/23/2012	—	—	—	2,390	—	—	68,760 (10)
Blank	(1)1/26/2012	1/26/2012	—	—	—	2,240	—	—	131,174 (7)
	(2)4/24/2012	4/24/2012	0	3,565	7,130	—	—	—	205,130 (8)
	(3)12/19/2012	10/23/2012	—	—	—	4,160	—	—	190,902 (9)
	(4)12/19/2012	10/23/2012	—	—	—	2,880	—	—	82,858 (10)
Brown	(1)1/26/2012	1/26/2012	—	—	—	2,025	—	—	118,584 (7)
	(2)4/24/2012	4/24/2012	0	3,195	6,390	—	—	—	183,840 (8)
	(3)12/19/2012	10/23/2012	—	—	—	3,730	—	—	171,170 (9)
	(4)12/19/2012	10/23/2012	—	—	—	2,580	—	—	74,227 (10)
Comeau	(5)3/26/2012		—	—	—	3,000	—	—	179,940 (11)
	(2)4/24/2012	4/24/2012	0	2,560	5,120	—	—	—	147,302 (8)
	(6)10/23/2012	10/23/2012	—	—	—	3,000	—	—	154,980 (12)
	(3)12/19/2012	10/23/2012	—	—	—	5,150	—	—	236,334 (9)
	(4)12/19/2012	10/23/2012	—	—	—	3,565	—	—	102,565 (10)

Footnotes:

(1) Restricted units of NuStar Energy were granted by the Compensation Committee at a joint meeting with the Compensation Committee of NuStar GP Holdings, LLC on January 26, 2012. The restricted units vest 1/3 annually over three years beginning on the first anniversary of the grant date.

(2) Performance units were awarded by the Board, upon recommendation of the Compensation Committee, on April 24, 2012. Each award is subject to vesting in three annual increments, based upon our TUR during rolling three-year periods that end on December 31 of each year following the date of grant. At the end of each performance period, our TUR is compared to the Peer Group and ranked by quartile. Executives then earn 0%, 50%, 100% or 150% of that portion of the initial grant amount that is vesting, depending upon whether our TUR is in the last, 3rd, 2nd or 1st quartile, respectively, and they earn 200% if we rank highest in the group. Amounts not earned in a given performance period can be carried forward for one additional performance period and up to 100% of the carried amount can still be earned. For the performance period ended December 31, 2012, our performance ranked in the fourth quartile of the group, and none of the eligible units were vested.

(3) Restricted units of NuStar Energy were approved by the Compensation Committee at a joint meeting with the Compensation Committee of NuStar GP Holdings, LLC on October 23, 2012, and the grant date for these restricted units was set at that time for the date that was as soon as administratively practicable after the meeting. The restricted units vest 1/5 annually over five years beginning on the first anniversary of the grant date.

(4) Restricted units of NuStar GP Holdings, LLC were approved by the Compensation Committee of NuStar GP Holdings at a joint meeting with the Compensation Committee of NuStar GP, LLC on October 23, 2012, and the grant date for these restricted units was set at that time for the date that was as soon as administratively practicable after the meeting. The restricted units vest 1/5 annually over five years beginning on the first anniversary of the grant date.

(5) Restricted units of NuStar Energy were granted by the President & CEO, under discretionary authority given him by the Compensation Committee, and ratified by the committee at their subsequent meeting, on March 26, 2012. The restricted units vest 1/5 annually over five years beginning on the first anniversary of the grant date.

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(6) Restricted units of NuStar Energy were granted by the Compensation Committee at a joint meeting with the Compensation Committee of NuStar GP Holdings, LLC on October 23, 2012. The restricted units vest 1/5 annually over five years beginning on the first anniversary of the grant date.

(7) The grant date fair value for restricted units was determined by multiplying the number of restricted units that were granted by the NYSE closing unit price of our units on the date of grant, $58.56.

(8) The grant date fair value for performance units was determined by multiplying the number of performance units that were granted by the NYSE closing unit price of our units on the date of grant, $57.54.

(9) The grant date fair value for restricted units was determined by multiplying the number of restricted units that were granted by the NYSE closing unit price of our units on the date of grant, $45.89.

(10) The grant date fair value for restricted units was determined by multiplying the number of NuStar GP Holdings, LLC restricted units that were granted by the NYSE closing unit price of NuStar GP Holdings, LLC units on the date of grant, $28.77.

(11) The grant date fair value for restricted units was determined by multiplying the number of restricted units that were granted by the NYSE closing unit price of our units on the date of grant, $59.98.

(12) The grant date fair value for restricted units was determined by multiplying the number of restricted units that were granted by the NYSE closing unit price of our units on the date of grant, $51.66.

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OUTSTANDING EQUITY AWARDS
AT DECEMBER 31, 2012

The following table provides further information regarding our NEOs' unexercised unit options, unvested restricted units and unvested performance units as of December 31, 2012. The value of NuStar Energy restricted units reported below is equal to $42.48, the NuStar Energy L.P. closing price on the NYSE on December 30, 2012. The value of the NuStar GP Holdings, LLC restricted units reported below is equal to $27.69, the NuStar GP Holdings, LLC closing price on the NYSE on December 30, 2012.

	Option Awards					Unit Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Units That Have Not Vested (#)	Market Value of Units That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Units or Other Rights That Have Not Vested ($)
	11,800(1)	—	—	45.35	10/29/2013	—	—	—	—
	9,625(2)	—	—	56.51	10/28/2014	—	—	—	—
	13,450(3)	—	—	57.51	10/27/2015	—	—	—	—
Anastasio	11,000(4)	—	—	55.92	11/2/2013	—	—	—	—
	56,300(5)	—	—	31.55	11/16/2014	—	—	—	—
	—	—	—	—	—	30,476(7)	1,294,620	—	—
	—	—	—	—	—	20,174(8)	558,618	—	—
	—	—	—	—	—	12,877(9)	547,015	—	—
	1,280(1)	—	—	45.35	10/29/2013	—	—	—	—
	1,975(2)	—	—	56.51	10/28/2014	—	—	—	—
	2,100(4)	—	—	55.92	11/2/2013	—	—	—	—
Barron	35,000(5)	—	—	31.55	11/16/2014	—	—	—	—
	—	—	—	—		10,619(10)	451,093	—	—
	—	—	—	—		6,870(11)	190,230	—	—
	—	—	—	—		4,631(12)	196,725	—	—
	8,700(1)	—	—	45.35	10/29/2013	—	—	—	—
	6,875(2)	—	—	56.51	10/28/2014	—	—	—	—
	7,225(3)	—	—	57.51	10/27/2015	—	—	—	—
Blank	5,125(4)	—	—	55.92	11/2/2013	—	—	—	—
	41,000(5)	—	—	31.55	11/16/2014	—	—	—	—
	—	—	—	—	—	12,985(13)	551,603	—	—
	—	—	—	—	—	8,398(14)	232,541	—	—
	—	—	—	—	—	5,662(15)	240,522		

	1,700(6)	—	—	69.15	4/30/2014	—	—	—	—
	35,000(5)	—	—	31.55	11/16/2014	—	—	—	—
Brown	—	—	—	—	—	11,645(16)	494,680	—	—
	—	—	—	—	—	7,512(17)	208,007	—	—
	—	—	—	—	—	5,076(18)	215,628	—	—
	—	—	—	—	—	11,150(19)	473,652	—	—
Comeau	—	—	—	—	—	3,565(20)	98,715	—	—
	—	—	—	—	—	2,560(21)	108,749	—	—

Footnotes:

(1) Options granted October 29, 2003, which vested in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

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(2) Options granted on October 28, 2004, which vested in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(3) Options granted on October 27, 2005, which vested in 1/5 increments over five years, beginning on the first anniversary of the date of grant. In 2012, the Compensation Committee extended the expiration date for these options from 2012 to 2015.

(4) Options granted on November 2, 2006, which vested in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(5) Options of NuStar GP Holdings granted November 16, 2007, which vested in 1/3 increments over three years, beginning on the third anniversary of the date of grant.

(6) Options granted April 30, 2007, which vested in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(7) Mr. Anastasio’s restricted NuStar Energy L.P. units consist of: 1,700 restricted units granted November 6, 2008; 2,760 restricted units granted December 14, 2009; 4,140 restricted units granted December 30, 2010; 6,964 restricted units granted on December 16, 2011; 5,337 restricted units granted January 26, 2012; and 9,575 restricted units granted on December 19, 2012. The restricted units granted January 26, 2012 vest in 1/3 increments over three years, beginning on the first anniversary of the date of grant. All of Mr. Anastasio’s other restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(8) Mr. Anastasio’s restricted NuStar GP Holdings, LLC units consist of: 1,740 restricted units granted November 6, 2008; 2,600 restricted units granted December 14, 2009; 3,900 restricted units granted December 30, 2010; 5,304 restricted units granted December 16, 2011; and 6,630 restricted units granted December 19, 2012. All of Mr. Anastasio’s restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(9) Mr. Anastasio’s unvested NuStar Energy L.P. performance units were granted February 26, 2010, January 28, 2011 and April 24, 2012 and vest annually in 1/3 increments over three years beginning on the first anniversary of their grant date. The performance units are payable in NuStar Energy L.P.’s units. Upon vesting, the performance units are converted into a number of NuStar Energy L.P. units based on NuStar Energy’s TUR during rolling three-year periods that end of December 31 of each year following the date of grant. At the end of each performance period, NuStar Energy’s TUR is compared to the Peer Group and ranked by quartile. Holders of the performance units then earn 0%, 50%, 100% or 150% of that portion of the initial grant that is vesting, depending upon whether NuStar Energy’s TUR is in the last, third, second or first quartile, respectively; holders earn 200% if NuStar Energy is the highest ranking entity in the Peer Group. For the period ended December 31, 2010, NuStar’s TUR was in the first quartile of it and the Peer Group, which resulted in a 150% vest for participants. Mr. Anastasio received a total of 13,908 units for the 2010 performance period. For the period ended December 31, 2011, NuStar’s TUR was in the last quartile of it and the Peer Group, which resulted in no vesting for participants. For the period ended December 31, 2012, NuStar's TUR was in the last quartile of it and the Peer Group, which resulted in no vesting for participants.

(10) Mr. Barron's restricted NuStar Energy L.P. units consist of: 520 restricted units granted November 6, 2008; 846 restricted units granted December 14, 2009; 1,473 restricted units granted on December 30, 2010; 2,512 restricted units granted December 16, 2011; 1,818 restricted units granted on January 26, 2012; and 3,450 restricted units granted December 19, 2012. The restricted units granted January 26, 2012 vest in 1/3 increments over three years, beginning on the first anniversary of the date of grant. All of Mr. Barron's other restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(11) Mr. Barron's restricted NuStar GP Holdings, LLC units consist of: 540 restricted units granted November 6, 2008; 798 restricted units granted December 14, 2009; 1,230 restricted units granted December 30, 2010; 1,912 restricted units granted December 16, 2011; and 2,390 restricted units granted December 19, 2012. All of Mr. Barron's restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(12) Mr. Barron's unvested NuStar Energy L.P. performance units were granted and vest in accordance with the description in Footnote (9) above. For the 2010 period, Mr. Barron received a total of 4,438 units. For the 2011

period, Mr. Barron received no vested performance units. For the 2012 period, Mr. Barron received no vested performance units.

(13) Mr. Blank's restricted NuStar Energy L.P. units consist of: 660 restricted units granted November 6, 2008; 1,058 restricted units granted December 14, 2009; 1,839 restricted units granted December 30, 2010; 3,028 restricted units granted December 16, 2011; 2,240 restricted units granted January 26, 2012; and 4,160 restricted units granted December 19, 2012. The restricted units granted January 26, 2012 vest in 1/3 increments over three years, beginning on the first anniversary of the date of grant. All of Mr. Blank's other restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(14) Mr. Blank's restricted NuStar GP Holdings, LLC units consist of: 680 restricted units granted November 6, 2008; 998 restricted units granted December 14, 2009; 1,536 restricted units granted December 30, 2010; 2,304 restricted units granted December 16, 2011; and 2,880 restricted units granted December 19, 2012. All of Mr. Blank's restricted units vest

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in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(15) Mr. Blank's unvested NuStar Energy L.P. performance units were granted and vest in accordance with the description in Footnote (9) above. For the 2010 period, Mr. Blank received a total of 5,965 units. For the 2011 period, Mr. Blank received no vested performance units. For the 2012 period, Mr. Blank received no vested performance units.

(16) Ms. Brown's restricted NuStar Energy L.P. units consist of: 580 restricted units granted November 6, 2008; 948 restricted units granted December 14, 2009; 1,650 restricted units granted December 30, 2010; 2,712 restricted units granted December 16, 2011; 2,025 restricted units granted January 26, 2012; and 3,730 restricted units granted December 19, 2012. The restricted units granted January 26, 2012 vest in 1/3 increments over three years, beginning on the first anniversary of the date of grant. All of Ms Brown's other restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(17) Ms. Brown's restricted NuStar GP Holdings, LLC units consist of: 600 restricted units granted November 6, 2008; 894 restricted units granted December 14, 2009; 1,374 restricted units granted December 30, 2010; 2,064 restricted units granted December 16, 2011; and 2,580 restricted units granted December 19, 2012. All of Ms. Brown's restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(18) Ms. Brown's unvested NuStar Energy L.P. performance units were granted and vest in accordance with Footnote (9) above. For the 2010 period, Ms. Brown received a total of 4,648 units. For the 2011 period, Ms. Brown received no vested performance units. For the 2012, Ms. Brown received no vested performance units.

(19) Mr. Comeau's restricted NuStar Energy L.P. units consist of: 3,000 restricted units granted March 26, 2012; 3,000 restricted units granted October 23, 2012; and 5,150 restricted units granted December 19, 2012. All of Mr. Comeau's restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(20) Mr. Comeau's restricted NuStar GP Holdings, LLC units consist of 3,565 restricted units granted December 19, 2012. All of Mr. Comeau's restricted units vest in 1/5 increments over five years, beginning on the first anniversary of the date of grant.

(21) Mr. Comeau's unvested NuStar Energy L.P. performance units were granted April 24, 2012 and vest in accordance with Footnote (9) above.

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OPTION EXERCISES AND UNITS VESTED
IN YEAR ENDED DECEMBER 31, 2012

The following table provides further information regarding option exercises by our NEOs, and the vesting of restricted units and performance units held by our NEOs, during 2012.

Name	Option Awards Number of Units Acquired on Exercise (#)	Value Realized on Exercise ($)	Unit Awards Number of Units Acquired on Vesting (#)	Value Realized on Vesting ($)(7)
Anastasio	24,000(1)	496,320	13,309(3)	491,932
Barron	-	-	4,489(4)	166,676
Blank	6,666(2)	137,120	5,498(5)	203,931
Brown	-	-	5,103(6)	192,845
Comeau	-	-	-	-

Footnotes:

(1) Mr. Anastasio's NuStar Energy L.P. unit option exercises in 2012 were as follows: 14,000 exercised on February 29 and 10,000 exercised on July 31.

(2) Mr. Blank's NuStar Energy L.P. unit option exercises in 2012 were as follows: 3,333 exercised on March 1 and 3,333 exercised on July 31.

(3) Mr. Anastasio’s NuStar Energy L.P. units vested in 2012 as follows: 1,700 units on November 6; 1,442 units on November 16; 1,380 units on December 14; 1,741 units on December 16; and 1,380 on December 30. Mr. Anastasio’s NuStar GP Holdings, LLC units vested in 2012 as follows: 1,740 units on November 6; 1,300 units on December 14; 1,326 units on December 16 and 1,300 units on December 30.

(4) Mr. Barron's NuStar Energy L.P. units vested in 2012 as follows: 520 units on November 6; 600 units on November 16; 423 units on December 14; 628 units on December 16 and 491 units on December 30. Mr. Barron's NuStar GP Holdings, LLC units vested in 2012 as follows: 540 units on November 6; 399 units on December 14; 478 units on December 16 and 410 units on December 30.

(5) Mr. Blank’s NuStar Energy L.P. units vested in 2012 as follows: 660 units on November 6; 672 units on November 16; 529 units on December 14; 757 units on December 16 and 613 on December 30. Mr. Blank’s NuStar GP Holdings, LLC units vested in 2012 as follows: 680 units on November 6; 499 units on December 14; 576 units on December 16 and 512 units on December 30.

(6) Ms. Brown’s units vested in 2012 as follows: 200 units on April 30; 580 units on November 6; 600 units on November 16; 474 on December 14; 678 units on December 16 and 550 units on December 30. Ms. Brown’s NuStar GP Holdings, LLC units vested in 2012 as follows: 600 units on November 6; 447 units on December 14; 516 units on December 16 and 458 units on December 30.

(7) The value realized on vesting was calculated by multiplying the closing price of NuStar Energy L.P. units on the NYSE on the date of vesting by the number of NuStar Energy L.P. units vested or the closing price of NuStar GP Holdings, LLC units on the NYSE on the date of vesting by the number of NuStar GP Holdings, LLC units vested, as applicable. The closing prices of the applicable dates are as follows:

2012 Vesting Date	NS Closing Price ($)
April 30	54.99
November 6	46.00
November 16	40.24
December 14	44.10
December 16	44.10
December 30	41.99
	NSH Closing Price ($)
November 6	28.19

December 14	28.53
December 16	28.53
December 30	27.81

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POST-EMPLOYMENT COMPENSATION
PENSION BENEFITS
FOR YEAR ENDED DECEMBER 31, 2012

The following table provides information regarding the accumulated benefits of our named executive officer under NuStar GP, LLC's pension plans during the year ended December 31, 2012.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit($)(2)	Payments During Last Fiscal Year
Anastasio	NuStar GP, LLC Pension Plan	6.5	251,538	—
	NuStar GP, LLC Excess Pension Plan	—	—	—
	NuStar GP, LLC Supplemental Executive Retirement Plan	11.0	702,723	—
Barron	NuStar GP, LLC Pension Plan	6.5	165,878	—
	NuStar GP, LLC Excess Pension Plan	12.0	210,284	—
	NuStar GP, LLC Supplemental Executive Retirement Plan	—	—	—
Blank	NuStar GP, LLC Pension Plan	6.5	268,629	—
	NuStar GP, LLC Excess Pension Plan	—	—	—
	NuStar GP, LLC Supplemental Executive Retirement Plan	11.0	380,431	—
Brown	NuStar GP, LLC Pension Plan	5.7	219,295	—
	Excess Pension Plan	5.7	187,040	—
	Supplemental Executive Retirement Plan	—	—	—
Comeau (1)	NuStar GP, LLC Pension Plan		—	—
	Excess Pension Plan		—	—
	Supplemental Executive Retirement Plan	—	—	—

Footnotes:

(1) Mr. Comeau is not presently eligible for pension benefits, as he has not yet completed one year of service with the company.

(2) The present values stated above were calculated using the same interest rate and mortality table that we use for valuations under U.S. Generally Accepted Accounting Principles as set forth in Accounting Standards Codification (ASC) 715 for financial reporting purposes. The present values as of December 31, 2012 were determined using a 4.48% discount rate and the plans' earliest unreduced retirement age (i.e., age 62). The present values reflect post-retirement mortality rates based on the 2013 Static Mortality Table for Annuitants and Non-Annuitants per IR Reg. 1.430(h)(3)-1(e). No decrements were included for pre-retirement termination, mortality, or disability. Where applicable, lump sums were determined based on a 3.98% interest rate and the mortality table prescribed by the IRS in Rev. Ruling 2007-67 and updated by IRS Notice 2008-85 for distributions in the years 2009-2013.

We maintain a noncontributory defined benefit pension plan in which most of our employees are eligible to participate and under which contributions by individual participants are neither required nor permitted. We also maintain a noncontributory, non-qualified excess pension plan and a non-qualified supplemental executive retirement plan, or

SERP, which provide supplemental pension benefits to certain highly compensated employees. The excess pension plan and the SERP provide eligible employees with additional retirement savings opportunities that cannot be achieved with tax-qualified plans due to the Code's limits on (1) annual compensation that can be taken into account under qualified plans or (2) annual benefits that can be provided under qualified plans. Employees who are eligible for the excess pension plans and the SERP may participate in one or the other, but not both plans.

NuStar GP, LLC Pension Plan

The Pension Plan is a qualified, non-contributory defined benefit pension plan established as of July 1, 2006 and designed to provide retirement income to our eligible employees. The Pension Plan covers substantially all of NuStar GP, LLC's employees and generally provides retirement income calculated under a defined benefit final average pay formula (FAP) based on years of service and compensation during their period of service. Effective January 1, 2011, the FAP was frozen to new Pension Plan entrants and a defined benefit cash balance formula, based on age and service, was established.

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Under an agreement between the companies, Valero Energy will pay pension benefits to eligible NuStar GP, LLC employees for their years of service with Valero Energy under the Valero Energy pension plan, and the employee's highest annual salary will be determined with regard to service with NuStar GP, LLC after July 1, 2006 until the individual commences a benefit under the Valero Energy pension plan or terminates employment with NuStar GP, LLC. For more information about the Valero Energy Pension Plan, please see Valero Energy's annual report on Form 10-K for the year ended December 31, 2012 and its annual proxy statement. The Pension Plan is intended to be a qualified plan under, and subject to, relevant provisions of the Code and the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Pension Plan (supplemented, as necessary, by the excess pension plan or the SERP described below) provides a monthly pension at normal retirement equal to 1.6% of the eligible employee's average monthly compensation (based upon the eligible employee's earnings during the three consecutive calendar years during the last ten years of the eligible employee's credited service, including service with our former parent, Valero Energy, affording the highest such average) times the eligible employee's years of credited service. Pension benefits are not subject to any deduction for social security or other offset amounts.

Eligible employees are NuStar GP, LLC employees, except for those employees who are nonresident aliens, who are U.S. citizens but being paid by a foreign affiliated employer (as defined in the plan), who are covered by a collective bargaining agreement (unless it expressly provides for the benefits provided under the plan), or who are not yet participating.

NuStar GP, LLC Excess Pension Plan

The Excess Pension Plan was established effective as of July 1, 2006 for the purpose of providing benefits to eligible 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. The Excess Pension Plan is an excess benefit plan as contemplated under 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 highly compensated employees. The Excess Pension Plan is not intended to constitute either a qualified plan under the Code or a funded plan subject to ERISA. For employees of NuStar GP, LLC who were eligible to receive a benefit under the Valero Energy Excess Pension Plan (the Predecessor Excess Pension Plan) as of July 1, 2006, the Excess Pension Plan assumed the liabilities of the Predecessor Excess Pension Plan and will provide a single, nonqualified defined benefit to eligible employees for their pre-July 1, 2006 benefit accruals under the Predecessor Excess Pension Plan and their post-July 1, 2006 benefit accruals under this Excess Pension Plan.

An eligible employee's monthly pension under the Excess Pension Plan will be equal to (i) 1.6% of the employee's average monthly compensation multiplied by the employee's years of service less (ii) the employee's Pension Plan benefit. Mr. Barron and Ms. Brown participate in the Excess Pension Plan in 2012.

NuStar GP, LLC Supplemental Executive Retirement Plan

The SERP was established effective as of July 1, 2006 for the purpose of providing certain highly compensated, management personnel of NuStar GP, LLC and its subsidiaries a supplement to the retirement benefit they may otherwise receive under the Pension Plan and the Valero Energy Pension Plan, where applicable. The SERP is not intended to constitute either a qualified plan under the Code or a funded plan subject to ERISA. For employees of NuStar GP, LLC who were eligible to receive a benefit under the Valero Energy Supplemental Executive Retirement Plan (the Prior SERP) as of July 1, 2006, the SERP assumed the liabilities of the Prior SERP and shall provide a single, nonqualified defined benefit to eligible employees for their pre-July 1, 2006 benefit accruals under the Prior SERP and their post-July 1, 2006 benefit accruals under this SERP.

An eligible employee's monthly pension under the SERP will be equal to:

(i) 1.6% of the employee's average monthly compensation multiplied by the employee's years of service; plus

(ii) 0.35% of the product of the employee's years of service and the amount that the employee's average monthly compensation exceeds the lesser of:

a. 1.25 multiplied by the employee's monthly covered compensation and

b. the monthly FICA amount; minus

(iii) the employee's Pension Plan benefit.

Mr. Anastasio and Mr. Blank participate in the SERP.

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NONQUALIFIED DEFERRED COMPENSATION
FOR YEAR ENDED DECEMBER 31, 2012

The following table provides additional information regarding contributions by NuStar GP, LLC and each of our NEOs under our non-qualified defined contribution and other deferred compensation plans during the year ended December 31, 2012. The table also presents each named executive officer's withdrawals, earnings and year-end balances in such plans. Please see the descriptions of our Excess Thrift Plan and the Frozen Nonqualified 401(k) Plan above in "Compensation Discussion and Analysis- Post-Employment Benefits."

Name	Executive Contributions in 2012 ($)(1)	Registrant Contributions in 2012 ($)(2)	Aggregate Earnings in 2012 ($)(3)	Aggregate Withdrawals/ Distributions ($)(4)	Aggregate Balance at December 31, 2012 ($)(5)
Anastasio	0	18,007	68,724	0	524,275
Barron	0	3,293	3,293	0	20,190
Blank	0	7,052	178,986	0	1,229,953
Brown	0	4,756	4,756	0	24,199
Comeau	0	0	0	0	0

Footnotes:

(1) The executives made no contributions to these plans in 2012.

(2) Amounts reported represent our contributions to our Excess Thrift Plan. All of the amounts included in this column are included within the amounts reported as "All Other Compensation" for 2012 in the Summary Compensation Table.

(3) Amounts include the earnings (excluding dividends, if any), if any, of the executives' respective account in (as applicable) our Excess Thrift Plan and our Frozen Nonqualified 401(k) Plan.

(4) The executives made no withdrawals from and received no distributions under our plans in 2012.

(5) Amounts include the aggregate balance, if any, of the executives' respective account in (as applicable) our Excess Thrift Plan and our Frozen Nonqualified 401(k) Plan.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

Each of our NEOs has entered into a Change of Control Severance Agreement with NuStar Energy and NuStar GP, LLC. These agreements seek to assure the continued availability of these executives in the event of a "change of control" (described below) of NuStar. When determining the amounts and benefits payable under the agreements, the Compensation Committee sought to secure compensation that is competitive in our market in order to recruit and retain executive officer talent. Consideration was given to the principal economic terms found in written employment and change of control agreements of other publicly traded companies.

When a change of control occurs, the agreement becomes operative for a fixed three-year period. The agreements provide generally that the executive's terms of employment will not be adversely changed during the three-year period after a change of control. In addition, outstanding unit options held by the executive will automatically vest, restrictions applicable to outstanding restricted units held by the executive will lapse, and all unvested performance units held by the executive will fully vest and become payable at 200% of target. The executives are also entitled to receive a payment in an amount sufficient to make the executive whole for any excise tax on excess parachute payments imposed under Section 4999 of the Code. Each agreement subjects the executive to obligations of confidentiality, both during the term and after termination, for secret and confidential information relating to NuStar Energy, NuStar GP, LLC and their affiliates (as defined in the agreement) that the executive acquired during his or her employment.

For purposes of these agreements, a "change of control" means any of the following (subject to additional particulars as stated in the agreements):

- the acquisition by an individual, entity or group of beneficial ownership of 40% of NuStar GP Holdings' voting interests;
- the failure of NuStar GP Holdings to control NuStar GP, LLC, NuStar Energy's general partner, Riverwalk Logistics, L.P., or all of the general partner interests of NuStar Energy;
- Riverwalk Logistics, L.P. ceases to be NuStar Energy's general partner or Riverwalk Logistics, L.P. is no longer controlled by either NuStar GP, LLC or one of its affiliates;
- the acquisition of more than 50% of all voting interests of NuStar Energy then outstanding;
- certain consolidations or mergers of NuStar GP Holdings;
- certain consolidations or mergers of NuStar Energy;
- sale of all or substantially all of the assets of NuStar GP Holdings to anyone other than its affiliates;
- sale of all or substantially all of the assets of NuStar Energy to anyone other than its affiliates; or
- change in the composition of the NuStar GP Holdings board of directors so that fewer than a majority of those directors are "incumbent directors" as defined in the agreement.

In the agreements, "cause" is defined to mean, generally, the willful and continued failure of the executive to perform substantially the executive's duties, or the willful engaging by the executive in illegal or gross misconduct that is materially and demonstrably injurious to the company. "Good reason" is defined to mean, generally:

- a diminution in the executive's position, authority, duties and responsibilities,
- failure of the successor of NuStar to assume and perform under the agreement, and
- relocation of the executive or increased travel requirements.

SEC regulations require us to disclose potential payments to an executive in connection with his or her termination or a change of control of NuStar. We have elected to use the following table to make the required disclosures. Except as noted, values assume that a change of control occurred on December 31, 2012, and that the executive's employment was terminated on that date.

Under the change of control agreements, if an executive officer's employment is terminated for "cause," the officer will not receive any benefits or compensation other than any accrued salary or vacation pay that remained unpaid through the date of termination, and, therefore, there is no presentation of termination for "cause" below.

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PAYMENTS UNDER CHANGE OF CONTROL SEVERANCE AGREEMENTS

Executive Benefits and Payments	Termination of Employment by the Company Other Than for “Cause” or Disability, or by the Executive for “Good Reason” (2)	Termination of Employment because of Death or Disability (3)	Termination by the Executive Other Than for “Good Reason” (4)	Continued Employment Following Change of Control (5)
Salary (1)				
Anastasio	$1,610,700	$ —	$—	$—
Barron	619,500	—	—	—
Blank	746,820	—	—	—
Brown	669,060	—	—	—
Comeau	770,000	—	—	—
Bonus (1)				
Anastasio	$1,360,800	$ 453,600	$453,600	$—
Barron	348,600	174,300	174,300	—
Blank	427,600	213,800	213,800	—
Brown	383,200	191,600	191,600	—
Comeau	—	—	—	—
Pension, Excess Pension, and SERP Benefits				
Anastasio	$1,047,545	$ —	$—	$—
Barron	202,221	—	—	—
Blank	291,872	—	—	—
Brown	246,048	—	—	—
Comeau	—	—	—	—
Contributions under Defined Contribution Plans				
Anastasio	$96,842	$ —	$—	$—
Barron	37,170	—	—	—
Blank	44,809	—	—	—
Brown	40,144	—	—	—
Comeau	46,200	—	—	—
Health and Welfare Plan Benefits	(6)			
Anastasio	$84,375	$ —	$—	$—
Barron	31,116	—	—	—
Blank	55,681	—	—	—
Brown	36,861	—	—	—
Comeau	17,345	—	—	—

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Executive Benefits and Payments	Termination of Employment by the Company Other Than for "Cause" or Disability, or by the Executive for "Good Reason" (2)	Termination of Employment because of Death or Disability (3)	Termination by the Executive Other Than for "Good Reason" (4)	Continued Employment Following Change of Control (5)
Accelerated Vesting of Unit Options (7)				
Anastasio	$0	$0	$0	$0
Barron	0	0	0	0
Blank	0	0	0	0
Brown	0	0	0	0
Comeau	0	0	0	0
Accelerated Vesting of Restricted Units (8)				
Anastasio	$1,294,620	$ 1,294,620	$1,294,620	$1,294,620
Barron	451,093	451,093	451,093	451,093
Blank	551,603	551,603	551,603	551,603
Brown	494,680	494,680	494,680	494,680
Comeau	473,652	473,652	473,652	473,652
Accelerated Vesting of Performance Units (9)				
Anastasio	$1,094,030	$ 1,094,030	$1,094,030	$1,094,030
Barron	393,450	393,450	393,450	393,450
Blank	481,044	481,044	481,044	481,044
Brown	431,257	431,257	431,257	431,257
Comeau	217,498	217,498	217,498	217,498
280G Tax Gross-Up (10)				
Anastasio	$1,744,050	$ —	$—	$—
Barron	637,795	—	—	—
Blank	0	—	—	—
Brown	0	—	—	—
Comeau	392,039	—	—	—
Totals				
Anastasio	$8,832,972	$ 2,842,250	$2,842,250	$2,388,650
Barron	2,720,946	1,018,843	1,018,843	844,943
Blank	2,598,709	1,246,447	1,246,447	1,032,647
Brown	2,301,260	1,117,547	1,117,547	925,947
Comeau	1,916,734	691,150	691,150	691,150

Footnotes:

(1) Per SEC regulations, for purposes of this analysis we assumed each executive's compensation at the time of each triggering event to be as stated below. The listed salary is the executive's actual annualized rate of pay as of December 31, 2012. The listed bonus amount represents the highest bonus earned by the executive in any of the fiscal years 2010, 2011 and 2012 (the three years prior to the assumed change of control):

Name	Annual Salary	Bonus
Anastasio	$536,900	$453,600
Barron	309,750	174,300
Blank	373,410	213,800

Brown	334,530	191,600
Comeau	385,000	—

(2) The change of control agreements provide that if the company terminates the executive officer's employment (other than for "cause," death or "disability," as defined in the agreement) or if the executive officer terminates his or her employment for "good reason," as defined in the agreement, the executive is generally entitled to receive the following:

(A) a lump sum cash payment equal to the sum of:

(i) accrued and unpaid compensation through the date of termination, including a pro-rata annual bonus (for this

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table, we assumed that the executive officers' bonuses for the year of termination were paid at year end);

(ii) two times the sum of the executive officer's (three times for Mr. Anastasio) annual base salary plus the executive officer's highest annual bonus from the past three years,

(iii) the amount of the actuarial present value of the pension benefits (qualified and nonqualified) the executive would have received for an additional two years of service (three years for Mr. Anastasio), and (iv) the equivalent of two years (three years for Mr. Anastasio) of employer contributions under NuStar GP, LLC's tax-qualified and supplemental defined contribution plans; and

(B) continued welfare benefits for two years (three years for Mr. Anastasio).

(3) If the executive's employment is terminated by reason of his death or disability, then his or her estate or beneficiaries will be entitled to receive a lump sum cash payment equal to any accrued and unpaid salary and vacation pay plus a bonus equal to the highest bonus earned by the executive in the prior three years (prorated to the date of termination). In this example, the termination of employment was deemed to occur on the last day of the year; thus a full year's bonus is shown in the table. In addition, in the case of disability, the executive would be entitled to any disability and related benefits at least as favorable as those provided by NuStar GP, LLC under its plans and programs during the 120-days prior to the executive's termination of employment.

(4) If the executive voluntarily terminates his employment other than for "good reason," then he or she will be entitled to a lump sum cash payment equal to any accrued and unpaid salary and vacation pay plus a bonus equal to the highest bonus earned by the executive in the prior three years (prorated to the date of termination). In this example, the termination of employment was deemed to occur on the last day of the year; thus a full year's bonus is shown in the table.

(5) The change of control agreements provide for a three-year term of employment following a change of control. The agreements generally provide that the executive will continue to enjoy compensation and benefits on terms at least as favorable as in effect prior to the change of control. In addition, all outstanding equity incentive awards will automatically vest on the date of the change of control.

(6) The executive is entitled to coverage under the welfare benefit plans (e.g., health, dental, etc.) for two years following the date of termination (three years for Mr. Anastasio).

(7) The amounts stated in the table represent the gross value of previously unvested unit options derived by multiplying (x) the difference between (as applicable) $42.48 (the closing price of NuStar Energy L.P.'s units on the NYSE on December 31, 2012) or $27.69 (the closing price of NuStar GP Holdings, LLC's units on the NYSE on December 31, 2012), and the options' exercise prices, times (y) the number of unvested unit options.

(8) The amounts stated in the table represent the gross value of previously unvested restricted units, derived by multiplying (x) the number of units whose restrictions lapsed because of the change of control, times (y) (as applicable) $42.48 (the closing price of NuStar Energy L.P.'s units on the NYSE on December 31, 2012) or $27.69 (the closing price of NuStar GP Holdings, LLC's units on the NYSE on December 31, 2012).

(9) The amounts stated in the table represent the product of (x) the number of performance units whose vesting was accelerated because of the change of control, times 200%, times (y) $42.48 (the closing price of NuStar Energy L.P.'s units on the NYSE on December 31, 2012).

(10) If any payment or benefit is determined to be subject to an excise tax under Section 4999 of the Code, the executive is entitled to receive an additional payment to adjust for the incremental tax cost of the payment or benefit.

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COMPENSATION OF DIRECTORS

DIRECTOR COMPENSATION (2012)

The following table provides a summary of compensation paid for the year ended December 31, 2012, to the Board. The table shows amounts earned by such persons for services rendered to NuStar GP, LLC in all capacities in which they served.

Name and Principal Position	Fees Earned or Paid in Cash ($)(1)	Unit Awards ($)(3)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
William E. Greehey	111,250	94,992	—	—	n/a	—	206,242
Curtis V. Anastasio	(2)	(2)	(2)	(2)	(2)	(2)	(2)
J. Dan Bates	87,750	69,982	—	—	n/a	—	157,732
Dan J. Hill	87,750	69,982	—	—	n/a	—	157,732
Stan L. McLelland	60,500	69,982	—	—	n/a	—	130,482
Rodman D. Patton	87,995	69,982	—	—	n/a	—	157,977

(1) In addition to the fees paid according to the non-employee director compensation described below, the amounts disclosed in this column exclude reimbursement for expenses for commercial transportation to and from Board meetings and lodging while attending meetings.

(2) Mr. Anastasio is not compensated for his service as a director of NuStar GP, LLC. His compensation for his services as President and CEO are included above in the Summary Compensation Table.

(3) The amounts reported represent the grant date fair value for the grant of restricted NuStar Energy L.P. units for the fiscal year ended December 31, 2012. Please see "Compensation Discussion and Analysis- Impact of Accounting and Tax Treatment- Accounting Treatment" above in this item for more information.

As of December 31, 2012, each director holds the following aggregate number of restricted unit and option awards:

Name	Aggregate # of Restricted Units	Aggregate # of Unit Options
William E. Greehey	3,570	—
Curtis V. Anastasio	*	*
J. Dan Bates	2,606	—
Dan J. Hill	2,606	—
Stan L. McLelland	2,606	—
Rodman D. Patton	2,606	—

* Mr. Anastasio's aggregate holdings are disclosed above in the Outstanding Equity Awards at December 31, 2012.

Non-employee directors receive a retainer fee of $55,000 per year, plus $1,250 for each Board and committee meeting attended in person and $500 for each Board and committee meeting attended telephonically. Directors who serve as chairperson of a committee receive an additional $10,000 annually. Each director is also reimbursed for expenses of meeting attendance. Directors who are employees of NuStar GP, LLC receive no compensation (other than reimbursement of expenses) for serving as directors. The Chairman of the Board receives an additional retainer fee of $50,000 per year. The Chairman of the Board receives no fees for attending committee meetings.

NuStar GP, LLC supplements the compensation paid to non-employee directors other than the Chairman of the Board with an annual grant of restricted NuStar Energy L.P. units valued at $70,000 that vests in equal annual installments over a three-year period. The Chairman of the Board receives an annual grant of restricted NuStar Energy L.P. units valued at $95,000 that vests in equal annual installments over a three-year period. We believe this annual grant of restricted units increases the non-employee directors' identification with the interests of NuStar Energy L.P.'s unitholders through ownership of NuStar Energy L.P. units. Upon a non-employee director's initial election to the Board, the director will receive a grant of restricted units equal to the pro-rated amount of the annual grant of restricted units from the time of his or her election through the next annual grant of restricted units.

In the event of a "Change of Control" as defined in the 2000 LTIP, all unvested restricted units and unit options previously granted immediately become vested or exercisable. Each plan also contains anti-dilution provisions providing for an adjustment in the number of restricted units or unit options, respectively, that have been granted to prevent dilution of benefits in the event any change in the capital structure of NuStar Energy affects the NuStar Energy L.P. units.

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Compensation Committee

The Compensation Committee reviews and reports to the Board on matters related to compensation strategies, policies and programs, including certain personnel policies and policy controls, management development, management succession and benefit programs. The Compensation Committee also approves and administers NuStar Energy’s equity compensation plans and incentive bonus plan. The Board has adopted a written charter for the Compensation Committee. The members of the Compensation Committee are Dan J. Hill (Chairman), J. Dan Bates and Rodman D. Patton, none of whom is a current or former employee or officer of NuStar GP, LLC and each of whom have been determined by the Board to be "independent," as described below in Item 13. The Compensation Committee met five times in 2012.

Compensation Committee Interlocks and Insider Participation

There are no compensation committee interlocks. None of Mr. Hill, Mr. Bates or Mr. Patton has served as an officer or employee of NuStar GP, LLC. Furthermore, except for compensation arrangements disclosed in this annual report on Form 10-K, NuStar Energy has not participated in any contracts, loans, fees, awards or financial interests, direct or indirect, with any Compensation Committee member. In addition, none of NuStar Energy's management and no Board member is aware of any means, directly or indirectly, by which a Compensation Committee member could receive a material benefit from NuStar Energy.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth ownership of NuStar Energy L.P. units and NuStar GP Holdings, LLC units by directors and executive officers of NuStar GP, LLC as of December 31, 2012. Unless otherwise indicated in the notes to the table, each of the named persons and members of the group has sole voting and investment power with respect to the units shown:

Name of Beneficial Owner(a)	Units Beneficially Owned(b)	Units under Exercisable Options(c)	Percentage of Outstanding Units(d)		NuStar GP Holdings, LLC Units Beneficially Owned	NuStar GP Holdings, LLC Units under Exercisable Options	Percentage of Outstanding Units(e)	
William E. Greehey	2,082,577	—	2.67	%	7,947,479	—	18.65	%
Curtis V. Anastasio	115,404	45,875	*		85,175	56,300	*	
J. Dan Bates	15,685	—	*		2,000	—	*	
Dan J. Hill	14,777	—	*		8,000	—	*	
Stan McLelland	8,994	—	*		22,817	—	*	
Rodman D. Patton	24,732	—	*		15,000	—	*	
Bradley C. Barron	19,301	5,335	*		13,797	35,000	*	
Steven A. Blank	45,699	27,925	*		51,420	41,000	*	
Mary Rose Brown	39,186	1,700	*		62,261	35,000	*	
Douglas W. Comeau	14,005	—			5,405	—		
Thomas R. Shoaf	11,575	4,825	*		7,314	25,700	*	
All directors and officers as a group (11)	2,391,935	85,660	3.18	%	8,220,668	193,000	19.74	%

* Indicates that the percentage of beneficial ownership does not exceed 1% of the class.

(a)

(a) The business address for all beneficial owners listed above is 19003 IH-10 West, San Antonio, Texas 78257.

(b) This column includes units issued under NuStar Energy's long-term incentive plans. Restricted units granted under NuStar GP, LLC's long-term incentive plans are rights to receive NuStar Energy L.P. units upon vest and, as such, may not be disposed of or voted until vested. The column does not include units that could be acquired under options, which information is set forth in the next column.

(c) This column discloses units that may be acquired within 60 days of December 31, 2012 through the exercise of unit options.

(d) As of December 31, 2012, 77,886,078 NuStar Energy L.P. units were issued and outstanding. There are no classes of equity securities of NuStar Energy outstanding other than the units. The calculation for Percentage of Outstanding units includes units listed under the captions “Units Beneficially Owned” and “Units under Exercisable Options.”

(e) As of December 31, 2012, 42,605,171 NuStar GP Holdings, LLC's units were issued and outstanding. There are no classes of equity securities of NuStar GP Holdings, LLC outstanding other than the units. The calculation for Percentage of Outstanding Units includes units listed under the captions “NuStar GP Holdings, LLC Units Beneficially Owned” and “NuStar GP Holdings, LLC Units under Exercisable Options.”

Except as otherwise indicated, the following table sets forth certain information as of December 31, 2012 with respect to each entity known to us to be the beneficial owner of more than 5% of our outstanding units.

Name and Address of Beneficial Owner	Units	Percentage of Units (2)
NuStar GP Holdings(1) 19003 IH-10 West San Antonio, Texas 78257	10,351,491	13.3%

(1) NuStar GP Holdings owns the units through its wholly owned subsidiaries, NuStar GP, LLC and Riverwalk Holdings, LLC. NuStar GP Holdings controls voting and investment power of the units through these wholly owned subsidiaries.

(2) Assumes 77,886,078 units outstanding.

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EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information about NuStar GP, LLC's equity compensation plans, which are described in further detail in Note 19 of Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data:"

Plan categories	Number of Securities to be issued upon exercise of outstanding unit options, warrants and rights(1)	Weighted-Average exercise price of outstanding unit options, warrants and rights	Number of securities remaining for future issuance under equity compensation plans
Equity Compensation Plans approved by security holders	1,680,827	$ 53.73	1,569,173
Equity Compensation Plans not approved by security holders	442,958	$ 50.20	227,042(2)

(1) Grants under NuStar GP, LLC's long-term incentive plans do not dilute the interests of NuStar Energy L.P. unitholders. Upon the vest of a restricted unit or the exercise of a unit option granted under NuStar GP, LLC's plan, NuStar GP, LLC purchases a NuStar Energy L.P. unit to satisfy that vest or exercise on the open market. No new NuStar Energy L.P. units are issued to satisfy vesting restricted units or exercises of unit options.

(2) As of December 31, 2012, options to purchase 765 NuStar Energy L.P. units remained available for grant under the 2002 Unit Option Plan. As of December 31, 2012, 226,277 units remained available for grant under the 2003 Employee Unit Incentive Plan.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE
TRANSACTIONS WITH MANAGEMENT AND OTHERS

In January 2007, our Board adopted a written related person transaction policy that codifies our prior practice. For purposes of the policy, a related person transaction is one that is not available to all employees generally or involves less than $10,000 when aggregated with similar transactions. The policy requires that any related person transaction between NuStar Energy or NuStar GP, LLC and: (i) any vice president, Section 16 officer or director, (ii) any 5% or greater unitholder of NuStar Energy, its controlled affiliates or NuStar GP Holdings, (iii) any immediate family member of any officer or director, or (iv) any entity controlled by any of (i), (ii) or (iii) (or in which any of (i), (ii) or (iii) owns more than 5%) must be approved by the disinterested members of the Board. In addition, the policy requires that the officers and directors have an affirmative obligation to inform our Corporate Secretary of his or her immediate family members, as well as any entities in which he or she controls or owns more than 5%.

Please see "Executive Compensation, Potential Payments upon Termination or Change in Control" for a discussion of NuStar Energy's Change of Control Agreements with the NEOs.

On December 10, 2007, NuStar Logistics, L.P., our wholly owned subsidiary, entered into a non-exclusive Aircraft Time Sharing Agreement (the Time Share Agreement) with William E. Greehey, Chairman of our Board. The Time Share Agreement provides that NuStar Logistics, L.P. will sublease the aircraft to Mr. Greehey on an "as needed and as available" basis, and will provide a fully qualified flight crew for all Mr. Greehey's flights. Mr. Greehey will pay NuStar Logistics an amount equal to the maximum amount of expense reimbursement permitted in accordance with Section 91.501(d) of the Aeronautics Regulations of the Federal Aviation Administration and the Department of Transportation, which expenses include and are limited to: fuel oil, lubricants, and other additives; travel expenses of the crew, including food, lodging and ground transportation; hangar and tie down costs away from the aircraft's base of operation; insurance obtained for the specific flight; landing fees, airport taxes and similar assessments; customs, foreign permit, and similar fees directly related to the flight; in-flight food and beverages; passenger ground transportation; flight planning and weather contract services; and an additional charge equal to 100% of the costs of the fuel oil, lubricants, and other additives. The Time Share Agreement has an initial term of two years, after which the Time Share Agreement will automatically renew for one-year terms until terminated by either party. The Time Share Agreement was approved by the disinterested members of the Board on December 5, 2007. The Time Share Agreement was amended, as of September 4, 2009, to reflect the addition of another aircraft.

On April 24, 2008, the independent directors of NuStar GP, LLC approved the adoption of a Services Agreement, effective January 1, 2008, between NuStar GP, LLC and NuStar Energy (the Services Agreement). The Services Agreement provides that NuStar GP, LLC will furnish all services necessary for the conduct of the business of NuStar Energy, and NuStar Energy will reimburse NuStar GP, LLC for all payroll and related benefit costs, including pension and unit-based compensation costs, other than the expenses allocated to NuStar Holdings (the Holdco Services Expense). The Holdco Services Expense is equal to $1.1 million (as adjusted), plus 1.0% of NuStar GP, LLC's domestic employee bonus and unit compensation expense for the applicable fiscal year. For fiscal year 2012, the Holdco Services Expense was equal to $1.3 million. The Holdco Services Expense is subject to adjustment (a) by an annual amount equal to NuStar GP, LLC's annual merit increase percentage for the most recently completed contract year and (b) for changed levels of services due to expansion of operations through, among other things, expansion of operations, acquisitions or the construction of new businesses or assets. On December 31, 2012, the Services Agreement automatically renewed for a two-year term and will continue to renew automatically for two-year terms unless terminated by either party on six months' written notice.

John D. Greehey, a NuStar employee, is the son of William E. Greehey, the Chairman of our Board. As such, he is deemed to be a "related person" under Item 404(a) of the SEC's Regulation S-K. Mr. J. Greehey is a Vice President of a subsidiary of NuStar Energy L.P., NuStar Marketing LLC. In 2012, Mr. J. Greehey did not attend any Board or Committee meetings. The aggregate value of compensation paid by NuStar to Mr. J. Greehey in 2012 was less than $500,000. There were no material differences between the compensation paid to Mr. J. Greehey and the compensation paid to any other employees who hold analogous positions.

Michael T. Stone, a NuStar employee, is the brother-in-law of Mary Rose Brown, one of our NEOs. As such, he is deemed to a "related person" under Item 404(a) of the SEC's Regulation S-K. Mr. Stone is a Vice President of a subsidiary of NuStar Energy L.P., NuStar Marketing LLC. In 2012, Mr. Stone did not attend any Board or Committee meetings. The aggregate value of compensation paid by NuStar to Mr. Stone in 2012 was less than $500,000. There were no material differences between the compensation paid to Mr. Stone and the compensation paid to any other employees who hold analogous positions.

RIGHTS OF NUSTAR GP HOLDINGS

Due to its ownership of NuStar GP, LLC and Riverwalk Holdings, LLC, as of December 31, 2012, NuStar GP Holdings

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indirectly owned:

- the 2% general partner interest in NuStar Energy, through its indirect 100% ownership interest in Riverwalk Logistics, L.P.;
- 100% of the incentive distribution rights issued by us, which entitle NuStar GP Holdings to receive increasing percentages of the cash we distribute, currently at the maximum percentage of 23%; and
- 10,351,491 NuStar Energy L.P. units representing 13% of the issued and outstanding NuStar Energy common units.

Certain of our officers are also officers of NuStar GP Holdings. Our Chairman, William E. Greehey, is also the Chairman of Board and owns 18.7% of NuStar GP Holdings. NuStar GP Holdings appoints NuStar GP, LLC's directors. NuStar GP, LLC's board is responsible for overseeing NuStar GP, LLC's role as the owner of the general partner of NuStar Energy. NuStar GP Holdings must also approve matters that have or would have reasonably expected to have a material effect on NuStar GP Holdings' interests as one of our major unitholders.

NuStar Energy's partnership agreement requires that NuStar GP, LLC maintain a Conflicts Committee, composed entirely of independent directors, to review and resolve certain potential conflicts of interest between Riverwalk Logistics, L.P. and its affiliates, on one hand, and NuStar Energy, on the other hand.

DIRECTOR INDEPENDENCE

Our business is managed under the direction of the Board of NuStar GP, LLC, the general partner of Riverwalk Logistics, L.P., the general partner of NuStar Energy. The Board conducts its business through meetings of the Board and its committees. During 2012, the Board held seven meetings. No member of the Board attended less than 75% of the meetings of the Board and committees of which he was a member.

In 2012, the Board had standing Audit and Compensation Committees. In 2013, the Board established a standing Nominating/Governance & Conflicts Committee. Each committee has a written charter. The committees of the Board and the number of meetings held by the committees in 2012 are described below.

Independent Directors

The Board has one member of management, Curtis V. Anastasio, President and CEO, and five non-management directors. The Board has determined that three of five of its non-management directors meet the independence requirements of the NYSE listing standards as set forth in the NYSE Listed Company Manual. As a limited partnership, NuStar Energy is not required to have a majority of independent directors. The independent directors are: J. Dan Bates, Dan J. Hill and Rodman D. Patton.

William E. Greehey, Chairman of the Board, retired as CEO of Valero Energy at the end of 2005. He remained Chairman of Valero Energy's board of directors until January 2007. Mr. Greehey also serves as the Chairman of the NuStar GP Holdings board of directors and owns 18.7% of NuStar GP Holdings.

Curtis V. Anastasio has been President of NuStar GP, LLC since December 1999 and CEO since June 2000. As a member of management, Mr. Anastasio is not an independent director under the NYSE's listing standards.

Mr. Anastasio also serves as President and CEO of NuStar GP Holdings.

Stan L. McLelland has been a member of the Board since October 2005. In July 2006, Mr. McLelland also became a member of the board of directors of NuStar GP Holdings. Mr. McLelland stepped down from the Audit and Compensation Committees of NuStar GP, LLC when he joined the NuStar GP Holdings board of directors.

The Audit and Compensation committees of the Board are each composed entirely of directors who meet the independence requirements of the NYSE listing standards. Each member of the Audit Committee also meets the additional independence standards for Audit Committee members set forth in the regulations of the SEC. For further information about the committees, see also Item 10 and Item 11 above.

Independence Determinations

Under the NYSE's listing standards, no director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with NuStar Energy. Based upon information requested from and provided by each director concerning their background, employment and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, the Board has determined that, other than being a director of NuStar GP, LLC and/or unitholder of NuStar Energy, each of the independent directors named above has either no relationship with NuStar Energy, either directly or as a partner, unitholder or officer of an organization that has a relationship with NuStar Energy, or has

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only immaterial relationships with NuStar Energy, and is therefore independent under the NYSE's listing standards. As provided for under the NYSE listing standards, the Board has adopted categorical standards or guidelines to assist the Board in making its independence determinations with respect to each director. Under the NYSE listing standards, immaterial relationships that fall within the guidelines are not required to be disclosed in this annual report on Form 10-K.

A relationship falls within the guidelines adopted by the Board if it:

- is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the NYSE Listed Company Manual;
- consists of charitable contributions by NuStar GP, LLC to an organization where a director is an executive officer and does not exceed the greater of $1 million or 2% of the organization's gross revenue in any of the last three years;
- consists of charitable contributions to any organization with which a director, or any member of a director's immediate family, is affiliated as an officer, director or trustee pursuant to a matching gift program of NuStar GP, LLC and made on terms applicable to employees and directors; or is in amounts that do not exceed $250,000 per year; and
- is not required to be, and it is not otherwise, disclosed in this annual report on Form 10-K.

NuStar GP, LLC's Corporate Governance Guidelines contain the director qualification standards, including the guidelines listed above, and are available on NuStar Energy's internet website at http://www.nustarenergy.com (in the "Investor Relations" section) or are available in print upon request to NuStar GP, LLC's Corporate Secretary at the address indicated on the cover page of this annual report on Form 10-K.

Presiding Director/Meetings of Non-Management Directors

The Board has designated Mr. Patton to serve as the Presiding Director for meetings of the non-management Board members outside the presence of management.

Communications with the Board, Non-Management Directors or Presiding Director

Unitholders and other interested parties may communicate with the Board, the non-management directors or the Presiding Director by sending a written communication in an envelope addressed to "Board of Directors," "Non-Management Directors," or "Presiding Director" in care of NuStar GP, LLC's Corporate Secretary at the address indicated on the cover page of this annual report on Form 10-K.

Availability of Governance Documents

NuStar Energy has posted its Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics of Senior Financial Officers, the Audit Committee Charter and other governance documents on NuStar Energy's internet website at http://www.nustarenergy.com (in the "Investor Relations" section). NuStar Energy's governance documents are available in print to any unitholder of record who makes a written request to NuStar Energy. Requests must be directed to NuStar GP, LLC's Corporate Secretary at the address indicated on the cover page of this annual report on Form 10-K.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG FEES FOR FISCAL YEAR 2012

Audit Fees

The aggregate fees for fiscal year 2012 for professional services rendered by KPMG for the audit of the annual financial statements for the year ended December 31, 2012 included in this Form 10-K, review of NuStar Energy's interim financial statements included in NuStar Energy's 2012 Forms 10-Q, the audit of the effectiveness of NuStar Energy's internal control over financial reporting as of December 31, 2012 and related services that are normally provided by the principal auditor (e.g., comfort letters and assistance with review of documents filed with the SEC) were $2,509,000.

Audit-related Fees

The aggregate fees for the fiscal year 2012 for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of NuStar Energy's financial statements and not reported in the preceding caption were $98,000.

Tax Fees

The aggregate fees for the fiscal year 2012 for professional services rendered by KPMG for tax compliance, tax advice and tax planning were $0.

All Other Fees

The aggregate fees for the fiscal year 2012 for services rendered by KPMG, other than the services reported under the preceding captions, were $0.

KPMG FEES FOR FISCAL YEAR 2011

Audit Fees

The aggregate fees for fiscal year 2011 for professional services rendered by KPMG for the audit of the annual financial statements for the year ended December 31, 2011 included in this Form 10-K, review of NuStar Energy's interim financial statements included in NuStar Energy's 2010 Forms 10-Q, the audit of the effectiveness of NuStar Energy's internal control over financial reporting as of December 31, 2011 and related services that are normally provided by the principal auditor (e.g., comfort letters and assistance with review of documents filed with the SEC) were $2,366,000.

Audit-related Fees

The aggregate fees for the fiscal year 2011 for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of NuStar Energy's financial statements and not reported in the preceding caption were $164,118.

Tax Fees

The aggregate fees for the fiscal year 2011 for professional services rendered by KPMG for tax compliance, tax advice and tax planning were $0.

All Other Fees

The aggregate fees for the fiscal year 2011 for services rendered by KPMG, other than the services reported under the preceding captions, were $0.

AUDIT COMMITTEE PRE-APPROVAL POLICY

The audit committee has adopted a pre-approval policy to address the approval of services rendered to NuStar Energy by its independent auditors, which is filed herewith as Exhibit 99.01.

None of the services (described above) for 2011 or 2012 provided by KPMG were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements. The following consolidated financial statements of NuStar Energy L.P. and its subsidiaries are included in Part II, Item 8 of this Form 10-K:
Management’s Report on Internal Control over Financial Reporting
Reports of independent registered public accounting firm (KPMG LLP)
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Partners’ Equity for the Years Ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules and Other Financial Information. No financial statement schedules are submitted because either they are inapplicable or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits
Filed as part of this Form 10-K are the following:

Exhibit Number	Description	Incorporated by Reference to the Following Document
2.01	Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub A LLC and Kaneb Services LLC	NuStar Energy L.P.’s Current Report on Form 8-K filed November 4, 2004 (File No. 001-16417), Exhibit 99.1
2.02	Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub B LLC and Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Company LLC	NuStar Energy L.P.’s Current Report on Form 8-K filed November 4, 2004 (File No. 001-16417), Exhibit 99.2
3.01	Amended and Restated Certificate of Limited Partnership of Shamrock Logistics, L.P., effective January 1, 2002	NuStar Energy L.P.’s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.3
3.02	Amendment to Certificate of Limited Partnership of Valero L.P., dated March 21, 2007 and effective April 1, 2007	NuStar Energy L.P.’s Current Report on Form 8-K, filed March 27, 2007 (File No. 001-16417), Exhibit 3.01
3.03	Third Amended and Restated Agreement of Limited Partnership of Valero L.P., dated as of March 18, 2003	NuStar Energy L.P.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 001-16417), Exhibit 3.1
3.04	Amendment No. 1 to Third Amended and Restated Agreement of Limited Partnership of Valero L.P., dated as of March 11, 2004	NuStar Energy L.P.’s Annual Report on Form 10-K for year ended December 31, 2003 (File No. 001-16417), Exhibit 4.3

3.05	Amendment No. 2 to Third Amended and Restated Agreement of Limited Partnership of Valero L.P., dated as of July 1, 2005	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.01
3.06	Amendment No. 3 to Third Amended and Restated Agreement of Limited Partnership of NuStar Energy L.P., dated as of April 10, 2008	NuStar Energy L.P.'s Current Report on Form 8-K filed April 15, 2008 (File No. 001-16417), Exhibit 3.1
3.07	Amended and Restated Certificate of Limited Partnership of Shamrock Logistics Operations, L.P., dated as of January 7, 2002	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.8
3.08	Certificate of Amendment to Certificate of Limited Partnership of Valero Logistics Operations, L.P., dated March 21, 2007 and effective April 1, 2007	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 001-16417), Exhibit 3.03

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Exhibit Number	Description	Incorporated by Reference to the Following Document
3.09	Second Amended and Restated Agreement of Limited Partnership of Shamrock Logistics Operations, L.P., dated as of April 16, 2001	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.9
3.10	First Amendment to Second Amended and Restated Agreement of Limited Partnership of Shamrock Logistics Operations, L.P., effective as of April 16, 2001	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 001-16417), Exhibit 4.1
3.11	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Shamrock Logistics Operations, L.P., dated as of January 7, 2002	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.10
3.12	Certificate of Limited Partnership of Riverwalk Logistics, L.P., dated June 5, 2000	NuStar Energy L.P.'s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.7
3.13	First Amended and Restated Limited Partnership Agreement of Riverwalk Logistics, L.P., dated as of April 16, 2001	NuStar Energy L.P.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-16417), Exhibit 3.16
3.14	Certificate of Formation of Shamrock Logistics GP, LLC, dated December 7, 1999	NuStar Energy L.P.'s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.9
3.15	Certificate of Amendment to Certificate of Formation of Shamrock Logistics GP, LLC, dated December 31, 2001	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.14
3.16	Certificate of Amendment to Certificate of Formation of Valero GP, LLC, dated March 21, 2007 and effective April 1, 2007	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 001-16417), Exhibit 3.02
3.17	First Amended and Restated Limited Liability Company Agreement of Shamrock Logistics GP, LLC, dated as of June 5, 2000	NuStar Energy L.P.'s Amendment No. 5 to Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 3.10
3.18	First Amendment to First Amended and Restated Limited Liability Company Agreement of Shamrock Logistics GP, LLC, effective as of December 31, 2001	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.15
4.01	Indenture, dated as of July 15, 2002, among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of	NuStar Energy L.P.'s Current Report on Form 8-K filed July 15, 2002 (File No. 001-16417), Exhibit 4.1

	New York, as Trustee, relating to Senior Debt Securities	
4.02	First Supplemental Indenture, dated as of July 15, 2002, to Indenture dated as of July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of New York, as Trustee, relating to 6 7/8% Senior Notes due 2012	NuStar Energy L.P.'s Current Report on Form 8-K filed July 15, 2002 (File No. 001-16417), Exhibit 4.2
4.03	Second Supplemental Indenture, dated as of March 18, 2003, to Indenture dated as of July 15, 2002, as amended and supplemented by a First Supplemental Indenture thereto dated as of July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of New York, as Trustee (including, form of global note representing $250,000,000 6.05% Senior Notes due 2013)	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 001-16417), Exhibit 4.1

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Exhibit Number	Description	Incorporated by Reference to the Following Document
4.04	Third Supplemental Indenture, dated as of July 1, 2005, to Indenture dated as of July 15, 2002, as amended and supplemented, among Valero Logistics Operations, L.P., Valero L.P., Kaneb Pipe Line Operating Partnership, L.P., and The Bank of New York Trust Company, N.A.	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.02
4.05	Instrument of Resignation, Appointment and Acceptance, dated March 31, 2008, among NuStar Logistics, L.P., NuStar Energy L.P., Kaneb Pipeline Operating Partnership, L.P., The Bank of New York Trust Company N.A., and Wells Fargo Bank, National Association	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 4.05
4.06	Fourth Supplemental Indenture, dated as of April 4, 2008, to Indenture dated as of July 15, 2002, among NuStar Logistics L.P., as issuer, NuStar Energy L.P., as guarantor, NuStar Pipeline Operating Partnership L.P., as affiliate guarantor, and Wells Fargo Bank, National Association, as Successor Trustee	NuStar Energy L.P.'s Current Report on Form 8-K filed April 4, 2008 (File No. 001-16417), Exhibit 4.2
4.07	Fifth Supplemental Indenture, dated as of August 12, 2010, to Indenture dated as of July 15, 2002, among NuStar Logistics, L.P., as Issuer, NuStar Energy L.P., as Guarantor, NuStar Pipeline Operating Partnership L.P., as Affiliate Guarantor and Wells Fargo Bank, National Association, as Successor Trustee	NuStar Energy L.P.'s Current Report on Form 8-K filed August 16, 2010 (File No. 001-16417), Exhibit 4.3
4.08	Sixth Supplemental Indenture, dated as of February 2, 2012, to Indenture dated as of July 15, 2002, among NuStar Logistics, L.P., as Issuer, NuStar Energy L.P., as Guarantor, NuStar Pipeline Operating Partnership L.P., as Affiliate Guarantor and Wells Fargo Bank, National Association, as Successor Trustee	NuStar Energy L.P.'s Current Report on Form 8-K filed February 7, 2012 (File No. 001-16417), Exhibit 4.3
4.09	Indenture, dated as of February 21, 2002, between Kaneb Pipe Line Operating Partnership, L.P. and JPMorgan Chase Bank (Senior Debt Securities)	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.03
4.10	First Supplemental Indenture, dated as of February 21, 2002, to Indenture dated as of February 21, 2002, between Kaneb Pipe Line	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.04

	Operating Partnership, L.P. and JPMorgan Chase Bank (including form of 7.750% Senior Unsecured Notes due 2012)	
4.11	Second Supplemental Indenture, dated as of August 9, 2002 and effective as of April 4, 2002, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P., Statia Terminals Canada Partnership, and JPMorgan Chase Bank	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.05
4.12	Third Supplemental Indenture, dated and effective as of May 16, 2003, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P., Statia Terminals Canada Partnership, and JPMorgan Chase Bank	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.06

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Exhibit Number	Description	Incorporated by Reference to the Following Document
4.13	Fourth Supplemental Indenture, dated and effective as of May 27, 2003, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P. and JPMorgan Chase Bank (including form of 5.875% Senior Unsecured Notes due 2013)	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.07
4.14	Fifth Supplemental Indenture, dated and effective as of July 1, 2005, to Indenture dated as of February 21, 2002, as amended and supplemented, among Kaneb Pipe Line Operating Partnership, L.P., Valero L.P., Valero Logistics Operations, L.P., and JPMorgan Chase Bank	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.08
4.15	Instrument of Resignation, Appointment and Acceptance, dated June 30, 2008, among NuStar Pipeline Operating Partnership L.P., NuStar Energy L.P., NuStar Logistics, L.P., The Bank of New York Trust Company N.A., and Wells Fargo Bank, National Association	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 4.12
4.16	Indenture, dated as of January 22, 2013, among NuStar Logistics, L.P., as Issuer, NuStar Energy L.P., as Guarantor, and Wells Fargo Bank, National Association, as Trustee, relating to Subordinated Debt Securities	NuStar Energy L.P.'s Current Report on Form 8-K filed January 22, 2013 (File No. 001-16417), Exhibit 4.1
4.17	First Supplemental Indenture, dated as of January 22, 2013, among NuStar Logistics, L.P., as Issuer, NuStar Energy L.P., as Parent Guarantor, NuStar Pipeline Operating Partnership L.P., as Affiliate Guarantor, and Wells Fargo Bank, National Association, as Trustee	NuStar Energy L.P.'s Current Report on Form 8-K filed January 22, 2013 (File No. 001-16417), Exhibit 4.2
10.01	5-Year Revolving Credit Agreement, dated as of May 2, 2012, among NuStar Logistics, L.P., NuStar Energy L.P., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, Suntrust Bank, Mizuho Corporate Bank, Ltd., as Co-Syndication Agents, and Wells Fargo Bank, National Association, Barclays Bank PLC, as	NuStar Energy L.P.'s Current Report on Form 8-K filed May 8, 2012 (File No. 001-16417), Exhibit 10.01

	Co-Documentation Agents, and J.P. Morgan Securities Inc., Suntrust Robinson Humphrey, Inc., Mizuho Corporate Bank, Ltd., Wells Fargo Securities, LLC and Barclays Bank PLC as Joint Bookrunners and Joint Lead Arrangers	
10.02	First Amendment to 5-Year Revolving Credit Agreement, dated as of June 29, 2012, among NuStar Logistics, L.P., NuStar Energy L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto	NuStar Energy L.P.'s Current Report on Form 8-K filed July 6, 2012 (File No. 001-16417), Exhibit 10.01
10.03	Second Amendment to 5-Year Revolving Credit Agreement, dated as of November 30, 2012, among NuStar Logistics, L.P., NuStar Energy L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto	*
10.04	Third Amendment to 5-Year Revolving Credit Agreement, dated as of January 11, 2013, among NuStar Logistics, L.P., NuStar Energy L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto	*

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Exhibit Number	Description	Incorporated by Reference to the Following Document
+10.05	NuStar GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan, amended and restated as of April 1, 2007	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-16417), Exhibit 10.03
+10.06	Form of Unit Option Agreement under the Valero GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan. as amended	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2006 (File No. 001-16417), Exhibit 10.11
+10.07	NuStar GP, LLC Amended and Restated 2002 Unit Option Plan, amended and restated as of April 1, 2007	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-16417), Exhibit 10.02
+10.08	NuStar GP, LLC Third Amended and Restated 2000 Long-Term Incentive Plan, amended and restated as of May 1, 2011	NuStar Energy L.P.'s Current Report on Form 8-K filed May 10, 2011 (File No. 001-16417), Exhibit 10.01
+10.09	Form of Restricted Unit Award Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed November 10, 2008 (File No. 001-16417), Exhibit 10.03
+10.10	Form of Unit Option Award Agreement under the Valero GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed November 3, 2006 (File No. 001-16417), Exhibit 10.02
+10.11	Form of Restricted Unit Award Agreement under the Valero GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed November 3, 2006 (File No. 001-16417), Exhibit 10.03
+10.12	Form of Restricted Unit Award Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed October 29, 2007 (File No. 001-16417), Exhibit 10.03
+10.13	Form of 2010 Restricted Unit Award Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed January 5, 2011(File No. 001-16417), Exhibit 10.03
+10.14	Form of Restricted Unit Award Agreement under the NuStar GP, LLC Third Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed January 31, 2012 (File No. 001-16417), Exhibit 10.2
+10.15	Form of Performance Unit Agreement under the Valero GP, LLC 2000 Amended and Restated Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed January 27, 2006 (File No. 001-16417), Exhibit 10.02
+10.16		

	Form of Amended and Restated Performance Unit Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed December 8, 2009 (File No. 001-16417), Exhibit 10.02
+10.17	Omnibus Amendment to Form of Amended and Restated Performance Unit Agreements under the NuStar GP LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed February 2, 2010 (File No. 001-16417), Exhibit 10.03
+10.18	Form of Performance Unit Agreement under the Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2009 (File No. 001-16417), Exhibit 10.11
+10.19	Form of Waiver Related to Certain Performance Units under the NuStar GP, LLC Third Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed January 31, 2012 (File No. 001-16417), Exhibit 10.3
+10.20	Form of Non-employee Director Restricted Unit Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed October 29, 2007 (File No. 001-16417), Exhibit 10.02

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Exhibit Number	Description	Incorporated by Reference to the Following Document
+10.21	Form of Non-employee Director Restricted Unit Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed November 10, 2008 (File No. 001-16417), Exhibit 10.02
+10.22	Form of 2010 Non-employee Director Restricted Unit Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed January 5, 2011(File No. 001-16417), Exhibit 10.02
+10.23	Valero L.P. Annual Bonus Plan	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2006 (File No. 001-16417), Exhibit 10.18
+10.24	Change of Control Severance Agreement by and among Valero GP, LLC, Valero L.P. and Curtis V. Anastasio, dated November 6, 2006.	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-16417), Exhibit 10.05
+10.25	Form of Change of Control Severance Agreement by and among Valero LP, Valero GP, LLC and each of the other executive officers of Valero GP, LLC, dated as of November 6, 2006	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-16417), Exhibit 10.06
10.26	Non-Compete Agreement between Valero GP Holdings, LLC, Valero L.P., Riverwalk Logistics, L.P. and Valero GP, LLC, effective as of July 19, 2006	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for quarter ended September 30, 2006 (File No. 001-16417), Exhibit 10.03
10.27	Services Agreement, effective January 1, 2008, between NuStar GP, LLC and NuStar Energy L.P.	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2008 (File No. 001-16417), Exhibit 10.01
+10.28	NuStar Excess Pension Plan, amended and restated effective as of January 1, 2008	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 10.29
+10.29	NuStar Excess Thrift Plan, amended and restated effective as of January 1, 2008	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 10.30
+10.30	NuStar Supplemental Executive Retirement Plan, amended and restated effective as of January 1, 2008	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 10.31
+10.31		

	Shamrock Logistics GP, LLC Year 2001 Annual Incentive Plan	NuStar Energy L.P.'s Amendment No. 5 to Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 10.4
+10.32	Shamrock Logistics GP, LLC Intermediate Incentive Compensation Plan	NuStar Energy L.P.'s Amendment No. 5 to Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 10.9
10.33	Amended and Restated Aircraft Time Sharing Agreement, dated as of September 4, 2009, between NuStar Logistics, L.P. and William E. Greehey	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2009 (File No. 001-16417), Exhibit 10.24
10.34	Crude Oil Sales Agreement between NuStar Marketing LLC and PDVSA-Petróleo S.A., an affiliate of Petróleos de Venezuela S.A., the national oil company of the Bolivarian Republic of Venezuela, dated effective as of March 1, 2008	NuStar Energy L.P.'s Current Report on Form 8-K filed March 25, 2008 (File No. 001-16417), Exhibit 10.1
10.35	Lease Agreement Between Parish of St. James, State of Louisiana and NuStar Logistics, L.P. dated as of July 1, 2010	NuStar Energy L.P.'s Current Report on Form 8-K filed July 21, 2010 (File No. 001-16417), Exhibit 10.01

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Exhibit Number	Description	Incorporated by Reference to the Following Document
10.36	Letter of Credit Agreement dated June 5, 2012 among NuStar Logistics, L.P., NuStar Energy L.P., the Lenders party thereto and Mizuho Corporate Bank, Ltd., as Issuing Bank and Administrative Agent	NuStar Energy L.P.'s Current Report on Form 8-K filed June 12, 2012 (File No. 001-16417), Exhibit 10.01
10.37	First Amendment to Letter of Credit Agreement, dated as of June 29, 2012, among NuStar Logistics, L.P., NuStar Energy L.P., the Lenders party thereto and Mizuho Corporate Bank, Ltd., as Issuing Bank and Administrative Agent	NuStar Energy L.P.'s Current Report on Form 8-K filed July 6, 2012 (File No. 001-16417), Exhibit 10.02
10.38	Lease Agreement between Parish of St. James, State of Louisiana and NuStar Logistics, L.P. dated as of December 1, 2010	NuStar Energy L.P.'s Current Report on Form 8-K filed December 30, 2010 (File No. 001-16417), Exhibit 10.01
10.39	Application for Letter of Credit and Reimbursement Agreement between JPMorgan Chase Bank, N.A. and NuStar Logistics, L.P. dated as of December 29, 2010	NuStar Energy L.P.'s Current Report on Form 8-K filed December 30, 2010 (File No. 001-16417), Exhibit 10.02
10.40	Lease Agreement between Parish of St. James, State of Louisiana and NuStar Logistics, L.P. dated as of August 1, 2011	NuStar Energy L.P.'s Current Report on Form 8-K filed August 10, 2011 (File No. 001-16417), Exhibit 10.01
10.41	Application for Letter of Credit and Reimbursement Agreement between JPMorgan Chase Bank, N.A. and NuStar Logistics, L.P. dated as of August 9, 2011	NuStar Energy L.P.'s Current Report on Form 8-K filed August 10, 2011 (File No. 001-16417), Exhibit 10.02
10.42	Equity Distribution Agreement, dated May 23, 2011 by and among NuStar Energy L.P., Riverwalk Logistics, L.P., NuStar GP, LLC, and Citigroup Global Markets Inc.	NuStar Energy L.P.'s Current Report on Form 8-K filed May 23, 2011 (File No. 001-16417), Exhibit 1.1
10.43	Purchase and Sale Agreement by and among NuStar Energy L.P., NuStar Logistics, L.P., NuStar Asphalt Refining, LLC, NuStar Marketing LLC, NuStar Asphalt LLC and Asphalt Acquisition LLC dated as of July 3, 2012	NuStar Energy L.P.'s Current Report on Form 8-K filed July 6, 2012 (File No. 001-16417), Exhibit 10.01
10.44	Letter Agreement by and among Asphalt Acquisition LLC, NuStar Energy L.P., NuStar Logistics, L.P., NuStar Asphalt Refining, LLC,	NuStar Energy L.P.'s Quarterly Report on Form 10-Q for quarter ended September 30, 2012 (File No. 001-16417), Exhibit 10.02

	NuStar Marketing LLC and NuStar Asphalt LLC dated August 2, 2012	
10.45	Amendment No. 1 to Purchase and Sale Agreement dated as of September 28, 2012 by and among NuStar Energy L.P., NuStar Logistics, L.P., NuStar Asphalt Refining, LLC, NuStar Marketing LLC, NuStar GP, LLC, NuStar Asphalt LLC and Asphalt Acquisition LLC	NuStar Energy L.P.’s Quarterly Report on Form 10-Q for quarter ended September 30, 2012 (File No. 001-16417), Exhibit 10.03
12.01	Statement of Computation of Ratio of Earnings to Fixed Charges	*
14.01	Code of Ethics for Senior Financial Officers	NuStar Energy L.P.’s Annual Report on Form 10-K for year ended December 31, 2003 (File No. 001-16417), Exhibit 14.1
21.01	List of subsidiaries of NuStar Energy L.P.	*
23.01	Consent of KPMG LLP dated March 1, 2013	*
24.01	Powers of Attorney (included in signature page of this Form 10-K)	*

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Exhibit Number	Description	Incorporated by Reference to the Following Document
31.01	Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer	*
31.02	Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer	*
32.01	Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal executive officer	*
32.02	Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal financial officer	*
99.01	Audit Committee Pre-Approval Policy	*
101.INS	XBRL Instance Document	**
101.SCH	XBRL Taxonomy Extension Schema Document	**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	**

* Filed herewith.

** Submitted electronically herewith.

\+ Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 15(c) of Form 10-K.

Copies of exhibits filed as a part of this Form 10-K may be obtained by unitholders of record at a charge of $0.15 per page, minimum $5.00 each request. Direct inquiries to Corporate Secretary, NuStar Energy L.P., 19003 IH-10 West, San Antonio, Texas 78257.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUSTAR ENERGY L.P.
(Registrant)

By: Riverwalk Logistics, L.P., its general partner
By: NuStar GP, LLC, its general partner

By: /s/ Curtis V. Anastasio
Curtis V. Anastasio
President and Chief Executive Officer
March 1, 2013

By: /s/ Steven A. Blank
Steven A. Blank
Executive Vice President, Chief Financial Officer and Treasurer
March 1, 2013

By: /s/ Thomas R. Shoaf
Thomas R. Shoaf
Senior Vice President and Controller
March 1, 2013

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Curtis V. Anastasio, Steven A. Blank and Bradley C. Barron, or any of them, each with power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all subsequent amendments and supplements to this Annual Report on Form 10-K, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby qualifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William E. Greehey William E. Greehey	Chairman of the Board	March 1, 2013
/s/ Curtis V. Anastasio Curtis V. Anastasio	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2013
/s/ Steven A. Blank Steven A. Blank	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 1, 2013
/s/ Thomas R. Shoaf Thomas R. Shoaf	Senior Vice President and Controller (Principal Accounting Officer)	March 1, 2013
/s/ J. Dan Bates J. Dan Bates	Director	March 1, 2013
/s/ Dan J. Hill Dan J. Hill	Director	March 1, 2013
Stan McLelland	Director	
Rodman D. Patton	Director	